

INTERNAL AUDIT DEPARTMENT

# Performance Audit Report Of Payroll Transactions

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Audit 17-01



## CITY AUDITOR EXECUTIVE SUMMARY

As part of our audit plan, the Internal Audit Department (occasionally, hereinafter, “IAD”) conducted a performance audit <sup>1</sup> of the City’s payroll process. The scope of the audit was July 1, 2015 to June 30, 2016. As stated on page 6 of this report, our objectives were a) to determine that operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately; b) to determine that gross pay appears accurate; c) to verify that employee time and attendance is properly reviewed, approved, processed, documented, and coded; and d) to ensure that accounting for payroll transactions are properly classified, reconciled and posted to the general ledger.

Our examination revealed significant weaknesses <sup>2</sup> or reportable weaknesses <sup>3</sup> that appeared pervasive in their effects on payroll transactions. The following summary provides management with an overview of conditions requiring attention. (Numbers in brackets [ ] refer to finding numbers in the report.)

### Significant Weaknesses

- [1] Supervisors did not approve employee hours. \*
- [2] Terminated employees were paid incorrectly.

### Reportable Weaknesses

- [3] Access rights to City systems were not removed for terminated employees. \*\*
- [4] Employee documentation was untimely and information was inaccurate. \*\*

\* Finding [1] was noted in the fiscal year 2014 and 2015 audits of payroll transactions

\*\* Findings [2] and [3] were noted in the fiscal year 2014 audit of the payroll transactions

In our opinion, the operational and administrative controls for the payroll transactions, taken as a whole, were sufficient to meet the objectives stated in the report. Specific limitations that may hinder effectiveness of an otherwise adequate system of controls include, but are not limited to: a) a lack of automation, b) resource constraints, c) faulty judgments, d) unintentional errors, e) circumvention by collusion, and f) management overrides. An audit may not always detect the presence of these limitations or the extent of the adverse effect that such limitations may have on the process and procedures under study. Moreover, establishing a system of controls that would be competent to effectively address and remediate all of these limitations may not be cost effective.

Earl T. Jeter, CPA  
City Auditor  
December 21, 2016

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<sup>1</sup> A performance audit is a study of an organization’s internal controls and the efficiency and effectiveness of its procedures and processes with due regard for economy and the express aim that it leads to improvements.

<sup>2</sup> In performance audits, significant weaknesses in internal controls are identified as key sources of deficient performance.

<sup>3</sup> Reportable weaknesses are internal control weaknesses that are less significant yet warranting communication to management.