

A photograph of a classical building facade, likely a government or institutional building, featuring a prominent portico with several tall, fluted columns supporting a triangular pediment. The pediment is filled with a relief sculpture. The building is set against a clear blue sky.

Office of Inspector General

City of New Orleans

**The Payroll Internal Control Performance Audit
OIG-A&R-10PAU009**

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Inspector General**

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EXECUTIVE SUMMARY

A performance audit (audit) was conducted of the payroll internal controls of the City's Civil Service Department, payroll, accounting, management information systems (MIS) and treasury functions for the period January 1, 2009 through June 30, 2010. The objective of the audit was to evaluate the adequacy of the City's internal controls related to the payroll process. The audit also evaluated the adequacy of access controls for each software program used to process payroll.

The audit revealed that City payroll internal control processes were deficient in certain areas leaving the City's payroll function vulnerable to fraud opportunities.¹

The audit noted that the Civil Service Department could not produce a listing of City employees independently from the City's MIS department. The City did not resolve previous external audit findings, nor did it reconcile payroll cash accounts and payroll clearing accounts timely. The City incurred \$50.7 million in personnel expenditures in 2009 that were not budgeted in the personnel services budget. Most NOPD timesheets sampled were not signed by employees, and 13% of the workforce exceeded the annual limit of 416 hours of overtime.

The audit found that two employees (reduced from 10 in 2009) in 2010 had approval access for all levels in the HRTS and could approve hours and time without oversight. Wire transfers were initiated without the requestor's signature, and the key to the signature stamp was found unsecured. The City did not follow up on undistributed manual payroll checks.

The recommendations in this report, if adopted, would improve the City's accountability and reduce the opportunity² for fraud and waste related to payroll.

Note: All responses by the Civil Service Department and the City in the body of this report are direct statements and have not been modified.

¹ Internal controls alone are insufficient to fully prevent occupational fraud. Properly designed and monitored controls decrease opportunities for fraud.

² Opportunity, along with rationalization and pressure is one of the three components of the fraud triangle as identified by Donald R. Cressey, Wells, Joseph T. (2007). *Corporate Fraud Handbook*. New Jersey: John Wiley & Sons.

I.OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this audit was to test and evaluate the City's internal controls related to the payroll process and to ensure that all processes were functioning properly. The audit covered the period of January 1, 2009 through June 30, 2010.

The audit was conducted in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book) and *Generally Accepted Governmental Auditing Standards* (GAGAS or the "Yellow Book").

To accomplish the audit's objectives, the auditors:

1. Conducted interviews with City and Civil Service employees responsible for payroll functions;
2. Conducted interviews with the City's independent auditors;
3. Conducted interviews with the City's Management Information Systems contractors;
4. Observed Civil Service, Payroll, Accounting, and Treasury operations (a flowchart of the process is included in the Appendix B);
5. Reviewed Civil Service, Payroll and Accounting policies and procedures;
6. Tested a sample of payroll transactions for proper authorization and documentation in the personnel files;
7. Reviewed controls over the hiring of new employees;
8. Recalculated employee gross pay amounts for a sample of employees to verify the accuracy of the calculation performed by the payroll system;
9. Researched best practices; and
10. Reviewed City ordinances.

A finding indicates a material or significant³ weakness in controls or compliance that was not detected or corrected by the City of New Orleans in the normal course of performing its duties. Findings in a performance audit can be *any one or a combination* of the following.⁴

1. Significant deficiencies in internal control,
2. Fraud and illegal acts,
3. Violations of contract and grant agreements, and/or
4. Abuse.

³ Significance is a "judgment call" by the auditor and is usually based upon the frequency and magnitude of the deficiency.

⁴General Accounting Office. (July 2007 Revision). *Government Auditing Standards* (p. 165) United States Government Accountability Office by the Comptroller General of the United States.

The United States General Accounting Office defined internal controls as “an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.”⁵

This audit includes findings, observations, recommendations, and conclusions relating to the internal controls of the Payroll functions.

Computer-processed data was provided and relied on, which detailed information on actual City payroll expenses for the period of the audit. Although a formal reliability assessment of the computer-processed data was not performed, the auditors determined that hard copy documents were reasonable and generally agreed with the information contained in the computer-processed data. No errors were found that would preclude us from using the computer-processed data to meet the audit objectives or that would change the conclusions of this report.

⁵ Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

II. PAYROLL INTERNAL CONTROL FINDINGS

Introduction:

The Office of Inspector General (OIG) initially planned a review⁶ to compare the employee listing from the Payroll Unit to the employee listing maintained by the Civil Service Department, a common test for payroll fraud. However, the auditors discovered that the Civil Service Department did not maintain a listing of employees, which is an essential internal control. Professional skepticism prompted the review to be changed to a performance audit of the internal controls of the City's payroll functions.

The City's actual total payroll expense⁷ for 4,614 employees was \$334 million in 2009. Actual payroll expenses were approximately 52% of the City's total expenses of \$644 million,⁸ and exceeded the budgeted payroll of \$284 million by \$50 million. The significance of these expenses to the City and the history of over spending the budget make it critical that the City's payroll be adequately monitored for compliance with the City's budget ordinances.

Finding # 1

Background: Employees' personnel and payroll data were entered and stored in the AHRS database⁹ maintained by MIS. Observation # 3 indicated that the AHRS system did not have an easily accessible audit trail, and MIS did not have the proper database/network administrative logs. Civil Service and Payroll Unit employee listings were both generated by the City's MIS department.

Condition: The Civil Service Department did not have the ability to produce a listing of City employees independently from the City's MIS department.¹⁰

Criteria: The Rules of the Civil Service Commission stated that the Department of Civil Service was the official custodian of personnel and payroll records, and that "all analyses of these data shall be available." (Rule X, Section 2.1) "The Director shall, on a continuing basis, "examine payrolls and related records" for violations of provisions of the "Laws and Rules" that govern pay and employment. (Rule X, Section 3.1)

The official custodian of the records should have the ability to generate and examine payroll and related records independently from the City's MIS department.

Cause: The Civil Service Department did not have the ability to produce AHRS reports independently from the City's MIS department.

⁶ The Office of Inspector General's (OIG) fiscal year 2010 Audit and Inspection Plans included a review of the City's Master Payroll List as compared to the Active Payroll Register. This review was designed to confirm the accuracy of the active payroll files as compared to the master list of employees and explore any anomalies. During our planning phase, it was discovered that separate payroll information did not exist and all payroll information was obtained from MIS.

⁷ The total salary expenses included salaries and benefits for all City employees.

⁸ Total expenses were obtained from the City of New Orleans 2011 Adopted Operating Budget pg.31.

⁹ AHRS dated back to the 1980s and is the City's payroll system where all the employee records were kept.

¹⁰ The auditors tried to obtain a manual listing of all employees by requesting the information from the Deputy Mayors but that method was also unsuccessful due to the lack of tenure of the Deputy Mayors at the time of the request.

Effect: The inability to obtain a listing of employees independently from the City's MIS department caused the Civil Service Department to be in noncompliance with the Rules of the Civil Service Commission.¹¹

Recommendation: The Civil Service Department should be able to prepare a listing of employees independently from the City's MIS department when deemed necessary so that Civil Service can examine payroll and related records as stated in Rule X, Section 2.1 with the Payroll Unit's listing.

Civil Service Comment: *"We concur. The Civil Service Department does not have the ability to produce personnel reports without making a request for information from the City's Information Technology Division. While this is the normal procedure for most City departments, these other agencies are not charged with being the official custodian of the records. This lack of independence to produce reports limits this department's ability to audit and review the City's personnel data as required by the Civil Service Rules. Requests for reports are frequently given low priority or not provided in a timely manner. In the past, this department has made budget requests to create in-house IT positions to provide independent support for internal computer systems but these requests have not been approved in our budget. As a result, the Civil Service Department is currently dependent upon an agency for which it is charged with auditing to provide the necessary reports upon which to do the audit. This is problematic and we agree with your conclusion that as the official custodian of personnel records, the Civil Service Department should be given the appropriate independence to collect and report on the data as needed in accordance with the Civil Service Rules. As the City seeks to outsource payroll and considers an ERP solution, we have been included in that process and expect that in the future it may allow for more independence. "*

City Comment: *"Presently Civil Service receives a monthly "Civil Service Organization Report" which lists all employees by department with their annual salary. This list comes from the AHRS mainframe system which stores employees' personnel and payroll data in a single system. The Civil Service Department and the Payroll Unit in the Department of Finance share the AHRS mainframe system. At present, Civil Service has final approval of all personnel transactions in this shared system, so clear responsibility for the personnel data lies with Civil Service.*

We believe the "Civil Service Organization Report" addresses the OIG's intent that the Department of Civil Service have access to this information. A comparison of the "Civil Service Organization Report" to the active payroll file for any time period can help determine if any payroll anomalies exist and assist in detecting and preventing any fraud and/or abuse in the payroll operations of the City of New Orleans."

¹¹ Rule X, Section 2.1 states that the Department of Civil Service was the official custodian of personnel and payroll records.

“While our AHR system is outdated, having a single system as we do is consistent with industry norms. We do not believe that Civil Service should maintain a separate list or database of city employees independent of the AHR system as maintaining a separate list is likely to lead to inconsistencies. The ERP task force this past summer invited industry leaders to provide demonstrations of their financial system software. All of their human resources and payroll modules utilized a single database to store personnel data and process payrolls. Nonetheless, we are optimistic that implementation of a new payroll system as the administration is doing will dramatically improve the Civil Service department's access to information and their ability to obtain ad hoc reports timely.”

OIG Comment: *Observation # 3 and the background to this finding indicated that the AHR system did not have an easily accessible audit trail and MIS did not have the proper database/network administrative logs. The City's inability to produce logs of changes makes the AHR system vulnerable to unauthorized changes to the system without Civil Service's knowledge.*

The City indicates that “Civil Service receives a monthly ‘Civil Service Organization Report’ which lists all employees by department with their annual salary.” We noted during our testing that this report was unavailable for several key months in 2009 and the beginning of 2010.

We agree that two independent databases may not be necessary. Given the lack of controls in MIS, Civil Service, as the official custodian of the personnel records for the City, should be able to produce personnel reports when deemed necessary without the assistance of the MIS department.

Finding # 2

Background: The City's 2009 *Basic Financial Statement Audit* from Postlethwaite & Netterville (P&N)¹² included findings from 2008 and 2009 which stated that the cash accounts were not reconciled timely¹³ and that the City did not follow the Civil Service Policy regarding overtime.¹⁴ (See Finding #3 relating to timely reconciliation and Finding #7 relating to overtime.)

Condition: The City did not resolve prior year audit findings related to payroll in a timely manner.

Criteria: According to the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999, internal control monitoring should ensure that audit findings are promptly resolved.

Cause: The City did not ensure that audit findings were resolved in a timely manner.

Effect: Prompt resolution of audit findings fixes identified problems and indicates management's willingness to improve.

¹² It is a common practice for auditors to mention other auditors' uncorrected prior year audit finding in their own reports.

¹³ Finding #4 in 2008 and 2009 per the P&N Independent Auditor's Report.

¹⁴ Finding #9 in 2008 and 2009 per the P&N Independent Auditor's Report.

Recommendation: The City should resolve audit findings as soon as practical, and ensure that all findings are corrected before the subsequent year's audit.

City Comments to Finding #2, #3, & #4: *"The OIG observed that the City's Independent Auditors reported the issue of the City not performing reconciliations on a timely basis. It should be noted that the City's Independent Auditors also reported to the Administration and the Council's Budget/Audit Committee that the lack of timely reconciliation was mainly due to staff shortages arising from budget restrictions and the complex nature of coordinating and reconciling the City's two (2) separate Mainframe General Ledger Systems.*

The Administration and City Council responded to the Independent Auditors' concern by appropriating additional positions in the 2011 Finance Department's Budget. The City was able to recruit and hire nine (9) new Accountants in 2011. The hiring of these new accountants in 2011 did not have a large impact on the 2010 annual audit. However, the new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit.

Additionally, in the 2011 budget, the City Council approved funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be in a better position to perform, review and complete reconciliations on a timely basis."

OIG Comment: *It should be emphasized that these external audit findings had been unresolved since 2008 (see footnotes 12 and 13).*

Finding # 3

Condition: Payroll cash accounts were not reconciled in a timely manner.¹⁵

Criteria: According to the City of New Orleans General Accounting Policies and Procedures Manual and General Accounting User Guide, "the Bureau of Accounting must perform bank reconciliations for all cash accounts every month to ensure that cash received is recorded in the system, in the proper amount and in the proper period."¹⁶ Bank reconciliations are one of the most important controls in an organization.¹⁷

Cause: The Bureau of Accounting failed to follow its existing policy requiring monthly reconciliations.

Effect: Unreconciled accounts created opportunities for undetected errors to remain in the accounting records.¹⁸

¹⁵ The most recent reconciliation available as of June 30, 2010 was from December 31, 2008.

¹⁶ Obtained from the City of New Orleans *General Accounting Policies and Procedures Manual and General Accounting User Guide*, dated 2/18/1998.

¹⁷ From Accounting Tools website <http://www.accountingtools.com/payroll-internal-controls>.

¹⁸ In the Report to the Nations on Occupational Fraud and Abuse (2010), the Association of Certified Fraud Examiners identified financial statement fraud schemes as the most costly loss to organizations polled.

Recommendation: Cash accounts should be reconciled and properly reviewed on a monthly basis to ensure that cash is accurately stated and errors are caught in a timely manner.

City Comments to Finding #2, #3, & #4: *“The OIG observed that the City's Independent Auditors reported the issue of the City not performing reconciliations on a timely basis. It should be noted that the City's Independent Auditors also reported to the Administration and the Council's Budget/Audit Committee that the lack of timely reconciliation was mainly due to staff shortages arising from budget restrictions and the complex nature of coordinating and reconciling the City's two (2) separate Mainframe General Ledger Systems.*

The Administration and City Council responded to the Independent Auditors' concern by appropriating additional positions in the 2011 Finance Department's Budget. The City was able to recruit and hire nine (9) new Accountants in 2011. The hiring of these new accountants in 2011 did not have a large impact on the 2010 annual audit. However, the new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit.

Additionally, in the 2011 budget, the City Council approved funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be in a better position to perform, review and complete reconciliations on a timely basis.”

OIG Comment: *It should be emphasized that these external audit findings had been unresolved since 2008 (see footnotes 12 and 13).*

Finding # 4

Condition: The payroll clearing fund¹⁹ liability accounts were not reconciled on a timely basis. The balance in the Federal Income Tax Withheld Account was the same on January 1, 2009 and December 31, 2009. As of June 30, 2010, the balance had a small increase.

Criteria: “Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency’s operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.”²⁰

Cause: The City failed to reconcile payroll clearing accounts on a monthly basis.

¹⁹ The payroll clearing fund was used by the City to process all payroll related transactions including payroll liabilities.

²⁰ Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 199, p.22.

Effect: Several accounts in the payroll clearing fund had little or no changes in their balances for several years. The balances in these accounts were not available for subsequent years' budget purposes and were in excess of \$1.2 million. Unreconciled accounts created opportunities for undetected errors to remain in the accounting records.²¹

Recommendation: The City should reconcile all payroll clearing accounts and properly review them subsequent to each payroll run to ensure that the accounts are properly stated and errors are caught in a timely manner.

City Comments to Finding #2, #3, & #4: *"The OIG observed that the City's Independent Auditors reported the issue of the City not performing reconciliations on a timely basis. It should be noted that the City's Independent Auditors also reported to the Administration and the Council's Budget/Audit Committee that the lack of timely reconciliation was mainly due to staff shortages arising from budget restrictions and the complex nature of coordinating and reconciling the City's two (2) separate Mainframe General Ledger Systems.*

The Administration and City Council responded to the Independent Auditors' concern by appropriating additional positions in the 2011 Finance Department's Budget. The City was able to recruit and hire nine (9) new Accountants in 2011. The hiring of these new accountants in 2011 did not have a large impact on the 2010 annual audit. However, the new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit.

Additionally, in the 2011 budget, the City Council approved funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be in a better position to perform, review and complete reconciliations on a timely basis."

OIG Comment: *"The ERP system will not be implemented for several years"²². The City should take immediate steps to reconcile financial statement accounts on a monthly basis.*

Note: This finding was not mentioned in the City's Independent Auditor's report in 2008 or 2009 as stated by the City in their comment.

Finding # 5

Background: The City has a practice of curtailing spending of other operating expenses in the fourth quarter of the year in an attempt to balance the budget. This budget balancing method was performed in lieu of budget amendments.

Condition: The City incurred \$50.7 million in net²³ personnel expenditures in 2009 that were not budgeted in the personnel services budget.

²¹ In the Report to the Nations on Occupational Fraud and Abuse (2010), the Association of Certified Fraud Examiners identified financial statement fraud schemes as the most costly loss to organizations polled.

²² The OIG's response from Observation #4 in the CNO Accounts Payable Internal Control Performance Audit issued in May 2011.

Criteria: Budget amendments were required to be approved by the City Council but “no amendment shall increase the aggregate of authorized expenditures to an amount greater than the estimate of revenues for the year.”²⁴

The City Charter states that “the Director of Finance and his surety shall be liable for any moneys withdrawn from any operating fund other than in accordance with the operating budget ordinance and allotments.”²⁵

Cause: The City failed to amend the budget when necessary.

Effect: The City’s failure to amend the budget created overspending in personnel services which created greater budget shortfalls in subsequent periods.

Recommendation: The City should timely amend the adopted budget when revenues are falling short and/or expenditures are exceeding projections. Objective guidance should be developed regarding when an amendment is necessary.²⁶

City Comment: *“Mayor Landrieu's Administration will not continue past practices and will timely propose amendments to the adopted budget when significant differences in overall revenues or expenditure categories are projected.”*

Finding # 6

Condition: Most NOPD timesheets sampled were not signed by the NOPD employees. The NOPD represented 38% (54) of the total timesheets sampled (144). Forty-six (46) NOPD timesheets showed “Authorized Leave” or “A/L” instead of the employee’s signature even when the employee was not on leave. Eighty-five (85) percent of the NOPD timesheets sampled were not signed by NOPD employees.

Criteria: All classified and unclassified employees were required by CAO Policy Memorandum No. 72(R) to complete and sign their weekly time sheets. A supervisor could note that an employee was unavailable if an employee was out on leave. “Authorized leave is a valid reason but working a late shift that makes signing inconvenient is not.”²⁷

Cause: The NOPD did not comply with CAO Policy Memorandum No. 72(R).

Effect: Noncompliance with CAO Policy Memorandum No. 72(R) may have allowed employees to submit timesheets for hours not actually worked. “Supervisors should review and initial all timesheets to ensure that hours have been worked.”²⁸

²³ Items underbudgeted and overbudgeted were netted to compute the \$50.7 million dollar overbudget amount.

See Appendix A.

²⁴ Per City Code – Section 3-115(3).

²⁵ City Charter – Section 6-103(5).

²⁶ Ibid.

²⁷ CAO Policy Memorandum No. 72(R).

²⁸ From Accounting Tools website <http://www.accountingtools.com/payroll-internal-controls>.

Recommendation: All departments should comply with CAO Policy Memorandum No. 72(R) and require that employees and supervisors review and sign the timesheets to certify that the hours listed were actually worked.

City Comment: *“NOPD patrol officers are required to sign a daily Beat-Roll Book acknowledging their presence at roll call. The Beat-Roll Book data is entered into the Police Department's Trip System, the NOPD's time and attendance system. At the end of a pay period, the Trip System generates timesheets based on patrol officers actual attendance recorded from the Beat-Roll Book. Patrol Officers working on the 2nd or 3rd watches are not available to sign the printed timesheets to ensure timely processing of payroll.”*

CAO Policy Memorandum No. 72(R) will be amended to reflect the approved practice in the Police Department.”

OIG Comment: *The Operations Manual (Chapter 13.18) for NOPD's TRIP Payroll System specifically states that “All Divisions, Districts, Sections, and Units shall ensure the TRIP/RAMS time sheets are signed (not stamped) by each employee working during the time the sheets are available for signatures. Supervisory personnel shall not enter or allow the words ‘AUTHORIZED LEAVE’ to be affixed to the time sheet of any employee working during the time the sheets are available for signatures. If an employee is unavailable to sign his/her time sheet due to his leave status, his/her supervisor shall print the words “AUTHORIZED LEAVE” in the space for the employee's signature, affix his own signature as approving supervisor, and submit the payroll sheet. All photocopies of payroll sheets with the notation “AUTHORIZED LEAVE” entered on the employee line shall be signed by the employee upon his/her return to work.”*

The timesheets in question were generated from the TRIP System which indicates that the NOPD timesheets were in noncompliance with CAO Policy Memorandum No. 72(R) and the NOPD's Operations Manual (Chapter 13.18).

The City will need to amend policy 72(R) and the TRIP Payroll System manual if this practice is allowed in the NOPD.

Finding # 7

Condition: In 2009, 597 employees or 13% of the City's 4,614 employees²⁹ exceeded the maximum overtime limit of 416 hours per year. Twenty-five of them averaged over 35 hours of overtime per week (1,300 hours per year). (See Table 1 below)

Criteria: Civil Service Rule IV, Section 9.10 stated that under no circumstances shall an employee be permitted to work in excess of 416 hours of overtime in any calendar year after 1978.

Civil Service Rule IV, Sections 9.7(a) and (b) stated that as of January 1, 1979, the Civil Service Department must approve in advance any overtime expected to be worked by any employee in excess of 8 hours in a work week, except if required for an emergency situation.

²⁹ In 2009, 3,507 (76%) of City employees worked overtime out of a total of 4,614 City employees.

Cause: The Civil Service Department was not notified by City departments in advance of overtime being worked, which prevented it from enforcing Rule IV, Sections 9.10 and 9.7(a) and (b). The Personnel Director indicated that several attempts were made in prior years to obtain an overtime report listing of all employees' year-to-date overtime hours with no response from MIS.

Effect: Employees were allowed to exceed the Civil Service maximum of 416 hours per year and advance approval was not obtained from Civil Service prior to any employee working overtime in excess of 8 hours in a work week.³⁰ This finding also caused Civil Service to be in noncompliance with Civil Service Rule IV, Sections 9.10 & 9.7(a) and (b).

Recommendation: The Civil Service Department, the Finance Department and MIS should work together to ensure that the payroll system has a control in place to limit the total number of overtime hours to the 416 hours per year permitted.

Additionally, all departments should obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week in compliance with Civil Service Rule IV, Sections 9.7(a) and (b).

Table 1: Recap of 2009 Employee Overtime:

	Total Employees	Employees with Overtime	% of Total	Employees with more than 416 hours of OT	% of Total	Employees averaging more than 25 hours of OT per week in 2009
Police/ Fire	2,627	2,417	92%	366	14%	12
All Others Employees	1,987	1,095	55%	231	12%	13
Total	4,614	3,512	76%	597	13%	25

Civil Service Comment: *“We concur. This finding is illustrative of the problems that occur as a result of the Civil Service Department’s inability to produce reports independently of the City’s Information Technology Division. In the past, despite multiple requests, this department has had a difficult time obtaining these overtime reports on employees which has made it difficult to review the overtime earnings of City employees in accordance with Rule IV, Section 9.7 (a). Earlier this year, the City’s IT division provided this department with a regular report on the bi-weekly overtime earnings of administrative employees, but the report excludes police and fire personnel. We have made a request for the overtime earnings on police and fire employees as well; however, a meaningful report that captures cumulative overtime for police and fire personnel has yet to be provided to us.*”

³⁰ See budget-to-actual comparison in the Appendix A.

Once the required information on the police and fire overtime earnings is received, the Civil Service Department can properly audit these records and work with the Finance Department and IT to develop controls relative to overtime earnings for all City employees.”

City Comment: *“This finding was also noted by the City Independent Auditor. In response the City agreed that all departments will be reminded they should obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week in compliance with Civil Service Rule IV, Sections 9.7(a) and (b). Additionally, The Civil Service Department and ITI will work together to ensure that timely payroll reports will be available to enable Civil Service and departments' verification of the overtime usage.”*

OIG Comment: *It should be emphasized that these external audit findings had been unresolved since 2008 (see footnotes 12 and 13).*

Finding # 8

Background: An important control of the City’s payroll process is the approval of the employee hours recorded on timesheets and the entry of these hours into the payroll system to generate employee pay. Once an employee submitted a timesheet approved by the supervisor, it was then entered into HRTS. HRTS had three levels of approval that were required before the hours were entered into the payroll system (AHRS). Below are the three levels of approval required in HRTS: (See flowchart in Appendix B)

Level I - Departmental Payroll Clerk

Level II - Employee’s Supervisor

Level III - Departmental Supervisor

Condition: Two employees had the ability to perform all three levels of approval in HRTS as of June 30, 2010. In 2009 the City had 10 employees with the ability to perform all three levels of approval.

Criteria: The United States General Accounting Office stated that, “key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

This segregation should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”³¹

Cause: The City lacked segregation of duties within HRTS for the two employees noted. (10 employees lacked segregation of duties in 2009)

Effect: These individuals could have entered and approved time for themselves and other employees for hours that had not been actually worked.

³¹ Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

Recommendation: Approvals within HRTS should be monitored to ensure that an individual employee is not granted multiple levels of approval in the system.

City Comment: *“To reduce risk the ITI Department has reduced the number of employees with the ability to perform all levels of approvals within HRTS and is also actively monitoring internal controls in the payroll system. Additional controls have also been put in place to monitor the activity of those few individuals with high levels of approval authority.”*

Finding # 9

Condition: The Payroll Unit initiated the wire transfers for payroll deductions using a Request for Payment Voucher, which was sent to the Bureau of Accounting. The Payroll Deduction Supervisor’s name was typed on the payment voucher, but the signature was not present.³² The Payroll Deduction Supervisor stated, “I’ve never been required to sign the voucher.” The payment voucher had only been signed by the Deputy Director of Finance prior to forwarding the request to the Bureau of Treasury. The Request for Payment Voucher prepared by the Payroll Deduction Supervisor was not signed or initialed by the Payroll Deduction Supervisor.

Criteria: The United States General Accounting Office stated that “transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This was the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.”³³

Cause: The City did not require two signatures from employees at different levels before a wire was initiated by the Bureau of Treasury.

Effect: Wire transfers were approved without the signature of the Payroll Deduction Supervisor on the Request for Payment Voucher which could have caused the City to send an unauthorized wire.

Recommendation: City policies and procedures regarding the Request for Payment Voucher should require dual signatures prior to initiating a wire transfer.

City Comment: *“The Bureau of Treasury does require two signatures, one from the requesting department and one approving the request by the Bureau of Accounting, before initiating wire transfers. The only exception to this practice, an example of which the OIG identified, has been that wire requests originating within the Bureau of Accounting itself have customarily not required the additional initial signature. In the future the Bureau of Accounting will apply dual signatures when initiating a wire transfer.”*

³² A Request for Payment Voucher can be allowed for many purposes and initiated by several employees.

³³ Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

The City of New Orleans does not believe that the lack of a signature alone from the Payroll Deduction Supervisor to request a wire would have caused the city to send an unauthorized wire, as the sending of a wire has additional controls which protect the City from sending an unauthorized wire.

The Bureau of Accounting, which houses the Payroll Unit, already has several valid controls to ensure proper authorization of wires, i.e. the supporting documentation attached to a request for wire transfer.”

OIG Comment: *If the City believes there are compensating controls relating to a wire transfer “originating within the Bureau of Accounting”; then there is no need to have two signature lines on the Request for Payment form.*

Finding # 10

Condition: The cash reconciliation from 12/31/2009 included 285 outstanding payroll checks from September 2005 – June 2008 for a total of \$256,421. These checks should have been remitted to the State in 2009.

Criteria: CAO Policy Memorandum No. 117³⁴, dated June 9, 2009, stated that the City should remit to the State by November 1, 2009, any unclaimed check that was issued more than one year prior to July 1, 2009, and valued at \$50 or more.

Cause: The Bureau of Accounting was in noncompliance with CAO Policy Memorandum No. 117 and Louisiana State Law.

Effect: Individual payroll checks remained unclaimed.

Recommendation: The Bureau of Accounting should comply with all City policies and Louisiana State Laws.

City Comment: *“Due to the lack of sufficient staff to complete the 2010 audit, the City hired an outside CPA firm to assist with the reconciliation of the listing of outstanding checks. The firm determined that a significant portion of the checks listed on the outstanding payroll checks report were no longer outstanding obligations to the employee because those checks had been cleared at a later date.*

Additionally, in the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be able to fully comply with Policy Memorandum No. 117 and Louisiana State Law for any amounts which should actually be escheated to the State.”

OIG Comment: *“Replacing the city's financial system infrastructure with a new ERP system” may take several years.*

³⁴ The City's policy was adapted from La. R.S. 9:151 et seq.

Finding # 11

Background: Manually prepared checks were signature stamped in the Bureau of Treasury. The signature stamp was kept in a locked cabinet in the Bureau of Treasury; however, the key to the cabinet was kept in an office assistant's unlocked desk.

Condition: The key to the cabinet where the signature stamp was kept was unsecured.

Criteria: The United States General Accounting Office stated that "access to resources should be limited to authorized individuals and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."³⁵

Cause: The Bureau of Treasury did not require the key for the signature stamp cabinet to remain in a secured (locked) location at all times.

Effect: An unauthorized person could gain access to the City's signature stamp and forge checks. The stamp also could be used to stamp the authorized signature on legal documents.³⁶ Any person entering City Hall could have accessed the key to this cabinet and applied the signature stamp to manual payroll checks.

Recommendation: The key to the cabinet where the signature stamp was stored should be kept in a secure location.

City Comment: *"The City agrees with the finding and no longer stores the key to the signature stamp cabinet in an unlocked desk.*

While this suggestion is an obvious and appropriate additional security measure and has been implemented, the City does not believe there have been any checks issued by unauthorized persons as the overall process for issuing manual checks includes several additional controls. First, check stock is stored in a separate physical and secured location, under the control of a different organizational unit. Second, the signature stamp device itself has additional security measures built in to prevent unauthorized operation. Implementation of this recommendation further strengthens these controls."

OIG Comment: *Weak access controls create opportunities for fraud, waste and abuse whether or not they are actually discovered.*

³⁵ Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

³⁶ Payroll Internal Controls, Accounting Tools website <http://www.accountingtools.com/payroll-internal-controls>.

Finding # 12

Condition: The filing backlog of personnel records prevented the Civil Service Department employees from providing records in a timely manner. Personnel records are currently stored in several different methods and locations³⁷ within the Civil Service Department.

Criteria: Departments were required by ordinance³⁸ to respond promptly to document requests. State law (La. R.S. 44:33) required that the Civil Service Department provide employee information requested in a Public Records Request within three business days of the date requested.

Cause: The Personnel Director of the Civil Service Department said that the department had attempted to consolidate personnel records, but the funding for the purchase was not approved by the City's Administration.

Effect: Civil Service was unable to comply with legal requirements and produce documents in a timely manner.

Recommendation: The City should provide funding to ensure that personnel records are filed timely and accurately for ease of retrieval. Civil Service should consolidate all personnel files in one place to aid in the retrieval of documents and protect employees from identity theft.

Additionally, the City and Civil Service should develop a records retention policy, which may permit electronic data storage and greatly facilitate document retrieval.³⁹

Civil Service Comment: *"We concur. The Civil Service Department, as the official custodian of personnel records, is required to respond to public records requests in accordance with the Civil Service Rules and State law (La. RS. 44:33). So far in 2011, we have responded to 352 public records requests and provided 6,765 pages of documents. This task becomes very difficult with a very limited staff and several sources of personnel data to search. Currently, the staff must search for employees' personnel files on microfiche, on the optical scanner, in Xerox docushare, in the AHRS system, and in paper files created shortly after Hurricane Katrina. This slows our response time down considerably and jeopardizes our ability to meet the three day requirement mandated by State law. Since 2006, the department has made an annual request for funding to consolidate these records but the funding requests have not been approved. In order to improve efficiency and provide an effective single and secure electronic format for these personnel records, a onetime funding source is required."*

³⁷ Civil Service stores personnel information in the following methods: Microfiche; Optiscan; DocuShare and paper stacks by date of hire.

³⁸ City Code 2-1120(12).

³⁹ A similar observation was made in the Accounts Payable Internal Control Report which was released in May 2011.

City Comment: *“As we wrote in response to the OIG’s Purchasing and Accounts Payable Audit report earlier in 2011, ‘the City does not have an electronic storage system for documents and relies more on paper records in different locations that are uncoordinated, making it difficult to assemble all the information about a particular issue in a timely manner. The City agrees that a document management system would greatly improve administrative efficiency, retrieval of documents, ease access to centralized inform, and reduce the financial and environmental costs of paper use. At present, funding has not been identified for a comprehensive citywide document management system but the City will assess this need as part of the budget process. The City is also at present developing records retention policies for City government, and is coordinating these efforts with the State Records Office to ensure compliance with State Law requirements.’”*

Finding # 13

Condition: Manually prepared unclaimed payroll checks were kept in a folder in an unsecured drawer in a bookshelf in the Bureau of Treasury.

Criteria: The United States General Accounting Office stated that “access to resources should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained”⁴⁰

Cause: The Payroll Unit did not have procedures for the Bureau of Treasury to follow with regard to the storage of the unclaimed manually prepared payroll checks.

Effect: City employees could have had their pay checks negotiated by others because the Bureau of Treasury did not protect the checks. Unclaimed checks that remain for an excessive amount of time after issuance may cause the City to be in noncompliance with City and State laws.

Recommendation: The Payroll Unit and Bureau of Treasury should safeguard the manual payroll checks and develop a policy for the Bureau of Treasury to enforce when payroll checks have not been claimed promptly by City employees.

City Comment: *“As of 2006, all City employees were placed on direct deposit for payroll. The City only prepares a very small number of manual checks due to errors in processing or for new employees. The manual checks that are prepared are normally picked up on the pay day or next business day. The checks held overnight are now being secured. The Department of Finance will document these procedures.”*

OIG Comment: *Weak access controls create opportunities for fraud, waste and abuse; even though there are only a small number of manual checks produced.*

⁴⁰ Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

III. PAYROLL INTERNAL CONTROL OBSERVATIONS

Observation # 1

City employees⁴¹ said that they were not required to receive and that many employees did not receive any ethics training.⁴²

Recommendation: City employees should be required to complete the free online ethics training⁴³ available from the Louisiana Ethics Administration Program on an annual basis.

City Comment: *“As we wrote in response to ‘Purchasing and Accounts Payable Internal Control Performance Audit’ released in May 2011, the Mayor’s Office and City Attorney conducted an employee training session in May 2010 for all department heads and a large number of governmental employees. Since that date, a number of employees have taken the online ethics training program sponsored by the Louisiana Ethics Administration. Additionally, as we wrote previously in the City’s original response, the City will develop a plan to comply with the state requirement that all employees complete annual ethics training beginning in 2012.”*

Observation # 2

The licenses for the AHRS system were no longer supported by a vendor maintenance contract.

Recommendation: The City should acquire a payroll system that offers technical support.

City Comments to Observations #2, #3, #4: *“The City’s existing Payroll Application (AHRS) is on a mainframe platform. At the time it was implemented, AHRS was a popular Payroll system used by large public and private sector organizations. Due to limited funding and a significant lack of technical investment over the years, the system has now become largely obsolete and represents a significant risk. The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRS system. The new payroll system would include improved levels of security and internal controls.”*

Observation # 3

The AHRS audit trail could not be easily extracted.

Recommendation: The City should develop an alternate way to document approvals in AHRS or consider replacing the payroll system.

⁴¹ For all audits performed, the auditors conducted an interview with the key personnel for that department in which they asked routine fraud related questions including how frequently ethics training courses were provided.

⁴² This observation was also noted in the Accounts Payable Internal Control Performance Audit released in May 2011.

⁴³ The Louisiana Ethics Administration Program has a free one-hour online training program available that can be accessed at <http://204.196.0.55/EthicsTraining/login.aspx>.

City Comments to Observations #2, #3, #4: *“The City's existing Payroll Application (AHRIS) is on a mainframe platform. At the time it was implemented, AHRIS was a popular Payroll system used by large public and private sector organizations. Due to limited funding and a significant lack of technical investment over the years, the system has now become largely obsolete and represents a significant risk. The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRIS system. The new payroll system would include improved levels of security and internal controls.”*

Observation # 4

Background: MIS personnel said that the AHRIS system had an audit trail in the form of a report called MTI Transaction Listing. The report did not provide an audit trail. Instead, the report provided transactions that had been entered in AHRIS and had not been accepted because the transaction had been rejected, not processed or was pending an approval.

The MTI Transaction Listing report had over 4,000 transactions that needed to be processed, corrected, deleted or approved to complete the processing of these transactions in the AHRIS system.

Recommendation: Policies and procedures should be developed to ensure that pending transactions in AHRIS are monitored and corrected on a periodic basis. The City should also develop logs of changes and corrections to the AHRIS software by user.

City Comments to Observations #2, #3, #4: *“The City's existing Payroll Application (AHRIS) is on a mainframe platform. At the time it was implemented, AHRIS was a popular Payroll system used by large public and private sector organizations. Due to limited funding and a significant lack of technical investment over the years, the system has now become largely obsolete and represents a significant risk. The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRIS system. The new payroll system would include improved levels of security and internal controls.”*

Observation # 5

An AHRIS report called the List Check History Records contained a field called Cumulative Hours Balance which contained negative hours for annual and sick leave for certain employees.

The report was discovered while reviewing one of the component entities' payroll reports. The City provided payroll services to several of its component entities.⁴⁴

Recommendation: MIS should resolve calculation errors found in payroll reports promptly to ensure that reports are meaningful.

City Comment: *“The ‘List Check History Records’ is used to validate an employee's bi-weekly earnings. The ‘Leave Accruals and Usage by Month Inquiry’ and/or ‘Employee Leave Activity Inquiry’ are the reports to validate an employee's leave usage and leave balance.”*

⁴⁴ Governmental Accounting Standards Board (GASB) No. 14 defined a component entity as a “legally separate organization for which the elected officials of the primary government are financially accountable.”

OIG Comment: *We understand that the Finance Department knows which reports to use to validate leave accruals, but the List Check History Records report was obtained from another City Department that may not have been aware of the issues with the inaccurate information in this report. Report inaccuracies (whether used for this purpose or not) are confusing to the uninformed user and employee. MIS should resolve calculation errors in reports as soon as possible and distribute a report that is meaningful to all users.*

Observation # 6

The “City of New Orleans General Accounting Policies and Procedures Manual and General Accounting User Guide” was outdated and last revised in February 1998, thirteen years ago. The manual did not include any documentation for the Great Plains applications.⁴⁵

Recommendation: The City should update the Accounting Policies and Procedures Manual annually.

City Comment: *“As we stated in the OIG's Purchasing and Accounts Payable Internal Control Performance Audit report, ‘The City agrees that current policies and procedures have not been updated annually. Some updating has taken place. For example, in 2006 the City hired a consultant to document a number of accounting policies and procedures. The outcome of this engagement provided the City with documented procedures and workflows for use with systems such as BuySpeed and Great Plains. The City will work to overhaul all its policies and procedures in a comprehensive manner as part of the implementation of the ERP system over the next few years.’”*

OIG Comment: *“The ERP system will not be implemented for several years. The City should take steps to update the procedures manual in the interim.”⁴⁶*

⁴⁵ This observation was also noted in the Accounts Payable Internal Control Performance Audit released in May of 2011.

⁴⁶ City of New Orleans Purchasing and Accounts Payable Internal Control Performance Audit released in May 2011.

IV. CONCLUSIONS

Total actual payroll expenses⁴⁷ for 4,614 employees were \$334 million in 2009, approximately 52% of the City's total budgeted expenses of \$644 million.⁴⁸ The City incurred \$50.7 million in personnel expenditures in 2009 that were not budgeted in the personnel services budget.

The audit noted that the Civil Service Department could not produce a listing of City employees independently from the City's MIS department. The City did not resolve previous audit findings, nor did it reconcile payroll cash accounts and payroll clearing accounts timely. The audit revealed that most NOPD timesheets sampled were not signed by employees, and that 13% of the workforce exceeded the annual limit of 416 hours of overtime.

The audit found that two employees (reduced from 10 in 2009) had approval access for all levels in the HRTS and could approve hours without oversight for their respective departments. Wire transfers were routinely initiated without the requestor's signature, and a key to signature stamp cabinet was found unsecured. The City did not follow up on undistributed manual payroll checks.

The magnitude of the expense and history of over spending make internal controls over payroll especially critical. During 2009 and the first half of 2010, the City did not have adequate internal controls over the payroll processes. Correcting the internal control weaknesses identified in this report would help the City monitor and control the payroll function.

Outsourcing the payroll function and the development of an enterprise system personnel application should be very helpful. However, only the processing would be outsourced, not the data on which it relies. Nor will any management information system report anything other than the contents of its database. Therefore, the City must correct these severe faults or remain vulnerable to fraud.

The Office of Inspector General will conduct an additional audit related to payroll liabilities and an overtime analysis as a result of this audit. A follow-up review to determine the status of the findings in this report will be conducted in 2012.

⁴⁷ The total salary expenses included salaries and benefits for all City employees.

⁴⁸ Total expenses were obtained from the City of New Orleans 2011 Adopted Operating Budget pg.31.

V. APPENDICES: APPENDIX A

City of New Orleans Salary and Benefits 12/31/09		Actual	Budget	Difference
Description				
1010	Salaries	204,030,325	176,465,665	(27,564,660)
1020	Overtime	29,247,359	7,210,906	(22,036,453)
1026	Overtime Special Events	-	258,206	258,206
1110	Municipal Employee Retirement Plan	12,220,182	9,980,941	(2,239,241)
1140	Municipal Police Employee Retirement Plan	7,229,741	5,824,573	(1,405,168)
1150	Fire Pension Plan	-	9,000,000	9,000,000
1160	Fire 68 Pension	11,733,559	1,600,000	(10,133,559)
1170	Miscellaneous Pension Plan	131,943	-	(131,943)
1180	LA Clerk of Court Retirement	205,600	-	(205,600)
1200	FICA	5,823,446	4,608,860	(1,214,586)
1210	Medicare	2,867,451	2,196,519	(670,932)
1300	Group Hospitalization Insurance	44,940,201	30,946,500	(13,993,701)
1400	Workers Compensation Ins	17,020,787	14,495,370	(2,525,417)
1500	Police/Fire Millage	3,843,029	2,663,209	(1,179,820)
1600	Terminal Leave	3,255,495	34,777	(3,220,718)
1710	Auto Allowance	60,348	92,899	32,551
1720	Uniform Allowance	1,472,351	1,385,250	(87,101)
1740	Tool Allowance	31,950	24,150	(7,800)
1763-64	Longevity Increase	-	699,679	699,679
1776	Wage Reserve	6,047	15,807,939	15,801,892
1790	Life Insurance	322,447	193,614	(128,833)
1800	Unemployment Compensation	383,292	381,060	(2,232)
1900	Sick Leave	7,070,627	-	(7,070,627)
Less: Traffic Court, Municipal Court, New Orleans Museum of Art ⁴⁹ and State Supplemental Pay ⁵⁰		(17,822,463)	-	(17,322,463)
TOTALS		334,073,717	283,870,117	(50,703,600)

⁴⁹ The City processes payroll for these entities; therefore, these entities are not a part of the City's budget.

⁵⁰ Fire and Police State Supplemental pay in the amount of \$ 11 million dollars was also included in the actual. The State pays the City policemen and firemen by separate check; but require these payments to be included on the W-2s provided by the City.

Internal Controls Flowchart

Treasury

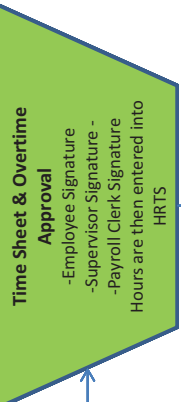
Accounting

Departments

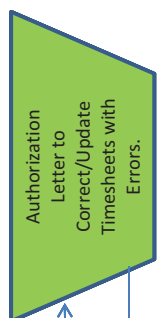
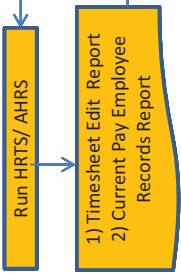
Payroll

MIS

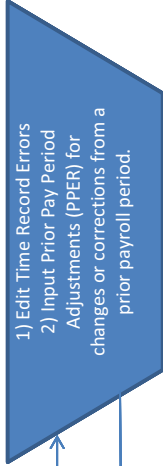
Monday



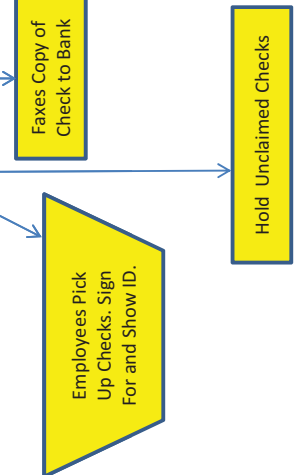
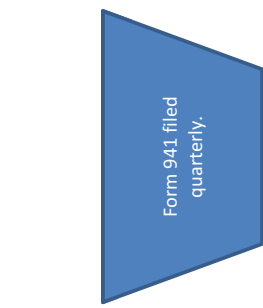
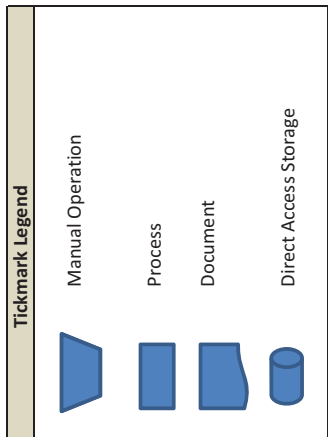
Tuesday



Wednesday



Thursday



VI. OFFICIAL COMMENTS FROM THE CITY AND CIVIL SERVICE

City Code Sec. 2-1120(8)(b) provides that “Prior to concluding an audit or evaluation report, which contains findings as to the person or entity which is the subject of the audit or evaluation, the Office of Inspector General shall provide the affected person or entity with an Internal Review Copy of the report. Such person or entity shall have 30 days from the transmittal date of the report to submit a written explanation or rebuttal of the findings before the report is finalized, and such timely submitted written explanation or rebuttal shall be attached to the finalized report.”

An Internal Review Copy of this report was distributed on August 29, 2011 to the City and Civil Service to provide an opportunity to comment on the report prior to the public release of the Final Report. The comments were initially due on September 29, 2011. After conducting four different exit conferences, two extensions were subsequently granted: one on October 7, 2011 (voluntarily granted) and the second on October 20, 2011, as requested by the Civil Service Commission. The City and Civil Service comments were received on October 20, 2011; these comments were included in the body of this report and attached behind this Section.

CHIEF ADMINISTRATIVE OFFICE
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR

ANDREW D. KOPPLIN
FIRST DEPUTY MAYOR & CAO

October 20, 2011

Mr. Edouard Quatrevaux
Inspector General
City of New Orleans
525 St. Charles Avenue
New Orleans, LA 70130

Dear Mr. Quatrevaux:

Re: OIG Report on Payroll Internal Controls

We want to thank your staff on this report in particular for the constructive dialogue on many of issues relating to payroll internal controls. This discussion is particular timely as the city is currently awaiting responses to a hosted payroll solution RFP.

As we have stated in the past, the City welcomes the Inspector General's review of our processes, procedures, and internal controls. We have used these reviews to outline a path to improve the overall level of financial management and to strengthen controls to eliminate the potential abuse of taxpayer dollars.

We would note that the report did not identify any specific concrete example of fraudulent spending. We nonetheless very much appreciate your team's efforts to identify weaknesses in our processes and controls and will work to implement the recommendations from this report consistent with our responses below as they will help to reduce the potential for any payroll system fraud taking place in the future.

Below are the responses to the Report on Payroll Internal Controls.

Finding #1

This finding focuses on Civil Services' inability to produce ad hoc reports.

Presently Civil Service receives a monthly "Civil Service Organization Report" which lists all employees by department with their annual salary. This list comes from the AHRS mainframe system which stores employees' personnel and payroll data in a single system. The Civil Service Department and the Payroll Unit in the Department of Finance share the AHRS mainframe



system. At present, Civil Service has final approval of all personnel transactions in this shared system, so clear responsibility for the personnel data lies with Civil Service.

We believe the "Civil Service Organization Report" addresses the OIG's intent that the Department of Civil Service have access to this information. A comparison of the "Civil Service Organization Report" to the active payroll file for any time period can help determine if any payroll anomalies exist and assist in detecting and preventing any fraud and/or abuse in the payroll operations of the City of New Orleans.

While our AHRS system is outdated, having a single system as we do is consistent with industry norms. We do not believe that Civil Service should maintain a separate list or database of city employees independent of the AHRS system as maintaining a separate list is likely to lead to inconsistencies. The ERP task force this past summer invited industry leaders to provide demonstrations of their financial system software. All of their human resources and payroll modules utilized a single database to store personnel data and process payrolls. Nonetheless, we are optimistic that implementation of a new payroll system as the administration is doing will dramatically improve the Civil Service department's access to information and their ability to obtain ad hoc reports timely.

Findings #2, 3, & 4

The OIG observed that the City's Independent Auditors reported the issue of the City not performing reconciliations on a timely basis. It should be noted that the City's Independent Auditors also reported to the Administration and the Council's Budget/Audit Committee that the lack of timely reconciliation was mainly due to staff shortages arising from budget restrictions and the complex nature of coordinating and reconciling the City's two (2) separate Mainframe General Ledger Systems.

The Administration and City Council responded to the Independent Auditors' concern by appropriating additional positions in the 2011 Finance Department's Budget. The City was able to recruit and hire nine (9) new Accountants in 2011. The hiring of these new accountants in 2011 did not have a large impact on the 2010 annual audit. However, the new staff has been able to reconcile payroll accounts and begin to more timely produce monthly reconciliations which will assure improvement in the 2011 audit.

Additionally, in the 2011 budget, the City Council approved funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be in a better position to perform, review and complete reconciliations on a timely basis.

Finding #5

Mayor Landrieu's Administration will not continue past practices and will timely propose amendments to the adopted budget when significant differences in overall revenues or expenditure categories are projected.

Finding #6

NOPD patrol officers are required to sign a daily Beat-Roll Book acknowledging their presence at roll call. The Beat-Roll Book data is entered into the Police Department's Trip System, the NOPD's time and attendance system. At the end of a pay period, the Trip System generates timesheets based on patrol officers actual attendance recorded from the Beat-Roll Book. Patrol Officers working on the 2nd or 3rd watches are not available to sign the printed timesheets to ensure timely processing of payroll.

CAO Policy Memorandum No. 72(R) will be amended to reflect the approved practice in the Police Department.

Finding #7

This finding was also noted by the City Independent Auditor. In response the City agreed that all departments will be reminded they should obtain advance approval from Civil Service prior to allowing an employee to work overtime in excess of 8 hours in a work week in compliance with Civil Service Rule IV, Sections 9.7(a) and (b). Additionally, The Civil Service Department and ITI will work together to ensure that timely payroll reports will be available to enable Civil Service and departments' verification of the overtime usage.

Finding #8

To reduce risk the ITI Department has reduced the number of employees with the ability to perform all levels of approvals within HRTS and is also actively monitoring internal controls in the payroll system. Additional controls have also been put in place to monitor the activity of those few individuals with high levels of approval authority.

Finding #9

The Bureau of Treasury does require two signatures, one from the requesting department and one approving the request by the Bureau of Accounting, before initiating wire transfers. The only exception to this practice, an example of which the OIG identified, has been that wire requests

originating within the Bureau of Accounting itself have customarily not required the additional initial signature. In the future the Bureau of Accounting will apply dual signatures when initiating a wire transfer.

The City of New Orleans does not believe that the lack of a signature alone from the Payroll Deduction Supervisor to request a wire would have caused the city to send an unauthorized wire, as the sending of a wire has additional controls which protect the City from sending an unauthorized wire. The Bureau of Accounting, which houses the Payroll Unit, already has several valid controls to ensure proper authorization of wires, i.e. the supporting documentation attached to a request for wire transfer.

Finding #10

Due to the lack of sufficient staff to complete the 2010 audit, the City hired an outside CPA firm to assist with the reconciliation of the listing of outstanding checks. The firm determined that a significant portion of the checks listed on the outstanding payroll checks report were no longer outstanding obligations to the employee because those checks had been cleared at a later date.

Additionally, in the 2011 budget, the City Council did provide funding for the Mayor's request to begin the process of replacing the city's financial system infrastructure with a new ERP system. With the hiring and retention of appropriate staff and the implementation of the new ERP system the city will be able to fully comply with Policy Memorandum No. 117 and Louisiana State Law for any amounts which should actually be escheated to the State.

Finding #11

The City agrees with the finding and no longer stores the key to the signature stamp cabinet in an unlocked desk.

While this suggestion is an obvious and appropriate additional security measure and has been implemented, the City does not believe there have been any checks issued by unauthorized persons as the overall process for issuing manual checks includes several additional controls. First, check stock is stored in a separate physical and secured location, under the control of a different organizational unit. Second, the signature stamp device itself has additional security measures built in to prevent unauthorized operation. Implementation of this recommendation further strengthens these controls.

Finding #12

As we wrote in response to the OIG's Purchasing and Accounts Payable Audit report earlier in 2011, "the City does not have an electronic storage system for documents and relies more on paper records in different locations that are uncoordinated, making it difficult to assemble all the information about a particular issue in a timely manner. The City agrees that a document management system would greatly improve administrative efficiency, retrieval of documents, ease access to centralized inform, and reduce the financial and environmental costs of paper use. At present, funding has not been identified for a comprehensive citywide document management system but the City will assess this need as part of the budget process. The City is also at present developing records retention policies for City government, and is coordinating these efforts with the State Records Office to ensure compliance with State Law requirements."

Finding #13

As of 2006, all City employees were placed on direct deposit for payroll. The City only prepares a very small number of manual checks due to errors in processing or for new employees. The manual checks that are prepared are normally picked up on the pay day or next business day. The checks held overnight are now being secured. The Department of Finance will document these procedures.

Observation #1

As we wrote in response to "Purchasing and Accounts Payable Internal Control Performance Audit" released in May 2011, the Mayor's Office and City Attorney conducted an employee training session in May 2010 for all department heads and a large number of governmental employees. Since that date, a number of employees have taken the online ethics training program sponsored by the Louisiana Ethics Administration. Additionally, as we wrote previously in the City's original response, the City will develop a plan to comply with the state requirement that all employees complete annual ethics training beginning in 2012.

Observation #2, 3, & 4

The City's existing Payroll Application (AHRS) is on a mainframe platform. At the time it was implemented, AHRS was a popular Payroll system used by large public and private sector organizations. Due to limited funding and a significant lack of technical investment over the years, the system has now become largely obsolete and represents a significant risk. The City has issued a request for proposals seeking completely hosted Payroll, Time/Attendance Services to replace the AHRS system. The new payroll system would include improved levels of security and internal controls.

Observation #5

The "List Check History Records" is used to validate an employee's bi-weekly earnings. The "Leave Accruals and Usage by Month Inquiry" and/or "Employee Leave Activity Inquiry" are the reports to validate an employee's leave usage and leave balance.

Observation #6

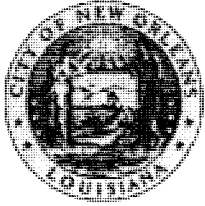
As we stated in the OIG's Purchasing and Accounts Payable Internal Control Performance Audit report, "The City agrees that current policies and procedures have not been updated annually. Some updating has taken place. For example, in 2006 the City hired a consultant to document a number of accounting policies and procedures. The outcome of this engagement provided the City with documented procedures and workflows for use with systems such as BuySpeed and Great Plains. The City will work to overhaul all its policies and procedures in a comprehensive manner as part of the implementation of the ERP system over the next few years."

Sincerely,



Andrew D. Koppin
First Deputy Mayor &
Chief Administrative Officer

Cc: Norman Foster
Derrick Muse
Kim DeLarge, Sr.



MITCHELL J. LANDRIEU
MAYOR

CITY OF NEW ORLEANS

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October 20, 2011

Edouard R. Quatrevaux, Inspector General
New Orleans Office of Inspector General
525 St. Charles, Suite 300
New Orleans, LA 70130

Dear Mr. Quatrevaux:

The Civil Service Department appreciates the opportunity to respond to the Inspector General's Report on the Payroll Internal Control Performance Audit of the City of New Orleans. This response only addresses Finding #1, Finding #7 and Finding #12 because they were relevant to the Rules of the Civil Service Commission and the operations of the department. After careful review and consideration of the findings, please find the responses from the Civil Service Department listed below:

Finding # 1: The Civil Service Department did not have the ability to produce a listing of City employees independently from the City's MIS (IT) Division.

Response: We concur. The Civil Service Department does not have the ability to produce personnel reports without making a request for information from the City's Information Technology Division. While this is the normal procedure for most City departments, these other agencies are not charged with being the official custodian of the records. This lack of independence to produce reports limits this department's ability to audit and review the City's personnel data as required by the Civil Service Rules. Requests for reports are frequently given low priority or not provided in a timely manner. In the past, this department has made budget requests to create in-house IT positions to provide independent support for internal computer systems but these requests have not been approved in our budget. As a result, the Civil Service Department is currently dependent upon an agency for which it is charged with auditing to provide the necessary reports upon which to do the audit. This is problematic and we agree with your conclusion that as the official custodian of personnel records, the Civil Service Department should be given the appropriate independence to collect and report on the data as needed in accordance with the Civil Service Rules. As the City seeks to outsource payroll and considers an ERP solution, we have been included in that process and expect that in the future it may allow for more independence.

Finding # 7: In 2009, 597 employees or 13% of the City's 4,614 employees exceeded the maximum overtime limit of 416 hours per year.

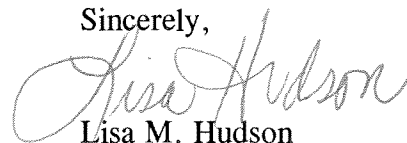
Response: We concur. This finding is illustrative of the problems that occur as a result of the Civil Service Department's inability to produce reports independently of the City's Information Technology Division. In the past, despite multiple requests, this department has had a difficult time obtaining these overtime reports on employees which has made it difficult to review the overtime earnings of City employees in accordance with Rule IV, Section 9.7 (a). Earlier this year, the City's IT division provided this department with a regular report on the bi-weekly overtime earnings of administrative employees, but the report excludes police and fire personnel. We have made a request for the overtime earnings on police and fire employees as well; however, a meaningful report that captures cumulative overtime for police and fire personnel has yet to be provided to us. Once the required information on the police and fire overtime earnings is received, the Civil Service Department can properly audit these records and work with the Finance Department and IT to develop controls relative to overtime earnings for all City employees.

Finding #12: The filing backlog of personnel records prevented the Civil Service Department employees from providing records in a timely manner.

Response: We concur. The Civil Service Department, as the official custodian of personnel records, is required to respond to public records requests in accordance with the Civil Service Rules and State law (La. RS. 44:33). So far in 2011, we have responded to 352 public records requests and provided 6,765 pages of documents. This task becomes very difficult with a very limited staff and several sources of personnel data to search. Currently, the staff must search for employees' personnel files on microfiche, on the optical scanner, in Xerox docushare, in the AHRS system, and in paper files created shortly after Hurricane Katrina. This slows our response time down considerably and jeopardizes our ability to meet the three day requirement mandated by State law. Since 2006, the department has made an annual request for funding to consolidate these records but the funding requests have not been approved. In order to improve efficiency and provide an effective single and secure electronic format for these personnel records, a onetime funding source is required.

This department welcomes this audit and supports your objective to increase efficiency within City government. We look forward to the opportunity to collaborate with the City Administration and the Inspector General's Office to improve future payroll processes.

Sincerely,



Lisa M. Hudson
Personnel Director
Civil Service Department

cc: Civil Service Commissioners
Andrew Kopplin, Chief Administrative Officer
Norman Foster, Director of Finance
Allen Square, ITI Director