



Highlights

Why We Did This Audit

A retroactive pay adjustment is a lump-sum payment made to an employee to make up for earned but unpaid wages. These adjustments are calculated manually which increases the risk for errors.

Objectives

This audit was designed to answer the following questions:

- What are the causes of retroactive pay adjustments?
- Are retroactive pay adjustments accurate?

Background

Employee pay adjustments/increases are tied to annual performance appraisals, ordinances and collective bargaining agreements, and the completion and submission of the appropriate paperwork.

According to the city charter, the director of human resources is responsible for administering the city's employee performance appraisal system and for establishing and administering rules for the classified service, subject to the approval of the city manager. These rules are contained in the *Department of Human Resources Rules & Policy Manual*. The *HR Policy Manual* covers the city performance standards including performance appraisals.

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PERFORMANCE AUDIT

Retroactive Pay Adjustments: Employees Deserve Timely Pay Increases

What We Found

City departments made almost 3,800 retroactive pay adjustments from May 1, 2016 through April 30, 2019. Late annual performance appraisals caused the majority of the adjustments.

Employee appraisals are late because management is not doing its job. Not all city departments make timely annual performance appraisals a priority. In departments that made employee appraisals a priority, appraisals were completed on time.

Late employee appraisals penalize the employee and harm the city. The employee does not receive earned pay increases on time, potentially affecting an employee's finances and morale. Late annual appraisals harm the city through the unnecessary use of staff time to calculate retroactive pay adjustments and potential employee turnover.

The *HR Policy Manual* currently requires employees to have their annual performance appraisal before receiving their pay increase. Employees receiving an overall performance rating of at least *Meets Expectations* on their appraisal are eligible for a pay increase. The *HR Policy Manual* also requires employees whose performance appraisals are late to receive a rating of at least *Meets Expectations* on their appraisals, making the employees eligible for a pay increase. Ensuring that employees receive their pay increases timely, even when their performance appraisal is late, would reduce the number of retroactive pay adjustments.

Retroactive pay adjustments did not always accurately reflect the dollar amount that employees were due. We recalculated eight retroactive pay adjustments to determine their accuracy and found three adjustments that were incorrect. The most frequent error was using the wrong number of hours in calculating the pay adjustment.

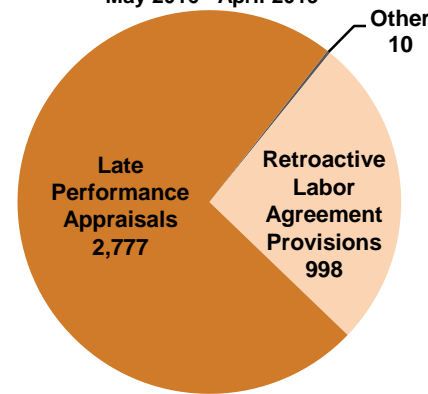
Retroactive pay adjustment calculations can be complex but employees processing these adjustments were not given citywide written instructions on how to make them. Most were trained by their predecessors. Because the city's payroll system does not calculate retroactive pay adjustments, these calculations must be done manually. Performing these calculations manually increases the risk of over or underpaying an employee.

What We Recommend

We make recommendations to ensure employees receive merit pay increases on time and improve the accuracy of wages paid to employees.

Management agreed with all of the recommendations.

Causes of Retroactive Pay Adjustments
May 2016 - April 2019



Source: Human Resources Department data.