

April 12, 2019

The Honorable Rick W. West and
Members of the City Council
City of Chesapeake
City Hall – 6th Floor
Chesapeake, Virginia 23328

Dear Mayor West and Members of the City Council:

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 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.

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.

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.

Sincerely,



Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James Baker, City Manager
Laura Fitzpatrick, Deputy City Manager
Nancy Tracy, Director of Finance