City of Bowling Green

Internal Auditor's Office

TimeClock Audit

Project# 2017-07

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        Jeffrey Stein, Audit Committee Vice-Chair
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        Brian Dinning, Audit Committee Member
        Joe Denning, Commissioner and Audit Committee Member
CC: Jeff Meisel, Chief Financial Officer
        Michael Grubbs, Human Resources Director
        Jason Colson, Fire Chief
        Lynn Hartley, Chief Information Officer

Pursuant to the approved 2016/2017 Internal Audit Plan, I hereby submit the TimeClock Audit. The objective of this audit is to evaluate the overall effectiveness and compliance with time keeping in the TimeClock software including approval of time from employees and managers, appropriate clocking in and out, as well as compliance with federal and state labor laws. The body of the report consists of observations, recommendations and management's responses to the recommendations. Since this audit covers all departments and their use of TimeClock, the senior management team created a small group to develop the management responses on behalf of the entire team. The members include Chief Financial Officer Jeff Meisel, Fire Chief Jason Colson, and Chief Information Officer Lynn Hartley.

Results in Brief

Based on the results of this audit, many improvements have been made since implementing the TimeClock software citywide; however, compliance and management review needs to be strengthened. The following observations and resulting recommendations are designed to improve compliance and management review of TimeClock and related payroll issues:

1. **Management should enforce required employee and management approval of hours.**
2. **Management should ensure that lunch periods are taken in compliance with Kentucky Labor Laws and determine what policy to enact Citywide in order to meet the City's business needs.**
3. **Management should re-evaluate the usage of the TimeClock mobile application instead of allowing a live link that removes all intended controls.**
4. **Management should periodically review and appropriately address any employees who are misusing the City's rounding of time policy.**

It was a pleasure working citywide with the payroll clerks, management and information technology staff. The implementation of TimeClock has taken a few years, but has already improved the City's processes and timekeeping ability tremendously.

Sincerely,

Deborah Jenkins, CFE, CGAP, CICA
Internal Auditor

Background

Employee related costs are the largest single expenditure category for the City of Bowling Green. According to the City's mission statement, "The City of Bowling Green is committed to strengthening our vibrant community by focusing on quality of life, service delivery, fiscal responsibility, public safety, neighborhood revitalization, visionary leadership, and economic development." The services provided by employees are the most important product provided to citizens. Total costs for personnel totaled over $36 million in Calendar Year 2016. These costs include salaries as well as benefits such as pension, insurance and workers compensation. The chart below shows the total cost per department for personnel in calendar year 2016 sorted from highest cost to lowest cost per department.

Calendar Year 2016 Personnel Costs	
Department	Annual Cost
Police	11,733,241.92
Fire	11,460,279.34
Parks and Recreation	4,537,168.19
Public Works	3,478,223.72
Neighborhood and Community Services	1,711,456.65
Finance	1,272,691.69
Information Technology	812,305.06
City Manager's Office	762,656.38
Human Resources	557,330.21
Law	242,209.67
Board of Commissioners	121,474.41
	$36,689,037.24

Historically the City departments operated its payroll in an exemption based manner, which meant it assumed that every employee worked their planned shift unless they submitted a paper form requesting leave time to document an absence. If any employee worked overtime, they would also submit a paper overtime form so the process was very cumbersome and often ended up with prior period adjustments and late payment of overtime due to the paper heavy process. The only exceptions were the Parks and Recreation Department, who utilized TimeClock software and two Public Works divisions who used traditional wall punch time clocks. However, even the ones who captured time either in TimeClock or wall punch time clocks, employees would still have to manually enter all of the adjustments from their assumed schedule at the end of each payroll cycle.

After the Bowling Green Police Department Payroll Audit, Bowling Green Fire Department Payroll Audit, and Fleet Division Audit, along with several reviews performed by Internal Audit, it was determined that the City needed to collect employee hours and attendance in a more efficient and accountable way. In early 2012, an Employee Process Action Team (PAT) was formed to improve payroll accuracy and efficiency and research electronic payroll management tools which could be implemented Citywide. By the fall of 2012, the PAT had analyzed the various departmental processes for timekeeping and recommended that the entire City transition to the TimeClock software in order to record actual worked time for City employees.

The implementation was phased in starting with all general departments outside of Police and Fire in March 2014. The Police and Fire departments were implemented separately due to their unique scheduling to ensure that the software could meet their individual needs. Police went live in July 2014 and the most unique schedule of Fire, with their 24 hour on and 48 hour off scheduling, went live in March 2016.

Objective

The objective of this audit is to evaluate the overall effectiveness and compliance with time keeping in the TimeClock software including approval of time from employees and managers, appropriate clocking in and out, as well as compliance with federal and state labor laws.

Scope

The scope of this audit included TimeClock records from January 1, 2016 through December 31, 2016.

Criteria and Approach

This audit was based on documented policies and procedures, as well as general best business practices. The approach consisted of three phases:

1. Understanding the Process:

During Phase One, meetings were held with each payroll clerk to discuss objectives of the audit work, collect information and documentation, and inform them why this audit was selected. I also had discussions with various department heads, central payroll, human resources and other key personnel.

2. Sample Determination and Detailed Testing:

During Phase Two, eleven (11) risk areas were identified and prioritized based on perceived control techniques, control weaknesses, as well as the overall business and compliance impact. A combination of randomized testing, full record set testing and haphazard samples were tested based on the priority scale of risks identified.

3. Reporting:

During Phase Three, I analyzed and evaluated the results of the tests performed. I then summarized the observations and recommendations into a report format based on the analysis. A draft was provided to management for review and their management responses were incorporated into this report. Management responses were created by a three person group made up of department heads from the Finance Department, Information and Technology Department and Fire Department.

Statement of Standards

The audit was performed in accordance with government auditing standards (except for the completion of an external peer review), which are promulgated by the Comptroller General of the United States. Those standards required that I plan and perform the audit to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls,

compliance requirements under the law and regulations when necessary to satisfy the audit objectives. I believe this audit provides a reasonable basis for the conclusions.
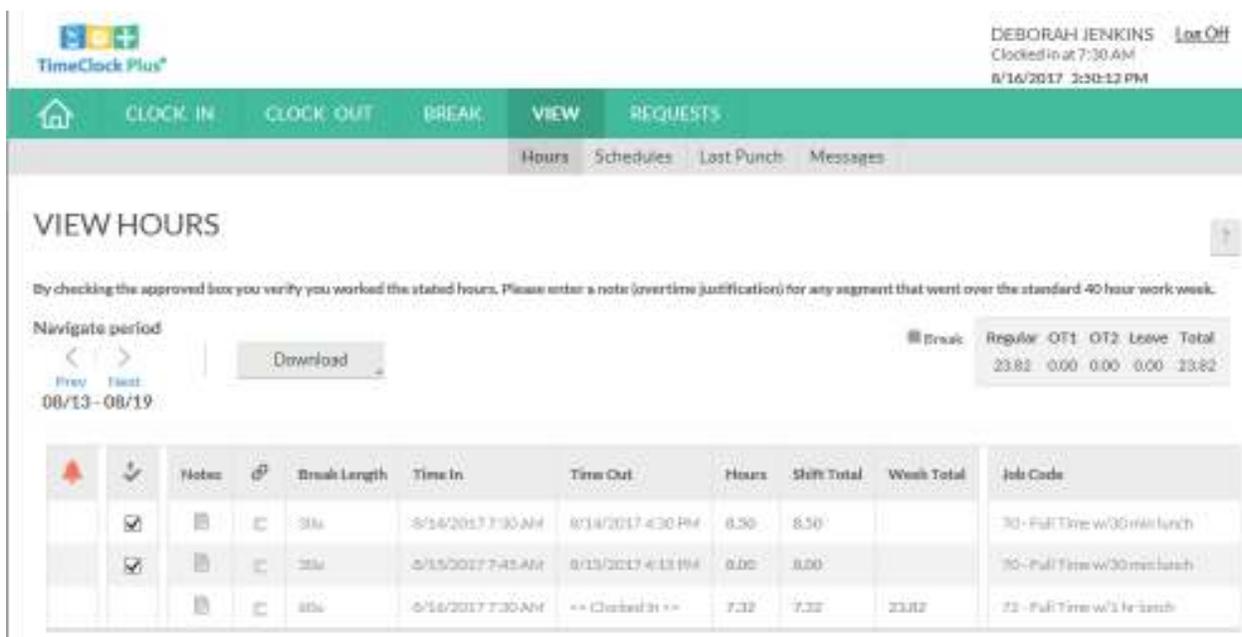
<u>Audit Conclusion</u>
Based on the results of this audit, many improvements have been made since implementing the TimeClock software citywide; however, compliance and management review needs to be strengthened.

Observations and Recommendations

1. Management should enforce required employee and management approval of hours.

Observation

Testing was conducted within each department to determine if employees and managers were approving daily hours worked. One of the big goals of implementing timekeeping software was to ensure that employees and their managers approved time and attendance each pay period. The system was set up to make it as easy as possible for employees to verify and approve their hours worked. Employees simply click on the boxes within the [icon] column to verify that their time is correct. Employees are instructed to do this as often as they wish, but are required to verify time by the Monday morning of our bi-weekly payroll weeks. Below is a screenshot within TimeClock where employees can click the box to verify their time is correct.

The manager's screen for payroll approvals is also structured to be easy to review and approve employee's time. Managers can both individually approve segments by checking one line segment at a time or review and approve an entire group at once. Management's screen for individual approvals is very similar to the one that the employee sees except there is another column [icon] for the manager to approve the employee's time. Below is a screenshot of the management's view for individual employee approvals.

301 employees were tested to determine if employees were verifying their time and if their supervisors were approving their time in TimeClock. The employees tested were from each department and various divisions including:

- City Manager's Office
- Finance Department
- Fire Department
  - o Administration
  - o Suppression
  - o Training
  - o Prevention/Inspection
- Human Resources
- Information Technology
- Legal Department
- Neighborhood and Community Services
- Parks
  - o Administration
  - o Athletics
  - o Maintenance
  - o Bowling Green Community Center
- Police Department
  - o Administration
  - o 911 Communications Center
  - o Evidence
  - o Investigations
  - o Patrol
  - o Professional Standards
  - o Records
  - o Special Operations
- Public Works
  - o Administration
  - o Planning & Design
  - o Field Engineering
  - o Operations
  - o Facilities Management
  - o Fleet

The compliance level was assumed to be above 90% for this testing so to the materiality for this was an error rate above 20%. A working year is estimated at 2,080 hours or 260 days, but after removing 10 Holidays, 5 days of Personal/Appreciation Days and estimating two weeks or 10 days of vacation, the standard was set for an estimated 235 working days. This is an overall estimate and does not include any estimates for sick or any other leave available to employees.

After creating the estimates, it was determined to report missed approvals over 50 occurrences or approximately 21% of the working days. Of the 301 employees tested, 37% of the employees tested had not approved over 50 time segments including 26 employees who approved less than half of their time approved over Calendar Year 2016 and 18 employees never approved any of their time over the year.

Department	Employees Tested	Error Rate >50 occurences
Neighborhood and Community Services	21	5%
Finance	21	10%
Information Technology	8	13%
Fire	42	24%
City Manager's Office	6	33%
Parks and Recreation	59	44%
Police	83	45%
Public Works	52	50%
Human Resources (including interns)	8	63%
Law	1	100%
Total Employees Tested	**301**	

The manager approvals of employee time were much better than the employee approvals; however, 14% of the employees tested were missing over 50 management approvals for Calendar Year 2016. However, missed punches are an area where supervisory approval was missing 20% of the time. Missed punches occur when an employee forgets to clock in or clock out on a given day. It is an expected error which is why the TimeClock software has a feature which allows an employee to manually enter their time and submit for approval to their supervisor. Employees usually don't realize they have missed a punch until they go to try and clock in or out again. The system prompts with a notice as shown in the example below:

Once the employee confirms that they have missed a punch, they are provided an entry screen to put the date and time as well as a note for the reason for their missed punch.
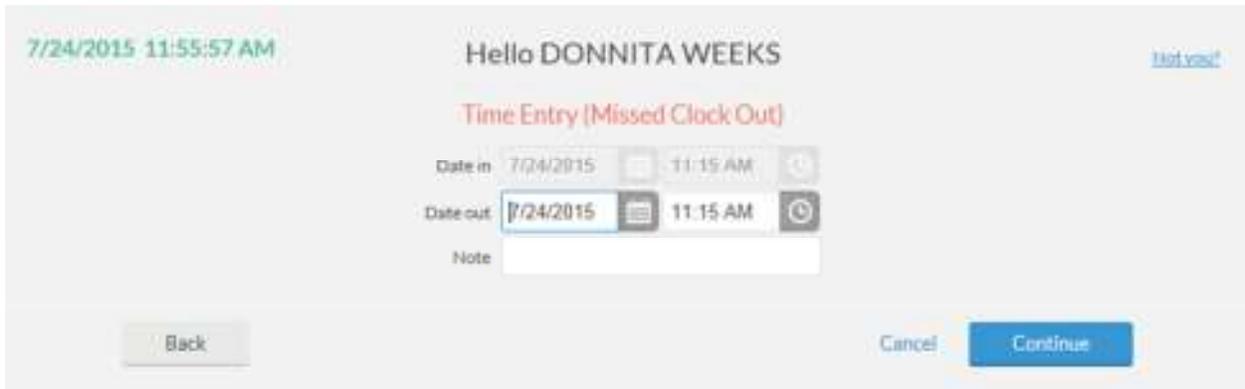
Occasional missed punches are to be expected from time to time. Employee records were reviewed as part of the audit to see if there were any excessive amounts of missed punches. Missed punches can be an indication of an employee abusing the system and also can result in loss of supervisor productivity due to taking additional time to review and approve missed punches.

The City does not have any written policies or expectations when it comes to missed punches. As a whole, employees do a good job of clocking in and out without missing a lot of punches. There were a total of 1,459 unapproved missed punches, so approximately 20% of the missed punches did not have supervisory approval.

Risk
Lower levels of compliance with employee time verification and supervisor approval increases the risk of errors and inflated payroll, as well as potential labor law issues if a complaint occurred.

Recommendation
Management should create a written time and attendance policy that clearly states the expectations of employees and supervisors. Set standards for compliance and non-compliance. For example, establish when senior management considers too many missed approvals. This would create clear expectations and help management control the level of missed approvals. Management should also monitor and ensure that employees are consistently verifying their time worked and that the appropriate supervisor is approving that time.

Management Response
A new section or chapter in the Personnel Manual will be added to establish the expectations of employees and supervisors in regard to time and attendance.

2. **Management should ensure that lunch periods are taken in compliance with Kentucky Labor Laws and determine what policy to enact Citywide in order to meet the City's business needs.**

Observation

According to Kentucky Department of Labor, employers are required to provide a "reasonable off-duty period, usually ½ hour but shorter period permitted under special conditions, between the 3rd and 5th hour of work." This time is not counted as time worked and breaks are not to be included in the meal period.

As part of the audit testing, employee work segments over 6 hours in length of straight time was reviewed. This testing revealed that there were employees who were routinely working without taking any lunch break. Any employees with more than 50 days of straight time without a lunch period taken were reported to senior management. There were 14 employees with over 100 and up to a maximum of 184 working days with no lunch period taken.

While further analyzing the highest 14 employees whom had worked over 100 days without a lunch break, a few patterns resulted:
- Some employees were working through to shorten their day so they could either arrive late or leave earlier than the posted business hours;
- Some employees were consistently adding compensatory time to save up and use in lieu of using any accrual time such as vacation or sick time; and
- One employee was obtaining overtime by having small amounts over 8 hours each day from not taking a lunch break

In discussions with the Kentucky Department of Labor, they advised that a waiver could be allowed, but it would have to be requested by the employee and allowed by the employer. The Kentucky Department of Labor employee also stated that employers can require that lunch breaks are taken, which is the most common policy to protect the employer from labor claims. According to the staff member, even at the Department of Labor, they are required to take an hour lunch break.

Meetings were held with various payroll clerks in various departments. As part of the interview, they were asked if they had any concerns with any particular area of payroll. A couple of department clerks were concerned that staff members would take their lunch, but add both of their 15 minute breaks to their lunch. For example, an employee would submit time stating a half hour lunch and in fact take an hour lunch due to adding their breaks onto their lunch. This is not allowed because breaks are not to be included in the meal period; however, this is not something that could be tested with review of TimeClock software so it is up to management to train employees and monitor for misuse of breaks.

Risk

The City could be leaving itself exposed to potential issues with the Department of Labor if they continue to allow employees to work without taking a lunch, without documentation of an approved waiver, as well as employees manipulating their time to take longer lunches than they are submitting in TimeClock.

Recommendation

Management should review policy and determine if it is in the best interests of the City to allow employees to consistently not take a lunch. If the practice is allowed, then approval should be under prescribed circumstances and the waiver must be documented to comply with labor laws. Also, if the City allows waivers then management would also have the task of ensuring business hours were staff appropriately in order to serve both internal and external customers.

Employees should not be allowed to add their breaks onto their lunch time. When other employees witness their colleagues abusing the system, it can affect their compliance often results in a loss of productivity.

Management Response

The Personnel Policy Manual will be amended to require a lunch period to be taken with any exceptions to be noted in TimeClock, and to prohibit adding break time periods to extend the lunch time period or reduce the workday.

3. Management should re-evaluate the usage of the TimeClock mobile application instead of allowing a live link that removes all intended controls.

Observation

There are two methods used for timekeeping in the TimeClock software:

1. A link that is loaded on every City computer and desktop. With the implementation of TimeClock, each City facility was reviewed to ensure that all employees had access to a computer terminal to clock in and out each day. An icon was placed on the desktop of each computer so employees can easily find it.


   Once employees click the link, they go straight to the home page where they type in their employee ID number and press the button associated with what task they are wishing to do.

2. A mobile application is also available to approved employees with duties that require them to start or end their day routinely at a location outside of the City buildings and facilities. For example:
   a. Police detectives who can be called out at any time of the day or night to report to a crime scene,
   b. The City's International Communities Coordinator and Neighborhood Services Coordinator who have routine offsite evening meetings with members of the community
   c. Human Resources staff who conduct police and fire testing offsite or respond to safety issues and accidents.

   The application is set up very similar to the link available on City computers, however the employee must have documented approval with their clock number given access as well as the location of their mobile device turned on in order to utilize the mobile application.
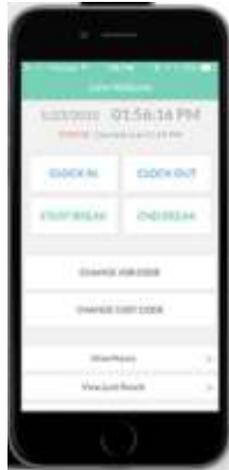
The controls initially put in place during the implementation process limited the risk of employees abusing the system. However, in December 2016, complaints from staff within the Police Department to the Information Technology Department prompted the TimeClock software link to be opened live to any device. By doing this, it negated the controls put in place in the initial software implementation. Now employees can login to their phone, home computer or anywhere else and have the ability to clock in or out of work. Staff indicated that the only people who knew about this change were Police so that there shouldn't be use outside of Traffic and Patrol who made the initial complaints.

This was the only area within the audit that reviewed time outside of the audit scope in order to determine if this new capability was being used outside of Police Patrol. Actual IP address locations from January 1, 2017 through June 20, 2017 were tested to determine if this new control weakness was known and being utilized by staff. 624 employees were reviewed with 84 employees had either clocked in or out using a device that was not listed as part of the City's IP addresses. Many of them were from IP addresses that are most likely cell phone providers, laptops or other electronic devices.

The occurrences went across eight (8) of the City's departments within fifteen (15) divisions. There is no way to verify if these were or were not valid work related clock events; but it indicates a significant risk where abuse could easily occur. There were also 83 employees within BGPD's Traffic and Patrol who were utilizing this ability either from their in car laptops, cell phones or other electronic devices.

There is no easy way for managers to monitor this since the punch location doesn't show up on any of the reports that managers use to approve time. The only report within TimeClock which shows related IP addresses is the Punch Location Report within the miscellaneous reports section of the software.

Risk
Employees have the ability to clock in at any location without the ability of management to see the location due to changing the controls on the software link to where it is fully open and live to any device. The knowledge of this change has spread throughout staff since many employees across several departments and divisions have already utilized this ability. Risks include payroll

fraud, abuse and the inability to adequately investigate since the location is not provided by the use of the website link.

Recommendation

Management should re-evaluate the live link to the TimeClock software and the usage of the mobile application. The live link removes many of the controls that were originally put in place such as having a valid punch location for employees and GPS locations which are available for employees who have approval for the mobile application.

Managers and supervisors should periodically review the punch location of staff when using the mobile application to ensure that employees are clocking in and out at locations that are business related.

Management Response

IT will be required to remove the live link to TimeClock on the City's website and Department Heads will be required to approve the use of the mobile TimeClock app in their respective departments.

4. Management should periodically review and appropriately address any employees who are misusing the City's rounding of time policy.

Observation

The City rounds time to the closest fifteen (15) minutes for ease of leave taken and to keep payroll as simple as possible. We use the "7/8" rounding which is a common system used to round time. For example, if an employee clocks in at 8:07 a.m., the time is rounded back to 8:00, whereas a clock out at 3:23 p.m. is rounded to 3:30 p.m. If employees are working the clock, a loss of productivity can occur. Employees who abuse the system can work the system and be absent for over an hour a week and suffer no financial penalty. The problem can be compounded even further if the employees clock in and out for lunch.

The City does not have any written guidelines or policies concerning the fifteen (15) minute rounding that we have utilized. Testing was performed to determine if there were any patterns of consistent abuse and misuse of the system. The actual clock in and out time was compared to the official rounded time for employees on Calendar Year 2016. Since the goal of this portion of the audit was to look for any blatant abuse of the rounding, the only variances that were specifically analyzed were the actual clock ins and outs that were the maximum of seven (7) minutes early or late.

Overall, City employees do well on the clocking in portion of the rounding with a maximum number of seven (7) minutes late. Of the employees who had seven (7) minute occurrences, only three (3) employees had over 50 occurrences. However, clocking out early is a larger issue. There were 20 employees who clocked out exactly seven (7) minutes early over 100 times in 2016 with ten (10) employees clocking out over 200 times at exactly seven (7) minutes early.

Most employees' clock out time should resemble a cone with the largest number of occurrences at a "0" variance which means the employee clocked out on time. Then the further away from the end of shift time either by clocking out early or late, the occurrences should get smaller as the example shown below:
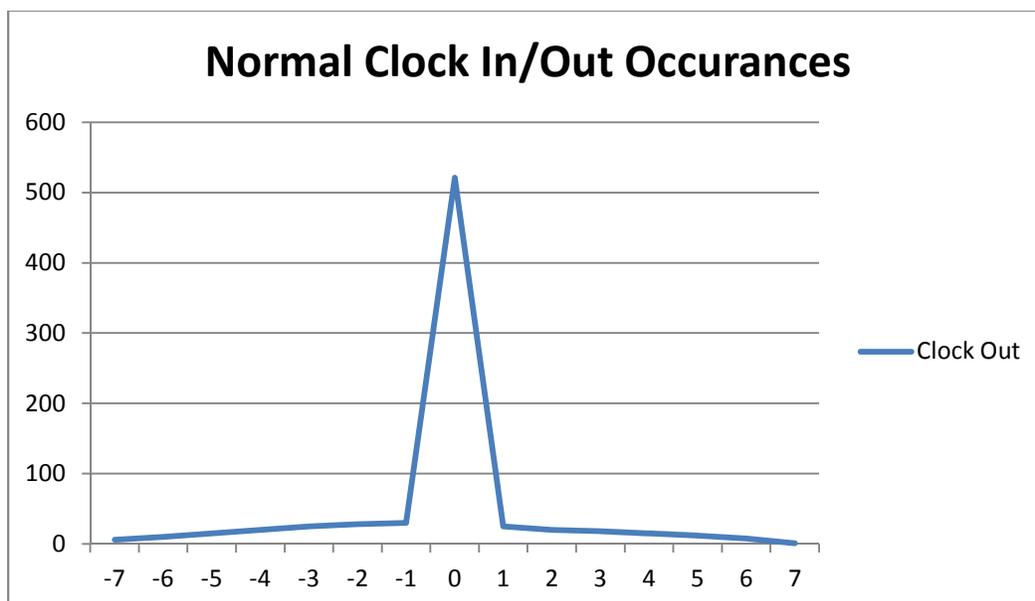
When an employee is working the clock and abusing the timekeeping system to clock out early, the graph spikes to the far left as shown below in the example below are actual numbers from a city employee.

Misusing the System Clock Outs
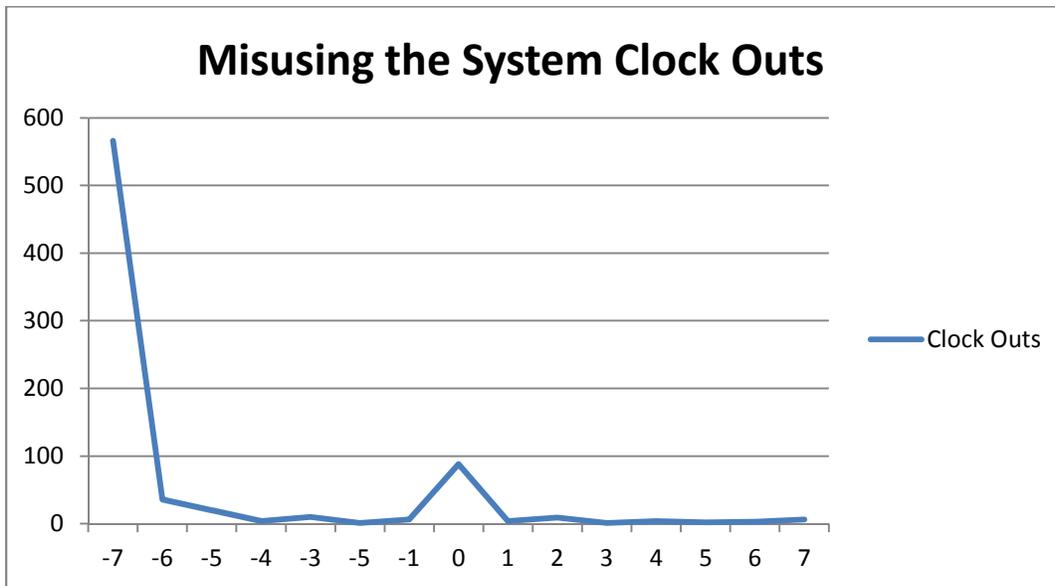
Risk
If employees are allowed to consistently work the clock by abusing the rounding of time in our TimeClock system, a reduction in productivity occurs and employees could be absent for over an hour a week and suffer no financial penalty.

Recommendation
Management should evaluate this risk and determine if a policy should be written to address this potential abuse. Supervisors should also monitor employees to ensure staff is not working the clock and address issues before it becomes an acceptable part of the division's culture that will impact the entire area and reduce productivity and services provided.

Management Response
Regular misuse of the seven (7) minute rounding window will not be allowed. Management will establish parameters to enforce this rule.