TO: Mayor and Council Members

THRU: Margaret Krym, City Auditor

FROM: Kathy Magaw, Assistant City Auditor

DATE: September 22, 2015

SUBJECT: Follow Up – Report of the Assessment of the Internal Controls within the City's Payroll Process

In 2012, we engaged Clifton Larson Allen, LLP (CLA) to review the internal controls within the City's payroll process. Specifically they carried out the following tasks:

- Assessed key payroll processes.
- Documented these processes, as they existed, using flowcharts.
- Documented various internal control activities with the payroll processes.
- Reviewed, identified and documented various vulnerabilities within these processes.

CLA completed their work and we published their report in March 2013. They provided 16 recommendations intended to strengthen the controls within the payroll process. Management agreed to implement corrective actions for 15 of these recommendations.

We reviewed the status of implementation for these 15 items and verified that Management completed 10 of the 16 agreed upon action items. Attached is a grid, which lists each of the 16 recommendations and indicates the 10, which have been implemented as well as the remaining six.

Management determined that recommendation number 6 would not add value to the process and therefore, they did not agree to implement.

Four of the remaining recommendations (numbers 5, 7, 8 and 12), were completed as agreed. ITS modified an existing report and Management indicated it was made available to department users (Timekeepers), as well as to Human Resources and the Payroll function of Financial Services. However, during the recently completed Timekeeping Audit, we observed that Timekeepers in the various departments were not aware of this report and were not using it to review and reconcile their payroll transactions. Therefore, risks underlying these recommendations have not been mitigated.

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In the final remaining recommendation (number 14) CLA stated, "*Consider expanding the oversight role of Payroll with respect to the decentralized review and approval of time data. In this role, Payroll will become familiar with the various payroll processes and segregation of duties within the City departments, and work with department management on improving procedures to minimize risk of errors.*"

Management responded, "*Financial Services will review options for having an assigned staff member review payroll for anomalies and identify key contacts for addressing questions to ensure approvals, documentation, and accuracy. Additionally, Accounting staff can review with Payroll each year processes and procedures within departments to identify risk factors. Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together to review anomalies and addressing concerns as well as processes and procedures and identifying risk factors. Due to staffing restrictions, has not yet been addressed.*"

Management did review staffing options however; they reported that due to staffing restrictions they had not been able to address this recommendation.

The responsibility for review and approval of time data within the payroll process is decentralized. CLA recommended that the City consider expanding the authority of the Financial Services Payroll function to include oversight of the defined internal control activities regarding time data entry in the various user departments.

This would not centralize the responsibility for time data entry. That responsibility would remain with the various department units. It would however centralize the responsibility for defining the controls intended to govern the time data entry process and require the Payroll function to communicate the required controls, and train the various department users. This would provide assurance that the control environment extended across all functioning units and levels of the organizational structure.

Although Management has not yet addressed recommendation number 14, they have agreed to implement recommendations presented in the Timekeeping Audit Report (September 16, 2015) which, when completed, will address the associated risks.

The City Auditor's Office internal staff performed this engagement as a follow up to a previously published audit report (Report on the Assessment of the Internal Controls within the City's Payroll Process). The scope was narrow and limited to ascertaining the status of the implementation of previously agreed to recommendations. The nature of this engagement constitutes an audit in compliance with generally accepted government auditing standards (GAGAS). We believe that the evidence obtained provides a reasonable basis for our conclusions.

Our verification of the follow up work is not designed nor intended to be a detailed study of every relevant system, procedure or transaction. Although we exercised due professional care in the performance of this engagement, this should not be construed

to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of Management.

We are available to respond to any questions or concerns you may have about the information contained in this document, therefore, please do not hesitate to contact Margaret Krym at 242-3380.

C: John Szerlag, City Manager
    Michael Ilczyszyn, Assistant City Manager
    Dolores Menendez, City Attorney
    Rebecca van Deutekom, City Clerk
    Victoria Bateman, Financial Services Director
    Lisa Sonego, Human Resource Director
    Stephen Pohlman, Parks and Recreation Director
    Steve Neff, Public Works Director
    Jeff Pearson, Utilities Director
    John MacLean, ITS Director
    Angela Cline, Classification & Compensation Manager
    Deana Watson, Payroll Supervisor
    Troy Watson, Business Applications Analyst II
    Audit Committee

City of Cape Coral - City Auditor's Office
Follow up - Internal Control Review - Payroll
Reported status of Management Agreed Upon Action Items – February 12, 2015
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	Original Recommendation 02/06/12	Original Management Response 2/22/13	Contact Person	Revised Management Response 2/27/14	Auditor's comments

	Policies and procedures - The City can improve its payroll process by developing and instituting certain new policies and procedures. Specifically:				
1	City management should adopt a formal practice to periodically review payroll earnings and deduction codes and eliminate those codes that may be unnecessary or duplicated, or that can be combined. (IC#2)	*At least annually, prior to the beginning of the fiscal year, Payroll and Human Resources will review the list of compensation and deduction codes to determine if any can be eliminated. Most are contract requirements and even if not currently in use, must remain active for future instances.*	*Deana Watson (FSD), Angie Cline / Jill Ramirez (HR)*	*At least annually, prior to the beginning of the fiscal year, Payroll and Human Resources will review the list of compensation and deduction codes to determine if any can be eliminated. Most are contract requirements and even if not currently in use, must remain active for future instances.*	**Completed** – Audit staff confirms that Financial Services has established a policy and procedure to have the Payroll Supervisor, the Benefits Manager and the Compensation Manager meet annually and review the Compensation and Deduction codes along with current union contracts for the purpose of deactivating any that are obsolete.
2	When an event occurs that necessitates a change in the payroll process, such as a system change or a change in collective bargaining contracts, Payroll should formalize procedures to implement the needed change. Procedures should be consistently implemented and include coordinating meetings with HR, ITS (Information Technology Services Department) and other relevant parties to systematically analyze and address the impact of the change on the payroll processes. (IC#3)	*If a new code is needed, Human Resources provides a written request with supporting documentation to Payroll. Payroll will then create the code, test and document all results. Once the test results are satisfactory, i.e. results are as intended and requested, Human Resources is notified that the code can be used.*	*Deana Watson (FSD)*	*If a new code is needed, Human Resources provides a written request with supporting documentation to Payroll. Payroll will then create the code, test and document all results. Once the test results are satisfactory, i.e. results are as intended and requested, Human Resources is notified that the code can be used.*	**Completed** – Audit staff observed a recent addition of a new code that a Timekeeper, the Compensation Manager and the Payroll Supervisor worked together to establish and test the new code. Therefore, Management has accomplished what they agreed to do in their original response.

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3	City management and HR should consider adding a step to the new hire checklist to inform the originating department of the effective start date of the employee. This is useful for all departments to timely prepare for the new employee arrival, especially for the Fire and Police who must also create the new employee record in the scheduling system (TeleStaff). (IC#6)	*Human Resources currently notifies the originating department when an employee has been processed and is cleared to begin employment. A step will be added to the New Hire Checklist indicating that the originating department has been notified of the employee's start date.*	*Patra Hill (HR)*	*Per the attached hiring and promotion flow charts, Human Resources currently notifies the originating department for an official start date and time of employment, when an employee has been scheduled and prior to conducting HR new employee processing (at the earliest convenience of the candidate).*	**Completed** – Audit staff observed HR has made improvements to their hiring process and worked to document this process. This provides the departments with a better understanding of the process.
4	Consider the advantage of a more formal procedure to ensure timely removal of the temporary payment profile changes made in Kronos. The procedure needs to emphasize the requirement that shift differential pay requests submitted to HR have to be approved by a Supervisor.(IC#12)	*Staff is exploring the use of an automated termination date and/or email notification process that will require overt action by Human Resources and the department in order to implement or reestablish any temporary payment profile. Supervisor approval to change shift differential was removed during a Kaizen event in 2008. Currently, an email from the timekeeper requesting to add or delete shift differential is required in lieu of a status change notice. HR does need back-up for audit purposes, so some written communication is required.*	*Deana Watson (FSD)*	*Staff is exploring the use of an automated termination date and/or email notification process that will require overt action by Human Resources and the department in order to implement or reestablish any temporary payment profile. Supervisor approval to change shift differential was removed during a Kaizen event in 2008. Currently, an email from the timekeeper requesting to add or delete shift differential is required in lieu of a status change notice. HR does need back-up for audit purposes, so some written communication is required.*	**Completed** – Audit staff observed HR staff now inserts a termination date into Kronos when a temporary payment profile changes. If a temporary payment profile is to extend past this end date then new approving paperwork is required.

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5	If possible within Kronos, ITS should create a custom report or add detail to the Compensation Report to allow a department to validate compensation changes at the individual employee level. This will allow for increased assurance from the department's management that the changes are accurate and help central administration minimize the risk of over or under payment. Additionally, consider the feasibility of making the Payroll Department submittal of this report a standard and not an "as-requested" procedure. (IC#14)	*A "City of Cape Coral Compensation Report" currently exists on BusinessObjects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff.*	*Troy Warson(ITS)*	*A "City of Cape Coral Compensation Report" currently exists on BusinessObjects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff.*	**Completed, however Risk has not been mitigated** – Audit staff observed that this report is completed and ready for use. However, departments are not currently aware of the report and are not currently using it to reconcile and verify that requested compensation changes have been processed.
6	As an accountability measure, HR should track and maintain record of the number of days compensation adjustments are entered in Kronos from the date received (email date). (IC#14)	*All status change notices are processed the same pay period they are received with all required signatures (i.e., two managers, CM if applicable), provided they are received by the cut-off time (the Thursday before pay ending). HR makes every effort to process late submittals the same pay period as well. There is no value added to tracking this information. (~~email~~ date stamped in by HR)*	*N/A*	*All status change notices are processed the same pay period they are received with all required signatures (i.e., two managers, CM if applicable), provided they are received by the cut-off time (the Thursday before pay ending). HR makes every effort to process late submittals the same pay period as well. There is no value added to tracking this information. (~~email~~ date stamped in by HR)*	**Closed** – Management has stated, "*There is no value added to tracking this information.*" **Management did not agree to implement this recommendation.**

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7	HR should consider adding a step to processing a Status Change Notice form to notify departments that the compensation change has been made. (IC#14)	*A "City of Cape Coral Compensation Report" currently exists on Business Objects. The report lists all pay types, by employee, sorted by Department. ITS is modifying the existing "City of Cape Coral Compensation Report" and it will be available to departments each payperiod. An email reminder will be sent monthly by Finance to departments to check changes.*	*Troy Warson(ITS)*	*A "City of Cape Coral Compensation Report" currently exists on Business Objects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff.*	**Completed, however the Risk has not been mitigated** – Audit staff observed that this report is completed and ready for use. However, departments are not currently aware of the report and are not currently using it to reconcile and verify that requested compensation changes have been processed.
8	Consider the advantages of generating a report by which HR can verify that all new hires/rehires appear on such report and are shown in the correct department, all terminated/retired employees appear on the report and were entered into the system with the correct termination status, and employee transfers reflect the correct transfer information. Further, City management should consider the advantages and feasibility of distributing this report to all departments prior to processing payroll run. (IC#18) NOTE: The report described in this recommendation and the report described in the recommendation 5 above should be one in the same. Thus, departments would receive one single "payroll management" report.	*A "City of Cape Coral Compensation Report" currently exists on Business Objects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff.*	*Troy Warson(ITS)*	*A "City of Cape Coral Compensation Report" currently exists on Business Objects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff.*	**Completed, however the Risk has not been mitigated** – Audit staff observed this report is completed and ready for use. However, departments are not currently aware of the report and are not currently using it to reconcile and verify that requested compensation changes have been processed.

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9	City management should evaluate the value added benefit of the recording time in Kronos i-Series as well as through manual timesheets performed within the Utilities Department. Current process duplication may be unnecessary and cause inefficiency. (IC#20)	*The City is currently in the process of migrating from the iSeries TimeKeeper to the Workforce Central Timekeeper system. This is planned to be completed in February 2013. This is a prerequisite to implementing the new Kronos-Telestaff interface This new interface will remove the need to use the spreadsheets for the police and fire departments. As far as departments using paper timesheets as well as swiping the time clocks, that would be a department decision. All hours to be paid must go through the Iseries clocks. Payroll does not accept paper timesheets.* *Utilities Department Response: Once the migration of the iSeries TimeKeeper to the Workforce Central Timekeeper system and the new Kronos-Telestaff interface is completed, Utilities will evaluate these systems to determine if they will provide Utilities Management with adequate information and control to accomplish their unique payroll management requirements.*	*Jeff Pearson (Utilities)*	*The City is currently in the process of migrating from the iSeries TimeKeeper to the Workforce Central Timekeeper system. This is planned to be completed in February 2013. This is a prerequisite to implementing the new Kronos-Telestaff interface This new interface will remove the need to use the spreadsheets for the police and fire departments. As far as departments using paper timesheets as well as swiping the time clocks, that would be a department decision. All hours to be paid must go through the Iseries clocks. Payroll does not accept paper timesheets.*	**Completed** – Some City departments have attested that the manual processes they utilize are necessary. We concur.

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	Information systems:				
10	Management should explore the possibility of automating the process of loading employee benefits from BenTek into Kronos to reduce the risk of input error and allow for a more efficient process. If interface is not possible, consider selecting a different benefits enrollment application that will allow for automatic upload of benefits enrollment data into Kronos. (IC#7)	*A possible interface was discussed by Information Technology Services with Kronos and Human Resources staff. The solution would involve extensive customization costs and an updated quote is being sought to determine feasibility and cost-effectiveness.*	IT	*A possible interface was discussed by Information Technology Services with Kronos and Human Resources staff. The solution would involve extensive customization costs and an updated quote is being sought to determine feasibility and cost-effectiveness.* **ITS is currently working on the Telestaff interface. Upon completion, BenTech will be interfaced.**	**Completed** – This process has been automated.

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	Payroll process improvement and quality control:				
11	City management should consider the adoption of a formal practice to periodically review the list of employees with editing rights within Kronos and employee benefit files and update access restrictions when necessary. (IC#10)	*ITS will issue this type of report twice yearly to functional management.*	*Troy Watson*	*ITS will issue this type of report twice yearly to functional management.*	**Completed** – Audit staff can confirm that Management reviewed the list of employees with Kronos editing rights at two separate meetings during 2014.
12	The City should adopt a best practice for departmental managers to periodically review listings of current employees within their departments and notify any discrepancies to HR. (IC#10)	*Employee listings are reviewed within the budget development process each year. A "City of Cape Coral Compensation Report" currently exists on Business Objects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff for more frequent review by departments.*		*Employee listings are reviewed within the budget development process each year. A "City of Cape Coral Compensation Report" currently exists on Business Objects. The report lists all pay types, by employee, sorted by Department. ITS will modify the existing "City of Cape Coral Compensation Report" based on requirements finalized with Payroll and HR staff for more frequent review by departments.*	Audit staff can confirm that positions are reviewed during the budget process, which occurs only during budget season. The developed report would provide a mechanism for departments to verify employee status by pay period. **Completed, however the Risk has not been mitigated** – Audit staff observed that this report is completed and ready for use. However, departments are not currently aware of the report and are not currently using it to reconcile and verify that requested compensation changes have been processed.

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13	Consider a periodic review of the steps involved in administering payroll and evaluate whether any of the steps result in any employees performing incompatible functions. (IC#19)	*Accounting staff can review with Payroll each year processes and procedures within departments to identify risk factors. Recommendations will be made to city management and other responsible departments.* *Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together reviewing processes and procedures and identifying risk factors.*	*Carla Benison, Deana Watson (FSD), HR*	*Accounting staff can review with Payroll each year processes and procedures within departments to identify risk factors. Recommendations will be made to city management and other responsible departments.* *Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together reviewing processes and procedures and identifying risk factors.*	**Completed** – The Accounting and Payroll staff have implemented a policy to annually review the policies and procedures governing their payroll process.
14	Consider expanding the oversight role of Payroll with respect to the decentralized review and approval of time data. In this role, Payroll will become familiar with the various payroll processes and segregation of duties within the City departments, and work with department management on improving procedures to minimize risk of errors. (IC#22)	*Financial Services will review options for having an assigned staff member review payroll for anomalies and identify key contacts for addressing questions to ensure approvals, documentation, and accuracy. Additionally, Accounting staff can review with Payroll each year processes and procedures within departments to identify risk factors. Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together to review anomalies and addressing concerns as well as processes and procedures and identifying risk factors.*	*Carla Benison, Deana Watson (FSD), HR*	*Financial Services will review options for having an assigned staff member review payroll for anomalies and identify key contacts for addressing questions to ensure approvals, documentation, and accuracy. Additionally, Accounting staff can review with Payroll each year processes and procedures within departments to identify risk factors. Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together to review anomalies and addressing concerns as well as processes and procedures and identifying risk factors.* ***Due to staffing restrictions, has not yet been addressed.***	**Completed, however the Risk has not been mitigated** – Management completed what they agreed to do. However, the responsibility for review and approval of time data is decentralized. CLA recommended considering expanding the authority of the Financial Services Payroll function to include oversight of the internal control activities regarding time data entry in the various user departments. This has not been done and was again identified in the Timekeeping Audit.

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15	Consider the benefit of establishing a procedure to periodically monitor and review access restrictions to Kronos.	*ITS will review access assignments with Payroll and HR management twice annually.*	*Troy Watson*	*ITS will issue a report twice yearly to Payroll/HR management to review*	**Completed** – Audit staff can confirm that Management reviewed the list of employees with Kronos editing rights at two separate meetings during 2014.
16	City management considers designating a payroll quality control official responsible for periodically reviewing policies and applying best payroll management practices, as included in the recommendations above. NOTE: This recommendation is not linked to a specific internal control.	*Financial Services will review policies and procedures at least annually as part of its pre- and post-audit process and make recommendations to city management regarding best practices and possible enhancements. Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together reviewing policies and procedures and making recommendations regarding best practices and possible enhancements.*	*Melanie Purcell (FSD), HR*	*Financial Services will review policies and procedures at least annually as part of its pre- and post-audit process and make recommendations to city management regarding best practices and possible enhancements. Since areas in PR and HR can overlap, it would be beneficial for HR and PR to work together reviewing policies and procedures and making recommendations regarding best practices and possible enhancements.* **Due to staffing restrictions, has not been addressed.**	**Completed** – Management completed what they agreed to do. Audit staff observed instances of Payroll and HR staff working together to modify and improve payroll processes. Management has not designated a payroll quality control official; however they have modified the payroll policy in Financial Services to include an annual review of the payroll process.