



DEPARTMENT OF FINANCE

Biennial Performance Audit
for Fiscal Years Ended June
30, 2022 and 2021

City Auditor, Josh Pasch
December 31, 2023



CONTENTS

Executive Summary 1
Background Information 3
Objectives, Scope, and Methodology 5
SECTION I: Current Findings and Recommendations 6
APPENDIX I: Employer Contributions During FY 2022 11
APPENDIX II: Management's Response to the Audit Report 12



Office of the Comptroller

Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

Honorable Bill Henry, Comptroller
and Other Members
of the Board of Estimates
City of Baltimore

EXECUTIVE SUMMARY

We conducted a *Biennial Performance Audit of the Department of Finance for the Fiscal Years Ended June 30, 2022 and June 30, 2021*¹. The objective of our performance audit is to evaluate effectiveness and accuracy of the retroactive (retro) payment process for employee earnings in Workday², including the calculation and disbursement of withholdings that are based on employee earnings.

Our audit concludes that that: (i) there are significant errors in retro payment calculations; (ii) there are insufficient documentation to confirm the validity of certain retro payments; and (iii) the retro payments for Cost-of-Living Adjustment (COLA)³ did not consistently deduct pension contributions from employee paychecks. The City decided to make up the difference during annual true up instead of recovering money from employees. Not being able to track and / or calculate retro payments accurately affect both the City and employees.

Vacancies and conversion to Workday without written guidance and proper training significantly contributed to errors in retro payment processing. In addition, the Workday retro time process was not set up to calculate and deduct employee pension contributions for retro salary changes until August 31, 2023. People reviewing did not catch the missing pension deductions.

To improve the effectiveness and accuracy of the retro-payment process, we recommend the Director of Department of Finance (DOF) implement the recommendations included in this report. Management's responses are included in Appendix II on page 12.

¹ We reviewed certain other matters, procedures, and transactions outside that period to understand and verify information during the audit period.

² Workday is the City's human resources and financial system. Phase I (payroll module) was implemented in late Calendar Year 2020. Phase II (financial modules) was implemented in August 2022.

³ We selected judgmental samples of COLA which were effective between late calendar year 2020 and through September 27, 2023. Since March 2023, COLA mass retro process has been improved. We did not note the same issue for the latest COLA retros processed in FY 2024.

Prior findings were related to Accounts Payable which was moved under the Comptroller's agency in early Calendar Year 2023. We did not include follow-up procedures of those prior findings in this audit.

We wish to acknowledge DOF's cooperation extended to us during our audit.

Respectfully,

Josh Pasch

Josh Pasch, C.P.A.
City Auditor
City of Baltimore, Maryland
December 31, 2023

BACKGROUND INFORMATION

Department of Finance

The DOF is responsible for safeguarding the fiscal integrity of the City of Baltimore through the development and implementation of sound financial policies and practices. The Bureau of Accounting and Payroll Services (BAPS) is one of the five Bureaus under DOF and manages both accounting and payroll operations. Activities include payroll, disbursements, accounts receivable, capital, grant, fixed asset, billing, and revenue control. The Payroll Division (Payroll) of BAPS prepares payroll reporting for over 40,000 employees and retirees. Additionally, Payroll processes over one million payments to employees and retirees totaling almost \$900 million each year. The Payroll is responsible for paying 1,200 weekly employees, 14,000 bi-weekly employees, and seasonal employees including thousands of Youth Works employees. The Payroll is also responsible for ensuring that proper internal controls exist over the payroll process and special pay or bonus checks, coordinating quarterly payroll tax reporting, managing garnishment processing, reconciling payroll bank accounts, all payroll related special projects including sick and safe leave, check escheatment to the State of Maryland, and coordinating year-end processing of W-2's.

Retroactive Payments

- COLA are based on Memorandums of Understanding (MOUs) between City and different unions. Depending on the length of negotiation, the proposed COLA rates may not be presented to the Board of Estimates on time. (The City's fiscal year ending is June 30). If COLA rates are approved after the new fiscal year starts, the City has to retroactively process COLA adjustments. The MOUs usually are for at least two fiscal years.
- Ad-hoc retros are processed to adjust incorrect payments from prior periods due to payrate change; incorrect leave time; missing over time request, etc.

Ad-hoc retro payment requests are tracked in SolarWinds⁴. Pay Action Worksheet (PAW) forms are used to submit ad-hoc retro requests. PAW forms show the calculation of the difference between what was paid and what should have been paid. PAW forms are prepared, approved, and submitted by agencies. PAW forms can be directly submitted in SolarWinds, or agencies can email PAW forms to Bmore IT Service Desk at etime.issues@baltimorecity.gov. Upon receiving emails, Bmore IT Service Desk creates tickets in SolarWinds. Once tickets are assigned, DOF's consultants review and process the retro requests.

⁴ SolarWinds is an automated ticketing management system that creates, assigns, routes, escalates, and tracks requests through the lifecycle, from creation to resolution. **Source:** SolarWinds

There are two methods to process the retro requests in Workday. Consultants can:

- Input relevant information to allow Workday to automatically calculate payments (method 1); or
- Manually calculate payments and enter the information in Workday (method 2).

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objective of our audit was to evaluate effectiveness and accuracy of the retroactive payment process for employee earnings in Workday, including the calculation and disbursement of withholdings that are based on employee earnings. The scope of our audit is fiscal years ended June 30, 2022 and June 30, 2021. However, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

To accomplish our objectives, we:

- Interviewed key individuals from DOF including consultants and performed walkthroughs to obtain an understanding of the retro payment process;
- Observed consultants process COLA and ad-hoc retro payment requests;
- Identified the related risks and key controls regarding the retro payment process;
- Analyzed roles of a person who has human resources and payroll access;
- Judgmentally selected samples and tested validity of retro payment requests and accuracy of retro payments; and
- Judgmentally selected samples of COLA retros to test accuracy of pension deductions.

SECTION I: CURRENT FINDINGS AND RECOMMENDATIONS

Finding I: Vacancies and Conversion to Workday Without Written Guidance and Proper Training Significantly Contributed Errors in Retro Payment Processing.

The 54 ad hoc retro (see page 3) samples that we reviewed indicated that there are significant errors in retro payment calculations; in some cases, there are insufficient documentation to confirm the validity of certain retro payments. Not being able to track and / or calculate retro payments accurately affect both the City and employees.

Testing Accuracy

- Fourteen samples - Approximately \$4,000 in pension deductions were not taken from salary adjustments applied retroactively. Pensions should have been deducted from these.
- Twenty-seven retros totaling approximately \$120,400 were processed using method 2 (see page 3). This method is prone to human errors. Also, in some cases, it causes duplicate payment for the same retro request. For example, in FY 2023 and FY 2024, the City paid:
 - One employee \$847.57 rather than \$705.67.
 - One employee \$22,082.13. The retro for this employee included a change in class from City Union of Baltimore (CUB) to Managerial and Professional Society (MAPS). The retro payment calculation was based on the change in base salary; however, it did not account for CUB salary payments, which MAPS employees do not get, such as overtime. We also noted that a full two-week salary was paid, when the employee started and worked only one week.
 - One employee twice for the same retro dates. The issue was the employee's hours for the pay period ending August 16, 2023 was not approved in Workday. A PAW sheet (see page 3) was submitted to request pay. Payroll used the method 2. An on-demand check totaling \$3,324.36 was issued on August 24, 2023. When supervisors approved the time in Workday, the system automatically processed the retro for the second time. The second check of the same amount was issued on September 8, 2023. This could have been prevented if Payroll had chosen to use the automated process (method 1) rather than hardcoding the payment in the Workday system (method 2).
 - One employee \$7,214.14. This is a back pay for the periods from September 20, 2021 to April 28, 2023. The employee was being paid based on 36.7 hour a week as opposed to 40 hour a week. According to the PAW, the payment demanded was \$7,379.82; however, the employee had error. It didn't account for pay periods that went at two different rates. Payroll chose the method 2 and hardcoded the payment of \$7,214.14.

Testing Validity

- Seventeen retros had related SolarWinds tickets (see page 3). However, Workday did not correctly reference back to the SolarWinds tickets for six retros totaling approximately \$25,700.
- One credit retro⁵ of approximately \$5,000 dollars was recorded with no indication of source.

Employers are responsible to pay employees on time and accurately. The following factors contributed to the issues discussed in this finding. The position of Payroll Director was vacant until August 2023. At times, an HR employee, who used to work in Payroll, was working as the Payroll Director. There are still numerous vacancies including the Assistant Payroll Director position. Except the Payroll Director, payroll staff involved in the retro process are consultants. The City is heavily relying on the consultants; moreover, the City does not have written policies and procedures outlining the retro process. Also, the City has not provided training to employees on how to use Workday for the retro process.

Recommendation I: We recommend the Director of Department of Finance:

- Establish formal (written, approved, dated) policies and procedures that includes:
 - Step by step processes to guide how to process retro payments in Workday;
 - Clearly and consistently reference the SolarWinds ticket in Workday;
 - Consistently include employee identification number and / or name in SolarWinds ticket;
 - Avoid hard coding of retro in Workday and have Workday auto calculate the retro, when system allows; and
 - Ensure that documents supporting the calculation of retro pay are attached to the payment either in workday or solar winds when hard coding is necessary.
- Train employees how to complete the retro process.

⁵ A credit retro is a transaction to correct the overpayment.

Finding II - City Paid Employee Portion of Pension Contributions.

The retro payments for COLA (see page 3) did not consistently deduct pension contributions from employee paychecks. From July 1, 2021 to September 27, 2023⁶, there were 28 bulk COLA increases. From those 28, ten received the COLA increases on their effective dates and did not result in retro payments. The remaining 18 were retroactively applied. Of 18 bulk COLA increases, the City did not take pension from ten bulk COLA increases (see Table 1 below). This resulted in the City paying for the missed pension contributions. Annually, an actuary calculates the annual pension cost for the current year of service. Part of this is paid through employee contributions and the rest is paid by the City. Additionally, the City made a separate payment of approximately \$533,550 for the missed pension contributions for four bulk COLA increases⁷ during FY 2022 (see Table II in Appendix I).

Table I

Summary of Ten Bulk COLA Increases without Pension Deduction

No.	Unions	Fiscal Year*	Retro Completion Date	Potentially Affected Employees
1.	CUB	2022	9/7/2022	3,322
2.	CUB	2023	9/15/2022	3,253
3.	MAPS	2022	8/4/2021	2,182
4.	AFSCME Local 44 **	2022	10/6/2022	1,632
5.	AFSCME Local 44**	2023	10/26/2022	1,882
6.	AFSCME Council 67 and Local 558	2022	6/24/2022	62
7.	No unions which are for sheriffs.	1/1/2021***	4/8/2021	126
8.	No unions which are for sheriffs.	1/1/2022***	5/3/2022	107
9.	No unions which are for sheriffs.	7/1/2022***	11/25/2022	104
10.	No unions which are for sheriffs.	11/1/2022***	11/25/2022	105
Total Potentially Affected Employees				12,775

Notes: * City's Fiscal Years is from July 1 to June 30.
 ** American Federation of State, County, Municipal Employees
 *** No unions and COLA was not based on Fiscal Year.

⁶ The bulk COLA increases reviewed were for FY 2022, FY 2023, FY 2024.

⁷ The four COLA bulk increases include AFSCME Local 2202, AFSCME Local 44, AFSCME Council 67 and Local 558 and CUB.

The Workday retro time process was not set up to calculate and deduct employee pension contributions for retro salary changes until August 31, 2023. People reviewing did not catch the missing pension deductions. The amount of the pension deduction is calculated using base pay times contribution percentage.

Recommendation II: We recommend the Director of DOF:

- Establish and implement policies and procedures to perform analytics in a test environment prior to processing mass retro payments in Workday;
- Outline analytics that are needed to be completed in the test environment; and
- Train responsible personnel how to do analytics.

APPENDIX I: Employer Contributions During FY 2022

Table II

Missed Retro Pension Contributions During FY 2022

Union Name	Class C Count of Members	Class C Amount	Hybrid Class D Count of Members	Class D Amount	Total Count of Members	Total Missed Contributions
AFSCME, Council 67 &Local 558 Community Health Nurses	38	6,524.03	15	2,287.35	53	8,811.38
AFSCME, Local 2202	6	2,944.87	18	367.70	24	3,312.57
AFSCME, Local 44	1,047	130,050.90	569	76,586.45	1,616	206,637.35
CUB	1,757	218,337.63	891	96,449.75	2,648	314,787.38
	2,848	357,857.43	1,493	175,691.25	4,341	533,548.68

Source: DOF

APPENDIX II: Management's Response to the Audit Report

Date: January 29, 2024

To: Josh Pasch, City Auditor

Subject: Management's Response to Audit Report: Biennial Performance Audit Report on the Department of Finance – Retroactive Payment Process for the Fiscal Years Ended June 30, 2021 and 2022

Our responses to the audit report findings and recommendations are as follows:

Recommendation I

We recommend the Director of Department of Finance:

- Establish formal (written, approved, dated) policies and procedures that includes:
 - Steps by steps processes to guide how to process retro payments in Workday;
 - Clearly and consistently reference the Solarwinds ticket in Workday;
 - Consistently include employee identification number and / or name in Solarwinds ticket;
 - Avoid hard coding of retro in Workday and have Workday auto calculate the retro, when system allows; and
 - Ensure that documents supporting the calculation of retro pay are attached to the payment either in workday or solar winds When hard coding is necessary.
- Train employees how to complete the retro process.

Management Response / Corrective Action Plan:

- **Agree** **Disagree**

Action Plan Milestone(s): A payroll processing guide, which is over 400 pages, is complete. There is a specific section on retro processing, which is over 30 pages. The payroll processing guide was completed in October 2023, and was reviewed by existing staff in November 2023. Training has been ongoing as each staff member is hired. Additionally, Payroll has developed a WD Payroll training plan and existing permanent payroll staff have begun or completed intensive payroll training modules in Winter 2023.

Implementation Date:

Overall Implementation Date: June 30, 2024

- **Action Plan Milestone(s):** Meet with Accenture payroll consultants to develop best practices around retro recal's versus direct input. June 30, 2024
- **Action Plan Milestone(s):** Develop reporting or review existing reporting to monitor direct input / hard coding changes to payroll. June 30, 2024
- **Action Plan Milestone(s):** Train existing personnel to properly reference Solarwinds ticket numbers Already implemented. Existing staff have been trained on the expectation; further monitoring and retraining on going. June 30, 2024

Responsible Personnel:

- Michale Moiseyev, Chief Financial Officer, DOF
- Yoanna Moises, Deputy Director of Finance, DOF
- Julie Floyd, Bureau Chief, Bureau of Accounting and Payroll Services
- Kiara Tisdale, Payroll Manager, Central Payroll Department

Recommendation II

We recommend the Director of DOF:

- Establish and implement policies and procedures to perform analytics in a test environment prior to processing mass retro payments in Workday;
- Outline analytics that are needed to be completed in the test environment; and
- Train responsible personnel how to do analytics.

Management Response / Corrective Action Plan

Agree

Disagree

Implementation Date:

Overall Implementation Date: September 30, 2024

- **Action Plan Milestone(s):** Hire additional accounting system analysts to assist with analytics around retros, currently done by outside consultants. The latest CUB retro was completed in Sandbox and reviewed prior to completing in Production in a multi-day process over a two-week period to minimize errors and manual adjustments during payroll retro run-in production. This extensive pre-processing run in Sandbox is fully implemented and will be step in all future retro runs.
- **Action Plan Milestone(s):** Hire deputy payroll manager to review payroll and perform analytics around payroll and normal retros. March 31, 2024

Responsible Personnel:

- Michael Moiseyec, Chief Financial Officer
- Yoanna Moisiides, Deputy Director of Finance
- Julie Floyd, Bureau Chief, Bureau of Accounting and Payroll Services
- Kiara Tisdale, Payroll Manager, Central Payroll Department