DATE: November 8, 2017

TO: Commissioner Edward Renwick, Audit Committee Chair
Commissioner Anthony Pirozzi, Audit Committee
Marla Bleavins, Chief Financial Officer & Deputy Executive Director

FROM: J. H. Olds, Departmental Audit Manager

SUBJECT: PAYROLL PERFORMANCE AUDIT REPORT

Please find enclosed the performance audit report related to our Payroll Division, conducted by PMA Associates for the fiscal years ended 2015 - 2017. The report includes recommendations regarding segregating duties for better internal controls, periodically reviewing staff who approve timesheets, the maintenance of manual duplicate payroll records, use of access badge records as an internal control, establishing time limits for payroll changes, and establishing payroll policies and procedures. We have discussed these findings with the appropriate staff. Please let me know if you have any questions.

Port of Los Angeles

Performance Audit of Payroll Division

7/1/2014 – 6/30/2017

Prepared by:

PMA Consultants
Long Beach, California
November 8, 2017

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Executive Summary

PMA Consultants (PMA) was engaged to perform a performance audit of the payroll function for the City of Los Angeles Harbor Department (POLA) with a focus on the fiscal years 2015 - 2017. The overall objectives of this project were to measure the efficiency and effectiveness of the payroll operations, verify the accuracy of payroll processing, assess the timeliness of payroll status changes and adjustments, measure the use of 120-day employees, and review the maintenance of employee data files. In addition, PMA was to determine if internal controls within the payroll processes were appropriately designed and operating effectively.

In general, internal controls appear to be operating effectively. Time records and rate tables properly supported all payroll charges examined. Step increases were properly calculated during our scope period. While we did not test 100% of the population, we did not note any instances of inappropriate payroll entries or fictitious employees. POLA staff were very helpful in providing us the requested information to perform our audit in a timely manner.

Summary of Testing Performed

Procedures performed during our review included the following:

- Performed a detailed risk assessment via interviews with key payroll personnel.
- Interviewed POLA staff to obtain an understanding of payroll processes and prepared flowcharts to illustrate same. Also validated the processes with cognizant POLA staff.
- Reviewed HD-Time and Oracle system access controls
- Sampled and tested payroll changes for timeliness and proper authorizations
- Selected a sample of 30 employee payments processed during the audit period and tested the accuracy of pay and benefit calculations[1]. In addition, we verified the hours worked between HD-Time and the PAYSR system. (See *Appendix C - Substantive Testing* for complete description of testing results).
- Traced bonus payments to employee's applicable labor Memorandum of Understanding (MOU).
- Applied data analytical procedures to measure overtime, validate the legitimacy of employees with comparisons of badge swipe data, compared data between systems, verified timesheet approvals, and vacation accruals.
- Reviewed petty cash procedures, performed limited testing, and followed up on previous internal audit recommendations.
- Assessed the overall POLA use of former City employees under the 120-day rules, and tested compliance with policies and procedures.
- Reviewed all employee time-sheet changes for appropriateness, including those with "Superuser" access to the HD-Time payroll system.

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[1] Attributes we were not able to test included tax and union withholdings. We did not test these due to their general variability and complexity and the limited risk to POLA should there be an error in processing.

Our observations, presented in order of perceived importance, are summarized in the table below and presented in the body of the report.

Summary of observations	Detail on Page #
1. <u>Lack of segregation of duties for new employee set up and payroll changes</u> - Payroll can singlehandedly set up new employees in the payroll system.	11
2. <u>Timesheet approver process</u> - Authorized timesheet approvers are not periodically reviewed for appropriateness.	12
3. <u>Manual duplication of payroll system data</u> - Payroll is maintaining a manual set of payroll records, resulting in inefficiency and potential data conflicts.	13
4. <u>Use of access card data as a payroll control</u> - POLA has an opportunity to use existing systems for a detective monitoring control against ghost employees, payroll misappropriation, and proper termination of physical access.	14
5. <u>Establish time limits for payroll corrections</u>- There is currently no time limit on when an employee can request a post payroll adjustment for misreported time, resulting in difficulty validating the accuracy of such adjustments.	15
6. <u>Establish POLA payroll policies and procedures</u> - The Harbor Department does not have its own set of current documented payroll policies and procedures, resulting in potential misapplication of procedures and loss of institutional knowledge upon employee termination.	16

Background/Process Overview

POLA maintains a four-employee payroll section within the Accounting division to process the approximately $100M annual payroll of its roughly 1,000 employees.

New employees initiate employment through the Port's Human Resources (HR) division. New hire information is communicated to Payroll, who creates the employee record in the City's PAYroll System Revised (PAYSR) system. Establishing a new employee in PAYSR will automatically populate the majority of data fields in Harbor Department (HD) Time, the Port's timekeeping system. Both the HD Time and PAYSR systems were created by third-party developer Hess and Associates.

Employee time is input by the employee or designated timekeeper into HD time and approved by a designated supervisor. Once approved, HD Time will interface with PAYSR, which will generate payment to the employee. Most employees received their compensation through direct deposit.

Please refer to *Appendix A- Process Flowcharts* for further detail and graphical depiction of the above process.

In addition to its primary function of payroll processing, the payroll group also administers the Harbor Department's Petty Cash function. The Petty Cash function was audited by POLA's Internal Audit Division in June 2017. Due to the recent nature of the petty cash audit, PMA limited our work in this area to the inquiry of the completion status of the management action plans. Refer to *Appendix B- Petty Cash Follow Up Audit* for results of our follow up efforts.

Detailed Procedures Performed

- Performed an audit level risk assessment through interviews with key payroll personnel.
- Flowcharted payroll process from time employee is added to time a check is cut, validating the process with process owners.
- Data Analytics:
  o Reviewed overtime statistics for trending and overtime reduction opportunities.
  o Compared payroll database to those of Human Resources (HR) and building access control to validate the legitimacy of employees and reasonableness of time between an employee's last paycheck and their last badge swipe.
  o Compared hours reported in HD Time to those in PAYSR for accuracy between the time reporting and payroll systems.
- Reviewed system access for potential segregation of duties issues.
- Selected a sample of employee payroll changes, comparing the date of the change in the payroll system to the date of the change request to ensure the change was both authorized and timely.
- Selected a sample of 30 employee payments processed during the scope period. For each payment, evaluated the following attributes. See Appendix C- Substantive Testing for full testing results.

- o Does employee division, class, and MOU # per HR agree with PAYSR?
- o Is PAYSR step accurate or reasonable explanation present?
- o Does PAYSR rate agree with wage tables?
- o Were wages calculated appropriately?
- o Did hours worked per HD time agree with hours worked per PAYSR?
- o Could HD Time & PAYSR Bonuses be validated against the Memorandum of Understanding (MOU)?
- o Was the timesheet approved on a timely basis? (Before payroll cut-off)?
- o Was the timesheet approved by an individual with sufficient knowledge of time worked?
- o If applicable, are overtime hours reasonable, given nature of position & other factors?
- o If applicable, is justification present for any variation codes with rate differential?
- o Are vacation accruals calculating properly in PAYSR based on MOU & time booked in current period?
- Performed inquiry follow up on the internal audit of petty cash performed by POLA's internal audit division.
- Reviewed and investigated noted areas of concern
- Determined if employees who retired during the scope period complied with the rule that such employees can only return on the payroll for 120 days per calendar year.
- Reviewed all retroactive time sheets changes for appropriateness, with a specific focus on individuals with "Superuser" access to the payroll system.

Data Analytics

Data analytics involve the analysis of entire populations of data to identify trends, flag questionable transactions for further review, and/or provide valuable insight As part of our payroll audit; we performed analysis on three separate data sets as detailed below. It is important to note that data analytics was one component of our larger audit plan. The analytic work we performed, such as the evaluation of overtime trends and identification of streamlining opportunities, are often discrete consultancy projects in and of themselves. As such, the goal of our analysis was to provide POLA with insight for further research, rather than to serve as a final standalone product.

Overtime

In our interviews, it was expressed to us that overtime for certain groups within the Port has been an issue in the past. To address this, we first took an extract of all the payroll data for the audit period. We then summarized it by year and by PAYSR Totaling Groups for each job classification. This allowed us to look for amounts that seemed excessive based on their size or percentage and for drastic changes in the trends for particular job classifications. Based on these criteria, we identified ten groups that needed to be analyzed further. These included Port Police (all classification levels), Security Officers (all classification levels), Boat Captain I Harbor, Port Pilots (all classification levels), Custodian Harbor, Deckhands (all classification levels), Gardener (all classification levels), Maintenance Laborers(all classification levels) and Port Electrical Mechanics (all classification levels).
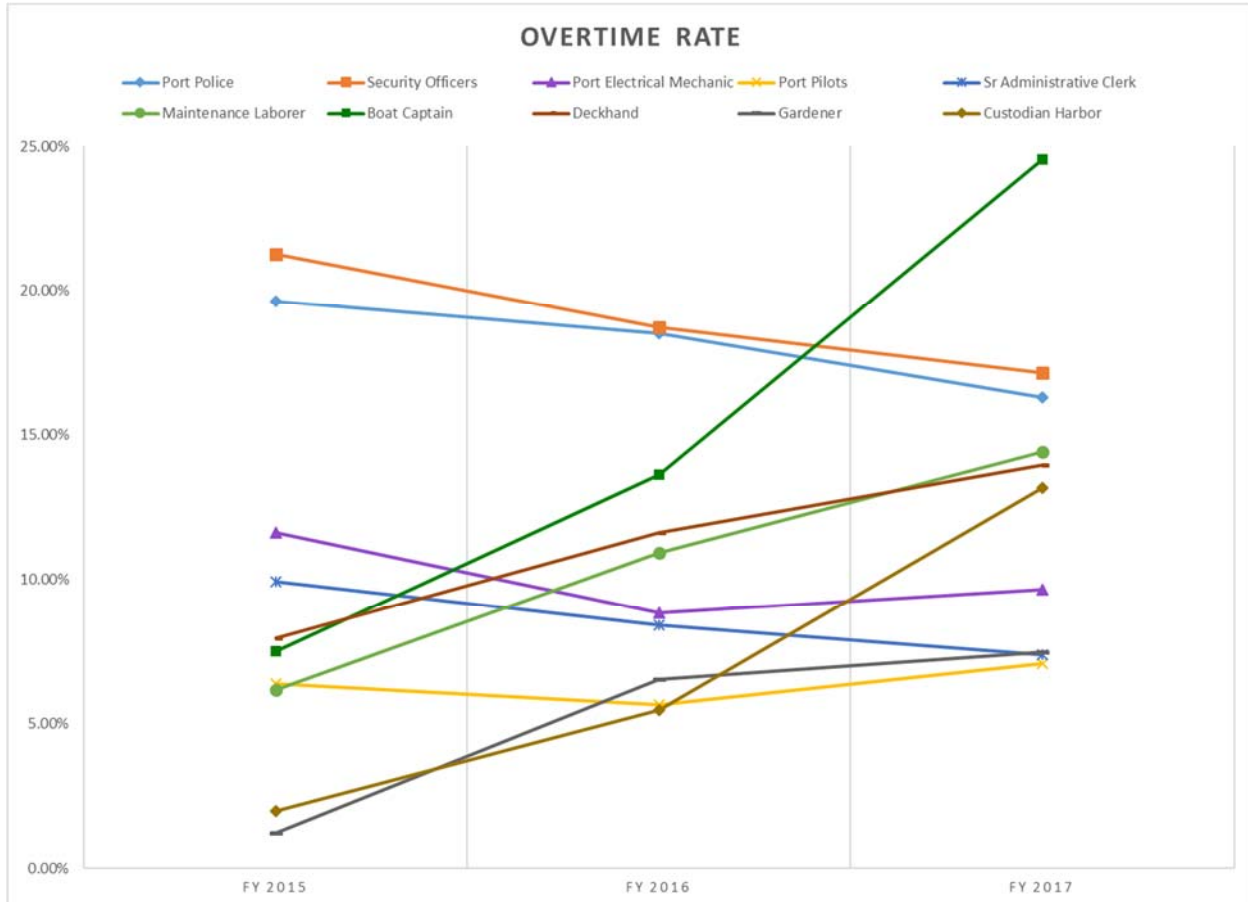
Table 1 below shows a summary of the overtime for the classifications selected by dollar amount and percentage of total overtime dollars. We selected the Port Police, Security Officers, Port Electrical Mechanics and Port Pilots because each of the groups had over 5% of the total overtime; collectively they represent roughly 75% of the total overtime for the Port. We selected the other five groups because although their total spend on overtime was low, they each had significant year over year increases in the amount of overtime.

Table 1 – Overtime Summary

	FY 2015		FY 2016		FY 2017	
	Amount	%	Amount	%	Amount	%
Port Police	$ 2,865,943.22	51%	$ 3,013,616.96	52%	$ 2,650,250.51	47%
Security Officers	$ 577,977.52	10%	$ 504,770.93	9%	$ 446,744.54	8%
Port Electrical Mechanic	$ 401,034.62	7%	$ 303,959.36	5%	$ 325,553.85	6%
Port Pilots	$ 341,349.72	6%	$ 292,523.10	5%	$ 392,804.16	7%
Sr Administrative Clerk	$ 300,085.43	5%	$ 275,486.56	5%	$ 223,117.18	4%
Maintenance Laborer	$ 82,620.37	1%	$ 159,389.68	3%	$ 213,004.39	4%
Boat Captain	$ 52,577.47	1%	$ 106,411.22	2%	$ 201,678.40	4%
Deckhand	$ 40,949.73	1%	$ 69,045.13	1%	$ 82,229.07	1%
Gardener	$ 21,875.07	0%	$ 106,693.17	2%	$ 131,136.15	2%
Custodian Harbor	$ 11,722.19	0%	$ 34,387.21	1%	$ 89,642.96	2%
Other groups	$ 952,335.34	17%	$ 949,170.22	16%	$ 880,703.10	16%
POLA Total	$ 5,648,470.68	100%	$ 5,815,453.54	100%	$ 5,636,864.31	100%

Table 2 below shows a graphical depiction of the trend in overtime for these groups over the audit period. While the overtime rates for Port Police, Security, and Port Electrical Mechanics are trending slightly down by roughly 1.5% a year over the last few years, they are still around 17% and should be reviewed by the Port to see if this downward trend can be continued. The other eight groups are trending upwards over this same period. Especially concerning of these are the Gardeners (whose rate went from 1% to over 7%), Boat Captains (whose rate has tripled), Maintenance Laborers, Deckhands and Custodian Harbor (who have seen a doubling of their rates).   We recommend that the Port conduct a more detailed review of these groups to find out the circumstances behind such drastic increases in the overtime rates. While the rates for the Port Pilots and Sr Administrative Clerks have remained fairly flat over the audit period, the amount of money being spent on those groups for overtime warrants continued diligence from the Port.

Table 2 – Overtime Rates

OVERTIME RATE

Legend: Port Police · Security Officers · Port Electrical Mechanic · Port Pilots · Sr Administrative Clerk · Maintenance Laborer · Boat Captain · Deckhand · Gardener · Custodian Harbor

X-axis: FY 2015, FY 2016, FY 2017
Y-axis: 0.00% – 25.00%

Payroll to building access

With few exceptions, all POLA employees are issued a badge, which functions as a building/site access card. Our theory is that valid employees are generally using their badges to access the building, whereas ghost employees (fake employees set up to misappropriate payroll funds) would not receive nor use a POLA badge. In addition to the identification of potential ghost employees, these analytics would flag two other problematic scenarios:

1. Terminated employees who continue to receive paychecks outside a reasonable timeframe following termination. This represents a risk of financial loss to POLA and is identified by an employee's last check date occurring too long after their last badge swipe date. Given last check dates should normally occur after the last badge swipe (final payout, accrued vacation, and sick time taken, etc.), we flagged all such instances where the last check was greater than 60 days after the last badge swipe.

2. Employees who continue to use their badge/access card to access secured POLA facilities after their final paycheck (and presumed termination). This represents a security risk to POLA and is identified by access card records indicating the employee (or individual in possession of the employee's badge) has accessed the facility after issuance of their last paycheck. While we would not expect employees to continue to access the facilities after issuance of their

final paycheck, we flagged all such scenarios where the access card was used greater than 20 days after issuance of the final paycheck.

To perform this analysis, we started with a database extract from the PAYSR system of all employees and the date of their last paycheck. To this, we added the last badge swipe date where we were able to systematically locate the employee. As noted in our findings and recommendations section below, the payroll, HR, and access control systems do not have a uniform unique identifier that can be used to positively associate the same employee across all systems. This results in a number of false positives, where someone may be receiving a paycheck without apparently being issued a badge or someone who received a paycheck long after their last badge swipe.

As part of our analytics, we researched cases where a paycheck was issued, but the employee had no history of a badge swipe to determine if there were checks issued to un-badged individuals. We could not find badge swipe data for 99 of the 1,692 paychecks. We manually reviewed 22 of the 99 (Last names starting with "A" through "C"). Of these 22, 11 (50%) appear to have never been issued a badge. The remaining 11 were subsequently found. These were initially missed due to the use of abbreviated and misspelled names, as well as nicknames, and hyphenated name variations in the badging system.

Other summary statistics for our analysis include:
- 36 Access cards with a blank last swipe date
- 88 Individuals never issued a badge
- 179 individuals where a paycheck was issued 60 or more days after the last badge swipe
- 18 individuals who swiped their badge more than 20 days after their last paycheck
- 161 individuals who are not in the HR database

Human Resources investigated some of the 161 individuals not in the HR database, noting many were Hiring Hall employees who may only have worked for a day and would not be in the HR database. Others were identified as student employees, some of which worked for other affiliated entities, such as the Cabrillo Marine Aquarium, but were on POLA's payroll. Another employee was also identified as a remote employee who did not receive a badge.

HD Time to PAYSR
In addition to reviewing the 30 individual selections, we wanted to compare the HD Time and PAYSR entries in mass to look for instances of non-matching data. To perform this task, we imported the HD Time and PAYSR line item entries for the audit period into a separate MS Access tables. We then created queries that summarized the data by PAYSR ID, Transaction Date and Variance Code. We used another query to combine the summarized data and return only those entries that did not have a match between the two systems. The resulting table had 180,302 entries from HD and 174,230 entries from PAYSR.

Our analysis showed that most of these non-matches were caused by the two systems using different variance codes. This is caused because PAYSR being a City system summarizes some of the Harbor Department's variances codes into more generic citywide codes. For example, the PAYSR code BN (Bonus) is made up of over 12 HD Time variance codes. Although the variance code changes between the two systems the hours and pay amount, remain the same. The other major cause of non-matches we found were from the timing of the extracts. We were provided data from both systems with dates of 7/1/14 to 6/30/17. We found some instances of transaction dates that were in PAYSR but were not in the HD Time because they were previous period corrections. Based on our analysis and the description of how the systems are designed to work we can find no non-expected non-matching data.

Findings and Recommendations

During our review, we have come across several opportunities to enhance the payroll function and strengthen controls. Our recommendations are based on our experience in internal audit, as well as best practices from other similar functions. These recommendations have been tailored to consider the specific needs of POLA.

1. **Lack of segregation of duties for new employee set up and payroll changes**

    Issue:

    > In the current process, new employee information is collected by Human Resources (HR) and entered into their own Access database. A printout of the relevant information is provided to payroll for entering into the PAYSR system. Payroll is singlehandedly responsible for entering new employees into the payroll system.

    > We were unable to conclude as to whether payroll changes to existing employees were authorized or made in a timely manner, as the only supporting documentation is an unsigned paper Form 41, which could be created by anyone with access to the form. As such, we deem the control of Payroll entering employee changes from a Form 41 completed by HR to be ineffective.

    > The current process includes payroll generating a report of all PAYSR changes since the last payroll and providing this to HR along with system generated Form 41's. This detective control assumes HR reviews all the information provided; however, the report is generally only being reviewed for reasonableness, and there is a chance a fictitious employee would go undetected during mass hirings. Additionally, the report could be manipulated by payroll to exclude any inappropriate activity.

    Risk:

    > There is a risk that payroll personnel could enter a fictitious employee in the payroll system or change the address/payee information to misappropriate payroll for terminated employees rather than removing them from the payroll.

    Recommendation:

    > To most effectively protect against the set-up of fictitious employees, the duties of employee set up in PAYSR should be segregated. HR should be given access to set up basic employee information, but not salary information. Payroll should be restricted from entering new employees, but have the ability to enter salary information. Changes to the employee master file should be evidenced by signed paper or electronic communication by an authorized individual within HR. In this model, set up of a fictitious employee would require collusion between HR and Payroll, as neither could fully set up a new employee. Likewise, employee terminations could be processed by HR, who would not have the ability to change payroll information, such as addresses.

2. Timesheet approver process

Issue:

The process of establishing an approver in the HD Time system is a manual process performed by payroll based on a judgment call as to who they think the appropriate group of authorized approvers should be.

The authorized list of payroll approvers for a single employee is generally extensive and not regularly updated upon movement of an employee or their supervisors. We noted one instance where a painter had ten approvers who could approve their electronic time submission in HD time. Some of these approvers were legitimate while others were employees who were no longer in the correct chain of command for that employee or were added as temporary backups and never removed.

Risk:

The timesheet approval process serves as a preventative control to help ensure reported time was incurred and accurately charged to the correct division/program/job. For this control to effectively function, the approver must have a close enough relationship to the individual reporting the time to validate this accuracy.

Recommendation:

Assignment of timesheet approvers should be established by HR at the time of hire on Form 41. Currently, HR only provides the Division on Form 41 and not the group within the Division that will be approving the work. As is their current practice, a sufficient number of backup approvers should be established in case of absence of the primary approver. Timesheet approvers should be reevaluated as part of any change in employee position, such as a promotion or transfer to different position/shift/function. When temporary Timesheet approvers are added, a note should be added to the record stating why the need for the temporary approver and how long they are needed for. Payroll should review these to ensure that they are removed once the need is no longer valid.

3. Manual duplication of payroll system data

Issue:

Payroll personnel has been maintaining a duplicate manual set of payroll data, including salary information and accrued leave time. New employees and changes to existing employee information are typed onto 2-part "Blue Cards." One copy of the blue card is filed in a binder by the last name; the second copy will be filed in a binder by job classification. Both copies must be pulled, edited, and re-filed for any employee changes, including those changes affecting all employees, such as the cost of living adjustments.

Vacation accruals, including leave time, booked time, and sick time are all electronically calculated by the PAYSR system. Additionally, payroll manually calculates all leave time each pay period through the use of "Yellow cards" (booked overtime) and "White cards" (paid time off).

We believe the manual records date back to the last payroll system implementation when such records were maintained concurrently with the new system in case of implementation errors. Payroll's explanation for their current use was "just in case the computers are down and someone wants to know their current balances." We were also informed that both Payroll and HR like the use of the manual cards because "finding the answers to questions are faster and easier than using PAYSR or HD Time."

Risk:

The risk of version control and inefficiency issues outweigh the rationale for keeping the duplicate dataset. PAYSR is the official source of record for the Port of Los Angeles. There are two issues associated with maintaining duplicative manual records. Primarily, there should be one official source of record, which has been established as PAYSR. Using two systems (one automated, the other manual) calls into question which is the official system in case of discrepancies. Secondarily, the process of manually tracking and calculating over 1,000 active employees is very time-consuming. Time spent on manual tracking and recalculation efforts, roughly 0.5 Full-Time Equivalents (FTEs), could be repurposed for the better good of the organization.

Recommendation:

The payroll function should discontinue manual tracking of payroll records and accrued leave time. Existing blue, yellow, and white cards could be retained (but no longer maintained) before destruction for a one year period in case any potential use for these cards is subsequently identified. If any potential use of the cards is identified, Payroll should work with POLA's IT Division to determine if such need can be achieved through the use of PAYSR.

4. Use of access card data as a payroll control

Issue:

> With a minor modification, the Harbor Department can use its badging system as a detective control against the payment of ghost employees or the improper continuation of payroll for terminated employees. All Harbor Department employees receive building access badges upon employment. The status of these badges can be compared to payroll records to ensure that individuals on payroll actually exist. As one needs to be physically present and photographed to receive a badge, it would be very difficult to obtain a badge for a falsified employee. Any individuals receiving payroll who do not appear on the badge holders list, or those whose badges have been terminated and not re-issued should be further researched. Comparison between the two databases can also be used for security purposes, to ensure terminated employees (those who are no longer on the payroll) have had their physical access rights terminated in the department's access control system.

Risk:

> Cross-system comparison would be a valuable detective control POLA could relatively easily add to protect against ghost employees, payroll misappropriation, and inappropriate facility access by terminated employees.

Recommendation:

> Comparison of the payroll and access control systems is currently difficult and time-consuming due to the differences in the nomenclature used in the two systems. Some, but not all employees in the access control system are associated with a PAYSR number, which would be the best unique identifying data point to use for cross-system comparison. Employee names also differ between the two systems, as some could use a nickname (ex. Bob instead of Robert) or preferred name (ex. Jack instead of John). To facilitate cross-system record comparison, we recommend a valid PAYSR number be entered into the access control system for all employees.

5. **Establishing time limits for payroll corrections**

   Issue:

   There is no policy for how far back post payroll corrections can be made as long as the employee and manager sign the correction sheet. Below is a chart summarizing the Aging Period (Approval Date minus Effective Date) of the payroll corrections made during the audit period.

Aging Period of Corrections ▼	Count	%
0 to 30	12,656	58.0%
31 to 60	3,911	17.9%
61 to 90	1,167	5.4%
91 to 120	756	3.5%
121 to 150	379	1.7%
151 to 180	459	2.1%
181 to 210	336	1.5%
211 to 240	205	0.9%
241 to 270	205	0.9%
271 to 300	144	0.7%
301 to 330	188	0.9%
331 to 365	216	1.0%
< 1 year	1,164	5.3%
Grand Total	**21,809**	**99.9%**

   Risk:

   The ability to recall the legitimacy of a requested payroll adjustment (such as previously unreported overtime) decreases with the passage of time. As such, there is a risk that old changes may not be legitimate.

   Recommendation:

   We recommend a policy be instituted to limit payroll corrections to the past three months with supervisor approval and requiring Division Head approval for any corrections greater than three months.

6. **Establishing Harbor Department Payroll policies and procedures**

Issue:

The Harbor Department's payroll division operates under the City of Los Angeles Controller's Office payroll policies and procedures, which were last updated in 2013. The Harbor Department does not have its own set of current documented payroll policies and procedures.

Risk:

Absent current policies and procedures, payroll processes may not be implemented correctly and consistently. Additionally, institutional knowledge of the process could easily be lost upon employee termination within the payroll division.

Recommendation:

Given the critical importance of the payroll function, we recommend policies and procedures be established and documented. Once established, policies and procedures should be reviewed on an annual basis to ensure they are current.

Appendix A- Process Flowcharts

PMA Consultants

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┌─────────────────────────────────────────┐
│         Port of Los Angeles              │
│  Payroll Process: New employee set up/   │
│              Changes                     │
│              6/29/17                     │
└─────────────────────────────────────────┘
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Payroll types information[1] from new employee set up form onto 2-part carbon copy "Blue Card[2]". This form will be updated with any subsequent employee changes

End

Start New Employee Set-up → HR completes new employee set up form[5]; collects W-4 form from new employee; hand delivers these documents to payroll → Payroll verifies information per set up form matches that per W-4; variances sent back to HR for resolution. → Payroll enters information[1] from new employee set up form into PAYSR (City of Los Angeles Payroll system) → Payroll will call the assigned timekeeper to get the correct time group the employee should be placed into and individuals whose timesheets the employee can approve, if applicable → Will employee be entering their own time[4]? — Yes → Payroll establishes login credentials (employee ID # & last 4 digits of SS #) in HD Time to allow employee to enter timesheets → End

No

Form 41 sent to City Retirement & City Personnel

Form 41, W-4, and Direct Deposit application sent to downtown Controllers office

Report of all PAYSR changes since last payroll generated by payroll, provided to HR along with printed "Form 41"s for HR review[7]

Data automatically transferred[6] to HD Time (POLA's timekeeping system)[3]

Timesheets will be completed by timekeeper, established during initial set up by Payroll

Start Employee changes or termination → HR completes change/termination form (same as new hire form), detailing the change or providing a termination date. → Payroll makes requested changes in payroll system → End

Footnotes:
1. Information entered includes basic contact and demographic information, class title (ex. Payroll Supervisor II), job code (corresponds with class title), division # (ex. 102-Engineering; this determines who the approver will be), step (most new hires will start at Step 1 unless otherwise negotiated as a result of past experience), step anniversary date (generally the hire date- this is the date upon which the employee will automatically receive a step increase in pay), certification # (for civil service exams), probation date.
2. One copy of the blue card will be filed in a binder by last name; the second copy will be filed in a binder by job classification. Both copies must be pulled, edited, and re-filed for any employee changes, including those changes affecting all employees, such as cost of living adjustments.
3. Pay amounts are automatically determined by the system based on job title and step. These cannot be adjusted. The only way to change a pay rate/salary amount would be to change the job title or step.
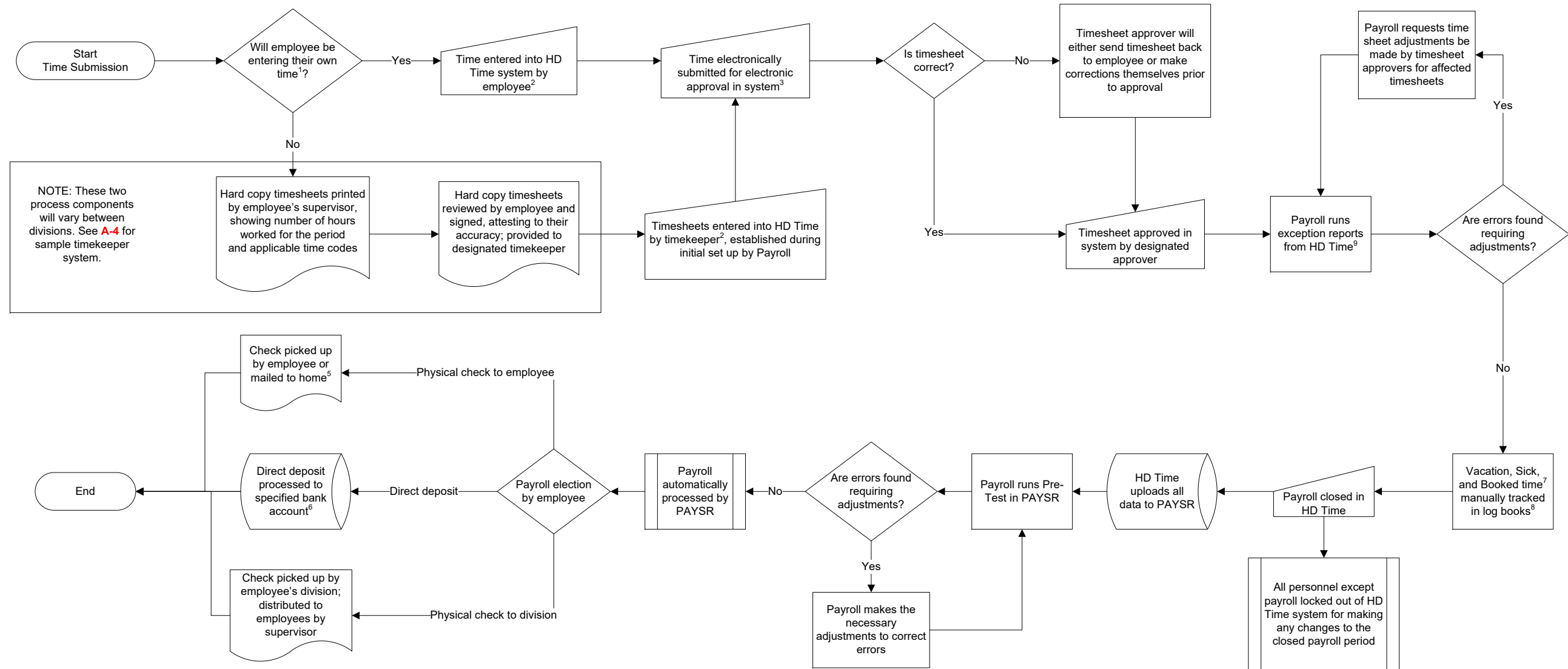4. HD Time is a computer-based electronic timekeeping system. There are no time clocks. Employees who do not have regular access to a POLA computer (such as police, landscaping, carpentry, and maintenance personnel) have designated timekeepers who enter the employee's time into the HD Time system.
5. See A-2 for sample new employee set up form. New employee set up form is generated in an HR Access database, separate from PAYSR or HD Time. After information is entered, the form is printed out and provided to Payroll
6. All information from PAYSR except Time Group (a field only in HD Time which determines the timekeeper [if applicable], employee's approver, as well as other employees that the employee can approve timesheets for) will be automatically populated overnight from PAYSR to HD Time. Payroll will need to manually populate the Time Group.
7. See A-3 for sample system report of all changes since last pay period, along with accompanying Form 41 sample.

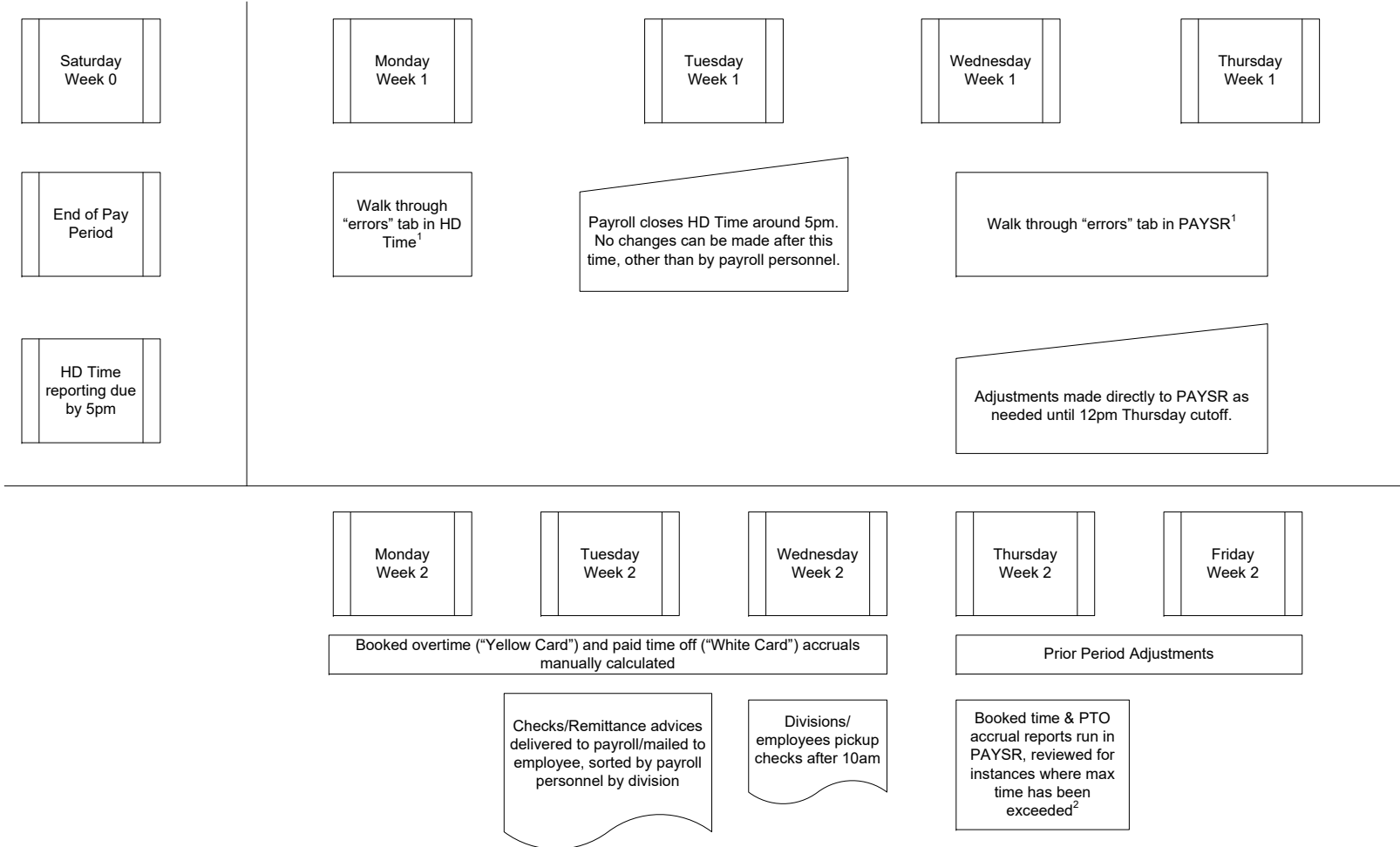Page 17 of 21

Port of Los Angeles
Payroll Process: Time Submission & Payroll Processing
6/29/17

Start
Time Submission

Will employee be entering their own time[1]?

— Yes → Time entered into HD Time system by employee[2]

— No →

NOTE: These two process components will vary between divisions. See A-4 for sample timekeeper system.

Hard copy timesheets printed by employee's supervisor, showing number of hours worked for the period and applicable time codes

Hard copy timesheets reviewed by employee and signed, attesting to their accuracy; provided to designated timekeeper

Timesheets entered into HD Time by timekeeper[2], established during initial set up by Payroll

Time electronically submitted for electronic approval in system[3]

Is timesheet correct?

— No → Timesheet approver will either send timesheet back to employee or make corrections themselves prior to approval

— Yes → Timesheet approved in system by designated approver

Payroll runs exception reports from HD Time[9]

Payroll requests time sheet adjustments be made by timesheet approvers for affected timesheets

Are errors found requiring adjustments?

— Yes (to Payroll requests time sheet adjustments)

— No →

Vacation, Sick, and Booked time[7] manually tracked in log books[8]

Payroll closed in HD Time

All personnel except payroll locked out of HD Time system for making any changes to the closed payroll period

HD Time uploads all data to PAYSR

Payroll runs Pre-Test in PAYSR

Are errors found requiring adjustments?

— Yes → Payroll makes the necessary adjustments to correct errors

— No → Payroll automatically processed by PAYSR

Payroll election by employee

— Direct deposit → Direct deposit processed to specified bank account[6]

— Physical check to employee → Check picked up by employee or mailed to home[5]

— Physical check to division → Check picked up by employee's division; distributed to employees by supervisor

End

Footnotes:
1. HD Time is a computer-based electronic timekeeping system. There are no time clocks. Employees who do not have regular access to a POLA computer (such as police,landscaping, carpentry, and maintenance personnel) have designated timekeepers who enter the employee's time into the HD Time system. Different sections within POLA may process payroll differently, such as having a timekeeper enter standard scheduled hours in HD Time unless an exception form is completed by the employee (sick/PTO). Regardless of how time is entered into HD Time, all time must be approved by a supervisor.
2. Available job and variation codes (such as "Acting Supervisor") will be determined by the job code and division entered into PAYSR during initial set up by payroll
3. The approver is automatically designated at the time the employee is initially set up in the system, based on time group in HD Time. Once a timesheet has been approved, it cannot be altered by the employee.
4. Exception reports include [Need to review with Linda to determine all exception/validation reports run as part of the payroll process]
5. A special form is required to be completed by the employee and retained in payroll for physical checks which are picked up by the employee or mailed out.
6. When electing direct deposit, an employee can also choose to receive a hard copy notification of the deposit. Such notification would be distributed along with the payroll checks by the employee's division.
7. Booked time is essentially compensation time (PTO) in lieu of payment for overtime hours. This is an election the employee can make when submitting time sheets. Booked time is calculated by multiplying actual hours by 1.5, as this is the rate at which overtime would be paid out. As an example, 1 hour of overtime would equate to 1.5 hours of booked time. The amount of booked time that can be accumulated may be limited by the employee's MOU. This limitation may vary between MOU's. A payroll adjustment will be manually created for any booked time in excess of the allowable accumulation. As an example, if an employee is allowed to carry 20 hours of booked time, had a current balance of 15, and charged an additional 10 during the pay period, payroll would remove 5 hours of booked time and pay this out at straight time (as HD Time would have already converted the overtime hours as described above).
8. Tracking is performed via "pen and paper" (White and Yellow sheets). All calculations are manually performed. While adherence to booked time limitations may or may not be embedded in the system, vacation and sick accruals should be automatically calculated by PAYSR, making this process redundant.
9. Multiple error checks are performed by HD Time. Typical error messages resulting from these reports include "Requires Approval", "Injury on Demand Rate Needed", "Job Number Work Order combination not valid, FMLA variation needs HR authorization, Full Time>80 hours, and full time <80 hours. Payroll will review all messages to determine if they need to be addressed/fixed. Once all errors have been evaluated and corrected if necassry, payroll processing will proceed.

PMA Consultants

**Port of Los Angeles
Payroll Process Timeline
8/15/17**

| Saturday Week 0 | | Monday Week 1 | | Tuesday Week 1 | | Wednesday Week 1 | | Thursday Week 1 |

Saturday Week 0

End of Pay Period

HD Time reporting due by 5pm

Monday Week 1

Walk through "errors" tab in HD Time[1]

Tuesday Week 1

Payroll closes HD Time around 5pm. No changes can be made after this time, other than by payroll personnel.

Wednesday Week 1

Walk through "errors" tab in PAYSR[1]

Thursday Week 1

Adjustments made directly to PAYSR as needed until 12pm Thursday cutoff.

Monday Week 2

Booked overtime ("Yellow Card") and paid time off ("White Card") accruals manually calculated

Checks/Remittance advices delivered to payroll/mailed to employee, sorted by payroll personnel by division

Tuesday Week 2

Divisions/ employees pickup checks after 10am

Wednesday Week 2

Thursday Week 2

Prior Period Adjustments

Booked time & PTO accrual reports run in PAYSR, reviewed for instances where max time has been exceeded[2]

Friday Week 2

Footnotes:
1. Refer to "Time Submission & Payroll Processing" flowchart for further details
2. Max sick time that can be accrued= 800 hrs. 96 hours of sick time granted each January. Excess sick time paid out in 2nd January pay check. Employees do not accrue vacation until after their first year. Floating holidays awarded Jan 1st of each year; must be used by Dec. 31st of same year.

Appendix B- Petty Cash Follow Up Audit

Responsibility for custody and maintenance of the petty cash process falls under the purview of the Payroll function. The Port of Los Angeles' Internal Audit Division has conducted several audits of the petty cash process, including cash counts. PMA obtained the most recently performed petty cash audit reports from Internal Audit as follows:

        Initial report: June 6, 2014

        Follow up report: February 2016

        Current report: Draft as of July 2017

We have summarized all current issues as follows (all status updates provided through discussion with the Port's Payroll Supervisor). It should be noted that all issues noted below have been presented to Payroll supervision on three separate occasions since June 2014:

Ref	Issue	Status
1	Reimbursements to petty cash are sporadic and reimbursement checks not cashed in a timely manner. Recommend petty cash fund reimbursed monthly with checks cashed upon receipt.	Payroll has since implemented a process to submit reimbursements to AP monthly and when they receive the checks back to cash them within 24/48 hours.
2	The safe used to store petty cash is left open during business hours, and all payroll employees have access. Recommend safe be locked at all times and access be limited to one individual.	After further consideration, limiting safe access to one individual is not practical, as multiple personnel coverages for petty cash duties would be needed to cover employee absences. The payroll department's practice is to always have at least one employee present in the payroll office during business hours. The safe is kept locked outside of normal business hours, and anytime there is no one in the payroll office. The payroll office is restricted to payroll personnel.
3	There is a segregated travel advance account with a roughly $188K fund balance, which is generally stagnant with only one disbursement in FY '17. Internal Audit recommendation was to reduce fund balance to between $5K and $50K.	Not yet implemented.
4	Based on an evaluation of petty cash disbursements from the main petty cash fund maintained by Payroll, Internal Audit recommended reducing the $11,100 balance to approximately $2,500.	Not yet implemented. PMA recommends 3-4 months so $6-8K.
5	There has been a $40 reconciling item on the petty cash reconciliation since October 2013. Reconciling items should be investigated and resolved in a timely manner.	Not yet implemented. POLA's plans to write this off without further review, given the elapsed time and immaterial dollar amount. PMA agrees with this treatment.

Appendix C- Substantive Testing

# / Section	Employee ID (PAYSR)	Division	Class Title	Job Class #	PJU #	MOU Name	Pay Period End Date	Flat Rate?	Does employee division, class, and MOU # per HR agree with PAYSR?	Salary Step per PAYSR	Is PAYSR step mathematically accurate or reasonable explanation present?	"Hours Worked" rate (normal hourly rate) per class code/title and step tables	Rate per PAYSR	Does PAYSR rate agree with wage tables	Gross Hourly Wages per paystub	PMA recalculated wages based on [rate x hours]	Variance	Were wages calculated appropriately?	Hours worked per HD Time	Hours worked per PAYSR	Hours worked per HD time agree with hours worked per PAR	PAYSR Bonus	HD Bonus	HD Time & PAYSR Bonus agree and validated against MOU	Timesheet approver	Timesheet approval date	Was timesheet approved on a timely basis? (prior to payroll cut-off)	Was the timesheet approved by an individual with sufficient knowledge of time worked	If applicable, are overtime hours reasonable, given nature of position & other factors	If applicable, is justification present for any variation in rate codes with rate differential?	Vacation accrual hours per MOU	Vacation accrual hours per PAYSR	Sick accrual hours	Are vacation accruals calculating properly in PAYSR based on MOU & time booked in current period?
1	379309	Human Resources -- 103	Student Prof Worker	1501-00	00	Non-Represented	7/23/2016	Hourly	Yes	0	N/A	$ 14.56	$ 14.56	Yes	$1,820.00	$1,820.00	$0.00	Yes	125	125	Yes			N/A	jwhuerta	7/22/2016	Yes	Inconclusive - Senior Management Analyst II	N/A	N/A	N/A	N/A	N/A	Yes
2	372693	Construction -- 181	Student Engineer I	7203-01	00	Non-Represented	1/9/2016	Hourly	Yes	9	N/A	$ 17.13	$ 17.13	Yes	$753.72	$753.72	$0.00	Yes	44	44	Yes			N/A	bnchuc	1/8/2016	Yes	Inconclusive - Harbor Engineer II	N/A	N/A	N/A	N/A	N/A	Yes
3	62806	Executive Director -- 106	Sr. MGMT ANALYST II	9171-02	20	Supvy Administrative	3/21/2015	Range	Yes	8	Yes	$ 54.78	$ 54.78	Yes	$4,382.40	$4,382.40	$0.00	Yes	80	80	Yes			N/A	edseroka	3/23/2015	Yes	yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
4	371907	Port Police-Civilian -- 161	Student Prof Worker	1501-00	00	Non-Represented	12/12/2015	Hourly	Yes	0	N/A	$ 14.03	$ 14.03	Yes	$561.20	$561.20	$0.00	Yes	40	40	Yes			N/A	lonixon	12/14/2015	Yes	Inconclusive - Port Police Captain	N/A	N/A	N/A	N/A	N/A	Yes
5	36428	Human Resources -- 103	Senior Personnel Analyst II	9167-02	00	Non-Represented	4/1/2017	Range	Yes	15	Yes	$ 71.54	$ 71.54	Yes	$5,723.20	$5,723.20	$0.00	Yes	80	80	Yes			N/A	lelorenzana	3/31/2017	Yes	Yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
6	364177	Engineering -- 122	Student Engineer III	7203-03	00	Non-Represented	8/23/2014	Hourly	Yes	9	N/A	$ 19.15	$ 19.15	Yes	$1,532.00	$1,532.00	$0.00	Yes	80	80	Yes			N/A	mrowghani	8/21/2014	Yes	Inconclusive - Harbor Engineer I	N/A	N/A	N/A	N/A	N/A	Yes
7	360435	Wharfingers -- 191	Student Prof Worker	1501-00	00	Non-Represented	11/15/2014	Hourly	Yes	0	N/A	$ 14.03	$ 14.03	Yes	$477.02	$477.02	$0.00	Yes	34	34	Yes			N/A	dmboskovich	11/14/2014	Yes	Inconclusive - Wharfiner II	N/A	N/A	N/A	N/A	N/A	Yes
8	40249	Community Relations -- 107	Harbor Special Events Coord	1790-00	01	Administrative	6/10/2017	Range	Yes	15	Yes	$ 45.40	$ 45.40	Yes	$3,632.00	$3,632.00	$0.00	Yes	80	80	Yes			N/A	tmadams lopez	6/6/2017	Yes	Yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
9	377096	C&M-Electrical Shop -- 144	Elevator Mechanic Helper	3860-00	02	Building Trades R/F	11/12/2016	Flat	Yes	0	N/A	$ 32.34	$ 32.34	Yes	$2,683.32	$2,683.32	$0.00	Yes	80	80	Yes			N/A	cwsmith	11/14/2016	Yes	Yes - level 2/3	N/A	Yes	11.33	11.33	N/A	Yes
10	310304	C&M-Marine Carpentry -- 143	Ship Carpenter	3348-00	02	Building Trades R/F	5/30/2015	Flat	Yes	0	N/A	$ 39.44	$ 39.44	Yes	$3,155.20	$3,155.20	$0.00	Yes	80	80	Yes			N/A	dsyoung	6/1/2015	Yes	Yes - level 2 back up	N/A	N/A	11.33	11.33	N/A	Yes
11	33723	Human Resources -- 103	Delivery Driver III	1121-03	03	Clerical	9/17/2016	Range	Yes	11	Yes	$ 28.76	$ 28.76	Yes	$2,318.30	$2,318.30	$0.00	Yes	80	80	Yes	$ 17.50	UNIFORM ALLOWANCE	Yes	lelorenzana	9/16/2016	Yes	Yes - level 2/3	N/A	N/A	43.33	43.33	N/A	Yes
12	90431	Port Police-Civilian -- 161	Senior Administrative Clerk	1368-00	03	Clerical	12/10/2016	Range	Yes	6	Yes	$ 25.63	$ 25.63	Yes	$2,050.40	$2,050.40	$0.00	Yes	80	80	Yes			N/A	tegazsi	12/8/2016	Yes	Yes - level 2/3	N/A	N/A	11.33	11.33	N/A	Yes
13	87668	Human Resources -- 103	Clerk Typist	1358-00	03	Clerical	6/27/2015	Range	Yes	4	Yes	$ 21.91	$ 21.91	Yes	$1,752.80	$1,752.80	$0.00	Yes	80	80	Yes			N/A	lelorenzana	6/25/2015	Yes	Yes - Level 2	N/A	N/A	N/A	N/A	N/A	Yes
14	58646	C&M-Tree Trimming -- 138	Tree Surgeon	3114-00	04	Equip Oper & Labor	9/19/2015	Range	Yes	8	Yes	$ 31.98	$ 31.98	Yes	$2,683.36	$2,683.36	$0.00	Yes	80	80	Yes			N/A	dehughes	9/21/2015	Yes	Yes - level 2 back up	N/A	Yes	14.67	14.67	N/A	Yes
15	78336	C&M-Gardening -- 137	Gardener Caretaker	3141-00	04	Equip Oper & Labor	3/4/2017	Range	Yes	11	Yes	$ 26.50	$ 26.50	Yes	$2,120.00	$2,120.00	$0.00	Yes	80	80	Yes			N/A	dehughes	3/6/2017	Yes	Yes - level 2 back up	N/A	N/A	11.33	11.33	N/A	Yes
16	39912	C&M-Marine Vessels -- 148	Boat Captain II	5113-02	04	Equip Oper & Labor	12/24/2016	Flat	Yes	0	N/A	$ 42.32	$ 42.32	Yes	$3,385.60	$3,385.60	$0.00	Yes	80	80	Yes			N/A	fhalbers	12/23/2016	Yes	Yes - level 2 back up	N/A	N/A	16.67	16.67	N/A	Yes
17	88868	Construction -- 181	Civil Engr Associate II	7246-02	08	Prof Engrg & Scien	2/18/2017	Range	Yes	11	Yes	$ 50.50	$ 50.50	Yes	$4,040.00	$4,040.00	$0.00	Yes	80	80	Yes			N/A	kharbor	2/16/2017	Yes	Yes - level 1	N/A	N/A	11.33	11.33	N/A	Yes
18	31303	C&M-Roofers -- 153	Roofer Supervisor	3478-00	13	Supvy Bldg Trades	2/4/2017	Flat	Yes	0	N/A	$ 40.53	$ 40.53	Yes	$3,818.40	$3,818.40	$0.00	Yes	80	80	Yes	$ 576.00	STANDBY PAY - $2.25 HR	Yes	fhalbers	2/6/2017	Yes	Yes - level 2 back up	N/A	N/A	16	16	N/A	Yes
19	72155	C&M-Welders -- 149	Welder	3796-H	14	Service & Crafts	12/26/2015	Flat	Yes	0	N/A	$ 41.02	$ 41.02	Yes	$3,371.51	$3,371.51	$0.00	Yes	80	80	Yes			N/A	fhalbers	12/23/2015	Yes	Yes - level 2 back up	N/A	N/A	16.67	16.67	N/A	Yes
20	60016	Engineering -- 122	Senior Civil Engineer	9485-00	17	Supvy Prof Engrg & Scien	11/26/2016	Range	Yes	11	Yes	$ 75.78	$ 75.78	Yes	$6,062.45	$6,062.45	$0.00	Yes	80	80	Yes			N/A	jcbrown	11/22/2016	Yes	Yes - level 1	N/A	N/A	16.67	16.67	N/A	Yes
21	281321	Port Police-Security -- 172	Security Officer	3181-00	18	Safety/Security	1/9/2016	Range	Yes	11	Yes	$ 29.89	$ 29.89	Yes	$2,334.80	$2,334.94	-$0.13	Yes - rounded	91	91	Yes	$ 35.00	UNIFORM ALLOWANCE	Yes	pfsantos	1/11/2016	Yes	Inconclusive - Management Analyst	yes	Yes	11.33	11.33	136	Yes
22	27822	Port Police-Civilian -- 161	Senior Management Analyst II	9171-02	20	Supvy Administrative	1/24/2015	Range	Yes	14	Yes	$ 64.46	$ 64.46	Yes	$5,209.30	$5,209.30	$0.00	Yes	80	80	Yes	$ 52.50	HEALTH INS CASH BACK (CASH IN LIEU)	Yes	rjboyd	1/26/2015	Yes	Yes - level 2/3	N/A	N/A	16	16	N/A	Yes
23	24264	Accounting -- 118	Payroll Supervisor II	1170-02	20	Supvy Administrative	6/27/2015	Range	Yes	14	Yes	$ 42.60	$ 42.60	Yes	$3,408.00	$3,408.00	$0.00	Yes	80	80	Yes			N/A	asgregorio	6/29/2015	Yes	Yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
24	56154	Information Technology -- 119	Data Base Architect	1470-00	21	Technical	11/1/2014	Range	Yes	13	Yes	$ 59.76	$ 59.76	Yes	$4,780.80	$4,780.80	$0.00	Yes	80	80	Yes			N/A	caung	10/30/2014	Yes	Yes - level 1	N/A	N/A	16	16	N/A	Yes
25	32326	Port Pilots -- 171	Port Pilot II	5151-02	26	Port Pilots	6/24/2017	Range	Yes	5	N/A	$ 109.04	$ 109.04	Yes	$19,532.44	$19,532.44	$0.00	Yes	86	86	Yes	$ 10,563.90	PILOT CALLBACKS (7 days); HEALTH INS CASH BACK (CASH IN LIEU) FLEXIBLE BENEFITS ADJUSTMENT (cs adj 70 of 72) EFFICIENCY INCENTIVE BONUS	Yes	jdwyer	6/25/2017	Yes	Yes - level 1	yes	N/A	N/A	N/A	N/A	Yes
26	45355	Wharfingers -- 191	Chief Wharfinger I	1189-01	36	Management Employees	7/26/2014	Range	Yes	5	Yes	$ 46.66	$ 46.66	Yes	$3,732.46	$3,732.46	$0.00	Yes	80	80	Yes			N/A	dmboskovich	7/25/2014	Yes	Yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
27	80891	Cargo Marketing -- 102	Port Marketing Manager	1781-00	36	Management Employees	2/4/2017	Range	Yes	11	Yes	$ 56.62	$ 56.62	Yes	$4,758.60	$4,758.60	$0.00	Yes	80	80	Yes	$ 229.00	CAR ALLOWANCE	Yes	ejcaris	2/3/2017	Yes	Yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
28	87359	Port Police-Sworn -- 173	Port Police Sergeant	3222-00	38	Port Police	12/13/2014	Range	Yes	5	Yes	$ 55.57	$ 55.57	Yes	$4,477.60	$4,477.60	$0.00	Yes	80	80	Yes	$ 1,102.00	MARKSMANSHIP BONUS UNIFORM ALLOWANCE	Yes	mlcouch	12/15/2014	Yes	Inconclusive - Management Analyst	N/A	N/A	N/A	N/A	N/A	Yes
29	376653	Port Police-Sworn -- 173	Port Police Officer I	3221-01	38	Port Police	3/19/2016	Range	Yes	1	Yes	$ 27.50	$ 27.50	Yes	$2,200.00	$2,200.00	$0.00	Yes	80	80	Yes			N/A	cdthompson	3/21/2016	Yes	Yes - level 1	N/A	N/A	N/A	N/A	N/A	Yes
30	283592	Port Police-Sworn -- 173	Port Police Officer II	3221-02	38	Port Police	11/15/2014	Range	Yes	6	N/A	$ 42.73	$ 75.78	Yes	$5,955.15	$5,955.27	-$0.12	Yes - rounded	114.5	114.5	Yes	$ 326.00	HAZ MAT (HFIR) PORT POLICE (10 days) MLETC $76 BIWEEKLY	Yes	pfsantos	11/17/2014	Yes	Yes - level 1	yes	N/A	11.33	11.33	N/A	Yes