

September 25, 2014

REPORT #: 2015-03

Bob Elliot, Director of Finance  
Finance

Dear Bob,

Enclosed is the final audit report for the Payroll Operational Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the course of the audit.

Should you have any questions, please feel free to contact Naira Akopyan or myself.

Thank you,



Michele Flynn,  
City Auditor

Enclosure

CC: Yasmin Beers, Assistant City Manager  
Matt Doyle, Director of Human Resources  
Lily Fang, Finance Administrator  
Scott Ochoa, City Manager  
Helen Ross, Accounts Payable Supervisor  
Teri Taylan, Payroll Supervisor  
City Council  
Audit Committee

# **Finance Department Payroll Operational Audit**

**September 25, 2014**

## **Background**

The City of Glendale (City) has a semi-decentralized, exception based payroll process. The Finance Department, Payroll Section is responsible for all payroll processes except time entry.

The Payroll Section has five designated staff, one supervisor, and one administrator. Staff in Payroll is assigned duties that can be separated into four categories: (1) processing payroll for payment of earnings to employees, (2) processing payroll related forms and tasks, (3) making necessary system and/or processing changes related to new or changing payroll related rules and regulations, and (4) responding to employee and third party inquiries. The Payroll Supervisor is also tasked with maintaining updates to classifications and salary grades, assigning job codes to new classifications, and making changes in earnings tables.

City employees are paid semi-monthly, once on the 6<sup>th</sup> and again on the 21<sup>st</sup> of each month. Salaried employees are paid based on standard schedules and hourly employees are paid based on actual time worked. Time entry for leave taken by salaried employees and time data reporting for hourly employees is entered into the Glendale Employee Management System (GEMS) by individual departments each pay period. The pay period for salaried employees are the 1<sup>st</sup> through the 15<sup>th</sup> and 16<sup>th</sup> through the 31<sup>st</sup>. Pay periods for hourly employees are the 27<sup>th</sup> through the 11<sup>th</sup> and 12<sup>th</sup> through the 26<sup>th</sup>.

The steps involved in closing each pay period and

completing the required tasks to confirm and pay employees is logged through a spreadsheet and followed by Payroll staff. Each task is assigned to an individual staff and the progress of completion is recorded. The City Payroll Section not only processes payroll for City employees, but for employees who work for the Glendale Youth Alliance via a Memorandum of Understanding. A separate payroll process is completed for these employees after the City payroll has been confirmed and paid.

The workload in the Payroll Section is directly correlated with regulations dictated by the federal and/or state governments, outcome of labor negotiations with employee bargaining units, City administrative policies, and City provided benefits to employees. The Finance Administrator and the Payroll Supervisor stay abreast of all payroll related regulations and requirements to prompt Payroll staff to make the necessary process changes to comply with new requirements, regulations and negotiation decisions.

Staff in the Payroll Section is also responsible for other duties outside of paying employees such as processing various reimbursement forms, performing information gathering for subpoenas, verification of employment, verification of wages and responding to questions from employees. The work performed by the Payroll Section is accomplished in collaboration with the Human Resources Department (HR), individual department time keepers, third parties, and employees directly.

Currently, the City is exploring the option of upgrading the current version of GEMS or migrating from GEMS to a Tier II Management Information System. The new system is

expected to provide enhancements and capabilities beyond that available in GEMS.

## **Scope, Objective, & Procedures**

The scope of the project encompasses the time frame of Fiscal Year 2013-14. The scope was limited in nature as no detailed testwork was performed. Rather, walk-throughs and interviews were conducted to achieve the project's objective. The objective of this project was to obtain an understanding of the various Payroll processes and determine areas where improvement should be made.

In order to accomplish the objective, the following procedures were performed:

- Obtained an understanding by reviewing applicable City of Glendale's policies and procedures.
- Completed a walkthrough of processes with Payroll, Human Resources, Benefits, and Information Services staff.
- Assessed overall risks and controls within the processes.

## **Summary of Results**

Internal Audit noted that the Payroll Section has implemented procedures and controls to ensure payroll is processed in a complete and timely manner. All necessary steps involved in processing payroll are logged and completed by Payroll staff every pay period. Areas of improvement were noted regarding automation of forms and processes to achieve efficiency and reduce human error; changing the set-up of employee data in the Payroll system

to enhance efficiency at the time a system upgrade or a new Tier II system is implemented, reviewing GEMS access rights for Payroll staff, and the creation of a contingency plan for the Payroll Section in case of an emergency.

The Observations, Recommendations and Management Responses are detailed on the following pages.

Item	Observation / Risk	Recommendation	Management Response
1.	<p>The manner in which employee data has been set up in GEMS has caused inefficiencies with regards to entries for miscellaneous pay actions. Data entry for these actions requires outside knowledge and manual calculation. Additionally, operational decisions rising out of negotiations with employee bargaining groups do not always coincide with system abilities. As a result, Payroll staff creates manual steps to arrive at the intended outcome for each decision.</p> <p style="text-align: center;">* * *</p> <p>There is a risk of error when inefficiencies and manual calculation exist in a process.</p>	<p>It is recommended that during the system upgrade or Tier II migration, the Finance Department review the payroll set up in GEMS, and create a new set up that provides efficiencies, does not require manual calculations outside of the system as part of data entry, and includes a review process of entries made. It is additionally recommended that at the time of operational decisions affecting the payroll system, the Payroll Section be consulted and all system abilities be considered.</p>	<p>Management will identify actions that require manual calculations outside of the system and will implement the recommendation during the system upgrade or Tier II migration. Also, regardless of the system utilized for payroll processing, Payroll staff will be consulted in order to determine potential impacts of operational decisions effective immediately.</p>
2.	<p>The cut-off time for time entry in the Payroll system is typically prior to the last day of the pay period allowing Payroll staff time to process payroll. Hours worked during the days subsequent to the cut-off are estimated. If an employee works over-time during the estimated time it causes additional processes to occur by department time keepers and Payroll staff to ensure timely payment of that overtime.</p> <p style="text-align: center;">* * *</p>	<p>It is recommended that the number of days to close payroll be extended to allow greater efficiencies in processing all time worked within a pay period and reduce the risk of late payments.</p>	<p>Management agrees with the recommendation and is currently working with employee associations to extend the number of days to close payroll. Management will implement the recommendation immediately upon obtaining agreement from all associations.</p>

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	Late payment of wages is a violation of the Fair Labor Standards Act. Additionally, there is no room for error since deadlines are short.		
3.	<p>There is a lack of a contingency plan for the Payroll Section during an emergency.</p> <p style="text-align: center;">* * *</p> <p>Lack of a contingency plan may cause uncertainty, delays, higher costs, and potential damage to City reputation during an emergency.</p>	It is recommended that the Finance Department create a contingency plan for the Payroll Section to use in the event of an emergency.	Management agrees with the recommendation and will begin the process of creating a contingency plan for the Payroll Section. The IS Department is currently working to create a hot site for the City; the Finance Department will coordinate their efforts with the IS Department and City Treasurer's Office. Internal Audit will follow-up to identify and track the progress of the plan.
4.	<p>The separation process in the City lacks efficient and effective internal controls to ensure employees are timely and appropriately separated in the Payroll system.</p> <p style="text-align: center;">* * *</p> <p>There is a risk that a separating employee continues to be paid and receives benefits after they have left the City due to the fact that the separation notice was not submitted to Payroll and the proper entries were not made in a timely manner.</p>	A long term solution that would provide the best internal controls is implementing a time and attendance system, however as an interim solution, it is recommended that the responsible supervisor of the separating employee submit the separation form to the Payroll Section. The supervisor should additionally ensure that all approval signatures have been obtained and all City equipment has been returned prior to the employee leaving the City.	Management agrees with the recommendation and is currently working to change the separation process. Effective immediately, upon receipt of the completed separation form, the HR Department will scan and email the form to the Payroll Section. The form will be the notification prompting the Payroll Section to terminate the employee in the Payroll system.

Item	Observation / Risk	Recommendation	Management Response
5.	<p>There are HR related tasks such as maintaining updates to classifications and salary grades, assigning job codes to new classifications, and setting up benefits related information in GEMS that are currently performed by the Payroll Section. As a result, the Payroll staff has access to areas in GEMS that do not necessarily coincide with their roles and responsibilities.</p> <p style="text-align: center;">* * *</p> <p>There is a lack of appropriate segregation of duties between HR, HR-Benefits, and Payroll.</p>	<p>It is recommended that HR and HR-Benefits related tasks that are currently completed by the Payroll Section be transferred to the appropriate department and section. Access rights in GEMS should also be modified to reflect the tasks that are transferred and be aligned with the roles and responsibilities of each section.</p>	<p>Management agrees with the recommendation and will evaluate tasks currently completed by Payroll to determine appropriateness and will transfer tasks and GEMS access rights that are better aligned with HR and HR-Benefits. The transfer of these tasks is dependent upon HR staffing.</p>
6.	<p>There are various processes that are currently completed by generating reports and manually entering necessary data into forms and/or spreadsheets. Examples of such processes include tracking of payroll tax payments, calculating and entering acting pay, and processing Workers' Compensation benefits.</p> <p style="text-align: center;">* * *</p> <p>These processes are time consuming and are prone to data entry error.</p>	<p>It is recommended that data entry for these processes be automated thereby eliminating manual steps involved.</p>	<p>Management agrees with the recommendation and has already begun looking into automating various manual steps. PeopleSoft nVision reports, using excel functionality will be used to automate these manual processes.</p>

Item	Observation / Risk	Recommendation	Management Response
7.	<p>A detailed review process which includes tracing entries made in GEMS to supporting documentation by an individual other than the person making the entry is currently lacking. Examples of such entries are garnishment orders.</p> <p style="text-align: center;">* * *</p> <p>Lack of an independent detailed review process poses a risk of potential payroll fraud from occurring.</p>	<p>It is recommended that a detailed review process which includes tracing entries made in GEMS to corresponding supporting documentation by an individual other than the person making the entry be implemented.</p>	<p>Management agrees with the recommendation and has implemented a log to track all garnishment orders received and will have a second individual trace the garnishment orders from GEMS to the log.</p>
8.	<p>A weakness was identified with regards to an employee's status not being changed at the time of an extended leave.</p> <p style="text-align: center;">* * *</p> <p>There is no indicator in the system identifying that an hourly employee is on extended leave and is therefore excluded from payroll processing.</p>	<p>It is recommended that when evaluating the system upgrade or the Tier II system, the Finance Department should explore the option to have the ability to change an employee's payroll status at the time of an extended or unpaid leave. Implementing this option will enhance Payroll controls.</p>	<p>Management agrees with the recommendation and will explore this option when evaluating the system upgrade or the Tier II system.</p>



Item	Observation / Risk	Recommendation	Management Response
9.	<p>Data entry for Retirement Health Savings (RHS) plans in the International City/County Management Association (ICMA) webpage is inefficient and time consuming.</p> <p style="text-align: center;">* * *</p> <p>Manual individual entries are time consuming and prone to error.</p>	<p>It is recommended that the data for RHS plans be uploaded electronically to the ICMA webpage instead of reviewing and entering the information individually.</p>	<p>Management agrees with the recommendation and has submitted a request to ISD to automate this process.</p>
10.	<p>Administrative Policy 3-3 for payroll is not up to date.</p> <p style="text-align: center;">* * *</p> <p>Outdated policies may lead to inconsistencies, misunderstanding, and contribute to lack of adherence.</p>	<p>It is recommended that the administrative policy for payroll be updated to address the most current operations.</p>	<p>Management agrees with the recommendation and will update Administrative Policy 3-3 by December 31, 2014.</p>