



**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

July 15, 2014

The Honorable Members of the County Council
The Honorable County Executive Laura Neuman
Mr. John Peterson, Acting Personnel Officer
Mr. Rick Anthony, Director of Recreation and Parks
Anne Arundel County, Maryland
44 Calvert Street
Annapolis, Maryland 21401

Dear Members, Ms. Neuman, Mr. Peterson and Mr. Anthony:

In accordance with § 311 of the County Charter, I am calling to your attention and taking exception to the improper procedures noted in this report.

Section 6-2-106 of the County Code specifies that hourly rate employees shall receive pay and benefits as specified in a written agreement between the employee and the appointing authority. In the management letter we issued with our annual audit of the County's fiscal year 2010 Comprehensive Annual Financial Report, we noted deficiencies in the payroll process that resulted in management failing to comply with this provision for hourly rate employees working in multiple positions with varying rates of pay; for example, an employee hired by the Department of Recreation and Parks as a Lifeguard for \$8/hour who also works as a Pool Operator for \$10/hour.

In our fiscal year 2010 management letter, we recommended that the Office of Personnel change pay rates in the human resources system only when authorized in writing by the appointing authority. We also recommended that the Office of Personnel determine whether there were hourly rate employees other than those we noted whose pay rates were not authorized and take corrective action as necessary.

In response to our recommendations, Ms. Andrea Fulton, former Personnel Officer, issued a letter outlining the following procedures that management would implement to correct the deficiencies.

- Each hourly rate employee will be given an employment letter signed by both the appointing authority and the employee identifying the position titles for which the employee is being hired and the rate of pay for each position.
- The department will forward the signed letter and an approved Personnel Action Authorization (PAA) listing the position titles and corresponding rates of pay to the Office of Personnel.
- Time sheets will be completed for each employee listing the hours worked, the position worked, and the rate of pay for each position. Time sheets will be approved and signed by a supervisor.
- Since the payroll system can accommodate only one rate of pay, the Office of Personnel will enter the pay rate for the position in which the employee will work the majority of his or her hours, and department timekeepers will enter a different pay rate if the employee works in another position. After the timekeeper enters the hours and rates of pay into the payroll system, a supervisor will review the time and rates of pay and approve the entries.
- The Office of Personnel will create an audit report that can be used to review any pay rate changes within the Department of Recreation and Parks.

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In addition to the procedures outlined by Ms. Fulton, the Department of Recreation and Parks requires the employee's supervisor to record on an employee's time sheet the respective rate of pay for the hours worked in each position, and both the employee and the employee's supervisor must sign the time sheet.

We recently undertook a review to determine whether the procedures Ms. Fulton said management would implement were operating effectively to ensure hourly employees with multiple positions and rates of pay were paid the rates authorized in their written agreements as required in § 6-2-106 of the County Code. Our review was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States or standards issued by the American Institute of Certified Public Accountants and was more limited than would be necessary to express an opinion on the system of internal control over payroll processing. Accordingly, we do not express an opinion or any other form of assurance on the system of internal control over payroll processing.

This report, which includes management's response to our findings and recommendations, is intended solely for the use of the County Council and the management of Anne Arundel County. However, this report is a public document that may be obtained from the Office of the County Auditor.

Procedures

We obtained a report of payroll transactions for employees with multiple rates from the Office of Personnel for fiscal year 2013. We selected 40 employees and determined whether (1) the County and the employee entered into a written agreement specifying the employee's rate of pay for each approved position, and (2) there was an approved PAA listing each approved position and rate of pay. Additionally, we verified that the rates of pay recorded on the employees' time sheets were correct for the hours the employee reported he or she worked in each position and that the time sheet was signed by both the employee and a supervisor.

Findings

Written Agreements and Approved PAAs

For each of the 40 employees, we determined that there was a written agreement signed by the appointing authority and the employee and an approved PAA specifying the authorized positions and rates of pay.

Time Sheet Errors

We reviewed a selection of 57 time sheets for 40 employees and found numerous errors. Specifically:

- One employee was paid \$15/hour for 3.25 hours worked as an Instructor; however, the employee's authorized rate of pay as an Instructor was \$11/hour.
- One employee was paid \$15.30 hour for 19.5 hours worked as an Instructor; however, the employee's authorized rate of pay as an Instructor was \$30/hour.
- One employee was paid \$8.80/hour for 33 hours worked as a Lifeguard; however, the employee's authorized rate of pay as a Lifeguard was \$8/hour.
- One employee was paid \$12.30/hour for 27 hours of "park maintenance" work; however, the employee's authorized rate of pay for a Park Maintenance Worker II was \$10/hour.
- One employee was paid \$12.05/hour for 7.5 hours worked as a Lifeguard; however, the employee's authorized rate of pay as a Lifeguard was \$8/hour. The employee was also paid

\$13.05/hour for three hours as a "Camp" Instructor. While the employee was authorized to work as an Aquatics Instructor, "Camp Instructor" was not an authorized position. Finally, the time sheet indicates the employee was paid \$15/hour for 7.75 hours as a "Weekend SOD," but "Weekend SOD" was not an authorized position.

- One employee was paid \$10/hour for 15 hours worked as a Lifeguard; however, Lifeguard was not an authorized position.
- One employee was paid \$8.00/hour for 40 hours of "camp" work. While the employee may have worked on a camp activity, "camp" does not match a position in which the employee was authorized to work.
- One employee was paid \$9.55/hour for two hours as a "Kids in Motion Asst"; however, "Kids in Motion Asst" was not a position in which the employee was authorized to work.
- The employee was paid \$12.30/hour for 54.5 hours of "kinder prep" and "basketball, dance" work. While "kinder prep" and "basketball, dance" may describe the activities in which the employee worked, these terms do not match a position in which the employee was authorized to work.
- One employee was paid \$7.55/hour for 80 hours worked as an "Assistant Director"; however, "Assistant Director" was not a position in which the employee is authorized to work. The department advised us that an "Assistant Director" qualifies as a Program Instructor I for which the employee's authorized rate of pay was \$8.80/hour. However, the employee was paid only \$7.55/hour, the employee's authorized rate for a Program Aide II.

Segregation of Duties over Payroll Processing

We noted that payroll processing duties are not segregated to ensure one person is not in a position to both perpetrate and conceal an error or irregularity. Currently a Management Aide prepares and maintains a spreadsheet of hourly employees and their authorized pay rates, and she forwards the spreadsheet to the supervisors and the Senior Management Assistant.

The supervisors use the spreadsheet to determine the authorized pay rates to enter on an employee's manual time sheet. After the supervisors approve the hours and pay rates on the manual time sheets, they forward the time sheets to timekeepers who enter the hours worked and the pay rates into ADP. The Management Aide then reviews the pay rates entered by the timekeepers to ensure the rates agree to the authorized rates on the spreadsheet. Finally, before approving the payroll in ADP, the Senior Management Assistant compares the hours entered into ADP to the manual time sheets, and she compares the pay rates entered into ADP to the authorized pay rates on the spreadsheet on a test basis.

These duties are not adequately segregated. Both the Management Aide and the Senior Management Assistant have, but do not need, access to change pay rates in ADP, and the timekeepers and the Senior Management Assistant have, but do not need, access to modify the pay rates on the spreadsheet. Because these duties are not segregated, the Management Aide, the Senior Management Assistant, and/or any of the five timekeepers could improperly modify pay rates both in ADP and on the spreadsheet without being detected.

Recommendations

Management should ensure that hourly rate employees record their hours on their time sheets using the position titles for which they are authorized. Supervisors should thoroughly review the time sheets, including the hours worked and the position titles, ensuring each position title matches a title for which the employee is authorized and that the rates of pay match the authorized rates on the spreadsheet maintained by the Management Aide.

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To ensure one person is not in a position to both perpetrate and conceal unauthorized changes to pay rates, we recommend that management segregate duties over maintaining the spreadsheet of authorized rates, changing pay rates in the ADP system, and approving payroll in ADP. The person who maintains the spreadsheet should not have access to change pay rates in ADP, and the spreadsheet should be protected by password from unauthorized access. Likewise, those with access to change pay rates in ADP system should not have access to modify the spreadsheet. Finally, anyone who approves the hours and pay rates posted in ADP should not have access to modify the pay rates in ADP or on the spreadsheet.

Management's Response

Recreation and Parks has reviewed the report on our payroll system for part-time seasonal employees. Our Department has continued to improve our processes and procedures since the initial recommendations in 2010. Each part-time seasonal employee has a fully executed written agreement stating the authorized job title and rate of pay. We currently have multiple levels of review and approvals from timekeepers to Senior Management for every payroll cycle.

Based on the current review we have instituted the following additional procedures. We have created new time sheets for every employee that indicates the approved job title and pay rate. Our employees have been using internal working titles which has made the time sheet appear to be incorrect.

Secondly, we have limited the access to the Department's job title/rate of pay spreadsheet in order to diminish the chance of perpetuating an error or misconduct. However, due to the day to day operations, we will give the access of this spreadsheet to the Management Aide and the Senior Manager. This allows business to continue if the Management Aide is not at work for a period of time and gives the authority to a senior level of employee.

Recreation and Parks would like to thank the Auditor's Office in this endeavor.

Auditor's Response to Management's Response

We strongly disagree that the Management Aide and Senior Manager need access to modify the pay rates on the spreadsheet and in ADP. Doing so gives them the ability to fraudulently modify an employee's pay rate on the spreadsheet and in ADP without being detected.

There is no compelling reason that the Management Aide needs access to modify pay rates in the ADP system because there are six other employees who can do so. Likewise, there is no compelling reason that the Senior Manager needs access to modify pay rates on the spreadsheet in the absence of the Management Aide. Any other employee in the department who does not have access to change pay rates in ADP could serve as a backup. Therefore, we strongly recommend that the Management Aide not have access to modify pay rates in ADP and that the Senior Manager not have access to modify pay rates on the spreadsheet. Also, to further mitigate the risk of fraud or error, we recommend that the Office of Personnel periodically verify the accuracy of the pay rate spreadsheet, documenting and retaining their review.

With respect to the Senior Manager's ability to modify pay rates in ADP, the Office of Personnel has advised us that access to the ADP system cannot be segregated to allow the Senior Manager to approve payroll, but not change pay rates. However, the Office of Personnel can run a report of pay changes showing the user i.d. of the employee who made the changes.

Seldom, if ever, should it be necessary for the Senior Manager to modify a pay rate in ADP because five timekeepers can make any necessary changes. Therefore, we recommend that the Department of Recreation and Parks adopt a formal policy stating that the Senior Manager should change pay rates in ADP only when none of the five timekeepers are available to do so. Further, to mitigate the risk of error or fraud, we recommend that the Office

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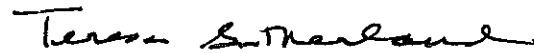
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of Personnel run a report to identify all pay rate changes in ADP made by the Senior Manager. Personnel should ensure the modifications were proper, and Personnel's review should be documented and retained.

We thank the Office of Personnel and the Department of Recreation and Parks for their cooperation and assistance. Please call if you have any questions regarding our findings and recommendations.

Sincerely,



Teresa Sutherland, CPA

County Auditor