

**CITY OF BUFFALO
DEPARTMENT OF AUDIT AND CONTROL**

**AUDIT REPORT
PAYROLL PROCEDURES OF THE DIVISION OF
WATER**

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SEPTEMBER 2014

Preface

In accordance with the goals set forth in the Annual Audit Plan, we conducted an audit of the payroll and payroll processing functions within the City of Buffalo Division of Water. The audit covered the time period from July 1, 2013 to December 31, 2013.

The City of Buffalo (the City) Charter lists the following controls over the payroll process. Section 16-5a., states “a claim for salary or wages of a person in the employ of a City agency shall be set forth in a written payroll, on the forms approved by the Comptroller, prepared and certified as correct by the head of the City agency.” Section 16-5b., states “Each Payroll shall be supported by a written timesheet prepared on forms approved by the Comptroller and certified as correct by a person having knowledge of the facts.”

In 1992, the Water Board acquired the Water System from the City. The Operation Agreement between the City and the Water Board provides that the Water Board shall manage, operate, maintain, repair and improve the Water System. The Water Board contracted with Veolia Water North America Operating Services LLC in June 2010 to manage, maintain, repair and improve the Water System. Under terms of the contract Veolia shall manage the operation of the system using the services of City of Buffalo Division of Water union employees. The Division of Water is a component of the Department of Public Works and reports to the Commissioner of Public Works.

Audit Objectives

The objectives of the audit are to document and evaluate the internal controls of the payroll process and to determine the accuracy and validity of the payroll transactions within the Division of Water.

To achieve these objectives the following procedures were performed:

- Interview personnel involved in the payroll process and document payroll procedures in place, including internal controls.
- Review employee timesheets and determine if hours recorded agree to hours paid.
- Verify that hours recorded on timesheets are reviewed and approved by a supervisor.
- Determine if paid time off (PTO) is properly tracked and approved by a supervisor.

Auditors selected a sample of 50 Division of Water employees and tested approximately 10,000 work hours and 1,000 shifts.

Audit Findings

1. Payroll Procedures

Division of Water employees are paid bi-weekly. Hours worked are recorded manually on timesheets. Review and approval of timesheets is indicated by a manager's initialing or signing of timesheets for the respective workgroups as shown in the table below.

Approver	Employee Location
Pumping Plant Superintendent	Colonel Ward Pump Station Filtration Plant Massachusetts Avenue Pump Station
Maintenance Superintendent	Meter Shop Service Center 1 and Service Center 2
Veolia Manager	Water Billing Exchange Street Meter Reading
City Engineer	Water Division City Hall

The Pumping Plant Superintendent, Maintenance Superintendent, and Veolia Exchange Street Manager each have a designated person who manually inputs the daily timesheet information into a Division of Water database. From the database a daily summary is produced which is given along with the timesheets to the Timekeeper in City Hall. The Timekeeper uses the daily summary to manually input the information into the TimeKeeper Software (TKS). The TKS data is then imported into the Munis financial management software and is the basis of the bi-weekly paychecks.

In addition to the procedures listed above the Water Billing employees use a time clock as well as the manual timesheets to record time worked. The time clock data is used only by Veolia management, it is not part of the information provided to the Timekeeper and it is not compared to the manual timesheets.

Hours worked are manually entered multiple times; first on the timesheets, second into a Division of Water database and third in TKS.

The TKS allows the generation of certain Management Reports. One such report is the Group Report which summarizes employee hours. This report is used by the Timekeeper to verify hours. After review and approval of the Group Report the TKS data is imported into Munis so that paychecks can be generated.

2. Staffing

The Division of Water management communicated during a meeting that the division is understaffed. The Veolia contract requires 117 Union employee positions. The current headcount was 86. This staffing shortage resulted in high levels of overtime.

3. Overtime

For the 2014 fiscal year Division of Water base salaries were \$5,149,000 and overtime was \$1,280,000 or 25% of base salaries. Overtime in the Pumping and Filtration Plants should be controllable as staffing needs are known in advance and are consistent. Overtime in the Water Distribution area is variable due to water main repairs, turn-offs and turn-ons. Overtime in the Water Billing area was attributed by Management to certain Division of Treasury reporting requirements which must be performed daily before 8am. There was an instance of a Filtration Plant employee earning excessive overtime by working 24 consecutive hours.

4. Double Payment for Time Worked

Timesheet review identified 5 instances in which payments were made for information exchange time and regular overtime for the same 15 minute period. Information exchange time is a contract term which allows an employee to earn 15 minutes of overtime at the end of a shift in order to facilitate a smooth transition to the next shift. The double payments occurred when timesheets had 15 minute information exchange time recorded after the end of his first shift and this time period was also recorded on the second shift timesheet. There were also 2 instances of payment for 1 hour training time and payment for overtime for the same hour. The information exchange and the training double payments totaled 3.25 hours.

5. Time on Group Report and Pay Stub greater than hours worked per Timesheet.

There were 9 instances where the group report hours and the pay stub hours exceeded the timesheet calculated hours. These 9 instances totaled 1% of total timesheets reviewed.

6. Time on Group Report and Pay Stub less than hours worked per Timesheet.

There were 96 instances or 10% of total timesheets reviewed where hours paid were less than hours shown on the timesheet. These total 47.25 hours. Management explained that employees sign-in prior to beginning their scheduled shift and that work is not conducted prior to the start of their scheduled shift.

7. Personal Time Off (PTO) and Overtime Recorded in Same Day

There were 8 instances or 1% of timesheets reviewed of employees using PTO and earning overtime on the same day. This creates a situation where the employee is paid at overtime rates when less than eight hours are actually worked. Overtime hours related to these instances totaled 18.75 hours.

8. Approval of Timesheets

The Pumping Plant Superintendent and the Maintenance Superintendent approve timesheets for all shifts of their employees. They are not present to verify all employees have worked the reported hours due to the 24/7 nature of the operation. During an interview with the Pumping Plant Superintendent, he reported that there are system checks that record when certain activities occur. This record serves as a control on employee presence. He stated that there was no opportunity for no-show employees.

The two Superintendents' timesheets do not document review/approval by either Department Head or by the Operator, Veolia LLC.

There was an instance of missing information on a Superintendent's timesheet resulting in 2 hours overtime being paid that was undocumented.

9. Timesheets Compared to Paystubs

The hours on the TKS Group Report were traced to Munis pay stub hours. The hours agree without exception.

10. Review and Approval of PTO by a Supervisor

An authorization for time off form is used to track PTO (PTO form). The PTO form should match the paystub, the Group Report, and have a supervisor's signature. During the site visit at the Colonel Ward plant Auditors were shown PTO forms.

Audit Recommendations

1. Automate Time Entry System

Conduct an evaluation of the cost/benefit of adopting a standardized automated time entry system, whereby time worked is recorded via hand scanner, time clock or other electronic means. Such a system should improve efficiency in the payroll process and reduce the risk of data entry errors and fraudulent transactions.

The Water Billing Department automated time card system should be evaluated immediately for utilization in the payroll process, it may result in increased accuracy and efficiency.

2. Hire Appropriate Staffing

Adequate staffing should be prioritized and should result in a more efficient work force. It is expected that the hiring of additional staff will result in reduced overtime, especially in areas where staffing requirements are predictable.

3. Overtime

Evaluate the Water Billing Department processes to determine if daily morning overtime caused by reporting requirements can be eliminated.

Create a policy documenting the number of hours that can be worked by an employee consecutively. We recommend that employees should not be allowed to work more than 16 consecutive hours. Requiring compliance with the policy will prevent an employee from working 24 straight hours.

4. Eliminate Double Counting of Time

A more thorough review of timesheets should prevent employees from getting double paid for time worked.

5. Eliminate Pay Hours Greater than Timesheet Hours

The timesheet review process, including the timekeeper review of the Group Report should identify any instances where hours were not properly recorded. Emphasizing the importance of matching the Group Report to the timesheet should eliminate these errors.

6. Eliminate Pay Hours Less than Timesheet Hours

Require employees to record the actual time worked on timesheet. If an employee arrives early before their scheduled start time, the time entered on the timesheet should record only the hours the employee is working.

7. Eliminate the use of PTO and Overtime on the Same Day

Employees should not be allowed to work overtime on days where PTO is used. This creates a situation where the employee is paid at overtime rates when less than eight hours are actually worked.

8. Timesheet Approval

The Pumping Plant Superintendent and the Maintenance Superintendent timesheets should be signed off by Veolia management or the Chief Engineer.



CITY OF BUFFALO
DEPARTMENT OF
PUBLIC WORKS, PARKS & STREETS



BYRON W. BROWN
MAYOR

STEVEN J. STEPNIAK
COMMISSIONER

PETER J. MERLO, P.E.
CITY ENGINEER

October 31, 2014

City of Buffalo
Department of Audit and Control
1225 City Hall
Buffalo, NY 14202

Attention: Kevin J. Kaufman, CPA, City Auditor

Re: Draft Audit Report
Payroll Procedures of the Water Division

Dear Mr. Kaufman:

Thank you for your letter dated September 15, 2014, together with the enclosed draft audit report (the "Audit").

Our response to the specific determinations stated in the Audit is set forth below, but as an initial matter, we acknowledge that improvement in the operations of the Division of Water is warranted, including employment of appropriate personnel within the Division of Water and can report that improvements have been made since the date of the Audit. Indeed, the need for more experienced and trained personnel is a key factor contributing to our overtime levels and corresponding cost as stated in the Audit. The Division of Water seeks to sustain our operation in the most cost effective manner. We continually endeavor to minimize overtime wherever possible.

Since the date of the Audit, staffing numbers have increased to a level of 98 filled positions, compared to the number of 86, cited on page three of the Audit. Thanks to the efforts of the Administrator of Public Works Jason Shell, we are now making significant progress in the personnel appointment process, and expect this momentum to continue.

We are in a process of identifying measures to promote efficiencies within Division of Water operations, including evaluating automated time management systems. Through discussions with staff, the Administrator of Public Works, and the Director of Labor Relations, we have identified the benefits and barriers associated with automated time management, and future milestones needed to be reached to implement such a system. With the implementation of

automated time management, we expect to achieve: a reduction in paper; a reduction in the burdensome daily tasks and inefficiencies associated with manual processing of timesheets (preparation, approval, inputting, and handling); and an increase in the reliable reporting of time worked and compensation paid.

In addition, our goal is to maximize the efficiency of our workforce, and manage our overtime costs where and whenever possible. Like many of the Division of Water activities, the operation of our water system utility is a 24/7 undertaking, which often requires immediate response to emergency situations that arise, while respecting contractual obligations with several bargaining units, and providing quality service to our customers.

In response to your specific findings and recommendations, we respond as follows:

Automatic Time Entry System

Veolia is currently evaluating time management functionality associated with the "Kronos" brand. This product appears more robust and offers additional benefits above the product currently utilized at the Exchange Street location. As part of this evaluation, we anticipate that negotiations will be necessary with the four collective bargaining units that serve the Division of Water to incorporate this practice in any collective bargaining agreements. It is proposed that Veolia continue with its evaluation, including a recommended implementation plan for Buffalo Water Board review and acceptance/approval.

In the interim, while the evaluation is proceeding, we have eliminated the issues raised by the Audit in capturing employees' time. We have adjusted the payroll process to deliver all timesheets directly to the timekeeper to enter in the Time Keeper System (TKS).

Hire Appropriate Staffing

As noted at the outset, we are improving and plan to continue to add to the Division of Water's level of personnel above the levels cited in the Audit. While additional overtime costs were incurred during and before the Audit period, this was a temporary remedy to meet and maintain operational standards, given vacant key positions. Overtime would normally be more controllable in the Pumping Plant area of our operations, but we needed to address the acute shortage of appropriate staff, and did so with use of overtime. Staff numbers since the Audit period have increased, and positions continue to be filled. It is projected that a return to appropriate staffing levels will reflect a reduction in the number of overtime hours being worked and paid.

Overtime

In response to daily morning overtime worked in the Division of Water Billing Department, discussions have taken place with the City Division of Treasury to

explore obtaining Lock Box receipts and Treasury Water receipts on a more timely basis. It was concluded there is currently no opportunity to adjust the deadlines they each require. Under current practice, the information provided by Division of Treasury is not received at a time that allows the Water Billing System (WBS) to be updated within normal working hours. The WBS requires updates to reflect current account balances to prevent late payment penalties being applied inappropriately to customers' accounts.

This situation will be monitored and a review will take place of staff schedules to identify opportunities for reducing or removing the need to incur overtime. The City, with Veolia's assistance will continue to evaluate employee job assignments and scheduling to improve operations, and will work with Treasury to identify opportunities to reduce overtime associated with this function going forward.

Given the activities and continuous functions of the Division of Water, there are emergency situations that arise in the management of the water system, as a utility that, despite proper workforce planning and staffing, will require overtime. These unforeseen events, may not always be planned for and do not occur with any regularity, but we are required to engage and respond appropriately to ensure continuous operations and protect public health and safety.

We understand concerns regarding an employee working more than 16 consecutive hours. While this is not a general practice, we acknowledge that situations may arise during an emergency that could potentially make this situation unavoidable. We will work with the Administrator of Public Works to develop better policies regarding consecutive hours worked to minimize this practice in an effort to address emergency situations.

Eliminate Time & Pay Hours Greater than Timesheet Hours

We are working to implement the Audit's recommendations on timesheets. With new personnel recently assigned to administer Division of Water payroll records, we have increased the knowledge and experience pertaining to payroll provisions and procedures which will minimize payroll reporting issues in the future. In addition, the Administrator of Public Works is working with Richard Fanton on a timekeeper training program to ensure all timekeepers will have the most up to date training, and to promote increased accuracy and efficiency.

Eliminate Pay Hours Less than Timesheet

The implementation of the above mentioned automated time entry system will address this issue.

In addition, the arrival time on the timesheet now reflects the time the person is due to start work, versus arrival time. We will work with the Administrator of Public Works to formalize new sign-in procedures to ensure this practice is uniformly adopted.

Eliminate the use of PTO and Overtime on the Same Day

We are working to implement the Audit's recommendations. However, as previously discussed, there are emergency situations that arise in the management of the water system as a utility that require overtime to ensure continuous operations and the protection of public health and safety. We also note provisions within the current collective bargaining agreements that govern the use of all personnel eligible for personal time off and also entitled to overtime compensation. Appropriate increases and placement of personnel in current job titles assigned to the Division of Water should increase the candidate pool to fill essential duties, minimize overtime, and therefore reduce these instances.

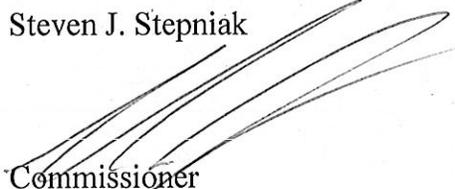
Timesheet Approval

The Pumping Plant Superintendent and the Water Distribution Superintendents timesheets are signed off by the Veolia Project Manager. In his absence the Veolia Asset Manager carries out this task.

Accompanied by our regular ongoing evaluations, we have used the findings from this Audit to increase accuracy and efficiency within our operations. Through the addition of, and change in, personnel, as well as the evaluation of opportunities to promote greater efficiencies (such as the implementing automated processes through technology), we believe we are on the right path to address all findings outlined within this Audit.

Thank you for your assistance, and please do not hesitate to contact the undersigned at any time should you have any questions or require further clarification on any matter.

Steven J. Stepniak



Commissioner

Department of Public Works, Parks and Streets

cc: Peter J. Merlo, P.E.
John D. McMahon, P.E.
Mr. Jason Shell