CITY OF WILMINGTON
Payroll
Internal Audit Review

Highlights

Why We Did This Audit

Internal Audit (IA) performed a scheduled audit for Payroll Transactions. The audit was conducted in accordance with the FY21 Internal Audit Plan.

Methodology

The objectives were met by conducting interviews with Payroll and Human Resource Personnel. IA reviewed a sample of 40 payroll transactions, 19 newly hired employees and 17 terminated employees. Bargaining Agreements were also reviewed.

Audit Review Committee:

Ronald Pinkett, Chair

Marchelle Basnight
Angelique Dennis
Christofer C. Johnson
Tanya Washington

July 28, 2021

Objective and Scope

Internal Audit (IA) conducted a Performance Audit on all Payroll Transactions that occurred during Fiscal Year 2020. Our objective and scope during this engagement was to determine whether operating procedures and internal controls provided adequate assurance that authorized payroll transactions were processed completely and accurately.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

Background

The payroll process is the means by which employees are compensated for their work. It involves calculating total wage earnings, withholding deductions, filing payroll taxes, and delivering payment. The City of Wilmington payroll process is a mix of both manual and automated processes. A typical payroll cycle is biweekly with 26 pays a year. However, there are some areas under Bargaining Agreements which allows employees to be paid weekly (52 pays a year). Payroll is a division within the Human Resources Department and currently consists of two people. The current technology used to process COW Payroll is the Munis system, the Kronos timekeeping system, for employee's time and attendance information, and an FTP Server from File Zilla for file transfers.

Employee compensation is one of the largest expenditures for the CoW. In FY20, total employee compensation was approximately $82.6M.

Key Statistics:

Description	**CY Audit FY 2020**	**PY Audit FY 2017**
Total Payroll*	**$82,604,347**	**$78,349,020**
Total Number of Employees**	**1093**	**1107**

Information obtained from Comprehensive Annual Financial Statement* & Budget Book**

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk		(See Attachment B for full rating definitions)				
Process / Area	**Process / Area Owner**	**1 Strong Controls**	**2 Controlled Effectively**	**3 Controlled - Improvement Required**	**4 Significant Improvement Required**	**Prior Year Finding (FY17)**
Business Operations	Robert Tracy; Kelly Williams				✓	✓
Review & Approval Process	Charlotte Barnes				✓	✓
Segregation of Duties	Brett Taylor				✓	**N/A**
User Access	Demond May				✓	✓
Policies & Procedures	Wendy Stanford			✓		**N/A**
Record Management	Charlotte Barnes			✓		✓

Business Operations

1. Significant control weaknesses continue to exist involving Kronos timecards not being approved or being processed by an unauthorized approver; based on the Approvers and Editors report obtained from IT. This issue has been documented as a repeat finding over several years and still has not been mitigated.

    •   Twenty-nine out of 40 (73%) of the timecards were either not approved or approved by someone who was not authorized to approve timecards by the respective departments before payroll was processed.

Not approved timecards:
- o Seventeen Wilmington Police Department (WPD)
- o Three Public Works
- o One Wilmington Fire Department (WFD)
- o One Finance
- o One HR
- o One Mayor's Office
- o One Planning
- o One Real Estate & Housing (RE&H)

Unauthorized approvals:
- o One Finance
- o One WPD
- o One Public Works

- It was also noted that payroll processes employees pay regardless of whether departmental management approved the timecard or not.

Review & Approval Process

2. Control weaknesses were identified during observation of the payroll transactions and Termination Leave Payout.

Payroll Transactions:
- There were 40 payroll transactions reviewed for FY20, seven (18%) contained incorrect information with regards to the Payroll Disbursement in Munis to Kronos timesheet. We noted that four employees were also underpaid for Overtime (OT) and three employees were overpaid OT.

Termination Leave Payout:
- Seven of 17 (41%) of terminated employees reviewed, received incorrect leave payouts, resulting in either a longer or a shorter leave.

- Five (29%) transactions had inconsistencies with the documentation such as, paperwork being checked to be paid out, but time was still taken, or a combination of payout and leave payout occurred.

- Several terminations of employment forms were not consistent, such as the City Code reference being included on some forms as well as the explanation of sick and vacation accruals to be paid out. Lastly, not all forms reviewed had the required initials by employees and/or Kronos editors and approvers.

Segregation of Duties

3. Controls for Kronos need strengthening, due to a lack in the segregation of manager access within the Kronos system. For instance, there was an incident where an employee in the Finance Department approved a timecard that was in a different division and this employee was not the direct supervisor or manager of said employee.

User Access

4. Control weaknesses were identified in the Active Directory (AD), due to terminated employees not being deactivated in a timely manner. Ninety-three out of 134 (69%) of terminated employees in FY20 were not disabled from the City's AD.

Policies & Procedures

5. The lack of written Policies and Procedures (P&P) creates a control weakness in the payroll process. It was noted on the Internal Control Questionnaire (ICQ) that there were written Policies but not the Procedures. When Internal Audit (IA) requested to review those policies, they were not provided during the audit.

Record Management

6. Inconsistencies were noted during a review of Human Resources records such as missing and incomplete documentation, and nonconforming paperwork for Personnel Action Forms (PAF), Termination Form, New Hire Documents, and Employee Benefits.

Personnel Action Form (PAF):
- PAF has missing or invalid information or not consistent with the current process. For instance, 12 of 19 (63%) had inconsistent information and/or incomplete salary information.

- There are different PAFs for New Hires, Limited-Service Employees and FT employees. One New Hire did not have a PAF at all. One Limited-Service Employee had information on a regular FT PAF form.

Termination Forms:
- Ten of 17 (59%) Forms were not completed and were missing signatures or initials. Three forms did not explain how the payout of sick leave occurred. In addition, the effective date was missing on two forms and did not reconcile with Munis.

New Hire Documentation:
- Two of 19 (10%) had different dates on their I9s which were later than their actual start date. One (5%) newly hired employee had a missing I9 form, another new hire did not have the IRS W-4 form only the state form was included in their file. Lastly, one file did not have the initial new hire PAF form.

Deactivation of Employee Benefits:
- Four out of 17 (24%) of terminated employees had their medical benefits deactivated after the timeframe. Two were from WPD, one from WFD and one from Parks & Recreation. In addition, one of the terminated employees we could not determine when their deactivation occurred.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Management should update policies and procedures enforcing deadlines involving the approval of timecards. There should also be mandatory training for all new hires for proper use of Kronos, with the option to include seasoned employees, as necessary.

Processing payroll of unapproved timesheets should not be accepted, until authorized signatures are obtained from the department's management. To avoid further disruption to the approval process, there should be at least one other approver from each department that is at the same level or higher who can properly approve timecards.

Management should make time sheet approval a priority. Setting automated email reminders with additional escalated emails as the deadline approaches to ensure approval of timecard.

If timecard approval continues than the issue should be included in the managers performance evaluations. Including timely approval of timesheets as a metric will ensure managers find the time to review and approve time sheets.

Management response & action plan: **Police:** The plan moving forward is to have the Captain or Lieutenant of Police Human Resources check to ensure the supervisors have approved their employees Kronos prior to the pay period closing. After conducting a check on prior pay periods, I determined that the issue of employees not being approved mostly came from employees off for military and FMLA. The captain or Lieutenant in HRD will approve Kronos for military individuals. I will coordinate with City HR on approving employees off on FMLA. I think by adding another level of checking from HRD will solve our issues with supervisors not approving Kronos.

DPW: Administrative team will continue to review KRONOS for errors made by editors and approvers weekly and remind all management that a proper approval of timecards is priority before the close of payroll**.**

Finance: The Department of Finance acknowledges the finding. Payroll is being approved within Finance the Friday which ends the pay period by all managers due to the limited time on Monday. The Deputy Director of Finance reviews Kronos to ensure management approvals for the whole department on the pay period ending Friday to ensure completeness and on Monday before 10:00am for those receiving FMLA, for which HR approves.

The Department of Finance will no longer utilize the Administrative Assistant to the Director as the back-up approver for the Department when a manager is not available. This responsibility will now be solely assigned to the Deputy Director of Finance who will coordinate with the supervisor if available or the manager upon their return, to ensure the correctness of the timecard. The Administrative Assistant to the Director will continue to approve and ensure the correctness of the payroll timecards for the management staff, including the Director and the Deputy Director under the supervision of the Deputy Director of Finance.

HR will ensure timecards are approved by payroll processing deadline or designate a backup approver when necessary.

Completion Date: Completed

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Recommendation #2: Best Practices for authorization and approval of payroll suggests to periodically review and update signature authorizations.

Obtain pre-approval for changes made to timekeeping records, and Review attendance records for accuracy and compliance to policy.

Reconcile payroll and leave requests monthly for accuracy of recorded transactions and timeliness of expenses.

Payroll should know approximately how much is spent on payroll each pay period. If there is a fluctuation in the average payroll spend, it should be investigated to ensure there are no errors in the calculations, or someone has not manipulated the payroll.

It is recommended that an Automated calculation for leave request be developed and implemented. All required back up documentation from the departments should be obtained and maintained to support the payout calculation.

Management response & action plan: **Payroll Transactions:** The receipt of termination documents in an untimely manner impacts the length of terminal leave and paid accrued time. This has been an ongoing issue and HR will continue to reiterate to departments the importance of timely submission of termination forms. Additionally, oftentimes unplanned holidays (i.e., Christmas Eve, Juneteenth, etc.) as well as weather related closings extend terminal leave occur after receipt of termination forms.

Terminal Leave Payout: HR has reiterated to staff the importance of ensuring termination forms are complete and accurately reflect actions taken. This includes the effective date of termination dates as well as lump sum payout versus terminal leave.

Completion Date: Not Provided

Recommendation #3: COSO Framework suggests additional management review and reconciliations to bolster controls when segregation of duties is lacking.

There should be at most one super user per department/division which should be of management. (This excludes departments that may need multiple such as IT, HR).

Management response & action plan: <u>**Finance:**</u> The Department of Finance acknowledges the finding. Please note that this individual did have access and was given authority to perform such functions for the Department at the time of the occurrence. This individual was the Administrative Assistant to the Director of Finance, in which she performed many high-level administrative functions per her job description, for all the divisions throughout the Department of Finance. Per the above comment notated in number (1) finding: The Department of Finance will no longer utilize the Administrative Assistant to the Director as the back-up approver for the Department, when a manager is not available. This responsibility will now be solely assigned to the Deputy Director of Finance who will coordinate with the supervisor if available or the manager upon their return, to ensure the correctness of the timecard. Please note for staff employees, the supervisor edits the timecard to ensure correctness, and the manager approves.

Completion Date: Completed

Recommendation #4: Alerts should be in place to notify the proper department when an account has not been used for a specified number of days. These alerts may be helpful in identifying accounts that should be permanently terminated.

It is recommended that electronic and physical access be terminated, as soon as possible, when an employee departs. This includes de-activating or deleting user accounts and disabling or changing user IDs and passwords.

Management response & action plan: IT will first complete an investigation of the reported accounts for AD that were not disabled. Currently IT is notified of the users that must be disabled by HR. IT needs to determine if there are employees that are being terminated where notifications are not sent to IT.

The incumbent of the Information Desktop Helpdesk Coordinator Position is tasked with running monthly reports of inactive accounts and disabling them. These accounts should have additionally been caught by this process.

IT will be working with HR to revamp the entire account creation and termination process to ensure proper notification and controls through both processes.

Completion Date: December 31, 2021

Recommendation #5: Management should ensure that employees have access to P&Ps, in order to provide structure and guidelines within the department. This will help hold employees accountable for adhering to established rules within the department.

Management response & action plan: The onboarding of new team members affords HR with the opportunity and band-with to update/develop Standard Operating Procedures.

Completion Date: Not Provided

Recommendation #6: HR should self-audit their records to ensure they are efficient and free from errors and omissions.

All forms that require completeness should be abided resulting in denial; The CoW should not approve incomplete documentation. If forms are out of date and no longer required, then such documentation should be updated to reflect current rules and standards.

Management should review and reconcile paperwork before being stored in personnel files to ensure accuracy and completeness.

Best practice would be to include all attachments or footnotes to document the reasons for corrections/adjustments to any records. Make the time/date and the approval of such corrections/adjustments clear and evident with supporting documentation.

Management response & action plan: Personnel Action Forms (PAF): HR has reiterated to staff the importance of ensure the appropriate forms are utilized to accurately document the PAF process (new hires, salary changes, etc.). Notably, while PAFs for new hires should include all information, PAFs for existing employees routinely only reflect the relevant updated information (e. g. salary change due to promotions/demotions, step increases, E&M performance evaluations, etc.).

Termination Forms: HR has reiterated to staff the importance of ensuring termination forms are complete and accurately reflect actions taken. This includes the effective date of termination dates as well as lump sum payout versus terminal leave.

Completion Date: Not Provided

Audit Team

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