



Office of the City Auditor

INFORMATION CALENDAR

October 3, 2017

To: Honorable Mayor and Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Status Report: Performance Audit of the Payroll Audit Division

INTRODUCTION

On June 28, 2016, the City Auditor's Office presented to City Council an independent audit completed by Macias Gini & O'Connell (MGO) LLP: [Performance Audit of the Payroll Audit Division](#).¹ Overall, MGO found that 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. 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. This is the City Auditor's Office third report back to Council on the implementation of MGO's audit recommendations. We issued our first status report on [January 24, 2017](#)² and our second status report on [May 30, 2017](#)³. We will provide our next report on January 30, 2018.

CURRENT SITUATION AND ITS EFFECTS

This status report provides information on the actions that the Payroll Audit Division of the City Auditor's Office, with assistance from Information Technology staff, has taken to address MGO's recommendations. Details on progress made are in the attachment to this report.

MGO's audit included ten recommendations. Nine have been implemented and one is partially implemented. Information Technology recently provided payroll security access reports in response to recommendation one. Payroll Audit is currently reviewing these reports.

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

¹ MGO Payroll Audit (6/28/16): http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/A.2%20RPT%20Performance%20Audit%20of%20Payroll%20Division.pdf

² First Audit Status Report (1/24/17): https://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/118_MGO%20Payroll%20Audit_012417.pdf

³ Second Audit Status Report (5/30/17): https://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/118_MGO%20Payroll%20Audit_053017.pdf

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. Placement of the Payroll Audit Division within the City Auditor's Office means that we cannot audit payroll activities in accordance with government auditing standards as that creates the appearance of a lack of independence. Therefore, 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.

ENVIRONMENTAL SUSTAINABILITY

The payroll process as it currently exists is a highly labor-intensive, manual, expensive, paper-based process. 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

Enterprise Resource Planning is currently underway to replace the City's core financial system, FUND\$. Replacement will include implementation of a new personnel and payroll system that will address many of MGO's recommendations regarding inadequacies and inefficiencies of the current payroll module and paper-based, manual processes. Although the new system is expected to more effectively and efficiently address MGO's concerns, in the interim, the Information Technology department has provided Payroll Audit with reports that significantly reduce the risk of unauthorized changes to the payroll 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. If the new payroll/personnel system works as intended, some of the labor-intensive controls put in place to address risks identified in this audit may no longer be needed.

CONTACT PERSON

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Attachments:

1: Auditee Response Form: Payroll Audit Recommendation Summary Status_092617

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

Findings and Recommendations	Corrective Action Plan	Expected or Actual 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: 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</p>	<p>New Target date: 1-30-18</p> <p>Target date to determine whether alternative action can be funded in next year’s budget and outsourced: 6-30-17</p> <p>Previous Target Date: 12-31-16</p>	<p>Initial Status 1-24-17: Partially Implemented. Meeting with IT staff to determine if an access list is available.</p> <p>Status Update 5-30-17: Not Implemented. IT provided a reformatted version of the FUND\$ access report identifying Payroll users’ group access and account access, but after testing it, we determined that report continues to be unusable for identifying inappropriate access. Extensive computer programming would be needed to make the report usable and IT has not been able to allocate such resources. Payroll audit will assist IT to quantify the amount of new funding that Council would need to appropriate in the FY 2018-2019 budget in order to</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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	<p>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>address the significant risks involved, and to determine whether IT can contract with SunGuard to make the changes. Although the new ERP system should address the significant risk of improper access for payroll and other modules, this audit recommendation was for what must be done immediately to address the risk. Payroll Audit reviewed the updated report, and determined that it is not implemented.</p> <p>Status Update 9-26-17: Partially Implemented.</p> <p>IT has provided new reports identifying Payroll users’ group and security access, and departmental account access, but Payroll Audit needs more time to review the reports.</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>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>	<p>We agree with the recommendation: 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>	<p>New Target date: 9-30-17 Previous Target Date: 12-31-16</p>	<p><u>Initial Status 1-24-17: Partially Implemented.</u> Meeting with IT staff to determine if an access list is available. <u>Status Update 5-30-17: Not Implemented.</u> EXPIRED ACCESS: IT reviews monthly reports from HR on staff changes and change access appropriately for terminated employees. IT reviews inactive user reports monthly and deactivates access for users who have been inactive for over 30 days. In addition to this, users who have not logged in for 90 days are automatically locked out of the system (de-activated) and IT must manually re-activate their accounts.</p>

City of Berkeley City Auditor's Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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			<p>INCOMPATIBLE ACCESS: this is dependent on successful completion of task 1 above.</p> <p><u>Status Update 9-26-17: Implemented.</u></p> <p>IT receives a report every two weeks from HR for terminated and transfer employees, and inactivates access to payroll for terminated employees. For transfer employees, IT adds access for the new department and disables access for the old department.</p> <p>On a quarterly basis, Payroll Audit will review payroll access security reports to ensure IT removed the access (as needed) for transferred and terminated employees.</p> <p>Since historical data cannot be removed from the FUNDS</p>

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 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>2.a 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"> The existing report that shows any duplicate 	<p>We agree with the recommendation: 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>New Target date: 6-30-17 Previous Target Date: 10-31-16</p>	<p>system, the names of the terminated employees will still appear on the payroll access reports but with a notation that the access is <u>disabled</u>. INCOMPATIBLE ACCESS: Payroll Audit reviewed user access for all super users in Payroll Audit (key positions) and found all but one had proper access. An Accounting Technician’s access to change accrual balances was removed.</p>
<p>2.a 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"> The existing report that shows any duplicate 	<p>We agree with the recommendation: 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>New Target date: 6-30-17 Previous Target Date: 10-31-16</p>	<p><u>Initial Status 1-24-17: Implemented.</u> Payroll Audit and IT developed two reports for duplicate checks and direct deposits. Payroll Audit staff verify the reports and then forward them to Performance Audit for final review every pay period.</p>

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 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>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.</p>	<p>If we needed, Payroll Audit will develop Impromptu reports of duplicate payments to one employee or a bank account.</p>		<p>Status Update 5-30-17: <u>Partially Implemented.</u> The "Multiple Checks Issued to Employees" report has been created but has some data issues that need to be fixed. The status of this recommendation was previously reported as implemented because IT submitted a report, but subsequent review determined the need for revision to the report. Due to IT staff personal emergencies, fixes for this task were not completed this month but will be fully in place by 6-30-2017.</p> <p>Status Update 9-26-17: <u>Implemented.</u> The IT department has fixed the "Multiple Checks Issued to Employees" report. A Payroll Auditor II reviews and signs off</p>

City of Berkeley City Auditor's Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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			<p>on the accuracy of the report before it is forwarded to Performance Audit for a spot-check review.</p> <p>The "Multiple Checks Issued to Employees" report captures the name of the employees who receive more than one payment in form of a paper check or a direct deposit voucher or a combination. No risk of overpayment exists with employees with multiple direct deposits since the payroll system creates multiple direct deposits from only one payment.</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>2.b</p> <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"> 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. 	<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>New Target date: 6-30-17</p> <p>Previous Target Date: 10-31-16</p>	<p><u>Initial Status 1-24-17:</u> <u>Implemented.</u> Payroll Audit and IT developed a report for terminated employees with payment. Payroll Audit staff verify the report and then forward it to Performance Audit for final review every pay period.</p> <p><u>Status Update 5-30-17:</u> <u>Partially Implemented.</u> The report has been created and successfully tested in non-production environment. It needs to be moved to production environment and verified there. Due to IT staff personal emergency, fixes for this task were not completed this month but will be fully in place by 6-30-2017.</p> <p><u>Status Update 9-26-17:</u> <u>Implemented.</u></p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>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.</p>	<p>We agree with the recommendation: 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 Implemented: 04-18-17</p>	<p>The IT department has fixed the "PR Checks Issued to Terminated Employees for Pay Period" report. An Auditor II in Payroll Audit reviews and signs off on the accuracy of the report before it is forwarded to Performance Audit for a spot-check review.</p>
			<p><u>Initial Status 1-24-17: Partially Implemented.</u> Meeting with IT staff to determine if a method is available in addition to our current reports. <u>Status Update 5-30-17:</u> <u>Implemented.</u> Payroll Audit provides an Accrual report to departments for review and distribution to supervisors. The Deferred Compensation reports in the payroll system are compared with the electronic files uploaded to</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>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 of user access requests and changes.</p>	<p>We agree with the recommendation: Payroll Audit will work with IT and HR to develop policies for granting, maintaining, and terminating access to the payroll/personnel system.</p>	<p>New Target date: 9-30-17 Previous Target Date: 6-30-17</p>	<p>PERS, Mass Mutual, and Prudential for accuracy by someone in Payroll Audit other than the person in charge of uploading the files. Only HR has authority to make changes to employees' pay records. Payroll Audit reviews the changes every pay period.</p>
			<p><u>Not Implemented – No change since 1-24-17 report.</u> Payroll Audit will be scheduling meetings with IT and HR to develop policies for granting/maintaining/removing access to the payroll system. <u>Status Update 9-26-17: Implemented.</u> IT has provided procedures for granting, maintaining and terminating payroll access. The Human Resources Director and the Deputy City Auditor for</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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			<p>Payroll Management now approve all access to payroll and Human Resources modules.</p>
<p>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>	<p>We agree with the recommendation: 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</p>	<p>New Target date: 9-30-17 Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u> Payroll Audit will be scheduling meetings with both the Auditor II and the Accounting Technician to comply with the recommendation. <u>Status Update 9-26-17: Implemented.</u> The Auditor II in Payroll Audit has completed the task of listing all Cognos reports now being run in Payroll Audit. The list in the Payroll Audit “G” drive identifies the original requester, the description of the report, and the last time it was used. In addition, the Auditor II has provided</p>

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 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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	<p>be needed for them to run these reports themselves. Payroll Audit will encourage departments to designate employees who can learn how to write Imromptu reports for their own departments.</p>		<p>procedures for end users to run these reports. The Accounting Technician in Payroll Audit is learning how to write Cognos reports.</p>
<p>6.a 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</p>	<p>We agree with the recommendation: The City Auditor will determine whether staff from the Performance Audit division or staff from another department should handle the recommended review.</p>	<p>New Target date: 9-30-17 Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u> Payroll Audit will be scheduling meetings with IT to determine if the segregation of duties is permitted in the FUNDS system. If not, an alternative way will be developed to comply with the recommendation. <u>Status Update 9-26-17: Implemented.</u> IT provided a new FUNDS access report identifying citywide Payroll users’ group access and account access. The Accounting Technician payroll</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>vacation, etc. The City Auditor should consider the following: 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.</p>			<p>access has been reviewed and the only weakness identified was the ability for the Accounting Technician to change accruals. To address the risk of unauthorized accrual awards, the Accounting Technician’s access to accruals has been removed and the edit rights to make changes to the Citywide employee accruals have been limited to Auditor IIs in Payroll Audit.</p>
<p>6.b 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</p>	<p>We agree with the recommendation: The City Auditor will determine whether staff from the Performance Audit division or staff from another department should handle the recommended review.</p>	<p>New Target date: 9-30-17 Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u> Payroll Audit will be scheduling meetings with IT, Performance Audit and HR to comply with the recommendation. <u>Status Update 9-26-17: Implemented.</u> An Auditor II in Payroll Audit, who is not involved in benefit</p>

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

Findings and Recommendations	Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
<p>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"> 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>processing, downloads Deferred Comp and SRIP payments uploaded by the Accounting Technician every pay period. The Auditor II compares these downloaded files with the source documents in the payroll system and signs off on the accuracy of the amount reported on behalf of the employees.</p>

City of Berkeley City Auditor's Office - Response to MGO Payroll Audit Fiscal Year 2016

Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 092617

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<p>7</p> <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.</p> <p>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>Actual date: 6-30-16</p>	<p><u>Implemented.</u> Desk procedures are already in place and staff have been trained to back up the payroll clerks. Also, the importance of having desk procedures and backups was discussed at the CSI meeting.</p>

