

INTERNAL AUDIT DEPARTMENT

Performance Audit Report Of Payroll Transactions

Audit 17-01



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CITY AUDITOR EXECUTIVE SUMMARY

As part of our audit plan, the Internal Audit Department (occasionally, hereinafter, “IAD”) conducted a performance audit¹ of the City’s payroll process. The scope of the audit was July 1, 2015 to June 30, 2016. As stated on page 6 of this report, our objectives were a) to determine that operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately; b) to determine that gross pay appears accurate; c) to verify that employee time and attendance is properly reviewed, approved, processed, documented, and coded; and d) to ensure that accounting for payroll transactions are properly classified, reconciled and posted to the general ledger.

Our examination revealed significant weaknesses² or reportable weaknesses³ that appeared pervasive in their effects on payroll transactions. The following summary provides management with an overview of conditions requiring attention. (Numbers in brackets [] refer to finding numbers in the report.)

Significant Weaknesses

- [1] Supervisors did not approve employee hours. *
- [2] Terminated employees were paid incorrectly.

Reportable Weaknesses

- [3] Access rights to City systems were not removed for terminated employees. **
- [4] Employee documentation was untimely and information was inaccurate. **

* Finding [1] was noted in the fiscal year 2014 and 2015 audits of payroll transactions

** Findings [2] and [3] were noted in the fiscal year 2014 audit of the payroll transactions

In our opinion, the operational and administrative controls for the payroll transactions, taken as a whole, were sufficient to meet the objectives stated in the report. Specific limitations that may hinder effectiveness of an otherwise adequate system of controls include, but are not limited to: a) a lack of automation, b) resource constraints, c) faulty judgments, d) unintentional errors, e) circumvention by collusion, and f) management overrides. An audit may not always detect the presence of these limitations or the extent of the adverse effect that such limitations may have on the process and procedures under study. Moreover, establishing a system of controls that would be competent to effectively address and remediate all of these limitations may not be cost effective.

Earl T. Jeter, CPA
City Auditor
December 21, 2016

¹ A performance audit is a study of an organization’s internal controls and the efficiency and effectiveness of its procedures and processes with due regard for economy and the express aim that it leads to improvements.

² In performance audits, significant weaknesses in internal controls are identified as key sources of deficient performance.

³ Reportable weaknesses are internal control weaknesses that are less significant yet warranting communication to management.

Statement of Auditing Standards

The Internal Audit Department conducted a performance audit of payroll transactions. The audit period is July 1, 2015 to June 30, 2016. The objective of the audit was to determine whether internal controls are adequately designed and operating effectively.

IAD conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States of America. Those standards require that IAD 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. IAD believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

An internal control system consists of many policies and procedures designed to provide management with reasonable assurance that organizational goals and objectives will be achieved. Management is responsible for establishing and maintaining an effective system of internal control.

Internal Audit Department
City of Wilmington
Wilmington, Delaware
December 21, 2016



PERFORMANCE AUDIT OF PAYROLL TRANSACTIONS

Background

Attendance, time, and leave information is tracked through Kronos systems. Employee time is either captured by the swipe of City-issued identification cards at Kronos terminals, or through the recording of hours in the application Kronos Workforce Central. Where necessary, paper records are maintained to support employee time. For instance, police Extra Duty hours and temporary employee hours are documented on manual time sheets.

The payroll cycle is weekly or biweekly. Examples of weekly pay cycles include pay for Local 320 union members, employees receiving ad hoc paychecks for prior omissions of hours or differential, and personnel receiving paychecks for Extra Duty work. Typically, the Payroll process includes steps that run from Monday through the Friday. Supervisors should approve employee time in Kronos on Mondays. After supervisors have been given an opportunity to approve time, the data in Kronos is transferred into Munis. Once the data is transferred, payroll disbursement amounts are calculated by multiplying pay rates in Munis by the hours from Kronos. Usually on Tuesdays through Thursdays, payroll time is reconciled between Kronos and Munis. Any discrepancies with employee time or the Munis upload are manually adjusted by Payroll personnel. Once employee time is complete, paychecks and paystubs are printed and distributed. On Fridays, direct deposit amounts are usually deposited into employee bank accounts.

Statement of Objectives

- To determine that operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately.
- To determine that the gross appears accurate.
- To verify that employee time and attendance is properly reviewed, approved, processed, documented, and coded.
- To ensure that accounting for payroll transactions are properly classified, reconciled and posted to the general ledger.

Statement of Scope

The scope includes payroll transactions pertaining to the period of July 1, 2015 through June 30, 2016.

Statement of Methodology

The information used to perform this audit was obtained through:

- Discussions with City personnel.
- Evaluation of procedures, ⁴ forms, and records related to the period of July 1, 2015 through June 30, 2016.
- Detailed testing of pay codes, hours, and wages for 60 paychecks.
- Detailed testing of deduction codes and amounts for 30 paychecks.

⁴ The procedures for Payroll transactions are outlined in the City of Wilmington document "Payroll Manual: Step-By-Step Instructions" from September 2013 and City policy 303.4 "Payroll Procedures."

Findings and Recommendations

Finding 1: Supervisors Did Not Approve Employee Hours

Responsible party: Department of Human Resources

Discussion and Background

According to City policy, supervisors are responsible for reviewing and approving their employees' time in the Kronos system prior to payroll processing.

Issue

For 13% or 8 of 60 employees tested, a supervisor did not approve an employee's time in Kronos before it was processed.

Cause

The cause is a lack of adherence and accountability concerning the City's policy on time approval.

Effect

Employee time was processed without approval.

Recommendation

As recommended in the prior audit 15-04, the Human Resource Department should continue to educate City staff concerning the importance of reviewing and approving time cards in Kronos. Supervisors who consistently fail to approve employee time should be reported to senior management including the Mayor's Chief of Staff.

Management Response

KRONOS approvers are responsible for approving all hours worked. When the approval is absent, to comply with payroll regulations, the Payroll Division pays the employee for hours worked that do not require approval. As recommended, effective immediately (i. e. the 8/25/17 pay), after each payroll, the Human Resources Director will be notified when timecards are missing approvals. Notification will be made to the department head of those supervisors who missed approving timecards. This real-time notification provides the opportunity to immediate behavior modification. Chronic abusers will be escalated to the Chief of Staff.

Finding 2: Terminated Employees Were Paid Incorrectly

Responsible party: Department of Human Resources

Discussion and Background

Upon termination, employees can be due paychecks for work performed prior the end of employment. In addition, employees may receive payouts for accrued sick and/or vacation hours.⁵

Issue

During the audit, instances were noted where a terminated employee was overpaid and a terminated employee was underpaid.

Overpayment

For 10% or 1 of the 10 terminated employees tested, it was found that a terminated employee was overpaid. Payroll was not notified by Public Woks of the employee's termination until one week after the employee's discharge. In turn, this employee remained active in MUNIS and Kronos one week after termination. The employee was paid \$671 for time after discharge even through the employee had not worked during this week.

Underpayment

For 10% or 1 of the 10 terminated employees tested, a terminated employee was underpaid for sick and vacation hours. The employee's hours were omitted due to an oversight by a Payroll specialist. During the audit, it was noted that the hours had not been paid. Upon notification by Audit, a paycheck totaling \$9,584 was paid for the omitted sick and vacation hours.

Cause

Concerning the overpayment, the cause is untimely notification of an employee's termination. With the underpayment, the cause is human error.

Effect

The effect is that employees were not paid correctly.

⁵ City of Wilmington, DE code section 40-334 (j) ("Combined leave") states that:

Except as otherwise provided in this chapter, an eligible employee who leaves employment with the city, or the estate of an employee who dies while employed by the city, and who has accumulated between 60 and 100 days of combined leave, will be eligible to receive \$25.00 per day for each day of accumulated combined leave. Eligible employees who have accumulated between 101 and 240 days of combined leave will be eligible to receive \$30.00 per day for each day of accumulated combined leave. For the purpose of this subsection, no employee who has been terminated from employment for gross misconduct shall be eligible or have a claim for accumulated combined leave.

Recommendation

Care should be taken by all departments to ensure that notifications of terminations are provided in a timely manner to Payroll. Human Resources management should refer those departments, which are repeatedly late in their notifications to the attention of the Mayor's Office. It is also recommended that Payroll take care to ensure that terminated employees are paid correctly for sick and vacation hours.

Management Response

Terminated employees should be paid accurately and timely. While the responsibility for paying employees rests with the Payroll Division, notification of resignations, terminations and retirements originates in and is received from the respective departments. All department heads have been advised that upon receipt of notification of a resignation, or disciplinary action to terminate an employee, they are to complete the termination form and immediately forward to Human Resources. Effective April 15, 2017, the Human Resource Information Systems Administrator (HRIS Administrator) will be responsible for timely review for all termination payouts. In the absence of the HRIS Administrator, the Payroll Manager will perform this function.

Finding 3: Access Rights to City Systems Were Not Removed for Terminated Employees

Responsible party: Department of Integrated Technology

Discussion and Background

As a part of the audit, user access to City systems was examined. Once an employee is terminated, his or her user access should be removed in a timely manner.

Issue

Discrepancies with the removal of user rights were noted for a) employees with MUNIS access, and b) employees with Active Directory access.

- a) For 75% or 3 of 4 employees tested with MUNIS access, termination of access was untimely. The lag in MUNIS termination ranged from 2 weeks to 3 months after the employee's termination date.
- b) For 63% or 5 of 8 employees tested with Active Directory access, termination of access was untimely. The lag in Active Directory termination ranged from 2 weeks to 9 months after the employee's termination date.

For all of but one of the above discrepancies, it was noted Human Resources sent timely notification to Integrated Technology concerning the employee's termination. For the one untimely notification, the user was a temporary employee. According to Human Resources, the department where the temporary

employee resided notified Human Resources approximately one month after the temporary employee's termination. Upon notification, Human Resources e-mailed the notification of termination to Integrated Technology. Integrated Technology did not terminate the temporary employee's access to Active Directory until approximately two months after notification.

Cause

The cause is a lack of follow-through by Integrated Technology concerning the removal of access for terminated employees.

Effect

Terminated employees had the ability to improperly access City systems.

Recommendation

Integrated Technology should take care to ensure that access is discontinued immediately for terminated employees. In addition, Human Resources should continue to work with City departments on the receipt of timely notifications concerning the termination of temporary employees. Those departments, which are repeatedly late with notifications, should be brought to the attention of the Mayor's Office.

Management Response

- 1) *State your position of the findings and recommendations:* I would like to see more information regarding the specific accounts and how many were used to derive the figures, however I do acknowledge that the termination process does require attention and confirmation steps.
- 2) *Action Plan – State Specific actions you will take to mitigate the findings:* Two technicians have been assigned to the maintenance of the City's Active Directory database. User rights termination will be detailed and added to their specific tasks and confirmation will be sent to HR by these employees when the termination process has been completed.
- 3) *Provide date your plan will be implemented by your department:* November 1st, 2017
- 4) *Follow-up date:* November 1st, 2017

Finding 4: Employee Documentation Was Untimely and Information Was Inaccurate

Responsible party: Department of Human Resources

Discussion and Background

Personnel files and MUNIS information were examined as a part of the audit. The purpose of the review was to verify that signed forms required by Human Resource policy and other important documents are present in the employee personnel files.

Issue

Discrepancies were found with employee forms. The discrepancies were:

- For 5% or 1 of every 20 employees tested, the employee had not signed an orientation form, a code of ethics form, a use of information technology form, a use of social media form, a personal cell phone usage form, and Delaware Discrimination in Employment Act (DDEA) form until over 9 months after her start of employment.⁶ The missing document is due to the excessive delay in orientation.
- For 5% or 1 of every 20 employees tested, a Personnel Action Form (PAF) did not record the project to which the employee's payroll hours are allocated. The employee's payroll hours were recorded to the project 15J07 ("Domestic Violence Administrative"). For consistency, this project should have been recorded on the employee's PAF.

In addition, an issue was noted with a termination date. For 10% or 1 of 10 employees tested, an employee was incorrectly listed as having a termination date in MUNIS. However, the employee was active and not a terminated employee.

Cause

Regarding documentation, the cause is a lack of follow-up by Human Resources concerning the timeliness of orientation, receipt of important documents, and the completeness of employee records. Concerning the termination date, the cause is a keying error by Human Resources.

Effect

The effects are a lack of compliance with City policy, a lack of acknowledgement by employees concerning key areas of employment, and accurate information.

⁶ - A signed "Social Media" form is required by Human Resources policy 108.1.

- A signed form concerning personal cell phone usage is required by Human Resources policy 109.2 "Personal Cellular Phones, Recording Devices, and Radio Listening Devices with Earphones."

- A signed form concerning information technology is required by Human Resources policy 105.4 "Use of Information Technology."

- As a matter of practice (and not policy), Human Resources requires the signing of a code of ethics form, a use of information technology form, and a Delaware Discrimination in Employment Act (DDEA) form.

Recommendation

Human Resources management should help ensure that orientation occurs in a timely manner, and that the important forms are signed by employees in a timely manner. In addition, Human Resources management should ensure that employee information is accurate and complete. It is recommended that a policy be submitted to the Administrative Board for approval which will require new employees to complete on-boarding process before starting the duties of their position. Also a checklist should be signed by the employee and the supervisor indicating all required documents have been signed.

Management Response

As indicated in the letter extending the offer of employment, newly hired employees are to be oriented to various Human Resources polices, including but not limited to Harassment Free Workplace, Social Media, etc., on the first work day of employment, as evidenced by signed documents to be included in their personnel file. The Employment Services Division will implement procedures to follow up with individuals who fail to attend New Employee Orientation, ensuring the required policies are reviewed and signed. Alternately, the employee will be scheduled to attend the next regularly scheduled orientation session, with the division manager having responsibility for documenting and ensuring compliance. The Personnel Action Form (PAF) should include all relevant employee information, including the cost center to which compensation is charged. The division manager will continue the current practice of documenting the review all PAFs for accuracy and completeness.

CONCLUSION

Management is responsible for establishing and maintaining an effective system of internal control. By accepting and implementing the recommendations listed, the Department of Human Resources will position itself toward becoming more efficient. We would like to express our appreciation to the Department of Human Resources for their assistance during this audit.

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