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CITY AUDITOR'S OFFICE

TO: John Szerlag, City Manager  
Mayor and Council Members  
FROM: Margaret Krym, City Auditor   
DATE: March 1, 2013  
SUBJECT: Internal Control Review – Payroll Process

The City's ability to effectively and efficiently deliver pay to its employees is dependent on a "process" that involves all departments within the City. The most complex of these are Police and Fire who utilize specialized payroll systems. Flow charts within the attached report show the process with source data from user departments moving through Human Resources and ITS and ending with Financial Services. The City's payroll process is complex and complicated because of the numerous and varying types of pay offered to employees. This complexity increases the risk that exceptions or errors may occur.

No single department is responsible or accountable for this overall "process," therefore its success will be based on Management's ability to function as a team, understand the process and its complexities, and strengthen and enforce the internal controls within it.

Our office engaged Clifton Larson Allen LLP to perform this review. The attached is an evaluation of these internal controls as they were reported to exist based on interviews with City staff. Assurance that the controls are in place or actually functioning is not provided in this report, since testing was not part of the review.

The report is intended to be a useful tool for management and staff in their efforts to manage the process and strengthen and enforce the internal controls by:

- Providing an overall view of the payroll process and heightening the awareness of the need for Process Management and Process Accountability.
- Providing an understanding of the internal controls and the importance of the particular control functions that individual staff perform.
- Documenting the process for the purpose of training staff and for the purpose of protecting and managing the process through staff turnover.

Therefore we encourage Management to communicate this information to staff with the expectation that they use it as a tool.

Clifton Larson Allen LLP was also asked to evaluate the effectiveness and adequacy of the reported controls and to offer suggestions on ways they could be strengthened. To

**Internal Control Review – Payroll Process**

**March 1, 2013**

**Page 2 of 2**

this end they have made 16 recommendations. The intent of the recommendations is to “further minimize the risk of exceptions” (i.e. Errors).

Management’s responses to these recommendations are attached at the end of the report for your review.

**C: Dolores Menendez, City Attorney  
Rebecca van Deutekom, City Clerk  
Victoria Bateman, Financial Services Director  
Jay Murphy, Police Chief  
James Heikkila, Acting Fire Chief  
Scott Slusser, Acting Human Resource Director  
John MacLean, ITS Director  
Steve Pohlman, Parks and Recreation Director  
Steve Neff, Public Works Director  
Jeff Pearson, Utilities Director  
Melanie Purcell, Assistant Financial Services Director  
Michael Ilczyszyn, Business Manager  
Paul Dickson, Building Official  
Angela Cline, Classification & Compensation Manager  
Deana Watson, Payroll Supervisor  
Troy Watson, Business Applications Analyst II  
Audit Committee**

December 6, 2012

## **Report on the Assessment of the Internal Controls within the City's Payroll Process**

**CITY OF CAPE CORAL, FLORIDA**

*Prepared by:*

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December 6, 2012

Ms. Margaret L. Krym, City Auditor  
City Auditor's Office  
City of Cape Coral  
1015 Cultural Park Boulevard  
Cape Coral, Florida 33990

Dear Ms. Krym:

As requested by the City of Cape Coral (the City), we have completed a detailed review of the internal controls associated to the City's payroll process. Specifically we carried out the following tasks:

- ✓ Perform an assessment of the current state for the key processes within payroll.
- ✓ Document the processes as they currently exist through detailed flowcharts, including documentation of various internal control activities (manual controls and application controls).
- ✓ Review the existing control structure for each process to determine if all significant risks are appropriately mitigated.
- ✓ Review identified and documented significant risks related to the specified processes for adequacy and completeness.
- ✓ Determine if each process allows for effective and efficient achievement of the specified purpose or operational objective, including safeguarding of assets, generating reliable financial reporting data, compliance with applicable regulatory requirements and efficiency of operations as appropriate.

As requested by the City, our study did not include testing of internal controls.

Our report is not suitable for any purpose other than to assist you with the items mentioned above. Consequently, our report is limited to be for your information and use only and should not be used by anyone else. In addition, our report is based on current circumstances. We have no responsibility to update our report for events and circumstances that occur after December 6, 2012.

Respectfully submitted,

**CliftonLarsonAllen LLP**

A handwritten signature in cursive script that reads 'Craig R. Arends'.

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## OVERVIEW OF THE CITY'S PAYROLL PROCESS

### City's payroll model

The City uses a combination centralized and decentralized model for processing payroll. In the decentralized model, inputs and approvals of data, as well as payroll inquiries are handled at the departmental level. The Payroll Department consists of one Payroll Supervisor and two Payroll Specialists.

The City has established controls and implemented segregation of duties at the department level to ensure accurate input of employee time and other labor-related expenses. Core payroll activities such as creating and modifying payroll codes, processing payment, and distributing pay are handled centrally by the Payroll Department. Payroll works closely with the Human Resources Department, who sets policies on all employee-related matters, is responsible for approving personnel-related changes and entering those changes into the system, and for compiling additional compensation data for entry by Payroll every pay period.

To support the decentralized model, the City relies on designated department-level *timekeepers*, which are usually an Administrative Specialist, an Administrative Secretary or an Accounts Specialist within each City department, who coordinate payroll procedures and follow established policies as prescribed by the Payroll Department through various operating manuals. The main role of the timekeeper is to review time continuously to ensure employees are paid for all hours worked and coordinate the department's payroll data for every pay-period. The Utilities and the Public Works timekeepers also record leave time for all employees; Police and Fire employees enter their own leave time directly in TeleStaff.

Every City employee is assigned a specific set of general ledger codes that is charged when time is reported by the employee. When a new employee is hired, HR Compensation personnel create a position for the employee based on his or her pay rate.

### Automated systems supporting payroll

The City uses Kronos Workforce Payroll™ (Kronos Workforce) and Kronos iSeries Timekeeper™ (Kronos iSeries) to support the City's payroll process. Kronos iSeries is the last remaining AS/400 based application, after the City migrated to the J.D. Edwards (JDE) financial system in 2009. Plans exist to migrate Kronos iSeries at the end of 2012 and to upgrade to Kronos Workforce Central.

### Recording of time and approval of regular time and overtime

Except for Fire and Police, hours worked are captured through the Kronos iSeries card swipe system, which directly interfaces with Kronos Workforce. Timekeepers have the ability to change payroll-related data within Kronos on behalf of employees given the proper supervisory approvals.

Police and Fire employees record time using the TeleStaff scheduling system where hours are set up by default at 80 hours and changes are made as needed. Plans exist to upgrade TeleStaff to directly interface with Kronos Workforce. Once employees enter overtime or paid leave time, an automatic email notification is sent to supervisors informing them there is time to review and approve in TeleStaff.

### Recording leave time

Employees are required to complete a "Request for Leave" form designating the type of leave requested (scheduled, unscheduled, comp time, etc.), which is approved by the Supervisor. Utilities and Public Works timekeepers enter the leave time into Kronos on behalf of the employee; Fire and Police employees enter the leave time in Telestaff, and this is later approved within the system by the employee's supervisor, and chain of command (Battalion Chiefs for the Fire Department).

### Departments' bi-weekly preparation of payroll data

When Utilities and Public Work hours are complete and accounted for, the timekeeper communicates with department Supervisor/Manager/Director for review and final approval to pay. Approvals of payroll are done within Kronos Workforce.

For Fire and Police, time information is automatically downloaded at the end of each pay period from Telestaff into an Excel spreadsheet, which is received by the timekeeper. The timekeeper reviews the spreadsheet for reasonableness of pay codes, hours, and dates (including leave time) and manually adjusts the spreadsheet once unusual items (such as no time entry, more time entered than scheduled, overtime threshold reached, leave time, etc.) are evaluated and approved by the supervisors. The timekeeper then e-mails the spreadsheet to Payroll. Payroll personnel check the spreadsheet hours and codes to ensure they are reasonably correct. Next, the spreadsheets are uploaded into Kronos Workforce. Finally, the Payroll Specialist balances pay code hours to the report created from the Excel spreadsheet to ensure the Excel spreadsheet information exported correctly.

### Capturing additional compensation data and compensation adjustments

Changes to employee compensation profile are made in Kronos Workforce by HR Compensation personnel. Changes to employee compensation profile have several sources including a promotion or eligibility for a new additional pay or incentive, or hourly rate changes. All changes to employee compensation data are documented through a *Status Change Notice* form, which incorporates appropriate originating department and HR approval signatures. The form is supported with required documentation (such as a certificate, collective bargaining contract section describing the specific ad-pay, etc.). The only pay change not documented through a *Status Change Notice* is shift differential pay, in which an email is submitted by department timekeeper with a list of the employees in or out of shift differential pay.

Changes to compensation profiles in Kronos can be permanent or temporary. For temporary changes, the employee's compensation profile has to be reverted to the original set-up after a specified period of time. Temporary changes are governed by the timekeeper of the originating department.

Permanent changes include:

- Reclassifications (promotions)
- Add pays for longevity, education, certification.

Temporary changes include:

- Shift differential pays (additional money earned by an employee for working a different shift, such as night shift or third shift.)
- Long-term out of title assignments (special commission of employees serving as a temporary replacement for an absent supervisor, generally within the same department).

### Daily audits

Due to the manually intensive nature of compensation adjustments, the City relies on mitigating controls to ensure accurate payroll processing. A key mitigating control consists of the reconciliation of changes to critical payroll data with supporting documentation, performed by an individual different from the individual that made the change in Kronos. If an entry is incorrect the individual performing the audit researches the discrepancy and adjusts Kronos; the change made is subject to the following day's audit.

### General ledger reconciliation

After payroll is processed, Kronos creates a journal entry which is exported into an Excel file by the Payroll Specialist. After any needed corrections are made, the Excel file is submitted to the Payroll Supervisor for approval. Then the file is forwarded to the Accounting Manager for approval and posting to the JDE general ledger.

### Payroll Benefits

HR Compensation Staff enter benefits information from the W-4 form completed by each employee. HR Benefits staff is responsible for the health insurance benefit enrollment, as well as for updating rates and attaching the correct health plan to the employee. Each plan has its own unique code and cost. Each code is hard coded in the system to the appropriate liability account. HR Benefits staff runs an audit log of each entry made regarding health insurance. A different Benefits staff employee verifies the accuracy of the information from the input document to the information in the audit log. To prevent the benefit from being over/under accrued, Benefits personnel run an *Insurance Benefit Enrollment by Plan* report in the system which reflects the employee-employer benefit that is recorded through the payroll. Once a month, benefit personnel run and compare an *Insurance Benefit Enrollment by Plan Report* to the invoice received from the health insurance provider. A payroll specialist reconciles the bill comparing what the City has been charged, what has run through payroll, what is recorded to the general ledger, and the amount on the check request.

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## METHODOLOGY

As requested by the City, our study covered four City departments: Fire, Police, Utilities and Public Works. Our first step was to conduct interviews with key individuals to document our understanding of current practices related to payroll, and to identify the key related sub-processes. Individuals interviewed included –

- Financial Services Department Director
- City Auditor
- Payroll Supervisor
- HR Administrator – Acting
- HR Classification and Compensation Manager
- HR Classification and Compensation Specialist
- HR Benefits Manager
- HR Hiring Manager
- Fire Chief
- Fire Department Administrative Specialist II
- Fire Department Administrative Secretary – Support Services
- ITS Director
- ITS Business Applications Manager
- Police Chief
- Police Department Sergeant
- Police Department Captain
- Police Department Account Specialist - Administrative Support
- Utilities Department Administrative Secretary- Utility/Water Production
- Utilities Department Superintendent /Water Production
- Utilities Programmer Analyst
- Public Works Administrative Secretary - Transportation
- Public Works Administrative Specialist II

The next step in our assessment consisted of evaluating the City’s payroll process by breaking it out into twelve (12) sub-processes. For each sub-process, we flowcharted the steps, activities, and responsible parties within, and documented over 30 existing internal controls. Exhibit A, *Functional flowcharts of essential payroll sub-processes*, depicts each sub-processes identified under the City’s payroll activity. These are:

- A. Setting-up new employees in the payroll system
- B. Police Department timekeeping and preparation of bi-weekly payroll data
- C. Fire Department timekeeping and preparation of bi-weekly payroll data
- D. Utilities Department timekeeping and preparation of bi-weekly payroll data
- E. Public Works Department timekeeping and preparation of bi-weekly payroll data
- F. Payroll processing – Capturing regular compensation data
- G. Payroll processing – Capturing additional compensation data and withholdings
- H. Additional and retroactive payment (Add Pays and Retro Pays) processing
- I. Out-of-title additional compensation processing
- J. Shift differential compensation processing
- K. Completing daily compensation audits
- L. Producing and distributing pay

Next, for each identified internal control, we described the control activity and made recommendations to strengthen the design and implementation of the controls wherever pertinent. Exhibit B, *Internal control assessment tool* details this information.

While not part of the original scope, we conducted limited benchmarking with similar governmental entities with respect to specific payroll features and tasks. Reference to the benchmarking results is included within the *Internal control assessment tool*

## **EVALUATION RESULTS**

### Overall conclusion

Overall, we found that the City's payroll process and sub-processes include sufficient internal controls to allow for achievement of operational objectives, including safeguarding of assets, generating reliable financial reporting data, and compliance with applicable regulatory requirements.

Due to manual nature of several key activities, such as the manual timekeeping system for Fire and Police, and the processes to adjust compensation, the City relies on mitigating controls to ensure accurate payroll processing. One important example of a mitigating control is the daily reconciliation of changes to critical payroll data with supporting documentation, performed by an individual different from the individual that made the change in Kronos.

Nonetheless, our assessment of the various payroll sub-processes resulted in a number of observations and recommendations to further strengthen the system of internal controls surrounding payroll, which are summarized under the areas listed below.

### Observations related to areas that can be improved to further minimize risk of exceptions

During the course of our work, we identified the following opportunities for improvements that, if implemented, could result in lower risk of exceptions and gains in process efficiencies:

- 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)
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)

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)
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)
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)
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)
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)
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 Recommendation 5 above should be one in the same. Thus, departments would receive one single "payroll management" report.

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)

- 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)

- 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)

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)

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)

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)

15. Consider the benefit of establishing a procedure to periodically monitor and review access restrictions to Kronos.

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.

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## Supporting Documentation:

Exhibit A - Functional Flowcharts of Identified Payroll Sub-Processes

Exhibit B - Payroll Process Internal Control Documentation

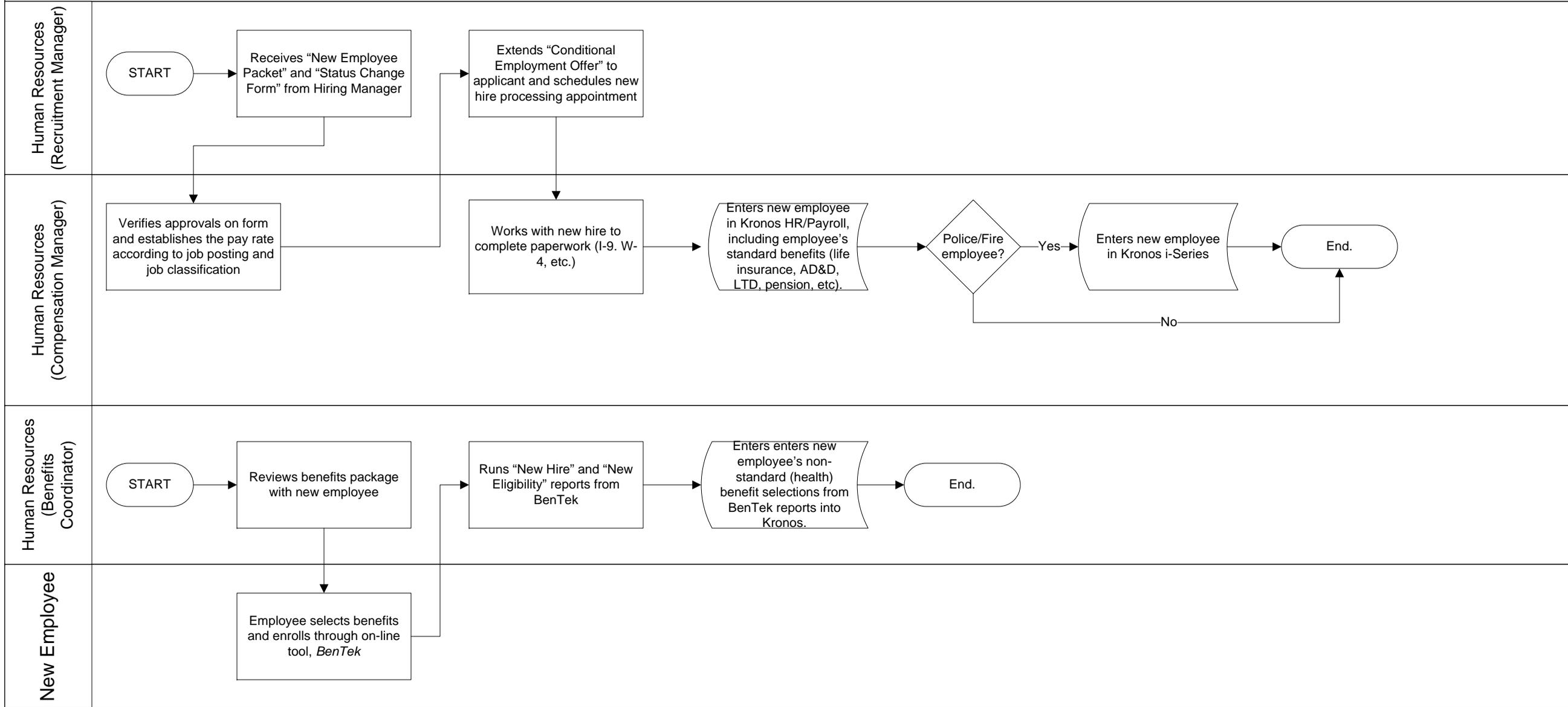
## **Exhibit A**

### **Functional Flowcharts of Identified Payroll Sub-Processes –**

- A. Setting-up new employees in the payroll system
- B. Police Department timekeeping and preparation of bi-weekly payroll data
- C. Fire Department timekeeping and preparation of bi-weekly payroll data
- D. Utilities Department timekeeping and preparation of bi-weekly payroll data
- E. Public Works Department timekeeping and preparation of bi-weekly payroll data
- F. Payroll processing – Capturing regular compensation data
- G. Payroll processing – Capturing additional compensation data and withholdings
- H. Additional and retroactive payment (Add Pays and Retro Pays) processing
- I. Out-of-title additional compensation processing
- J. Shift differential compensation processing
- K. Completing daily compensation audits
- L. Producing and distributing pay

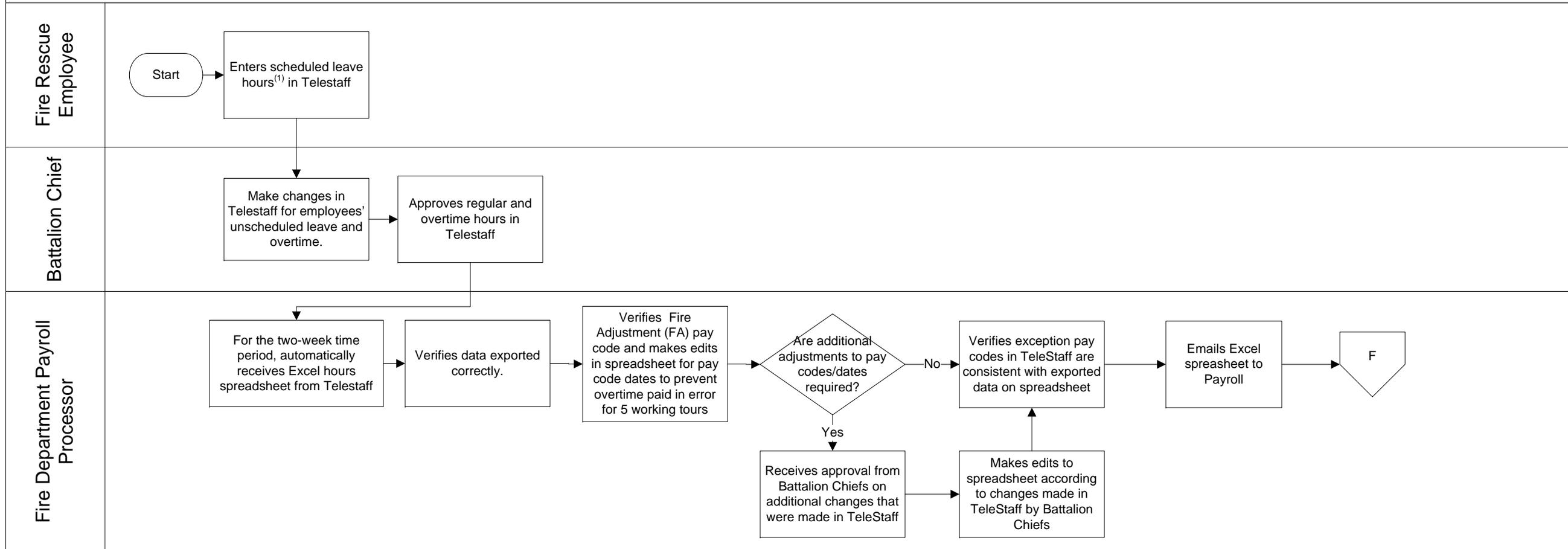
# City of Cape Coral Payroll Process

## Sub-process A: Setting-Up New Employees in the System



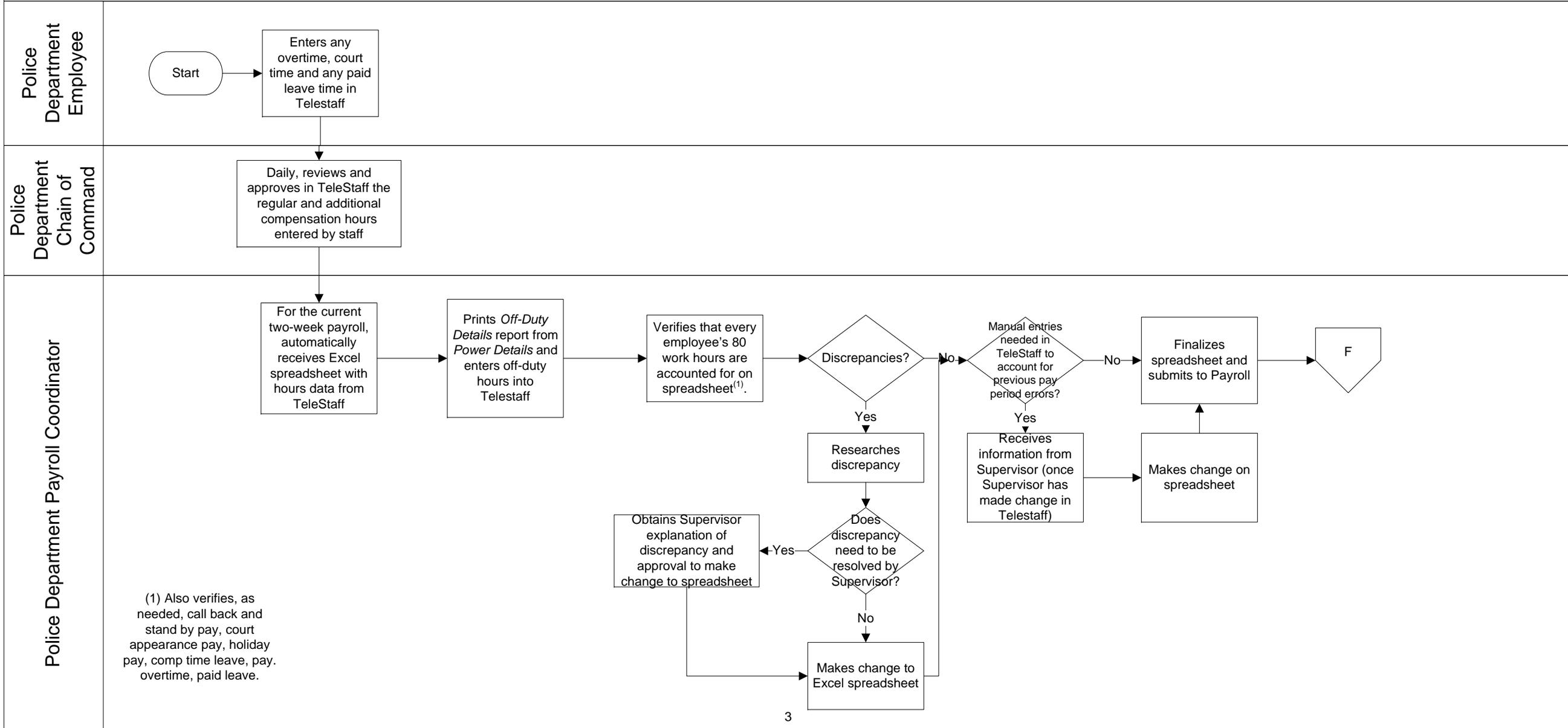
# City of Cape Coral Payroll Process

## Sub-process B: Fire Department timekeeping and preparation of bi-weekly payroll data



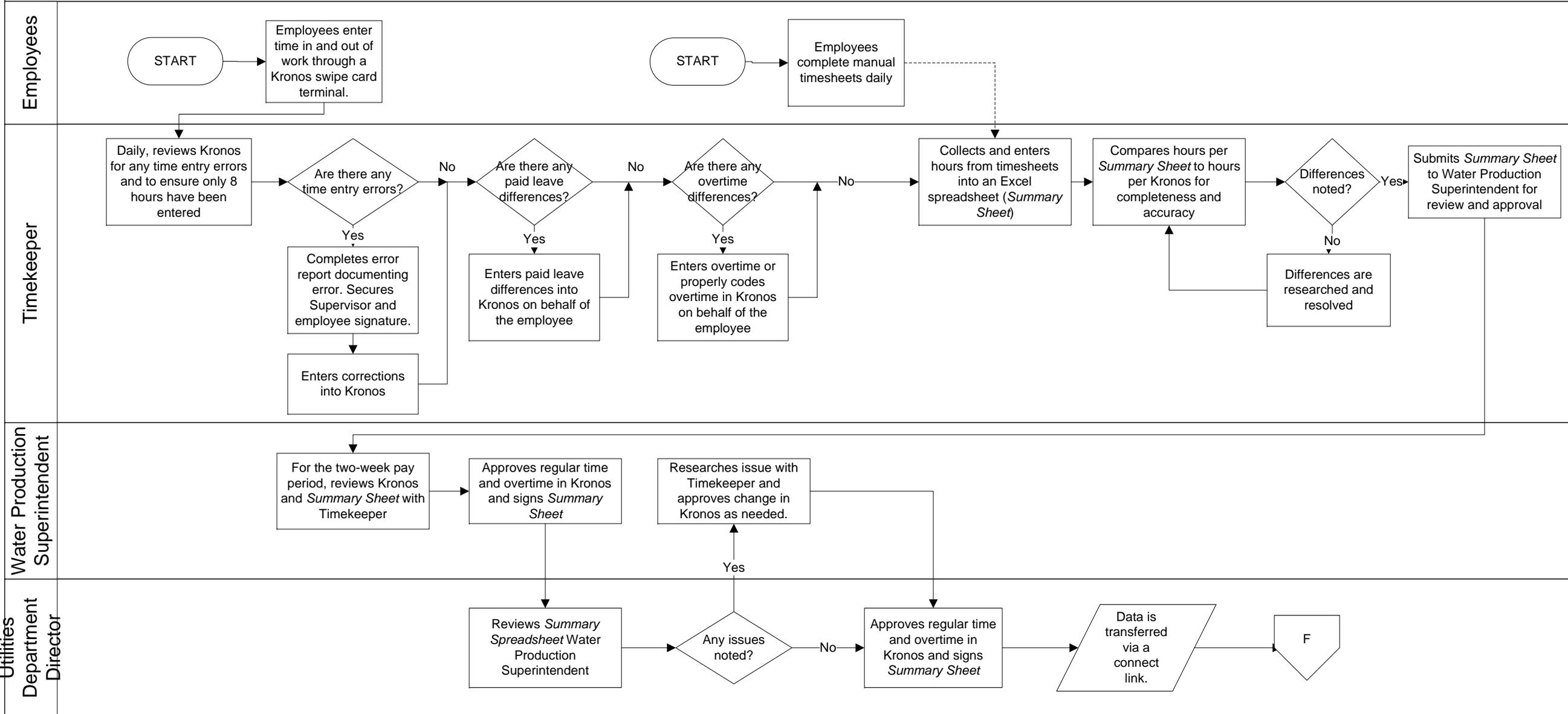
(1) Vacation, jury duty, school time, trade days.

**City of Cape Coral Payroll Process**  
**Sub-process C: Police Department timekeeping and preparation of bi-weekly payroll data**



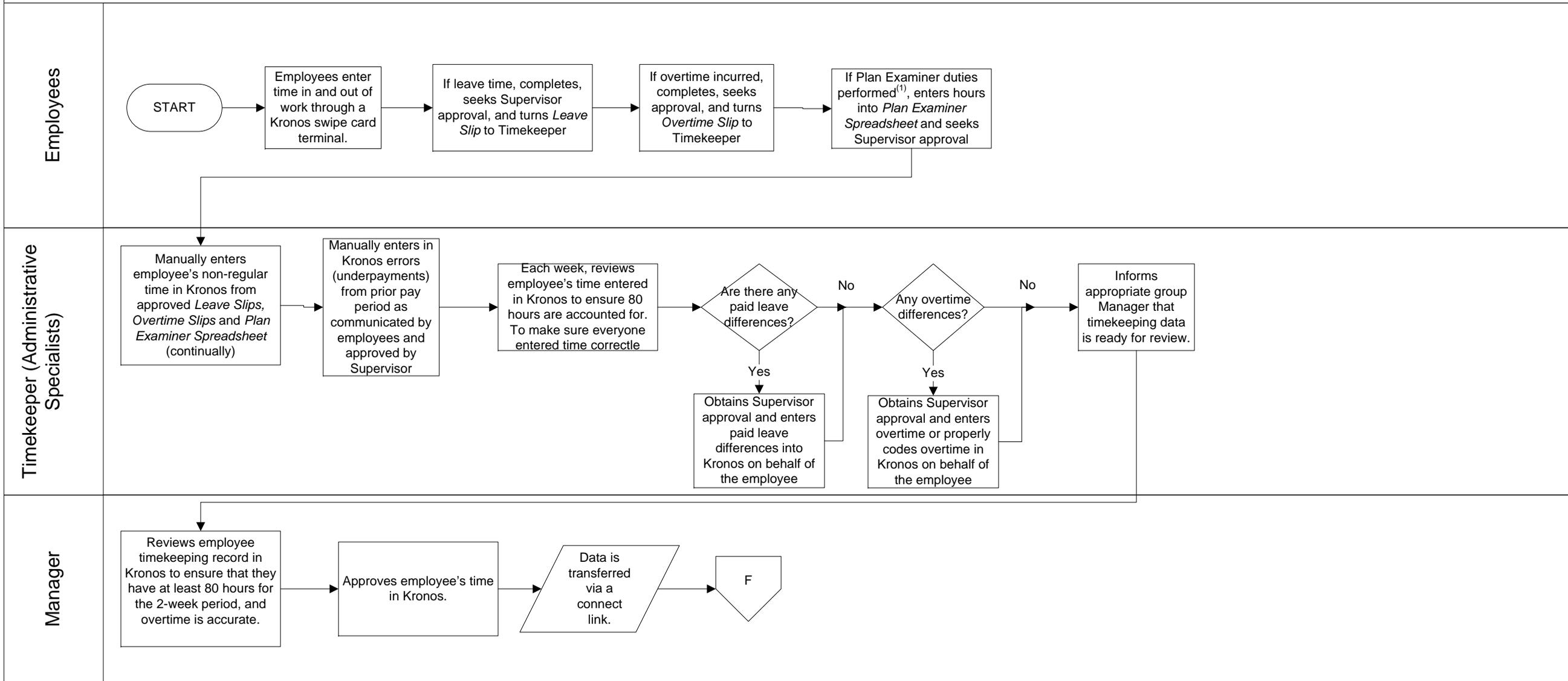
# City of Cape Coral Payroll Process

## Sub-process D: Utilities Department timekeeping and preparation of bi-weekly payroll data



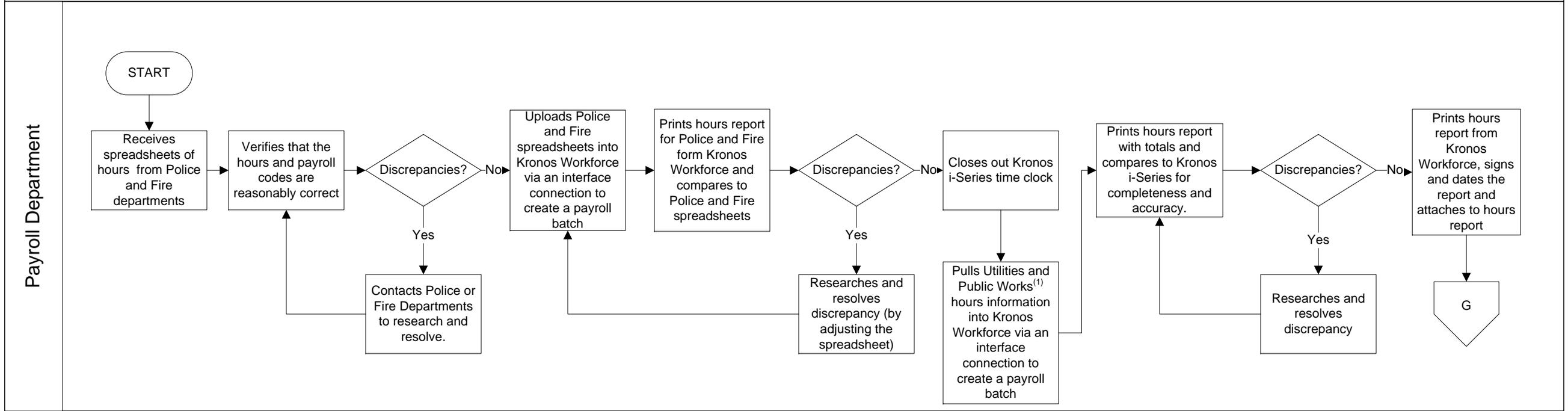
# City of Cape Coral Payroll Process

## Sub-process E: Public Works Department timekeeping and preparation of bi-weekly payroll data



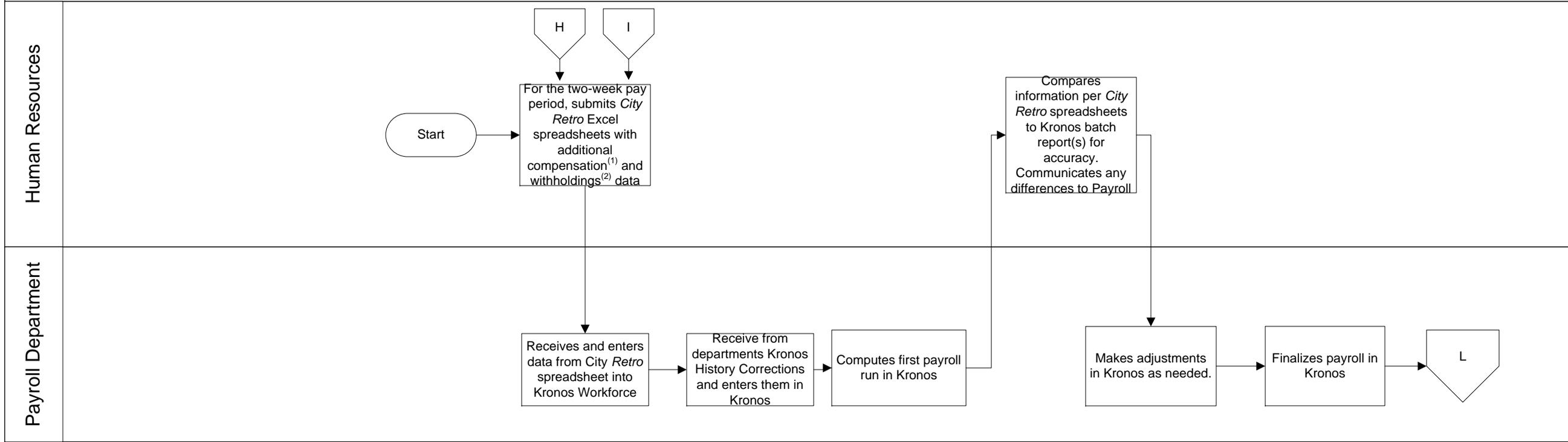
# City of Cape Coral Payroll Process

## Sub-process F: Payroll processing – Capturing regular compensation data



(1) At this point information is pulled from all departments, except Fire and Police since they do not use Kronos i-Series

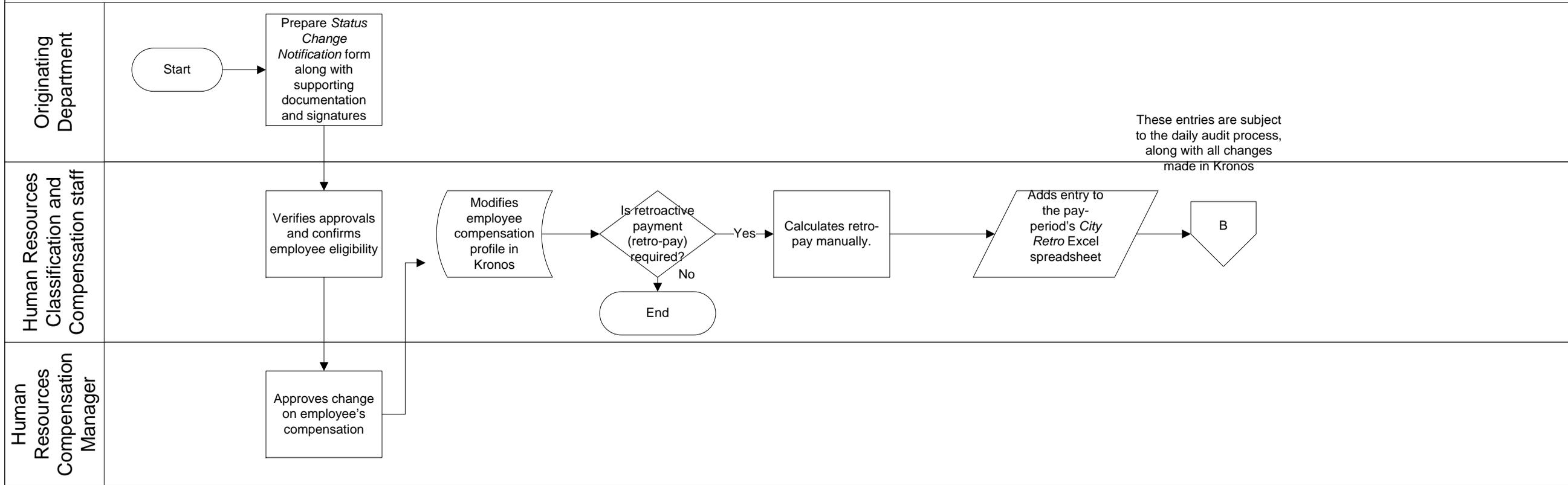
**City of Cape Coral Payroll Process**  
**Sub-process G: Payroll processing – Capturing additional compensation data and withholdings**



(1) Compensation: Retro payments, shift differential, out of title, etc.

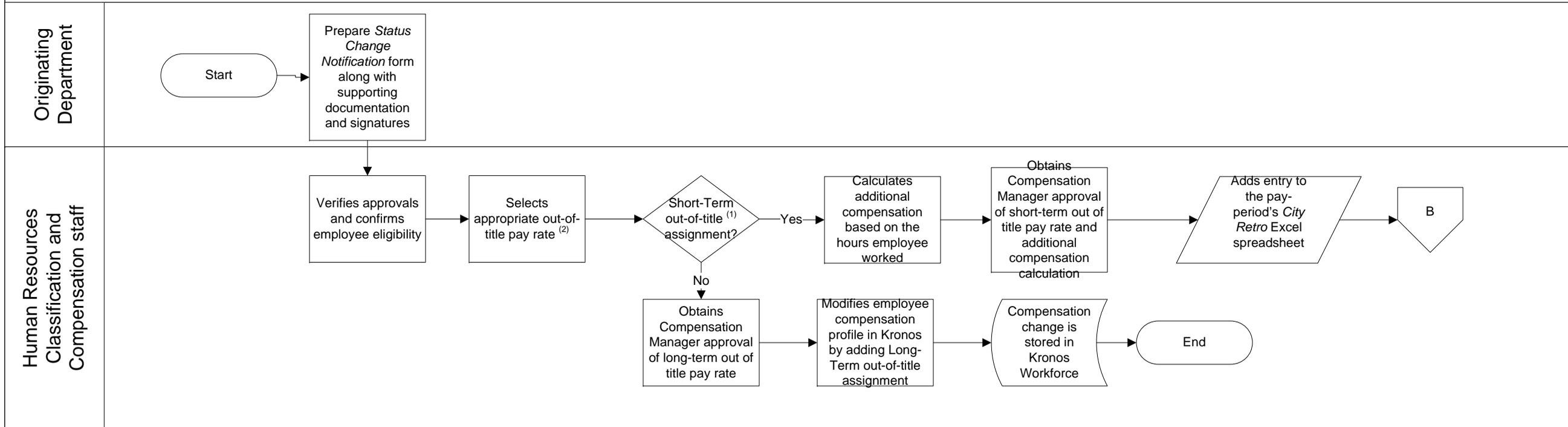
(2) Benefits: Benefit catch-up payments, over-deductions, etc.

**City of Cape Coral Payroll Process**  
**Sub-process H: Additional and retroactive payment (Add Pays and Retro Pays) processing**



# City of Cape Coral Payroll Process

## Sub-process I: Out-of-title additional compensation processing

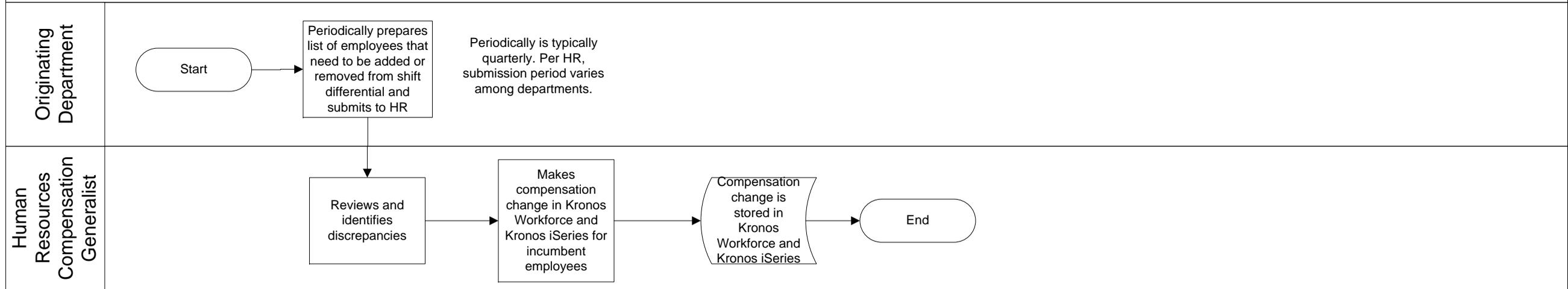


(1) Short-Term applies to assignments for up to 3 months or less, and a minimum of 5 days. Short term is paid after the fact (historic); long term is paid for current pay period

(2) Minimum pay of the position acting in or 5% above current pay, whichever is greater.

# City of Cape Coral Payroll Process

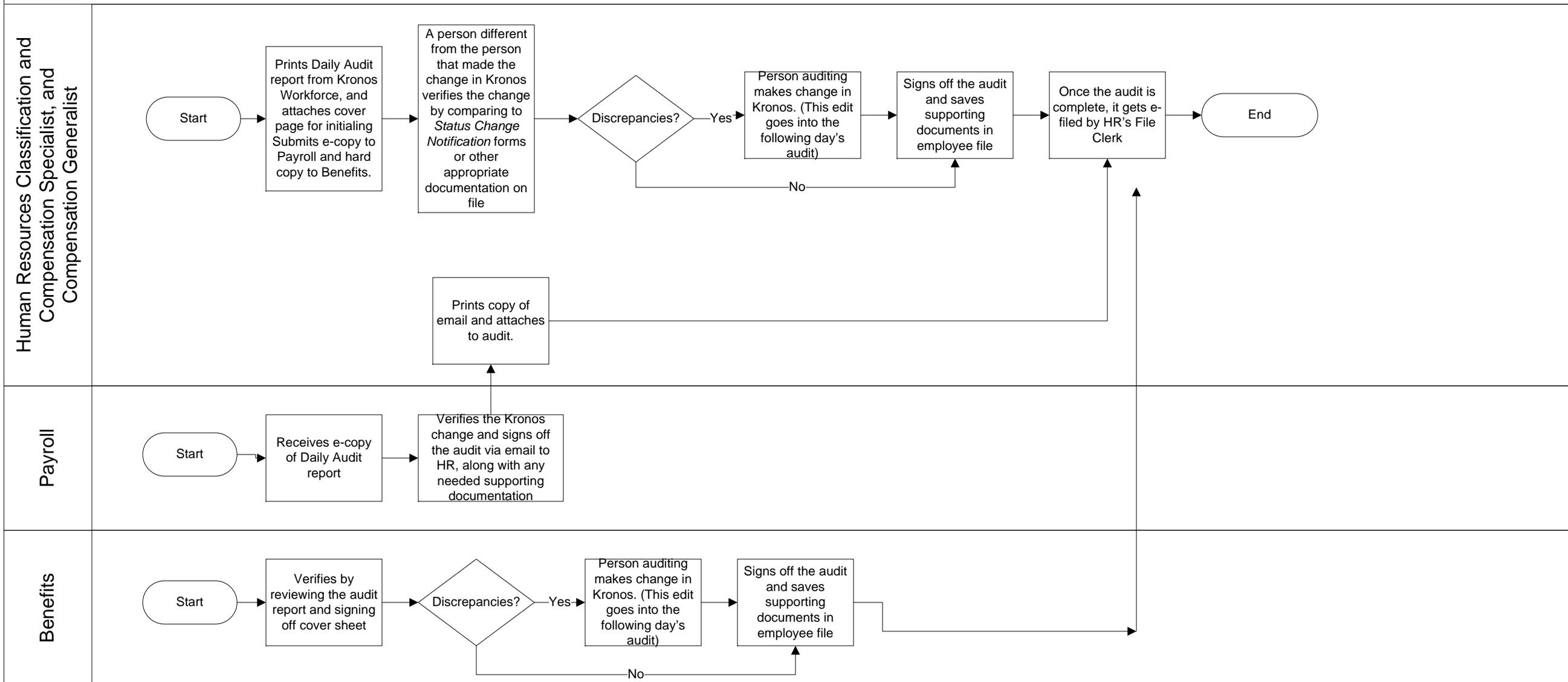
## Sub-process J: Shift differential compensation processing



(1) Short-Term applies to assignments for 3 months or less, and a minimum of 5 days.

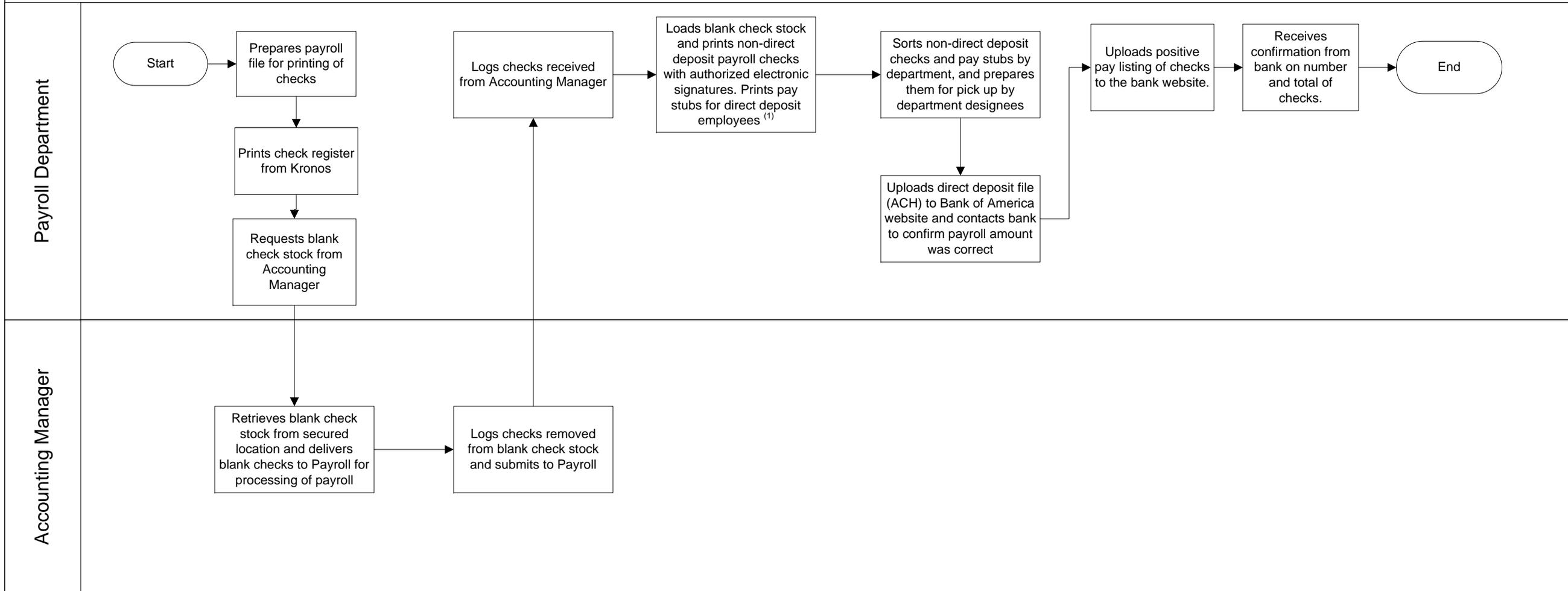
(2) Minimum pay of the position acting in or 5% above current pay, whichever is greater.

**City of Cape Coral Payroll Process**  
**Sub-process K: Completing daily compensation audits**



# City of Cape Coral Payroll Process

## Sub-process L: Produce and distribute pay



(1) Only for employees without network access, like Park Rangers.

**EXHIBIT B**

**Payroll Process Internal Control Documentation**

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
<b>Sub-process area: Setting up new employees in the system and employee data administration</b>			
1	The City has documented policies and procedures for all payroll-related processes.	Payroll related policies and procedures are described in various City documents. At the department level, there are payroll procedural manuals, such as the Fire Departments' <i>TeleStaff/Kronos Payroll Procedure Manual, updated in July 2012</i> . Payroll related policies and procedures are also referenced in various Administrative Regulations, such as AR 58, <i>Overtime Management</i> .	None.
2	Creation of earnings and deductions payroll codes follows established procedures and codes are continually monitored for appropriateness.	<p>Payroll codes are created in the payroll system, Kronos Workforce by the Payroll Manager as directed by HR. All updates to the earnings and deduction codes are approved by the HR Manager prior to use in any pay period.</p> <p>Currently the City has over 350 active payroll codes of which approximately 265 are additional compensation codes. This is excessive in comparison to other municipalities. For example, one municipality that has 4,278 employees reported a total of 121 compensation codes, of which 70 are additional compensation codes. The 350 codes include Charter School codes.</p> <p>Currently, there is no process in place to periodically review the list of payroll codes to determine their appropriateness.</p>	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.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
3	The City has procedures in place to make timely adjustments to the payroll system resulting from changes in policy or within collective bargaining agreements affecting all or selected employees.	Every time a contract is renegotiated, there is a collaborative effort among Payroll, HR and the affected department with the purpose of analyzing the impact on the payroll system resulting from changes in policy or collective bargaining agreements, and evaluating the changes that will be required.	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.
4	The City has documented compensation-related policies and procedures to classify and re-classify positions.	<p>The City manages compensation according to City Ordinance 58-11, Chapter 2, Article III, <i>Personnel Rules and Regulations</i>. According to this ordinance, City Council approves a <i>General Salary</i> schedule within the City's budget each year, which consists of a hierarchical series of pay grades that define the wage or salary range for each employee.</p> <p>The City is also bound to collective bargaining agreements with union employees that govern union employees' compensation. A payment <i>Step Plan</i> included in the bargaining agreement defines the pay grade of public safety (Fire and Police) employees.</p>	None.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
5	Base compensation is accurately determined and properly approved.	<p>The City uses Kronos Workforce/Payroll to maintain and administer employee compensation data. Base compensation is determined by the job title, classification and pay grade of the employee's position.</p> <p>All employee data changes (which includes the creation of new employees), are documented through a <i>Status Change Notice</i> form, which incorporates appropriate originating department and Human Resources (HR) signatures approving the change<sup>1</sup>. The form is supported with required documentation (such as a course or degree completion certificate, collective bargaining contract section describing the specific ad-pay, etc.). A minimum of two signatures is required on all <i>Status Change Notice</i> forms impacting compensation.</p> <p>Upon receipt of a new employee's <i>Status Change Notice</i>, the Compensation Manager verifies the supporting documentation, validates the approving signatures and documents the employee's base compensation/pay grade before entering the record in Kronos.</p>	None.
6	All required employee personal, benefit, and payroll information is obtained from employees.	<p>Employees complete Form W-4 so that the City can withhold the correct federal income tax from pay. Employees also complete Form I-9 so that the City can verify identity and to establish that the worker is eligible to accept employment in the United States.</p> <p>Other employee information such as job title, classification, and pay rate, are captured through the <i>Status Change Notice</i>. Employee resume and references accompany the form.</p> <p>The HR department follows two detailed checklists to verify all new hire activities have been timely completed and all required data has been provided and entered into</p>	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).

<sup>1</sup> Administrative Regulation (AR) No. 29, *Procedure for Hiring and Promoting Employees*.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		the payroll system.	
7	Health and welfare benefits for new and active employees are accurately and timely tracked and paid.	<p>During the hiring process and during annual enrollment, new and existing employees use BenTek Benefits Enrollment Solution, a self-service model that gives employees the ability to enroll and make benefit elections on-line. The Benefits Manager records and transmits enrollment and data changes to plan administrators and vendors.</p> <p>Members of the Benefits team enter benefit information into Kronos from the "New Hire" and "New Eligibility" reports from BenTek on a continuous basis.</p> <p>Monthly, the Benefits Generalist performs a reconciliation of benefits charged to the employee to what was billed by BenTek to determine if what is being paid by the employee and by the City agree to what is being billed by BenTek. Variances are researched and resolved.</p> <p>During the hiring process the Compensation Manager enters new employee's standard (welfare) benefits such as life insurance, accidental death and dismemberment (AD&amp;D), long term disability (LTD), and pension into Kronos. The Compensation Manager also enters any benefit accruals in Kronos.</p>	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.
8	Employee new benefits information and changes entered into the system contain correct job/employment and personal information.	Every employee reviews their Confirmation Statement during the new hire orientation process or whenever a change in benefit elections is made to ensure that all personal and benefit data to be used for payroll and benefit processing has been input correctly and that the change made was in fact requested.	None.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		A completed benefits waiver, indicating benefits coverage is obtained for each employee declining benefits coverage.	
9	All new employees are entered into the payroll system in a timely manner.	<p>The Compensation Specialist sets up the employee in Kronos i-Series and in Kronos Workforce at the end of the hiring process.</p> <p>If it is a Police or Fire new hire, the employee is only set up in Kronos Workforce. Police and Fire employees are also set up in Telestaff by the respective department's Timekeeper. TeleStaff is a scheduling system also used to track hours worked.</p>	None.
10	Access to employee job/employment and personal information is restricted to only those users who need this access to perform their jobs.	<p>Kronos functionality restricts access to create, change, and delete new hire data to the authorized positions.</p> <p>ITS (Information Technology Services department) has several policies governing the control environment over the payroll applications. Specifically, payroll and employee benefit files reside on a shared drive with restricted access only to Payroll and HR personnel. Further, access rights in Kronos are restricted so one single individual cannot set up new employees, processing payroll and issue payroll checks without at least one more user involved.</p> <p>Kronos i-Series is designed to restrict the ability to enter time and attendance information to only authorized roles. Employees may only input time for themselves. Also, managerial employees may only input time and attendance information for themselves and those employees who report directly to them.</p> <p>TeleStaff is designed to restrict the ability to enter time and attendance information to only authorized roles. Police and Fire employees may only input time for</p>	<p>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.</p> <p>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.</p>

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>themselves; also, managerial employees may only input time and attendance information for themselves and for those employees who report directly to them.</p>	
11	<p>Functionality of the payroll system prevents payments to persons who do not have a complete employee data record within the system.</p>	<p>Kronos functionality prevents payments to persons who do not have a valid "Payroll Status" assigned. Configurable controls are established in Kronos that require all fields be completely and accurately filled out before it will process the information.</p> <p>Additionally, Kronos functionality inserts default values of "0" withholding allowances and a "single" withholding status in an employee record if the employee fails to complete or re-file a W-4 form.</p>	None.
12	<p>Changes to the employee compensation profile are accurately determined and properly approved.</p>	<p>Changes to compensation profiles in Kronos can be permanent or temporary. For temporary changes, the employee's compensation profile has to be reverted to the original set-up after a specified period of time. Removal of temporary changes is governed by the Timekeeper of the originating department.</p> <p><b>Permanent changes include:</b></p> <ul style="list-style-type: none"> <li>- Reclassifications (promotions)</li> <li>- Add pays for longevity, education, certification, etc.</li> </ul> <p><b>Temporary changes include:</b></p> <ul style="list-style-type: none"> <li>- Shift differential pays (additional money earned by an employee for working a different shift, such as night shift or third shift.)</li> <li>- Long-term out of title assignments (special commission of employees serving as a temporary replacement for an absent supervisor, generally within the same department).</li> </ul>	<p>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.</p>

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>Except for shift differential, approvals are supported by a <i>Status Change Notice</i> submitted by the originating department. Approvals for shift differentials are documented through email submitted by department Timekeeper; no Supervisor approval is present.</p> <p>Upon receipt of the <i>Status Change Notice</i>, the Compensation Manager reviews the form, verifies the supporting documentation, and validates the approvals before entering the compensation change into Kronos.</p> <p>The version of Kronos currently utilized does not have a workflow that routes pay rate changes to the appropriate personnel for approval prior to the rate change becoming effective. According to ITS personnel this functionality may be available as part of a Kronos module which the City decided not to purchase.</p> <p>Unlike other payroll systems, Kronos does not provide a warning message to the user, whenever a pay rate change in excess of a certain (i.e., twenty) percent of the previous rate is input. ITS is currently not certain as to whether this functionality exists.</p>	
13	Impact on City budget is considered prior to executing a compensation change.	By signing the <i>Status Change Notice</i> , originating department management acknowledges that the financial implications of the request have been assessed and that the department has sufficient capacity within its budget to fund the request for 12 months if applicable.	None
14	Compensation changes and adjustments are entered into and removed from the system in a timely manner.	While there is not a standard in place for the number of days to process a <i>Status Change Notice</i> , per HR, <i>Status Change Notices</i> are generally processed within three (3) days of receipt. HR does not have a standard procedure in place to notify originating departments that the change request has been received and processed, and there is no control in place for independent review of timely	If possible within the system, ITS should create a custom report or add detail to the <i>Compensation Report</i> to allow a department to validate compensation changes at the individual employee level. This will allow for increased assurance from the department's

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>processing of the forms.</p> <p>Employees can verify compensation adjustments through their pay stubs. Originating departments do not have the ability to verify the granting or removal of compensation adjustments by requesting a Kronos <i>Compensation Report</i> from Payroll which shows the payroll totals by compensation code for the department but not for individual employees.</p>	<p>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.</p> <p>As an accountability measure, HR should track and maintain record of the number of days that it takes for compensation adjustments to be entered in Kronos from the date received (email date).</p> <p>HR should consider adding a step to processing a <i>Status Change Notice</i> form to notify departments that the compensation change has been made.</p>
15	Retroactive or one-time payments are accurately determined and properly approved.	<p>Retroactive payments apply to money owed to employees in connection with additional compensation attributed to the employee or to money owed resulting from payment that should have been captured in the prior pay period.</p> <p>Classification and Compensation staff manually calculate retroactive payments whenever a request for additional pay is processed. This information is logged into the pay-period’s <i>City Retro</i> Excel spreadsheet, audited through the Daily Audit process (see IC# 18 below), and later entered in Kronos by the Payroll Department.</p> <p>One-time payments such as short-term out-of title assignments are treated as retroactive payments and are also manually calculated by the Classification and</p>	None.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		Compensation staff, based on actual hours worked by the employee. This information is also logged into the pay-period's <i>City Retro</i> Excel spreadsheet, audited through the Daily Audit process, and later entered in Kronos by the Payroll Department.	
16	Prior payroll period adjustments are accurately determined and properly approved.	<p>Prior payroll period time corrections are documented through a <i>Kronos History Correction</i> form, which is manually filled out by an employee, signed by the supervisor, and then submitted to Payroll to process the correction. If it is a comp-time related adjustment, Payroll forwards the form to HR to make the adjustment in Kronos.</p> <p>Prior pay period corrections are a one-time event not affecting the employee's payroll file; therefore, it does not enter the daily audit process.</p>	None.
17	Changes to employee compensation profile due to terminations or employment separations are timely, accurate and properly approved.	<p>Terminations and employment separations are supported by an <i>Employee Separation/Transfer Notice</i> form, completed by the originating department and approved by appropriate management. Upon receipt of the form, the Compensation Manager makes appropriate modifications in Kronos. The form documents the employee's last day.</p> <p>The Benefits Manager receives a copy of the form and processes post employment benefits (deferred compensation, pension) and communicates with third party administrator.</p>	None.
18	Permanent or temporary changes to employee compensation profile are independently reviewed for completeness and accuracy.	Due to the manually intensive nature of compensation adjustments, the City relies on mitigating controls to ensure accurate payroll processing. Mitigating controls include reconciliation of changes to critical payroll data with supporting documentation, performed by an individual different from the individual that made the change in Kronos.	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

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>Daily, the Compensation Generalist or the Classification and Compensation Specialist print a <i>Daily Audit</i> report from Kronos which contains all the changes to payroll master files. Then, a person different from the person that made the change in Kronos audits the change by comparing the report to the <i>Status Change Notice</i> forms or other appropriate documentation on file. If discrepancies are noted the person auditing inquires with person that made the original change and makes the needed change in Kronos. The new Kronos change goes into the following day's audit.</p> <p>A copy of the <i>Daily Audit</i> report is submitted to Benefits and to Payroll (direct deposits or voided checks) to validate changes made by these teams. Both Payroll and Benefits conduct the audit following the same segregation of duties principle described above.</p> <p>The <i>Daily Audit</i> reports are signed and printed copies retained on file.</p> <p>As an additional control, the HR Manager generates a bi-weekly report from Kronos of the active employees not receiving a check in the last 90 days and submits to departments to explain the reason(s). Similarly, for every pay period the HR Manager produces and submits to Benefits the <i>No-Pay</i> report to verify employees that are on FLMA (Family and Medical Leave Act of 1993) or under workers compensation.</p>	<p>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.</p> <p>NOTE: The report described in this recommendation and the report described in the recommendation for IC#14 above should be one in the same. Thus, departments would receive one single "payroll management" report.</p>
19	Segregation of duties is established around the compensation management processes.	Segregation of duties exists within the hiring and enrollment of new hires, the review and approval of payroll information, the payroll process, the auditing of compensation changes, and the recording of payroll into the City's financial statements.	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.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		Additionally, any kind of security access change is carried out by ITS using ITS's own forms and procedures.	
<b>Sub-process area: Timekeeping and preparation of payroll data</b>			
20	Regular time and attendance data recorded reflects actual time worked.	<p>Except for Police/Fire employees, hourly employees' time is recorded using Kronos i-Series and its time swipe card system. Kronos i-Series interfaces directly with Kronos Workforce.</p> <p>Police and Fire employees record time using TeleStaff where hours are set up by default and changes are made as needed. Police and Fire payroll data is downloaded into Excel files which are later uploaded by Payroll into Kronos Workforce via a connect interface.</p> <p>If an employee that uses a time swipe card is off-site, the employee can clock in or out remotely using IVR (Interactive Voice Response) tool as long as the employee is authorized for such process.</p> <p>In addition to the swipe cards, Utilities Department employees also record their time using manual timesheets. The Timekeeper summarizes the timesheets for each pay period into a MS Excel spreadsheet, and uses it to compare hours per Kronos for completeness and accuracy. The Public Works department does not use manual timesheets.</p>	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.
21	Time-off (paid or un-paid) is requested, approved and recorded for payroll through established procedures.	<p>Employees request time off following procedures documented in AR 15, <i>Hours of Work/Recording of Hours</i>, which includes description of appropriate management approvals.</p> <p>Employees are required to complete a <i>Request for Leave</i> form designating the type of leave requesting (scheduled, unscheduled, comp time, etc.), which is approved by the</p>	None.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>Supervisor. Utilities and the Public Works Timekeepers enter the leave time into Kronos on behalf of the employee; Fire and Police employees enter the leave time directly in Telestaff, and this is later approved within the system by the supervisors, and chain of command (Battalion Chiefs for the Fire Department).</p>	
22	<p>Time data is reviewed for reasonableness and errors prior to approval.</p>	<p>Each department is individually responsible for the review and approval of time data.</p> <p>For Public Works and Utilities, Timekeepers review Kronos daily for any key punch errors and to ensure only eight (8) hours have been entered into Kronos i-Series. If errors are found, the Utilities department Timekeeper completes an <i>Error Report</i>, which is signed by the employee and his/her supervisor. Corrections and adjustments are then entered manually into Kronos i-Series. Public Works does not use an <i>Error Report</i> form; if errors are found, the Timekeeper requests approval from the employee's Supervisor prior to making changes into Kronos.</p> <p>For the two-week pay period, Police and Fire Timekeepers complete an in-depth review of hours to ensure that every employee's time reported in the Excel file is complete and accurate. Discrepancies are researched and approved by management. Once change is approved, the Timekeepers adjust the Excel file as necessary and submit it to Payroll.</p> <p>As an additional step, the Police department Timekeeper enters off-duty hours worked into Telestaff. Currently, off-duty activity is created directly into <i>Power Details</i> by the police officer and approved by a designated <i>Details Coordinator</i>. <i>Power Details</i> is a stand-alone application used to manage off-duty activity.</p>	<p>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.</p>

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
23	Regular pay, overtime, paid leave (vacation and sick leave) and other exception hours are accurately determined and properly approved.	<p>Regular pay, overtime, and vacation and sick leave are reviewed and approved in Kronos for completeness and accuracy by the employee's supervisor, Timekeeper, and department management, prior to sending to payroll for processing. Approvals are done within Kronos.</p> <p>Fire Department adjustment codes (used to make sure Kelly Days<sup>2</sup> are properly accounted for) are reviewed and approved for completeness and accuracy by Fire Department administrators prior to sending to payroll for processing.</p> <p>Police and Fire call back, stand-by pay and court appearance pay is reviewed and approved for completeness and accuracy in Kronos by the employee's supervisor, and by the Timekeeper, prior to sending to payroll for processing.</p>	None.
<b>Sub-process area: Payroll processing</b>			
24	All payroll components, including additional compensation and withholdings, are accurately calculated, recorded and included in the processing of payroll.	<p>Every bi-weekly pay period, the Payroll Department receives the time data spreadsheets from Police and Fire and verifies that hours and payroll codes are correct before uploading to Kronos Workforce. Any discrepancies are resolved with the departments. After spreadsheets are uploaded, Payroll prints the hours from Kronos and compares them to original department spreadsheets to verify accuracy of the upload; any discrepancies are resolved.</p> <p>The Payroll Department then closes out the Kronos i-series time clock (for all non Fire or Police employees), and pulls time data information into Kronos Workforce.</p>	None.

<sup>2</sup> The term "Kelly Day" is a day off given to fire fighters in order to comply with the Fair Labor Standards Act. Without the Kelly Days, overtime would have to be paid to each fire fighter each pay period.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>Then, hours are printed and totals compared to Kronos i-Series for completeness and accuracy; any discrepancies are resolved.</p> <p>For retroactive or one-time payments, the Payroll Department receives from HR the <i>City Retro</i> spreadsheet with all additional compensation and withholding data, and enters into Kronos Workforce. The Payroll Department also receives prior pay period adjustment information from departments (documented through <i>Kronos History Correction</i> forms) and enters into Kronos Workforce.</p>	
25	Payroll and payroll related processing data input into the system contains correct information, so that payroll and payroll related payments are correctly processed.	<p>Any employee errors encountered during the processing of payroll will be displayed on error reports. These errors are investigated and reconciled by the Payroll Manager before payroll submission.</p> <p>The Payroll Manager posts the payroll run only when no errors are found. If errors are found in the payroll run, the Payroll Manager cancels the pay calculation and runs reports to identify errors. All corrections to the errors found are applied, after informing and receiving approval from the relevant parties.</p>	None.
26	Federal, state and local withholding taxes (such as FICA, Federal Insurance Contributions Act) are recorded and calculated using the applicable tax rates.	<p>Kronos functionality uses the tax rate in effect on the "paycheck date" versus the "pay period end date" for all employee paychecks to help ensure that applicable rates are used on employee paychecks and retro-payments.</p> <p>After the payroll confirmation process is completed, Kronos functionality updates year to date balances for employee earnings, deductions, taxes, and assigned check numbers.</p>	None.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
27	The processing of payroll is scheduled to occur at regular intervals to ensure timely payroll disbursements.	<p>Payroll is processed bi-weekly. The Payroll Department performs payroll calculation up to two days before pay date to allow time for corrections. Payroll provides a schedule of run dates to system control at the beginning of the year.</p> <p>Kronos has a pay calendar feature which helps to prevent the duplication of time and attendance data. Data captured according to the pay calendar will select only the time for the current pay period, which helps to reduce the risk of capturing the same time and attendance data twice.</p> <p>Kronos will also not generate a paysheet for employees with no current period timecard information.</p> <p>Compliance with the payroll disbursement processing schedule is monitored by Payroll management. The Payroll department uses a checklist that documents all key steps in the bi-weekly process, from the Kronos i-Series exports and interfaces, all the way through the submission of reports to the Accounting department.</p>	None.
28	The ability to update payroll related data and perform payroll processing is authorized, so that the risk of generating fraudulent payroll transactions is reduced.	<p>The ITS System Administrator sets up access to particular pages to specific individuals (page based security, which restricts the ability to perform certain system payroll tasks to only the appropriate authorized roles.</p> <p>Kronos security restricts the ability to enter and process individual retroactive payments to the appropriate authorized role. ITS use page based security where HR creates the request and Payroll processes the request.</p> <p>The current Kronos version does not have the ability to initiate a pay unconfirm process. Once the payroll is</p>	Consider the benefit of establishing a procedure to periodically monitor and review access restrictions to Kronos.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
		<p>finalized, it cannot be changed, it can be voided.</p> <p>Through page based security, Kronos restricts the ability to perform paycheck reversals and adjustments in the event of voids, stop payments or reissues to the appropriate authorized role.</p> <p>Kronos security is designed to restrict users' processing of payroll data to only their respective departments. Centrally, payroll processing is carried out by the two Payroll employees for the entire City, including themselves. However the time records used to generate the two Payroll employees pay data is obtained via time-clock swipes and must be approved in the system by their supervisors in order to be processed.</p>	
29	Funds are available in the bank to cover the payroll expense.	On Tuesday of pay week, the Payroll Department submits an email to the Accounting Department Cash Manager to communicate the payroll amount. At that point the Cash Manager ensures funds are transferred and available to cover the payroll expense.	None.
30	Check stock is secured and controlled.	Only three City employees have key access to the check stock room. The Payroll Manager requests check stock from the Accounting Manager. The Accounting Manager updates the <i>Check Control Book</i> with the check stock removed before delivering blank checks to Payroll. The Compensation Manager logs the checks received from the Accounting Manager as well.	None.
31	Payroll is disbursed to appropriate employees.	<p>Employees receive payment through direct deposits to employee's personal bank accounts. Non-direct deposit checks are printed by Payroll and distributed to pertinent employees.</p> <p>The City utilizes Positive Pay with its financial institution to ensure that the only check numbers submitted in the check run can be cashed.</p>	None.

No.	Existing Control (Internal Control Objective)	Description	Recommendation for Improvement
32	The general ledger account is reconciled to the payroll disbursement bank account to review payroll/benefit expenses, and validate employee payroll activity.	<p>Per the Payroll Manager, the general ledger is balanced bi-weekly to make sure the payroll entry is balanced. A <i>General Ledger Distribution Report</i> is created in Kronos which creates the pay period's journal entry, and this information is then uploaded into the City's financial system, J.D. Edwards (JDE).</p> <p>The Payroll department fills out a <i>Cash Reconciliation</i> form which is submitted to the Accounting department, along with all corresponding payroll reports (general ledger activity report, payroll register, and deductions register). The Accounting department uses this information for their monthly balancing and reconciliation of the general ledger accounts to the payroll disbursement bank account.</p>	None.
33	Payroll is recorded in the appropriate accounting period.	Kronos is driven by calendars that the Payroll Manager creates at the beginning of each year. Every time a transaction is entered, the user must choose the calendar period, which ensures that the payroll is recorded in the appropriate time period.	None.

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City of Cape Coral  
City Auditor's Office

Management's response to the report on the Assessment of the Internal Controls within the City's Payroll Process  
February 22, 2013

	Recommendation	Management Response	Contact Person	Target Completion Date
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)	<i>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.</i>	Deana Watson (FSD), Angie Cline / Jill Ramirez (HR)	August 2013 (post-contract negotiations)
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)	<i>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.</i>	Deana Watson (FSD)	Done
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)	<i>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.</i>	Patra Hill (HR)	3/01/2013

City of Cape Coral  
City Auditor's Office

Management's response to the report on the Assessment of the Internal Controls within the City's Payroll Process  
February 22, 2013

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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)	<i>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.</i>	Deana Watson (FSD)	06/30/2013
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)	<i>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.</i>	Troy Warson(ITS)	03/31/2013
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)	<i>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)</i>	N/A	N/A

City of Cape Coral  
City Auditor's Office

Management's response to the report on the Assessment of the Internal Controls within the City's Payroll Process  
February 22, 2013

	Recommendation	Management Response	Contact Person	Target Completion Date
7	<p>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)</p>	<p><i>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.</i></p>	<p>Troy Warson(ITS)</p>	<p>03/31/2013</p>
8	<p>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)</p> <p>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.</p>	<p><i>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.</i></p>	<p>Troy Warson(ITS)</p>	<p>03/31/2013</p>

City of Cape Coral  
City Auditor's Office

Management's response to the report on the Assessment of the Internal Controls within the City's Payroll Process  
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9	<p>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)</p>	<p><i>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.</i></p> <p><i>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.</i></p>	<p>Jeff Pearson (Utilities)</p>	<p>Uncertain – Dependent on completion of ITS projects.</p>
Information systems:				
10	<p>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)</p>	<p><i>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.</i></p>	<p>IT</p>	<p>03/31/2013</p>

City of Cape Coral  
City Auditor's Office  
Management's response to the report on the Assessment of the Internal Controls within the City's Payroll Process  
February 22, 2013

	Recommendation	Management Response	Contact Person	Target Completion Date
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)	<i>ITS will issue this type of report twice yearly to functional management.</i>	Troy Watson	06/01/2013
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)	<i>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.</i>	Sheena Milliken (FSD)	03/31/2013
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)	<i>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.</i>	Carla Benison, Deana Watson (FSD), HR	06/30/2013

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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)	<i>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.</i>	Carla Benison, Deana Watson (FSD), HR	06/30/2013
15	Consider the benefit of establishing a procedure to periodically monitor and review access restrictions to Kronos.	<i>ITS will review access assignments with Payroll and HR management twice annually.</i>	Troy Watson	03/31/2013
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.	<i>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.</i>	Melanie Purcell (FSD), HR	04/30/2013