



Office of the City Auditor

## INFORMATION CALENDAR

June 28, 2016

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Manager  
Subject: Performance Audit of the Payroll Audit Division

### INTRODUCTION

In accordance with our [Fiscal Year 2016 Audit Plan](#), we present an internal controls performance audit of our payroll operations.<sup>1</sup> The government auditing standards we adhere to require that we assess all potential threats to our independence at the beginning of an audit and design appropriate safeguards. Placement of the Payroll Audit Division within our office means that we can't audit payroll activities in accordance with audit standards because of an appearance of lack of independence. In this instance, we concluded that the best way to safeguard our independence was to hire an outside auditor to conduct an audit of our Payroll Audit Division's operations. We contracted with the consulting firm of Macias Gini & O'Connell (MGO) LLP to perform the work.

### CURRENT SITUATION AND ITS EFFECTS

Overall, MGO found Payroll Audit's internal control practices, policies, procedures, and control environment are designed to protect against fraud, waste, and abuse; and to operate in compliance with Federal, State, and City policies, rules, and regulations, including California's Public Employee's Pension Reform Act of 2013, and the Patient Protection and Affordable Care Act. However, MGO cited areas of concern related to the City's aging automated infrastructure, FUND\$, including difficulty in controlling access rights to the payroll module, and inefficiencies and control weaknesses related to the manual, labor-intensive, paper-based process that FUND\$ demands.

Because of FUND\$ design flaws, MGO was unable to determine combined access levels to financial, human resources, and timekeeping information system data. Neither were they able to determine whether the system's access control features were sufficient to ensure adequate segregation of duties and maintain a strong internal control environment. These system vulnerabilities are exacerbated by the fact that policies and procedures for granting, maintaining, and terminating access to payroll-related areas of the financial, human resources, and timekeeping information systems are not formally documented or monitored. The end result is a system that is vulnerable to fraud.

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<sup>1</sup> Fiscal Year 2016 Audit Plan, 10/27/15: [http://www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/RPT\\_City%20Auditor%20Fiscal%20Year%202016%20Audit%20Plan\\_102715.pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/RPT_City%20Auditor%20Fiscal%20Year%202016%20Audit%20Plan_102715.pdf)

Not only is the system itself vulnerable to fraud, but so is the burdensome manual time and attendance process FUND\$ demands. MGO found that manual timecards and timesheets were not only inefficient, but also posed potential control weaknesses. An MGO survey of payroll clerks found that in at least 2 in of 10 departments surveyed, employees have access to their paper timesheets after the supervisor provides his or her signature approval, which creates the opportunity for fraud. MGO noted that despite the weaknesses inherent in the manual process, the Payroll Division's rigorous timesheet audits and exception reporting provide the compensating controls necessary to ensure the accuracy of the manual driven process. However, these controls come at the cost of the additional labor required to maintain the integrity of the system.

MGO made seven recommendations to our office to consider for strengthening controls and mitigating risks surrounding the payroll process, including the following:

- Work closely with IT to conduct a comprehensive review and verification of user access and related controls.
- Implement procedures to provide independent review of duplicate payment reports and periodically compare HR and Payroll employee status reports.
- Compile user access and edit controls with the City's information systems and various screens and modules within FUND\$ and HR systems to ensure user access is appropriate.
- Require all departments throughout the City to have designated back-up payroll clerks and detailed desk procedures; now reported in place by management.

### BACKGROUND

The City of Berkeley's Payroll Audit Division organizationally sits within the City Auditor's Office and includes a staff of seven full-time employees. While the Payroll Audit Division is one of the smaller divisions in terms of staff, it has one of the largest jobs: processing biweekly payroll for the approximately 1,600 individuals employed by the City. In fiscal year 2016, personnel costs represented approximately 60 percent of the City's total budget and the Payroll Audit Division processed approximately 43,000 checks and direct deposits.

### ENVIRONMENTAL SUSTAINABILITY

The payroll process as it currently exists is a highly labor-intensive, manual, expensive, paper-based process. The specter of thousands of City employees putting pen to paper biweekly to complete paper time sheets harkens back to an era of computer punch cards, black & white televisions, and monograph record players. The City consumes about 100 reams of copy paper annually in just time sheets alone, not including paper check stubs and manual paychecks. While the City uses recycled paper, the process for producing recycled paper is far from eco-friendly. The City, and the environment, would benefit greatly from a modern, automated payroll process that uses far less paper and ink.

### POSSIBLE FUTURE ACTION

Many of the report's findings are directly or indirectly related to the inadequacies and inefficiencies of the City's core financial system, FUND\$. While MGO's recommendations are designed to work within or around the confines of the system's limitations, the best and most fiscally prudent solution would be for the City to finally replace its moribund financial system.

### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

According to the Government Finance Officers Association, the current estimate for FUND\$ replacement now stands at \$15.1 million, which includes software licensing, professional services, and additional personnel costs to fund the temporary backfill for staff assigned to the City Manager's FUND\$ replacement implementation team. The current estimate reflects a three-year implementation plan. In 2015, Council established a fiscal policy requiring that the first \$500,000 in Property Transfer Tax in excess of \$10.5 million be set aside for FUND\$ replacement. Given that the City had approximately \$2 million already set aside for FUND\$ replacement, this would allow for full implementation of the new financial system in approximately a quarter century, which coincidentally is the age of the current system. If Property Transfer Tax does not continue to exceed \$10,500 every year, which is likely, it would take even longer.

The City Manager has proposed a more aggressive funding schedule in its [Fiscal Year 2017 Proposed Budget Update](#),<sup>2</sup> which may require a one-time loan from the General Fund Reserve. The City Manager's Office is currently developing its General Fund Reserve policy to align with the [City Auditor's reserves audit](#),<sup>3</sup> recommendations, which the Council voted to accept on March 15, 2016. The City Manager's Office plans to present its new policy to Council before the next biennial budget process.

### CONTACT PERSON

Ann-Marie Hogan, City Auditor, (510) 981-6750

### Attachments:

1: Performance Audit of the Payroll Division by Macias Gini & O'Connell LLP

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<sup>2</sup> Fiscal Year 2017 Proposed Budget Update, May 10, 2016:

<http://records.cityofberkeley.info/Agenda/Meetings/ViewMeeting?id=207&doctype=1>

<sup>3</sup> Audit Report: General Fund Reserve Policy Fails to Convey that Maintaining the Reserve is a Priority:

[http://www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/A.2\\_RPT\\_General%20Fund%20Reserves\\_Fiscal%20Year%202016\(1\).pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/A.2_RPT_General%20Fund%20Reserves_Fiscal%20Year%202016(1).pdf)



Certified  
Public  
Accountants

CITY OF BERKELEY OFFICE OF THE CITY AUDITOR

# Performance Audit of the Payroll Division

June 1, 2016



June 1, 2016

Ms. Claudette Biemeret  
Audit Manager  
City of Berkeley  
2180 Milvia St.  
Berkeley, CA 94704

Dear Ms. Biemeret:

We are pleased to present the results of our performance audit of the City of Berkeley's (the City) payroll functions. The objectives of our engagement were to; (1) determine whether the Payroll Audit Division's (the Division) internal control practices, policies, procedures, and environment adequately and appropriately protected against fraud, waste, and abuse; and to facilitate operating in compliance with established Federal, State, and City policies, rules, and regulations; (2) assess whether the Division's practices, policies, procedures, and protocols are uniformly and consistently applied, and ensure that pay and benefits are accurately and appropriately paid to, or applied to, City of Berkeley employees; and (3) determine whether the Division's internal control practices, policies, procedures, and environment are effectively designed adequately and appropriately to protect against fraud, waste, and abuse and operate in compliance with established Federal regulations such as the Patient Protection and the Affordable Care Act (ACA) and California's Public Employee's Pension Reform Act of 2013 (PEPRA). This report presents our findings and recommendations related to these objectives.

The City's Payroll Audit Division, Information Technology, Human Resources and Finance staff, as well as payroll clerk representatives from 10 other City departments and offices, participated in this audit either through interviews, group meetings or through completing a survey questionnaire. We would like to take this opportunity to thank them for their collective interest, cooperation, and dedication, which greatly enhanced the results of this project.

Sincerely,

Macias Gini & O'Connell LLP

# TABLE OF CONTENTS

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EXECUTIVE SUMMARY.....	3
PERFORMANCEAUDITOBJECTIVES,SCOPE, AND METHODOLOGY.....	5
PRINCIPAL RESULTS.....	7
OTHER AREAS OF CONSIDERATION .....	17
CONCLUSIONS .....	18
RECOMMENDATIONS .....	19
APPENDIX A – CITY OF BERKELEY EMPLOYEE SURVEY AND SURVEY RESULTS SUMMARY .....	21
APPENDIX B – AUDIT FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSE SUMMARY .....	27

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# EXECUTIVE SUMMARY

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## WHY WE PERFORMED THIS PERFORMANCE AUDIT

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The placement of the Payroll Audit Division (Division) under the Auditor's Office (Auditor) in the City's organizational structure precludes an independent and objective internal audit of the payroll process by the Auditor's Office. Macias Gini & O'Connell LLP (MGO) was engaged by the Auditor's Office to conduct a performance audit to assess the payroll operations carried out by the Division.

## WHAT WE FOUND

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Overall, we found the Division's internal control practices, policies, procedures, and control environment are designed to generally protect against fraud, waste, and abuse; and to operate in compliance with established Federal, State, and City policies, rules, and regulations. We compared reported activities and practices within the Division with general controls that should be present in the payroll cycle, as well as the State Controller's Internal Control Guidelines for Payroll, with the City's Payroll and Personnel Manuals.

Despite the risks a manual time and attendance process presents at the Department level, we found that the Payroll Audit Division's subsequent rigorous audits of Department timesheets against system time entries, extensive exception reporting, and system queries provide the level of compensating controls necessary for such a manually-driven process at the Department level.

Lastly, we found the City's Human Resources Department (HR) and Payroll Audit Division to have appropriate systems and processes in place to support reporting requirements to ensure compliance with the Patient Protection and Affordable Care Act (ACA) and California's Public Employee's Pension Reform Act of 2013 (PEPRA). Although the City's policy for the ACA implementation is in draft form, it sufficiently outlines responsibility and mechanisms required for oversight, monitoring, and report submissions.

We did, however, find that some areas of risk exist, such as a lack of formalized monitoring processes pertaining to user access rights within the various, disparate systems utilized by the City in the payroll process. We were unable to ascertain employees' combined access levels to financial, human resources, and timekeeping information system data and whether edit access controls are in place to adequately segregate duties and maintain a strong internal control environment. Although a City administrative regulation provides guidance on the process to grant employee access to various systems, we found that the policies and procedures for granting, maintaining, and terminating access to payroll-related areas of the financial, human resources, and timekeeping information systems are not formally documented or monitored.

We also found the manual time and attendance process at the Department level to be cumbersome and outdated. The limitations of manual timecard and timesheets lead to inefficiencies and potential control weaknesses. The current timekeeping process forces ancillary manual recordkeeping, i.e., time and attendance tracking through paper time cards and time sheets, which do not allow the Departmental Payroll Clerks (Payroll Clerks) to successfully enter real-time payroll data within the time constraints imposed. Payroll time is entered prior to the end of the payroll period, which can compromise accuracy. Further, our survey of Payroll Clerks indicated in at least 2 of 10 departments that employees have access to their timesheets after the Supervisor provides a signature of approval. This condition can result in wages being paid using estimated hours for a portion of the pay period rather than actual time worked for hourly employees before the pay period ends. The result from employees getting the time cards back after their supervisor signs essentially allows them to alter their time to their advantage. With an automated time and attendance system, the City could process payroll more efficiently without compromising the accuracy of the data while requiring less manual review by Payroll Audit staff.

## WHAT WE RECOMMEND

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To further assist the City, this report includes seven recommendations; six for the Auditor's Office Payroll Audit Division to consider and one for other city departments to consider as measures to strengthen controls and mitigating risks surrounding the City's payroll process.



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# PERFORMANCE AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

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The objectives of this report were to:

- (1) Determine whether the Division's internal control practices, policies, procedures, and environment adequately and appropriately protect against fraud, waste, and abuse; and operate in compliance with established Federal, State, and City policies, rules, and regulations and,
- (2) Assess whether the Division's practices, policies, procedures, and protocols are uniformly and consistently applied, and ensure that pay and benefits are accurately and appropriately paid to, or applied to, City of Berkeley employees and finally,
- (3) Determine whether the Division's internal control practices, policies, procedures, and environment adequately and appropriately protect against fraud, waste, and abuse; and operate in compliance with established Federal regulations such as the ACA and State regulations, such as PEPR.

The scope of this performance audit was limited to the City Auditor's Office Payroll Audit Division's function in the payroll process, and its related internal control environment, and portions of the City's various information management systems and payroll transactions processed between January 1 and June 30, 2015. All transactional testing focused on time and labor and benefit processes. We did not test retirement deductions, allocations, or reconciliations

To assess the adequacy and effectiveness of the segregation of duties and internal control procedures, we reviewed process maps and the Payroll Manual; and interviewed five staff within the Payroll Audit Division, two staff within the Human Resources Department, two staff in the Information Technology Department, and one staff in the Finance Department. We also conducted a physical observation of the payroll cycle processes, from the employee set up process in Human Resources, payroll audits and exception reports and check run, to the disbursements and reconciliations performed in the Finance Department. To assess risk and validate concerns about the primarily manual time and attendance process and to identify the cause of excessive back and forth between the Division and Department Payroll Clerks, we conducted a web survey of the City's 21 departmental Payroll Clerks about specific timelines and obstacles with the current payroll and timekeeping processes. Seventeen out of 21 Payroll Clerks, or 81 percent, responded to all of the survey questions.

To assess the adequacy and effectiveness of the segregation of duties and internal controls related to the automated systems involved in the payroll cycle, we reviewed administrative regulations for creating, maintaining, and terminating access to payroll-related information systems. We were unable to analyze any reports or evidence of monitoring those users with edit-level (administrator) access to certain payroll and human resources functions within the financial management system (FUNDS) and the timekeeping system to determine if any user's ability to edit information in one or more areas of the information systems compromised the City's segregation of duties or posed a risk to its internal controls.

To assess the accuracy of payroll systems and processes, we performed testing of 96 employees over two pay periods to achieve a 95 percent confidence level with a 10 percent confidence interval, which represented a population of 19,500 transactions over the period under audit. We tested for pay rate accuracy, leave and benefit calculation accuracy, and pay rates. We tested changes to the employee master file, including new and terminated employees, to ensure that policies and procedures were followed timely and accurately.

The audit also included assessing and documenting processes to evaluate the strength of controls in place to protect assets and to ensure the integrity of the system for accuracy and appropriateness. In addition, we reviewed the following: approvals of timesheets conducted by the Payroll Audit Division; support, approval and review for changes to compensation; independent verification of payroll registers; performance of general ledger and bank reconciliations; appropriate controls and processes for voided and manual checks; security of checks; proper distribution of checks; and appropriate access controls related to automated systems and direct deposit authorization and controls.

Finally, to determine whether the Division's internal control practices, policies, procedures, and environment are designed to adequately and appropriately protect against fraud, waste, and abuse; and are specifically designed to operate in compliance with established Federal regulations such as the ACA and State regulations, such as PEPRA, we identified the systems and processes in place to support reporting requirements of each program. We then interviewed staff in both the Division and the Human Resources Department responsible for compliance. We also reviewed documentary evidence to support the processes and systems in place to maintain receipt, tracking, and monitoring of information related to compliance.

Our work was conducted between February 2, 2016 and April 29, 2016. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# PRINCIPAL RESULTS

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## SECTION I: DIVISION INTERNAL CONTROL PRACTICES

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One of the largest expenditures for most governments is the payment to employees for providing services. The cost of paying employees includes not only the employees' gross pay but also the City's share of costs for employee benefits. The payroll process is critical to City operations due to the sheer magnitude in the related overall costs it represents to the City's budget. For the first half of 2015 (January 1 – June 30, 2015) within the scope of this review, the Division issued an average gross payroll of \$5.086M and an average of 1,602 paychecks, per bi-weekly pay period. The accuracy and performance of the City's payroll depends on the completeness and reliability of time and labor information input by other departments.

The City's decentralized payroll process and lack of interfaces between its disparate Human Resources, Payroll, and Finance system modules pose limitations that make it more probable that risks related to fraud, waste, and abuse may materialize. To mitigate such risks, the City must have adequate internal controls to assure that the objectives of payroll are met:

- Payroll transactions are preapproved.
- All valid transactions are included in the accounting records in the proper period.
- All transactions are accurate, consistent with the originating transaction data, and recorded timely.
- All recorded payroll transactions represent the events that occurred were lawful and have been made in accordance with management's general authorizations.
- Access to payroll records is controlled and properly restricted to authorized personnel.
- Duties are assigned to individuals in a manner that ensures that no one individual can control both the recording functions and the procedures related to transaction processing.

### The Division's Overall Internal Controls Meet COSO Components

Payroll internal controls help to establish an effective system that allows payroll processing and recordkeeping to flow smoothly. Internal control procedures ensure pay is properly disbursed to the appropriate employees, is accurately recorded, and that relevant legal requirements are met. The United States Government Accountability Office (GAO) includes components specified by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which has published standards in *Internal Control—Integrated Framework* that provide an overall framework for establishing and maintaining internal controls. These controls should provide reasonable assurance that payroll objectives are being achieved in the following:

- Effectiveness and efficiency of operations, including the use of the City's resources;
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use;
- Prevention of, or prompt detection of, unauthorized use of an agency's assets; and
- Compliance with applicable laws and regulations.

We found the Division’s controls generally meet GAO standards, and those components specified in *Internal Control—Integrated Framework 2013*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), as shown in Figure 1.0 below.

**Figure 1.0: COSO Internal Control Components and Associated Division Activities (Highlights)**

COSO Component	Division Activities
<p>1. <i>Control Environment</i>. Management and employees should establish and maintain an environment that sets a positive and supportive attitude toward internal control and conscientious management (e.g., appropriate training, ongoing supervision).</p>	<p>We found that the Division contains accurate job descriptions, a strong organizational structure, as well as a comprehensive payroll manual of policies, and requires staff to develop and maintain procedures and desk manuals of their individual duties. Further, all Payroll Audit staff are sufficiently cross-trained to backfill for one another during absences; however, there may be a key dependency issue with one of the Auditor II’s in the division. In other words, although staff can backfill for her, one employee is especially knowledgeable and has exceptional skills, which make the Division vulnerable, should that employee leave.</p>
<p>2. <i>Risk Assessment</i>. Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.</p>	<p>Although a formalized risk analysis is not performed, we found the Division’s role in providing independent oversight and responsibilities is specifically designed to address external and internal risks, to ensure that payroll is accurate, timely, and in accordance with City policy.</p>
<p>3. <i>Control Activities</i>. Internal control activities (e.g., approvals, verifications, documentation) should be effective and efficient in accomplishing an agency’s control objectives.</p>	<p>We verified that the Division conducts the following control activities:</p> <ul style="list-style-type: none"> <li>• Audits and reviews time cards, pay authorizations, Employee Transaction Forms (ETFs), and Personnel Action Forms (PAFs).</li> <li>• Implements Court Orders, wage garnishments, IRS orders, earning withholding orders, etc.</li> <li>• Monitors time-entry and audits time cards ensuring that payroll clerks provide proper documentation; notifies payroll clerks of discrepancies; and ensures that errors are corrected and prevented</li> <li>• Performs periodic compliance audit and review of payroll laws, policies, procedures, organizations, methods, performance, pay system standards, and benefits</li> <li>• Oversees implementation of payroll-processing policies</li> </ul>
<p>4. <i>Information &amp; Communication</i>. Information should be recorded and communicated to management and others within the department who need it, and in a form and within a timeframe that enables them to carry out their internal control and other responsibilities.</p>	<p>Information to be communicated about payroll can vary between governments. The following are typical items that are communicated in Payroll Audit:</p> <ul style="list-style-type: none"> <li>• Pay periods and dates are communicated through a payroll calendar to Department payroll clerks. Information includes dates of pay period, due date for timesheets, and pay date.</li> <li>• Personnel policies and procedures are comprehensive – Payroll Manual and Personnel Manual are provided through the intranet/city groupshare page - employees have access to detailed policies and procedures related to employment with the City.</li> <li>• Salary information is maintained by Human Resources and is available on the City’s website and intranet.</li> <li>• Benefits payment. The City provides Benefit providers information regarding employee enrollments.</li> </ul>
<p>5. <i>Monitoring</i>. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.</p>	<p>Monitoring in the Division takes the form of supervisory activities. The Accounting Manager in Finance/Accounting Division reviews reconciliations. The Payroll Auditor II reviews all changes to employee information, but through a manual process. This should be accomplished by regularly producing an employee addition/change report, but lack of system interfaces and functionality prevent a report from being run for a more efficient verification process.</p>

## Payroll Cycle Controls are Well-Designed

A reliable and efficient payroll function incorporates strong internal controls and appropriate segregation of duties into its organizational structure and processes with the objective of identifying and preventing errors. Effective internal controls provide for process oversight and ensure that no single person performs all the tasks related to any single transaction cycle. If internal control is to be effective, there needs to be an adequate division of responsibilities among those who perform the procedures or control activities and those who handle assets. In general, the flow of transaction processing and related activities should be designed so that the work of one individual is either independent of, or serves to check on, the work of another. Such arrangements reduce the risk of undetected errors and limit opportunities to misappropriate assets or conceal intentional misstatements. Segregation of duties serves as a deterrent to fraud and concealment of error because it would require a would-be fraudster to obtain another individual’s cooperation to conceal it.

Although there is not an internal control audit standard or accounting pronouncement that prescribes specific segregation of duties requirements, we compared the Division’s separation of duties by using the State Controller’s Office Internal Control Guidelines Payroll<sup>1</sup> control activities, as shown in Figure 2.0.

**Figure 2.0: Specific Payroll Control Activities**

Payroll (Compensation-related Disbursements) Control Activities	Description of Division Control Activities
<p>a. To ensure proper segregation of duties, access to the human resources module (add, delete, and modify employee data) should be segregated from access to the payroll module (payroll processing).</p> <p>b. To ensure accuracy and authorization, a second person should be required to review and approve the following:</p>	<p>Only HR has access to employee data in FUNDS and has the edit access to add, delete, or make changes to employee data. This function is segregated from access to payroll module.</p> <p>One exception we noted is that an Accounting Technician that resides in Payroll Audit performs HR related benefits processing tasks, such as additions of dependents or changes in deferred compensation deductions.</p> <p>We observed current access and edit rights for the Accounting Technician. Based on the access granted and the functions this position performs, the City Auditor should consider whether proper segregation of duties exist (see Recommendations Section II below).</p>
<p>i. Timesheets;</p>	<p>Department Payroll clerks review employee time cards and timesheets for authorized signatures and perform data entry into FUNDS. Payroll Audit subsequently reviews Payroll clerk time entry against supporting documents, performs spot checks, and audits prior to payroll close.</p>
<p>ii. Addition or deletion of employees;</p>	<p>HR inputs additions and deletions of employees. Payroll Audit then reviews hardcopy against what is in the system (manual). Corrections returned to HR.</p>
<p>iii. Changes to the payroll data (existing employees);</p> <p>iv. Time entry; and</p>	<p>HR makes changes to existing employee pay data. Payroll Audit reviews changes in system against hard copy documents. Payroll audit reviews time entry performed by Payroll clerks.</p>
<p>v. Payroll register.</p>	<p>Payroll register is reviewed by Payroll Audit staff and then the Deputy Auditor prior to processing.</p>
<p>c. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.</p>	<p>Conducted by Payroll Audit each cycle and provided to Department Managers. Most staff in the Division can run reports, but one Payroll Auditor II has demonstrated a high level of report query ability. Many report templates are stored on the Division’s G drive. However, more sophisticated ad hoc queries are not documented.</p>

<sup>1</sup> Internal Control Guidelines 2015 – California Local Agencies. California State Controller’s Office Controller Betty T. Yee. California Government Code (GC) section 12422.51 requires the State Controller to develop internal control guidelines applicable to each local agency. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. However, there is no requirement that the tools developed must be used in the form provided. However, they recommend using the GAO’s Internal Control Standards, Internal Control Management and Evaluation Tool, which provides useful guidance for evaluating an agency’s internal control and includes COSO’s Internal Control – Integrated Framework 2013.

## Discussion on Process Strengths

Proper payroll processing oversight requires that controls be implemented to ensure the accuracy, completeness, and reliability of data entered into the payroll system. For example, sound controls would ensure that changes (additions, deletions, modifications) to the employee master file are approved in the Human Resources Division prior to being recorded in the system and that those system changes are reconciled to the changes documented in the Employee Transaction Forms (ETFs) and Personnel Action Forms (PAFs) on a regular basis. No one employee should be able to record modifications to the master file, and any modifications should be initiated by one employee and reviewed and authorized in the system by a separate employee. We tested the employee set-up process and found these controls are sufficient, as employee data changes are generally reviewed by the HR Managers prior to upload in the system, with one exception. An Office Specialist in the Human Resources department is responsible for all of the employee set-up data processing: receiving, reviewing, and maintaining ETFs or PAFs as well as entering the data into FUND\$. This information is then uploaded on a regular basis to update employee information to process payroll and make any changes to employee information. In other words, all the information goes into what is commonly referred to as the employee master file.

We found the Division routinely utilizes robust and thorough audit techniques and exception reports to ensure payroll accuracy. Beginning with employee data accuracy, additional oversight mechanisms are in place in the Division to ensure that changes and additions to the employee master file are accurate. Due to the nature of the position, the Office Specialist II in HR also has administrator level access to employee information within FUND\$. Since this position has the ability to create employees, change employee data, terminate employees, and process hard copy personnel documentation from other City departments, data entry into FUND\$ is routinely reconciled by the Payroll Auditor II for oversight.

Despite the manual processes and lack of interfaces between information systems such as NeoGov in the Human Resources Department and the system used by Payroll and Finance (FUND\$), we found the Division to have strong payroll/compensation internal controls. For example, one Payroll Auditor II has ensured she has easy access to the various City MOUs containing the salary requirements and specific cost codes that are to be used for employees. Because the Human Resources Department may incorrectly enter employee change information, for example, during an MOU or bargaining agreement update, the Payroll Auditor II's knowledge of MOU details has ensured that City staff were properly paid and that benefits had proper accounting treatment.

It is also a best practice that the file prepared for processing payroll should be reviewed and approved by an employee who is not involved in the preparation of the payroll file. This practice maintains an appropriate segregation of duties and better enables staff to notice errors. As a mitigating control, the reports are allocated to different Payroll Audit staff, based on what they are responsible for, and they review them for each day during the payroll cycle before the paycheck process. Each Division staff makes the correction applicable to their assigned department. If changes need to be made to the paychecks, auditors will change them in the system and notify the payroll clerk. The Departmental Payroll Clerks then communicate the changes to the employee and/or Employee's supervisor. A number of exception reports are run at each pay period for Payroll Audit Division staff before payroll is processed:

- Payroll register
- Check exception (High and Low) Report is generated from FUND\$. This report lists all individuals who were paid more or less than approximately 10% compared to usual. The report is allocated to each auditor (based on the Department they are responsible for). Each auditor is required to verify why a person is on the list and checks or initials on the report to

indicate he/she reviewed it. Below is a listing of the exception reports that are generated and reviewed by the Payroll Audit Division.

- Accrual exceptions
- Employee Leave Without Pay (LWOP) exception report
- Employee salary adjustment (SA) and LWOP difference
- Employee with salary adjustment and no Normal Offset hours
- Payroll calculation error listing (related to deduction calculation)
- One-time amount register (one-time changes made)
- Employee with negative net or gross pay
- Employee without hours (lists employees who did not work in that pay period)

Next, a supervisory-level staff, the Deputy City Auditor, who is not directly involved in the day-to-day payroll process, receives and reviews payroll reports, runs the report again the next day, and Division staff check to make sure all changes were made and if there are any new exceptions not yet resolved. Lastly, a Senior Accountant and the Accounting Manager in the Finance Department, who are not involved in the payroll process, appropriately conduct the functions of disbursement and payroll reconciliation to the general ledger after payroll closing.

The Government Finance Officers Association (GFOA) notes that communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. We found that the City maintains a comprehensive Payroll Manual, last updated in 2011. The Deputy Auditor also required his staff to update and compile their existing desk procedures of their specific duties in late 2015.

Another particular strength is that Payroll Audit staff is sufficiently cross-trained in duties should unexpected staff absences occur. Best practices require that an agency assign back-ups to persons performing key functions. Although the City does not have a formal policy or methodology to ensure this, the Deputy City Auditor for Payroll Management has required that cross training occur, as well as having staff document their desk procedures, which was scheduled for completion in December 2015. Cross training has been implemented among all Payroll Audit staff with Payroll duties. We did, however, find this to be a control weakness at the Department level. Payroll Clerks may not be sufficiently cross-trained in duties should unexpected staff absences occur. Our survey also found that at least two departments do not have an assigned back-up to perform payroll duties in their absence and did not have desk procedures documented. Without sufficient procedural guidance on work processes, there is no assurance for continuity of operations when employees have unplanned leave or retire from their payroll position.

We did note that despite cross training and back-ups in the Payroll Audit Department, there is a Payroll Auditor II staff that has key institutional knowledge and report querying skills, which creates the potential for key staff dependencies. This highlights the need to minimize the Division's exposure to dependency on key employees through documenting policies and procedures, training to ensure knowledge transfer and succession planning, as well as staff-back up and cross training.

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## **SECTION II: THE DIVISION'S PRACTICES, POLICIES, PROCEDURES, AND PROTOCOLS ARE UNIFORMLY AND CONSISTENTLY APPLIED TO ENSURE ACCURATE PAY AND BENEFITS**

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### **Payroll and Benefits Transaction Testing and Observations Showed No Exceptions**

We determined that the Division's practices, policies, procedures, and protocols are uniformly and consistently applied, and ensure that pay and benefits are accurately and appropriately paid to, or applied to, City of Berkeley employees. In general, payroll should be processed in accordance with rules pertaining to (1) proper authorization, (2) safeguarding of assets, and (3) accuracy, reliability, and timely information. We conducted a physical observation of the payroll disbursement process and assessed the segregation of duties from the payroll set up process to the payment process and upload to the General Ledger.

To assess the effectiveness of overall payroll processes and internal controls and to ensure payroll procedures are consistently applied, we tested a random sample of 96 pay transactions over two random pay periods within the period of January 1 and June 30, 2015. Of the 96 transactions that we reviewed, we found no exceptions when we compared pay rate and other demographic data; the pay rate/demo data in the personnel/payroll module agrees with GMBA, which is the city's general ledger, and/or the accounts payable system. We also tested hard copy information against system data for new hires, terminated employees, master file changes, pay rates, and general approval of changes. We also observed a payroll run and reviewed off-cycle payroll transactions. Off-cycle transactions are maintained in a binder, but as a best practice, a report should be run routinely to monitor and identify trends. Our testing did not identify any trend in employees or departments, which may signal inappropriate activity. Lastly, we observed the reconciliation of gross earnings reports to the general ledger (GL) and physical security and access over employee bank accounts, check stocks, and disbursements.

One area that could be strengthened in the disbursement process is a movement toward achieving the best practice of having all employees paid through direct deposit. At the City, there are still approximately 300 employees receiving hard copy checks. Although we often observe the use of manual checks in cities with seasonal or part time staff, it was reported to us that about 200 of the 300 employees receiving manual checks are regular full-time employees.

Finally, our benefits review also resulted in no exceptions. The City's Personnel Manual requires that all career and regular at-will employees who work on either a full time basis or a part time basis of at least 20 hours per week receive all of the leave, insurance, and retirement benefits as provided. Our testing of 96 transactions validated that full-time staff receive full benefits, which are automatically captured by the system. We also validated that hourly, non-career staff had deductions for Public Agency Retirement Services, or PARS, which are deductions made in-lieu of social security deductions for part-time employees.



### **Information Access and Edit Controls Could Not Be Verified**

Strong system access controls are essential in providing and maintaining proper segregation of duties and must be in place. The City's current disparate systems do not fully support the entire payroll process. For example, there is no interface between the human resources systems, Benefits Bridge and NeoGov, and FUND\$, which houses the personnel, payroll, and financial modules. We were unable to determine if access to the City's key systems provided an appropriate level of segregation among users or if access levels were appropriate or compromised the segregation of duties. For example, with the ability to edit information across multiple platforms, an employee could create a phantom new employee, pay that non-existent employee, and deposit the paycheck into his or her own bank account.

### **Existing Compensating Controls Prevent or Detect Ghost Employees**

Despite the inability to review a report that shows edit access rights across key systems and department staff, we interviewed staff and tested some components of the process and system susceptible to fraud, which are more likely to occur with changes to the payroll master file, including the following:

- Unauthorized changes being made to a person's pay classification, pay rates, and allowances paid.
- Adding an additional (non-employee) person on the payroll – ghost employee.
- Not removing an employee who no longer works for the organization from the payroll system.
- Unauthorized changes of bank account details.

We found the Payroll Audit Division has a number of compensating controls in place to reduce the likelihood of fraud occurring through a ghost employee scheme. The person who has authority to make changes to the payroll master files, a designee in the Human Resources Department, does not have authority to process payroll or have access to this section of the payroll function. The Payroll Auditor II, where information contained in ETFs or PAFs are reviewed for accuracy in the system, albeit primarily manual, performs the key control process. Additionally, the Division has developed a report that shows any duplicate payments to one employee or one bank account. Further, on a periodic basis, the Payroll Audit Division reviews the termination reports for any names of employees that are no longer employed at the City to ensure they are no longer receiving paychecks. One final control currently used to oversee Division activities is an exception report that details any changes made to the employee master file prior to each pay run. Although the Division already runs this report, it should be forwarded to someone outside the Division and any changes that do not appear reasonable should be investigated.

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## **SECTION III: THE DIVISION HAS ADEQUATE SYSTEMS AND PROCESSES TO MAINTAIN COMPLIANCE WITH ACA AND PEPRA**

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To assess the City's processes and controls related to Federal and State regulations, specifically, the Patient Protection and Affordable Care Act (ACA) and California's Public Employee's Pension Reform Act of 2013 (PEPRA), we identified the systems and processes in place with the HR department and those responsibilities shared with the Payroll Audit Division, to support compliance activities. We found the Payroll Division and HR department have adequate systems and processes in place to support reporting requirements and compliance with both programs. We also reviewed documentary evidence collected to verify that the overall systems and processes in place are sufficient to ensure compliance.

### **ACA Compliance Activities are Aligned with Current Requirements**

We found the City is actively engaged in multiple activities to achieve compliance with the ACA and has systems, processes in place to track, monitor, and respond to changes and to meet applicable requirements. First, the City contracts with Kennan and Associates as its benefits broker, who regularly provides updates to designated HR and Payroll Audit Division staff. The Human Resources Employee Relations Manager prepares the City's ACA policy and issues notices to employees regarding eligibility. The Payroll Division assists with many activities including reporting requirements to employees and the IRS.

Monitoring hourly employees for eligibility is a critical activity for ensuring compliance with ACA. To develop monitoring tools, the Payroll Audit Division worked with SunGard, the payroll system vendor, to assist with reporting and tracking mechanisms to identify and monitor employee eligibility for the ACA. A report was developed to capture required data and the Payroll Audit Division then conducted spot audit checks of the data to ensure that eligible employees were accurately captured. The HR department continuously monitors hours that the hourly employees work, and on a quarterly basis runs a report to identify employees who are close to being eligible for ACA.

Based on our review, we found the Payroll Audit Division and Human Resources Department have controls and processes in place to allow for compliance with the ACA requirements. The ACA added new reporting requirements to the Internal Revenue Code (IRC). IRC section 6056 requires each Applicable Large Employer (ALE) subject to the Employer Shared Responsibility requirements of IRC Section 4980H to report on their employer-sponsored coverage. Under these changes, ALEs must report information to the IRS about their employer-sponsored coverage and to whom it is offered. In addition, the IRC requires that for each employee covered by this provision a statement be provided regarding his or her health benefit coverage. We reviewed a sample notice that was distributed to employees the first week of March 2015, once the City learned of the

requirements of ACA, which notified all employees of the IRS Form 1095-C, Employer-Provided Health Insurance Offer and Coverage Insurance. We also noted the extension that the City received from the IRS due to the IRS's delay of the due date of the forms. Payroll Audit Division is responsible for transmitting the payroll audit batches containing required applicable employee information. Based on our interviews with the Division, we were told that the Division would electronically submit the forms to the IRS by the extended deadline. The IRS extended the deadline for 1095-C report submission to June 30, 2016.<sup>2</sup>

## **PEPRA Compliance Activities are Monitored through Process and System Controls**

Background: The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. The greatest impact is on new CalPERS members, and the treatment of pre-and post-January 1, 2013 hires, with regard to contributions and benefits. First, for new members, the pension contribution amounts have changed. For members hired on or prior to December 31, 2012, (classic members), the City can continue to pay all or a portion of the member portion. We assessed the City's compliance where applicable.

In our payroll testing, we identified new members, or those hired after January 1, 2013, to verify that the City was not paying CalPERS contributions, as well as to ensure that combined contributions to defined benefit plans did not exceed the employer's contribution up to the pensionable compensation limit. We did not find any exceptions. Further, we found the risk of non-compliance is low based on the system controls in place, i.e., FUND\$ has employees coded by either Classic or PEPRA.

Another requirement of PEPRA is the calculation of Pensionable Compensation, which refers to employee pay that is factored into the calculation of the pension benefits for new members under PEPRA when they retire. PEPRA defines Pensionable Compensation as "the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules."

To ensure that Pensionable Compensation is calculated correctly, pay codes are used as system controls are in place to ensure the City does not inappropriately count the 13 unallowable pay types toward Pensionable Compensation, such as:

- Any one-time or ad hoc payments
- Bonuses
- Housing or transportation reimbursements
- Overtime allowances
- Uniform allowances
- Vacation time

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<sup>2</sup> New Due Dates for Filing Forms 1095-B, 1094-B, 1095-C and 1094-C -- 29-DEC-2015

The due dates for the 2015 information reporting requirements under I.R.C. §§ 6055 and 6056, have been extended.\*The due date for furnishing the 2015 Form 1095-B, Health Coverage, was changed from January 31, 2016, to March 31, 2016; and\*The due date for filing with the Service the 2015 Form 1094-B, Transmittal of Health Coverage Information Returns, and the 2015 Form 1095-B, Health Coverage, was changed from February 29, 2016, to May 31, 2016. If filing electronically, the due date was changed from March 31, 2016, to June 30, 2016.\*The due date for furnishing the 2015 Form 1095-C, Employer-Provided Health Insurance Offer and Coverage, was changed from January 31, 2016, to March 31, 2016; and\*The due date for filing with the Service the 2015 Form 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns, and the 2015 Form 1095-C, Employer-Provided Health Insurance Offer and Coverage, was changed from February 29, 2016, to May 31, 2016. If filing electronically, the due date was changed from March 31, 2016, to June 30, 2016.

System pay-codes distinguish between PERSABLE and non-PERSABLE compensation; further, the employees are coded as either PEPRAs or Classic. When reports are sent to CalPERS, if someone is coded incorrectly, CalPERS will reject the payment transaction. The City reported some rejections in the past, which would have resulted from HR not accurately capturing the newly hired employee's appropriate CalPERS status. For example, if a new hire, prior to the hire date, had a previous CalPERS membership, he/she would be grandfathered in as a Classic member. On the other hand, a rejection would occur if newly hired employees were not classified appropriately as PEPRAs if hired on or after the January 1, 2013 date and not a Classic member.

PEPRA also instituted changes related to retirees (or annuitants). For PERS retirees interested in working for a public employer in the same retirement system from which they retired (without reinstatement from retirement), PEPRA has certain requirements that need to be met. These requirements include a 180-day waiting period for all employees who retire from a public employer before a retiree can return to work within the same retirement system without reinstating from retirement, unless a specified exception applies. This 180-day waiting period begins on the date of retirement. If a retiree desires to work for the City, he/she would go through the normal hiring process. During the hiring process, HR would determine if the retiree met the requirements of CalPERS in determining employment eligibility.

In addition, under PEPRA, all CalPERS retirees who return to work in a PERS agency are prohibited from working more than 960 hours per fiscal year. We tested this requirement related to retired annuitants (staff working after retirement) to ensure that they do not work over the maximum allowable 960 hours in a fiscal year. We reviewed a report of hours worked by retired annuitants that showed no exceptions. We also noted that the City Auditor's office runs a report on a pay period basis that shows the number of hours an annuitant works cumulatively per fiscal year. This report is distributed to each department that has annuitants so that the department can monitor the 960 hour limit.

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## OTHER AREAS OF CONSIDERATION

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### IMPROVED AUTOMATION COULD REDUCE DIVISION'S TIME-CONSUMING REVIEW EFFORTS

#### Department Level Inefficiencies and Manual Processes

Through our survey of Payroll Clerks and interviews with Payroll Audit Division staff, we found that there is a considerable opportunity to reduce processing time and resources with a more modern, automated time keeping system. Payroll Clerks reported they spent between 15 minutes to 8 hours over the course of two days following up with their respective departments on incomplete information or for corrections due to estimating the last two days of the pay period or lack of manager or supervisor signatures. However, an automated self-service system would not be a cure-all. Some payroll clerks reported an automated system would only improve processes if system interfaces between their department shadow systems and the payroll system existed. Any future system should interface with external department shadow systems and accurately transfer the data to the new payroll system. For example, Health Services uses Time-study Buddy, and uniformed departments such as Police and Fire use pre-determined schedule software to track time and attendance. For other departments, the upgrade to a more modern system would eliminate the need for some shadow systems altogether.

Collecting time and labor after the pay period ends allows for the best practice of verification of all information submitted, including salary, wage rate, overtime calculation, and leave before payroll is processed. Conversely, the manual processes required to ensure time entry completed for the largest City departments to meet the payroll timeline requires most City departments' supervisors to approve their employees' time and labor for a pay period at least one day prior to the end of that pay period for submission to their Department Payroll Clerk. This requires many City employees to enter their time and labor anywhere from one to three days prior to the end of a pay period. Staff explained through our Payroll Clerk Survey that the current payroll timeline creates unnecessary work for themselves and for all City department supervisors that are required to correct employee time and labor information.

Collecting time and labor prior to the end of the pay period is not a common practice. In order to maximize the accuracy of payroll data prior to issuing paychecks, the industry norm is to collect time and labor data immediately following the close of the pay period in which the work occurred. Approving time and labor before actual work has been performed increases the risk that inaccurate information will be transmitted to the Division. Ultimately, this inaccurate information could result in errors requiring adjustments in subsequent paychecks, undocumented or unapproved leave or sick time, or incorrect payments to employees.

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## CONCLUSIONS

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Given that the City's Payroll Audit Division is a mature organization comprised of staff with a high degree of institutional experience and knowledge in both Payroll and Audit functions, we found it has the capacity to administer more advanced business processes that would contribute to greater efficiencies. With a more modern financial system, it is highly likely that significant staff time could be saved and cycle time could be reduced if electronic accurate time and attendance data were transmitted through system interfaces between Department timekeeping systems and the current Payroll system. However, until a more robust payroll system is in place, risks associated with manual processes exist. The current payroll system requires hard copy timecards and time sheets, wet signatures, and manual processes to audit and validate employee time worked, at both the department level, and once Payroll Audit receives it. While most of the major errors are corrected prior to the close of the pay period through (1) the back and forth between the Payroll Clerks, (2) their department staff, and (3) management, some errors remain. However, current procedures are designed to identify and correct errors through Payroll Audit's review of payroll once the pay period has closed.

Therefore, we found the risks to internal controls related to the manual process to be mitigated by a high-level of review, exception reporting, and oversight by Payroll Audit Division staff. We found the Division has adequately assigned responsibilities to ensure a crosscheck of duties throughout their activities and roles in the payroll processing. Further, more than one person oversees payroll functions, and various levels of authorization are required from all key functions, from employee additions, changes, time entry to reconciliation and upload into the GL and disbursements of funds.

We noted that an Enterprise Resource Planning (ERP) system would leverage the ability to route transactional data electronically between functional users and departments through workflows. An automated workflow system would help the City reduce potential errors associated with its payroll processes that are manually intensive, paper-based, and redundant. To reduce processing times and the need for paper-based time-keeping and payroll systems, the Payroll Audit Division could benefit from leveraging the existing documented "as-is" processes compiled by the GFOA, designing documented "to-be" processes, and working toward adoption of these for the new system. If and when the City decides to acquire a new ERP system, an effective change management program will also need to be implemented to help ensure proper communication, input, and buy-in from all process stakeholders during the transition and to protect the integrity of the City's financial data.

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# RECOMMENDATIONS

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## I. Additional Controls the Auditor May Wish To Consider

1. At a minimum, to ensure that proper access controls over the payroll process are appropriate, and in the absence of a report that can be readily produced due to system software, the Deputy Auditor over Payroll Management should work with IT to remove all access (within reason as to not disrupt the payroll process), to rebuild system access rights and user key access and edit controls within FUNDS modules.
  - a. Once the Deputy Auditor, working with the IT Department, has revised user access and edit controls, should any key positions, roles, and responsibilities be found to be incompatible, the Payroll Audit Division may then consider making changes to user's access or changes in the Payroll Audit Division's organizational structure.
2. In the absence of an access controls report, there may be a need for enhanced controls over super-user edit access to avoid potential abuses. The Auditor should consider implementing spot checks by performing the following:
  - a. The existing report that shows any duplicate payments to one employee or one bank account should be forwarded to someone outside of the Payroll Audit Division or someone that is not involved in payroll processing. Any changes that do not appear reasonable should be investigated.
  - b. On a periodic basis, request a report from HR and review the payroll for any names of employees that are no longer employed by the City and run it against paycheck names and account numbers.
3. As a stop-gap measure to address potential control issue areas among staff with possible incompatible access or edit rights, the Division should run periodic reports to monitor changes, such as changes in vacation balances, pay rates, and deferred compensation amounts.
4. Although a City administrative regulation provides guidance on the process to grant employee access to various systems, the Division should formally develop policies and procedures for granting, maintaining, and terminating access to payroll-related areas of the financial, human resources, and timekeeping information systems to provide clear guidance on documenting changes and continuous monitoring.
5. The Payroll Audit Division should develop a procedures manual for running COGNOS report queries to ensure that all reports are catalogued for easy access, in the absence of key personnel with report query expertise.

6. We observed current access and edit rights for the Accounting Technician in Payroll Audit. Based on current access and edit rights granted to this position, the City Auditor should consider reviewing access and edit rights for this position to determine if they are incompatible between Payroll Audit functions and Human Resource functions. This position currently performs benefits processing tasks, such as additions of dependents and changes in deferred compensation deductions. The position also has access to payroll related functions, such as the ability to change vacation, etc. The City Auditor should consider the following:
  - a. Review and determine whether proper segregation of duties exist. If the City Auditor determines that there may be a risk of access to both Payroll and HR data, there may be a need to separate and realign the duties and responsibilities that are HR related to the HR Department.
  - b. In the interim, to address this issue, we suggest periodic reports are run by an independent reviewer in Internal Audit (that is not involved in payroll and benefits processing) to ensure that all changes made to deferred compensation and other benefit-related changes are consistent with source documentation.

## **II. Additional Controls Other City Departments May Wish To Consider:**

7. The City Manager should require that all Department Clerks have a designated back up, and ensure detailed desk procedures are in place for guidance in the event of prolonged absences of the primary Payroll Clerk to ensure continuity. Payroll Audit should confirm procedures and appropriate back-up personnel exists, and report to the City Manager on progress.



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## **APPENDIX A – CITY OF BERKELEY EMPLOYEE SURVEY AND SURVEY RESULTS SUMMARY**

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As part of this performance review, we conducted an Internet-based survey of all City of Berkeley payroll clerks. The survey questions are included below. While the full response data was provided separately to the Finance Administrator, we also include a summary of those responses that were most relevant to this report after the master question listing. All responses were recorded anonymously. Of the 21 City of Berkeley Payroll Clerks surveyed, we received 17 responses, or 81 percent of participants fully completing the survey questions.

## City of Berkeley - Payroll Clerk Survey

City of Berkeley - Payroll Audit - Short Survey! (Answers needed by Wednesday, 4/20/16, 5 p.m.)

Hello,

As you may remember from our meeting back in March, MGO is conducting a performance audit of Payroll operations for the Auditor's Office. In order to save time, we are issuing this survey to identify topics that may impact the current payroll process. The survey should take between five (5) and ten (10) minutes of your time. **We appreciate your cooperation and participation by Wednesday, April 20, by 5 p.m.** Please be assured that all your responses will be reported in the aggregate, and that your individual responses will be kept confidential. Thank you!

\* 1. Please indicate the department you perform payroll duties for:

- Police
- Fire
- Public Works
- HHCS
- PRW
- Library
- City Manager
- Public Safety Accounting
- Planning
- Rent Board
- Finance
- Other - Please Enter Below:

\* 2. How is time tracked (and entered into time card/ time sheets) in your Department? (check all that apply)

- Hourly
- By exception (no time entry is required of these employees)
- By staffing schedule or staffing report
- Other

Other (please specify)

\* 3. Do you have a back-up person that can perform your duties in your absence?

- Yes
- No
- In process of cross-training another individual.

\* 4. Do you have desk procedures describing your payroll duties for reference, should someone need to cover for you unexpectedly?

- Yes
- No

\* 5. In your department, would it improve the accuracy of employee time card/time sheet submission if they were provided to you **after** the pay period ended, i.e. if the employee's time was actual time worked, versus the current process, where some time is estimated the last few days of the pay period?

- Yes
- No

\* 6. In reference to Q5 above, please explain why or why not.

\* 7. Related to Q5 above, do you think a new process requiring **actual** time worked vs. **estimated** time worked for the last few days of the pay period, thereby changing the cutoff day from Wednesday to the following Monday, could be feasible - if time cards were submitted electronically (rather than hard copy) to you, complete with supervisor signature?

- Yes
- No
- Maybe, but further automation and interfaces between systems would be required.

Please add any additional comments or feedback to this question:

\* 8. Are your Department Supervisors generally timely in signing employee time cards/time sheets and providing them to you by your requested deadline?

- Yes
- No
- Depends

If no, or depends, please explain the primary reasons why not, i.e. there is no procedure or policy in place to require it.

\* 9. Do you think requiring Supervisors to submit electronic approvals/signatures for time cards/time sheets would improve timeliness? (Assuming the employees were also entering their time and labor electronically).

- Yes
- No

\* 10. Once time cards/time sheets are signed by Supervisors, and are provided to you for review and time entry, do employees ever have access to the time cards/time sheets, which would allow alterations to be made?

- Yes
- No

\* 11. What is your estimate of time spent going back and forth **with your Department Supervisors** to ensure accuracy or signatures are present for each payroll?

\* 12. What is your estimate of time spent going back and forth with **Payroll Audit** to ensure accuracy or signatures are present for each payroll?

\* 13. What are the main reasons Payroll Audit kicks back time cards/time sheets to your department? Please be specific as possible on the types of errors or corrections required and why you believe they occur.

\* 14. Finally, if you could change anything about the current payroll process to improve accuracy or timeliness or to just make your job easier, what would it be?

Done

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# APPENDIX B – AUDIT FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSE SUMMARY

Findings and Recommendations	Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
<p>1 At a minimum, to ensure that proper access controls over the payroll process are appropriate, and in the absence of a report that can be readily produced due to system software limitations, the Deputy Auditor over Payroll Management should work closely with IT to remove all access (within reason as to not disrupt the payroll process), to rebuild system access rights and user key access and edit controls within FUND\$ modules.</p>	<p>We agree with the recommendation:</p> <p>Payroll Audit will work with IT to determine how we can review and verify departmental access to the payroll system given the limitations of the SunGard system, and will then create a listing of the employees’ access to the payroll system to the extent possible, and Payroll Audit will review the list and determine needed access changes.</p> <p>If we cannot develop an adequate list from the system, we will consider whether to pursue contracting with SunGard to do so, or whether, to work with IT to remove all payroll access and rebuild system access rights and controls. We would not be able to do this for the entire City at one time because it would delay payroll input for the departments whose payroll clerks enter time during the weekend and consequently delay the City’s payroll processing. If we chose this option, we would take action one department at a time to lessen the impact of the weekend work.</p>	<p>Target date: 12-31-16</p>	

Findings and Recommendations		Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.a	Once the Deputy Auditor, working with the IT Department, has revised user access and edit controls, should any key positions, roles and responsibilities be found to be incompatible, the Payroll Audit Division may consider making changes to user's access or changes in the Payroll Audit Division's organizational structure.	<p>We agree with the recommendation:</p> <p>Expired access to the payroll system will be removed. If the SunGard system design permits, incompatible access will also be removed. We will develop proper procedures to mitigate this problem and monitor access.</p>	Target date: 12-31-16	
2.a	<p>In the absence of an access controls report, there may be a need for enhanced controls over super-user edit access to avoid potential abuses. The Auditor should consider implementing the following spot checks by performing the following:</p> <ul style="list-style-type: none"> <li>▪ The existing report that shows any duplicate payments to one employee or one bank account should be forwarded to someone outside of the Payroll Audit Division or someone that is not involved in payroll processing. Any changes that do not appear reasonable should be investigated.</li> </ul>	<p>We agree with the recommendation:</p> <p>Payroll Audit will forward the report to the department that processed the payroll and require someone who is not involved in payroll processing to ensure the legitimacy of the payments.</p> <p>If we needed, Payroll Audit will develop Impromptu reports of duplicate payments to one employee or a bank account.</p>	Target date: 10-31-16	



Findings and Recommendations		Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
2.b	<p>In the absence of an access controls report, there may be a need for enhanced controls over super-user edit access to avoid potential abuses. The Auditor should consider implementing the following spot checks by performing the following:</p> <ul style="list-style-type: none"> <li>▪ On a periodic basis, request a report from HR and review the payroll for any names of employees that are no longer employed by the City and run it against paycheck names and account numbers.</li> </ul>	<p>We agree with the recommendation:</p> <p>Payroll Audit will review our existing reports every pay period and, if needed, develop an Impromptu report that will allow us to compare terminated employees, per Human Resources records, against paycheck records of names and account numbers.</p>	<p>Target date: 10-31-16</p>	
3	<p>As a stop-gap measure to address potential control issue areas among staff with possible incompatible access or edit rights, the Division should run periodic reports to monitor changes, such as changes in vacation balances, pay rates, and deferred compensation amounts.</p>	<p>We agree with the recommendation:</p> <p>As noted in our response to recommendation 1, limitations in the SunGard system prevent generation of an adequate report for user access (in all FUND\$ modules, including the FUND\$ payroll/personnel module) but we will periodically run existing reports and work with IT, HR, and Finance regarding alternative measures.</p>	<p>Target date: 12-31-16</p>	

Findings and Recommendations		Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
4	<p>Although a City administrative regulation provides guidance on the process to grant employee access to various systems, the Division should formally develop policies and procedures for granting, maintaining, and terminating access to payroll-related areas of the financial, human resources, and timekeeping information systems to provide clear guidance on documenting changes and continuous monitoring of user access requests and changes.</p>	<p>We agree with the recommendation:</p> <p>Payroll Audit will work with IT and HR to develop policies for granting, maintaining, and terminating access to the payroll/personnel system.</p>	<p>Target date: 6-30-17</p>	

Findings and Recommendations		Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
5	The Payroll Audit Division should develop a procedures manual for running COGNOS report queries to ensure that all reports are catalogued for easy access, in the absence of key personnel with report query expertise.	<p>We agree with the recommendation:</p> <p>Payroll Audit will review and update the list of COGNOS reports now being run by the Auditor II in Payroll Audit, add information about the purpose of each report, and identify the last time it was run. We will also work to develop written material about how the payroll file structure works in the SunGard system so that others can better use COGNOS for payroll. We will work with the Accounting Technician in payroll, who has a COGNOS license, to back up the Auditor II on increasingly more complex reports. We will also work with departments who have COGNOS licenses already (such as Human Resources) to determine what would be needed for them to run these reports themselves. Payroll Audit will encourage departments to designate employees who can learn how to write Impromptu reports for their own departments.</p>	<p>Target date:</p> <p>6-30-17</p>	

Findings and Recommendations	Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
<p>6 We observed current access and edit rights for the Accounting Technician in Payroll Audit. Based on current access and edit rights granted to this position, the City Auditor should consider reviewing access and edit rights for this position to determine if they are incompatible between Payroll Audit functions and Human Resource functions. This position currently performs benefits processing tasks, such as additions of dependents and changes in deferred compensation deductions. The position also has access to payroll related functions, such as the ability to change vacation, etc. The City Auditor should consider the following:</p> <ul style="list-style-type: none"> <li>a. Review and determine whether proper segregation of duties exist. If the City Auditor determines that there may be a risk of access to both Payroll and HR data, there may be a need to separate and realign the duties and responsibilities that are HR related to the HR Department.</li> </ul>	<p>We agree with the recommendation:</p> <p>The City Auditor will determine whether staff from the Performance Audit division or staff from another department should handle the recommended review.</p>	<p>Target date: 6-30-17</p>	

Findings and Recommendations		Corrective Action Plan	Expected Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
6	<p>b. In the interim, to address this issue, we suggest periodic reports are run by an independent reviewer in Internal Audit (that is not involved in payroll and benefits processing) to ensure that all changes made to deferred compensation and other benefit-related changes are consistent with source documentation.</p>			
7	<p>The City Manager should require that all Department Clerks have a designated back up, and ensure detailed desk procedures are in place for guidance in the event of prolonged absences of the primary Payroll Clerk to ensure continuity. Payroll Audit should confirm procedures and appropriate back-up personnel exists, and report to the City Manager on progress.</p>	<p>We agree with the recommendation:</p> <p>The City Manager reports that desk procedures are in place and that backups are in place (or currently being trained) for the payroll clerks who responded to the survey. We will also inform payroll clerks about the importance of having backups and desk procedures at our next CSI meeting, scheduled for June 2016.</p>	<p>Target date: June 2016</p>	