



Central Payroll Processing Audit

City of Tulsa Internal Auditing
September 2012



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A handwritten signature in black ink that reads "Ron Maxwell".

Ron Maxwell, CIA, CFE
Chief Internal Auditor

A handwritten signature in blue ink that reads "Clift Richards".

Clift Richards, CPA
City Auditor

AUDIT TEAM:

Cecilia Ackley, CPA, Internal Audit Manager
Rex Smith, CISA, Senior Auditor
Lela Walden, CPA, Senior Auditor

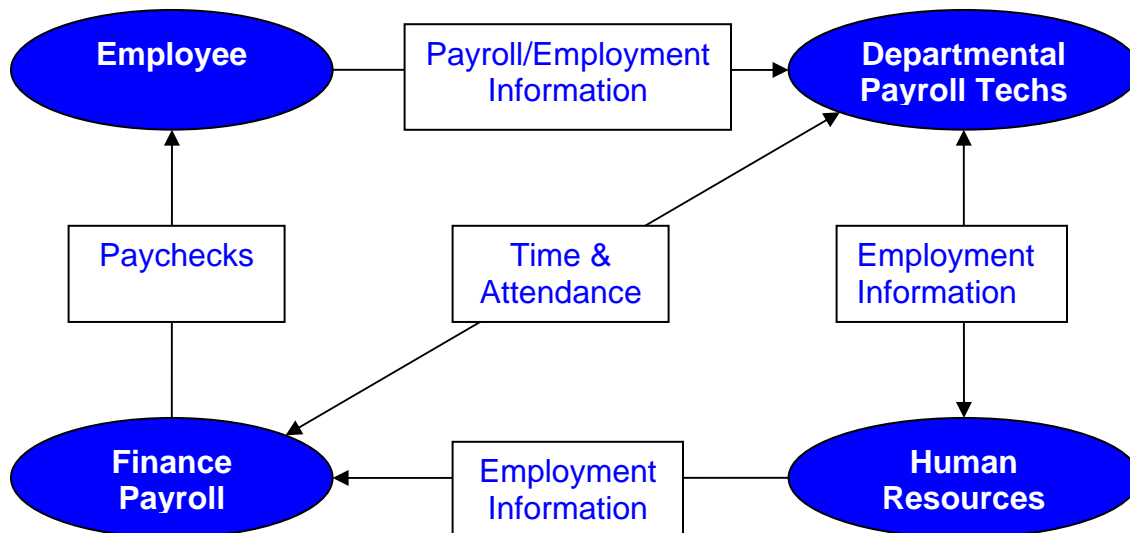
INTRODUCTION

The City of Tulsa maintains a decentralized payroll function. Human Resources onboards new employees and individual City departments process time keeping and report data to Central Payroll. Central Payroll is part of the Finance Department and is responsible for timely and accurate processing of the City of Tulsa payroll.

SCOPE

The scope of this engagement was limited to the Central Payroll processing function. Internal Auditing used data analytic tools to examine 100% of certain categories of transactions and data processed in different applications and databases. We tested over 10,000 payroll and related records for inconsistencies, duplication, errors, and other possible breakdowns in internal controls.

PAYROLL PROCESSING



OBJECTIVES

The objectives of the Central Payroll Processing Audit included the following:

- Document and evaluate the adequacy of the system of internal controls over the central payroll process.
- Evaluate if Central Payroll processes and operations are in place and functioning properly.
- Ensure payroll calculations are accurate, complete and performed in a timely manner.
- Confirm accounting for payroll transactions are properly classified, reconciled and posted to the general ledger.

AUDIT METHODOLOGY AND PROCEDURES

Internal Auditing used standard audit methodology including interviews, observations, and substantive testing in the performance of this audit.

Data analytic tools were used to test 100% of the payroll population direct deposits and manual checks for the January 15, 2012 pay period. A prototype Continuous Auditing Program using data analytics was designed and employed.

The purpose of continuous monitoring is to provide timely identification of problems or weaknesses, thus providing for timely corrective action as well. Continuous monitoring systems can examine 100% of transactions and data processed in different applications and databases. Tests were completed to confirm only current employees were paid, no duplicate payments were made, there were no gaps in check/deposit numbers, the step increase effective January 1, 2012 was correctly calculated and only eligible employees received the increase.

Social Security Number verification was completed using the Social Security Administration online verification tool. The entire payroll file of 5,273 employee and retiree names and social security numbers was sent to the Social Security Administration for verification. Based on the results of this work, Human Resources requested additional verifications of “stale” accounts and retiree benefit recipients, which provided necessary data for resolving several data discrepancies. Data analytics was used to verify 100% of over 10,000 individual records. 74 names were reported as deceased and subsequently verified as resolved on the February 15, 2012 payroll. 24 Social Security numbers were not confirmed. Internal Auditing, Human Resources and Central Payroll worked together to complete corrections for name changes and other discrepancies for these records.

Additional audit testing was completed for the following:

- Time sheet collection and processing was verified to supporting documentation for a sample of 30 of 429 employees processed by Central Payroll.
- A sample of 5 of 73 total online, interim or manual checks was verified to requesting department, Human Resources and Central Payroll approvals.
- A sample of 5 of 17 total replacement checks was verified for authorized approval and bank notification.
- A sample of 5 of 58 total voided checks was verified for approval and void processing through the General Ledger system.
- A sample of 3 of a total of 429 employees processed by Central Payroll was tested for pay rates and payroll deductions including verification to signed authorization forms and recalculation of net pay.
- Two non-consecutive payroll period bank account reconciliations were verified for performance and proper posting of payroll transaction totals to the general ledger.

CONCLUSION

We conducted this audit in accordance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Internal controls over the Central Payroll process are adequate to ensure payroll calculations are accurate, timely, reconciled and posted to the general ledger. During the audit we noted the following other observation that could enhance internal controls.

OTHER OBSERVATION

PERIODIC SOCIAL SECURITY NUMBER REVIEWS SHOULD BE COMPLETED

At one time annual SSN reviews were performed by a third party consultant. Due to budget constraints these were eliminated.

Recommendation:

We recommend a periodic review with Social Security Administration records be performed.

Response:

The City of Tulsa utilizes a system of e-verification for all new employees. The Municipal Employees Retirement Plan (MERP) Board has contracted with a consultant to perform daily verifications. Both processes are currently in place.

FOLLOW-UP OF PRIOR AUDIT CORRECTIVE ACTION PLANS (CAPs)

CAP #1 – Employees were paid for vacation, sick leave, and compensation time that they had not earned. The Payroll Division would inform the employee's department of the negative leave balance, but was not following up in the subsequent pay period to ensure the employee's hours worked were reduced by the negative leave balance.

Current Status: The departments are responsible for reconciling their leave records with the central payroll records and making appropriate adjustments as necessary. For those departments that do not make the corrections, the Payroll Department adjusts the employee wages in the following pay period for the amount needed to offset the negative leave balance. This process will be further enhanced with implementation of the new time and attendance system in FY2013.

CAP #2 #8 – There are no written policies and procedures relating to paychecks not claimed by the payee during routine paycheck distribution. Paychecks were not always distributed directly to employees, employees were permitted to receive paychecks for other employees, and paychecks were not always safeguarded during the distribution process.

Current Status: Central Payroll has implemented additional controls for manual checks. The bulk of the effort has been eliminated with the e-advice processing and online notification.

CAP #3 #4 – Check stock used for online and manual payroll checks was not stored properly. Blank checks could be stolen and fraudulent checks prepared.

Current Status: Security and controls over online and manual check stock have been improved. Stock is maintained in a locked cabinet and all checks are logged. Also, a system of positive payment notification with the bank is in place.

CAP #5 – Payroll Signature Card control should be improved.

Current Status: Central Payroll management response from prior audit has been implemented. No exceptions were noted in current testing.

CAP #6 & #7 – During the prior audit, the payroll bank account and general ledger were not being reconciled on a timely basis. At the beginning of the field work, General Ledger Accounting was about five months behind in reconciling the payroll bank account.

Current Status: System enhancements and improved oversight were implemented. Currently, the reconciliations are handled timely.

CAP #10 & #13– The City contracted annually with a vendor to compare the social security numbers listed on the City's payroll data base with records of various federal agencies, such as the Social Security Administration, to determine if the numbers agree with the accompanying name or if the person is deceased.

Current Status: The comment was declined. However, we have addressed it as an Improvement opportunity in the current audit.

CAP #11 – Written policies and procedures for time reporting should be developed to provide guidelines for uniform practices and controls for all City departments.

Current Status: Management agreed and written policies and procedures were implemented.

CAP #9 & #12 – Segregation of Duties related to HR functions. **Current Status:** These were not tested in this audit. They are addressed in Sensitive Payments and New Employee Processing Audits.

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