

Managerial Summary

City of Chesapeake
Audit Services
April 12, 2019

City Payroll Cycles
January 1, 2017 to August 31, 2018

A. Objectives, Scope, and Methodology

We have completed our review of the City of Chesapeake's (City's) Payroll Cycles for the period January 1, 2017 to August 31, 2018. Our review was conducted for the purpose of assessing the impact the City's June 2017 change to nine-day arrears was having on citywide payroll processing, and whether there was a need to also change the City's pay cycles as recommended in a June 2014 Audit Services report.

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

The City's payroll system was designed to collect accurate and timely records of employee work and provide accurate and timely payment for that work. Prior to June 2017, the City paid either weekly with five days arrears, or semi-monthly in current time. The City included approximately \$3.6 million in the Fiscal Year 2017 budget to transition to arrears for semi-monthly employees. Payroll was paid current until the June 15, 2017 payday. The City then went to nine days arrears for semimonthly employees. As of February 2018, the City had 52 weekly and 24 semi-monthly payrolls for 3,800 employees. 837 employees were paid weekly and 2,963 were paid semi-monthly.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, and operations documents and reports, both internal and external. We held discussions with the Department Heads, Fiscal Administrators and Payroll Clerks in the City's ten largest departments, as well as the Finance Director and the Payroll Division of Finance. We reviewed historical corrections, pay cycle, FLSA status, and pay rule information. We also gathered benchmark data from other cities.

Major Observations and Conclusions

Based on our review, we determined that the City's change to arrears had provided several benefits to the City, including a reduction in payout errors for certain types of payments such as final separation payments and overtime. However, these benefits were largely offset by an increase in historical edits that occurred because 1) the turnaround

time provided departments prior to payroll submission was insufficient, and 2) the constant changes in the pay period end date during the week often created situations where employee time records needed historical edits to correct them. For this reason, we are recommending that the City consider changing to a bi-weekly payroll cycle, although it may also consider a weekly payroll cycle as an alternative. We are also recommending ongoing Kronos training for supervisors and payroll clerks.

This report, in draft, was provided to management for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Management, Department Heads, Fiscal Administrators, Payroll Clerks, Information Technology (IT), and Finance were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Performance Information

The City's payroll system was designed to collect accurate and timely records of employee work and provide accurate and timely payment for that work. Prior to June 2017, the City paid either weekly with five days arrears, or semi-monthly in current time. The City included approximately \$3.6 million in the Fiscal Year 2017 budget to transition to arrears for semi-monthly employees. Payroll was paid current until the June 15, 2017 payday. The City then went to nine days arrears for semi-monthly employees. As of February 2018, the City had 52 weekly and 24 semi-monthly payrolls for 3,800 employees. 837 employees were paid weekly and 2,963 were paid semi-monthly.

1. Arrears and Transition to Arrears.

City Council approved the Fiscal Year (FY) 2016-2017 Budget with approximately \$3.6 million dollars to transition semi-monthly employees to nine days arrears. The City Manager also directed that employee information training sessions be held, and training materials were provided.

Semi-monthly employees (the vast majority accepted) signed an agreement with the City that the City would forgive 20% of the advance for each additional year of employment completed by the employee. Separation from the City (whether voluntary or involuntary) would require the former employee to repay the remainder of the advance. Departmental payroll clerks were required to calculate the unpaid balance and report it to Finance.

2. Existing Conditions

a. Fair Labor Standards Act Requirements

The federal overtime provisions were contained in the Fair Labor Standards Act (FLSA). Unless exempt, employees covered by the Act must receive overtime pay for hours worked over 40 in a workweek at a rate not less than time and one-half their regular rates of pay. The Act did not require overtime pay for work on Saturdays, Sundays, holidays, or regular days of rest, unless overtime was worked on such days.

b. Shift Schedules

Departments had many shift cycles and several workweek periods and employees were moved from one shift to another to ensure adequate staffing to minimize overtime and to render services as required. The employee's work time was captured by Kronos time clocks (located at various places), computer login, or by supervisors entering their employee's time because of special events or schedules. Employees were required to review and approve their timecard at least weekly. Supervisors also were required to review the timecard. Department Heads (or their designees) were required to approve their employees' timecard at the end of the pay period.

c. Concerns Expressed by Departments

Some of the concerns noted during interviews were as follows:

- There was insufficient time allotted to departments for review and approval of payroll. Department Heads and payroll clerks sometimes had four hours or less to verify and ensure the accuracy of timecard information.
- Supervisors and employees faced challenges with the shifting end dates during the week for pay periods, which often created errors in time reporting.

d. Processing Issues

After Department Heads approved payroll and Finance accepted the data, payroll clerks verified Kronos data against the Munis Time and Detail payroll report. Payroll clerks then submitted a printed copy of this report to Finance/Payroll. Any differences were documented as exceptions.

All exception sheets were not truly exceptions. For example, one time pay advances exception sheets were not true exceptions. Payroll clerks submitted them for new hires and terminations. Payroll Clerks were not able to see regular hours they sent to Finance on exception sheets because they were not certain what Munis would calculate as Regular Pay. Munis calculated the pay based on the dates of the hire or termination. Finance/Payroll normally did not have to make any manual adjustments in Munis Time Entry for these items.

3. Smoothing

The semimonthly pay cycle required smoothing since regular hours worked did not coincide with the semi-monthly payment. Therefore, employees pay was calculated on an annual basis then divided into 24 payments equal to 86.6666 hours pay, not actual work during a regular work week. Overtime and other adjustments might or might not appear in the pay day immediately following the regular work week (including the special exemptions for public safety). The City's semi-monthly pay cycle payments did not reflect the actual hours worked during the previous pay period because none of the City's schedules matched the 86.6666 hours paid on the semi-monthly pay schedule.

4. Previous Audit – Citywide Kronos/Munis

A special audit Citywide Kronos/Munis was presented to City Council on July 8, 2014. The report included the following recommendations and responses.

a. Recommendation 1 – Payroll Schedule

Recommendation – To reduce workarounds, errors, and adjustments, the City should evaluate whether the time is appropriate to consider 1) moving to arrears, and 2) implementing a bi-weekly payroll schedule.

Response – Although using a bi-weekly payroll in arrears could eliminate workarounds the City currently performs each semi-monthly pay period, alternative work schedules that do not align exactly with the proposed pay schedule will require further discussion across departments in the City to provide greater understanding of advantages and disadvantages. Once the budget process is complete, a committee comprised of both administrative and operational departments under the direction of the City Manager, including those with unique alternative work schedules, will create a task force to evaluate the feasibility and practicality of moving the City to a bi-weekly payroll in arrears. The City Attorney's office will be asked to provide guidance on alternative work schedules as they relate to the Fair Labor Standards Act (FLSA) that govern work schedules and overtime calculations for Public Safety and those that operate 24 hours seven days a week.

b. Recommendation 5 – Training

Recommendation - The City should explore methods of increasing the frequency of HRIS system-related training.

Response – We currently offer training to all departmental payroll clerks on a quarterly basis. These training sessions focus on a variety of payroll and HR issues and include HRIS-related topics such as how to process sick leave repayments in Kronos and how to enter performance evaluation scores and address changes in MUNIS. In January 2014, Human Resources began offering monthly Kronos training sessions and providing hands on computer assistance to all supervisors. Monthly training sessions will be offered for approximately 6 months to meet current demand, and then a regular schedule of quarterly Kronos training will be established. We will continue to monitor the demand for training and work to address the needs identified.

5. Actions and Status of Other Cities.

Since our 2014 special audit, some of the surrounding cities took action to change their pay schedules. Norfolk, Virginia Beach and Hampton shifted from semi-monthly to bi-weekly and/or arrears. These changes are highlighted in Exhibit C below.

**Exhibit C
Surrounding Cities Payroll Cycles**

CITY	PAYROLL CYCLE	NOTES
Virginia Beach	Bi-weekly	Full-time employees paid 9 days arrears; Part-time/seasonal paid 16 days arrears
Norfolk	Bi-weekly	Employees paid 9 days arrears
Hampton	Bi-weekly	Full-time employees paid current; Part-time paid 2 weeks arrears
Suffolk	Semi-monthly	All employees paid current
Newport News	Bi-weekly	All employees paid current
Portsmouth	Bi-weekly	All employees paid current

We also surveyed the 200 largest cities in the U.S. to identify their payroll schedules. The overwhelming majority (179 or 89.5%) paid employees on a Bi-weekly Only schedule. Less popular were Weekly/Bi-weekly (4%), Semi-monthly Only (4%), and Semi-monthly/Bi-weekly (1%). None of the Cities had a standalone Weekly payroll, although Dallas paid a portion of its workforce one week and the remainder the next week, resulting in 52 payrolls processed per year. Chesapeake was the lone City with a Semi-monthly/Weekly payroll. One other City besides Chesapeake had both a semi-monthly and weekly payroll (Worcester, MA), but they also had a bi-weekly payroll.

C. Operational Findings

Based on our review, we determined that the City's change to arrears had provided several benefits to the City, including a reduction in payout errors for certain types of payments such as final separation payments and overtime. However, these benefits were largely offset by an increase in historical edits that occurred because 1) the turnaround time provided departments prior to payroll submission was insufficient, and 2) the constant changes in the pay period end date during the week often created situations where employee time records needed historical edits to correct them. For this reason, we are recommending that the City consider changing to a bi-weekly payroll cycle, although it may also consider a weekly payroll cycle as an alternative. We are also recommending ongoing Kronos training for supervisors and payroll clerks.

1. Impact of Change to Arrears

Finding - The City's change to arrears, while generating some anticipated benefits, was also creating some unanticipated burdens. The benefits included a reduced number of certain payroll corrections, such as overtime. The burdens included an increase in the number of historical edits citywide.

Recommendation – The City should consider implementing the 2014 recommendation to adjust the City's pay schedule. Based upon all of the options, the City should consider moving to a bi-weekly payroll, with two weeks arrears. However, the City may also consider a weekly payroll as an alternative to maintain employee morale.

Response – **This Special Audit was initiated in response to a request from the City Manager's Office. Specifically, the Auditor was asked to evaluate the impact of the April 2017 change in the City's semi-monthly payroll processing from a current basis to one that is nine days in arrears. In addition, we asked the Auditor to re-evaluate and assess the potential incremental benefits that may still be available should the City make an additional change from its current predominant payroll cycle (semi-monthly) to either a weekly or a bi-weekly one.**

In retrospect, this request was far more challenging and fraught with considerably more complications than initially anticipated. Given the number and variety of Chesapeake's 7, 15, 21, 24, and 28 day overtime cycles coupled with the multiple "smoothing" protocols currently in place, it may not be realistically possible to isolate and compare the specific impacts of using a semi-monthly payroll cycle as opposed to either a bi-weekly or weekly one. (Note: The full text of the response is included in the body of the audit report.)

2. Kronos Training

Finding – Departmental Users expressed a desire for ongoing Kronos training

Recommendation – The City should develop an ongoing Kronos training program for departmental supervisors and payroll clerks.

Response – Finance has begun the process of creating and piloting a multi-tiered, role based instructional program. Training of the Payroll Clerks through intensive one-on-one sessions will be continued; supervisors and other employees will in turn be trained by Payroll Clerks in a “train the trainer” model. This will reinforce standardizing timekeeping Best Practices throughout the City, with the goal of reducing questions and errors. (Note: The full text of the response is included in the body of the audit report.)