Office of Internal Audit

Performance Audit 21-02:
Time Clock System

November 2021

City Auditor
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OFFICE OF INTERNAL AUDIT
Stan Sewell, City Auditor

November 17, 2021

To: Mayor Tim Kelly
        City Council Members

Subject: Time Clock System Audit (#21-02)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of the City's Time Clock Plus system. Although our audit disclosed some instances where City employees were not correctly classified as exempt or nonexempt in Time Clock Plus, substantially all City employees were classified correctly. Our audit found that employee hours were not always approved and documented as required by procedures. In order to address the noted areas for improvement, we recommended actions to ensure nonexempt employee hours are tracked accurately. We also recommended the Human Resources Department ensure FLSA classifications in the Time Clock Plus system are correct.

We thank the management and staff of the Finance Department's Payroll Division, Human Resources Department and the departmental payroll clerks for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
        Brent Goldberg, Chief of Staff
        Joda Thongnopnua, Chief Policy Officer
        Daisy Madison, Chief Financial Officer
        Shea Jefferson, Interim Chief Human Resources Officer
        Julia Bursch, Deputy Chief of Staff
        Chris Anderson, Director of Innovation, Delivery & Performance
        Jim Arnette, Tennessee Local Government Audit

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2021 Audit Agenda. The objectives of this audit were to determine if:

- City employees are correctly classified as exempt or nonexempt in Time Clock Plus; and
- City employee's hours are recorded and approved in Time Clock Plus in accordance with policies and procedures.

BACKGROUND

The Finance Department's Payroll Division includes a Payroll Supervisor and three support staff. The Division's responsibilities include setting policies and procedures; ensuring the weekly and bi-weekly payroll is processed timely and accurately; training departmental pay clerks; implementing new systems; and processing year-end tax forms. Each City department has pay clerks who process payroll for the department's employees. The departmental pay clerks usually have other job duties besides payroll. The pay clerks report to their department supervisor.

The City uses the Time Clock Plus (TCP) system to record and maintain nonexempt employee hours worked as well as employee leave requests. All City departments, with the exception of sworn fire personnel, have implemented TCP. The City's *Employee Information Guide* (EIG) states all nonexempt employees are responsible for recording actual hours worked using the time reporting procedures.

The Fair Labor Standards Act (FLSA) provides two classifications for employees: exempt and nonexempt. An exempt employee is generally defined as an employee who is an executive, administrative, professional, outside sales and certain computer employees. To qualify as an exempt employee, the job duties must meet certain tests and the employee must receive a base salary not less than $685 per week. If an employee doesn't meet the criteria, they are a nonexempt employee. Nonexempt employees are entitled to overtime pay and detailed time records must be maintained.

Financial Information

The total number of City employees from January 1, 2020 to March 1, 2021 totaled 3,179 (excluding sworn fire personnel). Eighty-four percent of the City's work force is comprised of nonexempt employees.

Exhibit 1: City Salary Totals per Fiscal Year[1]

Fiscal 2017	$104,211,662.70
Fiscal 2018	$108,164,900.55
Fiscal 2019	$110,876,970.31
Fiscal 2020	$116,082,139.70

Source: Oracle

FINDINGS AND RECOMMENDATIONS

Improvements are needed to ensure employees are properly classified in Time Clock Plus.

Our review of 3,179 employee FLSA classifications (code) in the time clock system found 12 nonexempt employees were misclassified as exempt.

Human Resources Department (HR) is responsible for classifying all City positions as either exempt or nonexempt.[2] In addition to other personnel information, HR inputs the FLSA code into Oracle for all employees. Using the *Personnel Action form*, HR notifies the departmental pay clerk to add the employee into TCP. Since the form does not include the FSLA code, the pay clerk must determine if the employee is classified as exempt or nonexempt in TCP.

Our comparison of FLSA codes in Oracle versus Time Clock Plus noted the majority were correct, but several discrepancies were found. Departmental pay clerks enter the FLSA code into TCP based upon their knowledge of the position, which may not be correct. In addition, policies do not require pay clerks to confirm the FLSA code in Oracle.

FLSA requires nonexempt employees receive, at the minimum, federal minimum wage and at least one and one-half times their regular rate of

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[1] The salary totals include sworn fire personnel.
[2] The *Employee Information Guide* states in Section III.A.2 that HR is responsible for classifying all City of Chattanooga government positions as either exempt or nonexempt.

pay for hours worked in excess of 40 in a work week. When nonexempt employees are misclassified in TCP, hours worked are not recorded as required by federal law. Wages due an employee cannot be accurately calculated without properly documented hours worked. The results of the discrepancies found could lead to underpaid wages, potential litigation and/or expose the City to federal regulatory action.

Recommendation 1:

We recommend the Human Resources Department ensure nonexempt employees are correctly coded in the City's time clock system.

Auditee Response: We concur with the audit finding and recommendation. In January 2022, a new Oracle system will be implemented which will have the ability to handle the responsibilities of a time clock and payroll system. HR will add employees in the new system and a nonexempt employee will automatically be required to use the time clock. The departments will not have the ability to override the time clock requirement.

Recommendation 2:

We recommend the Human Resources Department ensure the twelve nonexempt employees identified as exempt in our audit are correctly coded in TCP.

Auditee Response: We concur with the audit finding and recommendation. We will inform the departments of the corrections and update the systems as required. We will notify the Payroll Office once the departments have been notified.

Time Clock Plus procedures are not consistently followed.

To verify policies and procedures were followed, we reviewed TCP edits and interviewed departmental pay clerks. Our review found edits were not always approved and documented, overtime forms were not used by all departments, and TCP was not used by all nonexempt employees.

TCP edits are not always approved and documented properly.

We reviewed a sample of TCP edits and found 71 percent of edits by supervisors did not include support documentation. We also found 12

percent of edits by pay clerk/editors were not approved by the supervisor and support documentation was lacking.[3]

The City's *Record Retention Schedule* requires pay records to be maintained for five years (e.g. time cards, and records of additions and deletions from wages). Further, *Time Clock Responsibilities and Procedures* require:

- Only the supervisor has the authority to approve time records after review. All adjustments to the time clock must be documented and approved by the employee's supervisor prior to change.
- Explanation for adjustments must be documented in the time clock system.
- Adjustments made by a Time Clock Editor, who is not the employee's supervisor, must be documented and have written approval by the supervisor. Written documentation for adjustments not made by the supervisor must be retained by the payroll clerk.

TCP is not used by all nonexempt employees.

Based on interviews with pay clerks, we found employees in the former Youth and Family Development Department (YFD), Moccasin Bend Waste Water Treatment Plant (MBWWTP) and City Court were not using TCP. During the pandemic, it appears 119 YFD employees and three MBWWTP employees, were either sent home or worked from home and did not use TCP or document their time on time sheets. Additionally, City Court Officers, who are nonexempt employees, don't use TCP or time sheets.[4]

Time Clock Responsibilities and Procedures states all City nonexempt employees must use the Time Clock Plus system for tracking their work hours. Employees who are unable to clock into the digital time clock system (due to system being down, working off site, no access etc.) must complete and sign a paper manual timesheet. The time sheet must be approved and signed by their supervisor before payment is made and retained with payroll records.

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[3] The same deficiencies were noted in OIA's April 9, 2019 memorandum regarding Moccasin Bend's payroll processing.

[4] OIA brought this deviation to Administration's attention in a memorandum dated September 10, 2020.

The required overtime form is not always used.

Based on interviews, 14 of 27 pay clerks stated the required *Overtime Authorization* forms were not submitted by employees to document and support overtime in TCP.

The Time Clock Responsibilities and Procedures states:

- Before authorizing overtime, the supervisor is responsible for verifying funds are budgeted and available.
- Overtime should always be authorized in advance by a supervisor.
- Supervisors and Pay Clerk Editors are required to verify Time Clock overtime hours match the *Overtime Authorization* forms.

Payroll Division staff explained since moving to TCP many departments stopped using the *Overtime Authorization* form since overtime has to be approved in the system. Further, the form is not made readily available on the City's e-portal (we found each department uses their own overtime form).

Budgeted overtime funds may not be available if supervisors are not verifying prior to authorizing overtime. Overtime pay may be abused if it is not pre-authorized. In addition, employees not following policies and procedures could lead to underpaid wages, potential litigation and/or expose the City to federal regulatory action.

Recommendation 3:

We recommend Finance ensure pay clerks and supervisors follow the required Finance policies and procedures for tracking nonexempt employees time worked.

Auditee Response: *We concur with the audit finding and recommendation. We will update our policies and procedures removing the requirement of the Overtime Authorization form.*

Recommendation 4:

We recommend Finance ensure adjustments to employees pay records are approved and maintained as required.

Auditee Response: *We concur with the audit finding and recommendation.*

Recommendation 5:

We recommend Finance remove the ability for pay clerks to edit TCP entries.

Auditee Response: *We concur with the audit finding and recommendation. The new Oracle time clock system will not allow pay clerks to edit employee's time records.*

Pending leave requests are not monitored.

We identified 220 employee pending leave requests in the TCP that were not approved during the audit period. Employee leave balances were reduced for 63 of the 220 pending leave requests. The remaining 153 requests had no corresponding reduction in leave balances. Pending leave requests were found throughout the City Departments as seen in Exhibit 2.

Exhibit 2: Pending Leave Requests[5]

Department	No. of Requests
Mayor's Office - prior administration	80
Economic and Community Development	18
Transportation	13
Human Resources	11
Information Services	7
City Council	6
City Attorney Office	6
Public Works	4
Multicultural Affairs	4
Human Services	3
Finance	1
Total	153

Source:Time Clock Plus system

The City uses TCP for employees to request leave. Once the leave request is approved by the employee's supervisor, the payclerk transfers the TCP data to Oracle which reduces the employee's leave balance.

When reviewing the pending leave requests, we found the following reasons why requests remained opened in TCP:

- The employee took the requested day off however the supervisor never approved the leave request which caused the employee's leave balance not to be reduced;

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[5] The pending leave requests were obtained from TCP for the period January 1, 2020 to March 31, 2021.

- The employee requested leave in advance, didn't actually take off and failed to subsequently delete the request; and
- The supervisor or pay clerk entered the employee's leave when the employee was out sick. Unaware of leave previously submitted, the employee submitted a leave request for the same date.

The EIG requires submission of leave requests on approved forms or through the City's Time and Attendance tracking program (TCP). The *Time Clock Responsibilities and Procedures* require the supervisor or time editor to approve and adjust leave entry hours. Currently procedures do not require pending leave requests be cleared prior to finalizing the payroll.

Without a formalized process, employee's leave balances can be overstated resulting in the City having a larger than actual liability for unpaid employee leave.

Recommendation 6:

We recommend Finance develop and implement a written procedure requiring pay clerks ensure pending leave requests are cleared/approved prior to finalizing each payroll run.

Auditee Response: We concur with the audit finding and recommendation. We will update our procedures to require the pay clerks notify supervisors of pending leave requests prior to finalizing each payroll run.

Recommendation 7:

We recommend Finance investigate the pending leave requests identified in the audit and any current pending requests. Finance should adjust the employee's leave balance accordingly.

Auditee Response: We concur with the audit finding and recommendation.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers transactions in TCP from January 1, 2020 to March 31, 2021. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from Oracle and TCP. Original records as well as copies were used as evidence and verified through physical examination. Records for sworn fire personnel were not reviewed during the audit because they do not use the TCP system to track time worked.

To accomplish our audit objectives, we reviewed policies and procedures, interviewed staff, analyzed TCP and Oracle data, documented and evaluated the internal control process, and sampled TCP entries for compliance with established procedures. We compared departmental policies and procedures to operations.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was structured in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the TCP system and Oracle system. We assessed the reliability of the data contained in the two systems and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from February 2021 to October 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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