

Payroll Performance Audit

#2023-01E

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Presentation Outline

- Purpose of the Audit
- History of Central Payroll @ City
- Audit Objectives
- Audit Finding Types
- Internal Audit's Follow-up Plan



Purpose of the Audit

The City engaged the vendor BerryDunn to perform an independent performance audit of its payroll processes to help ensure compliance with laws and regulations and to report on the adequacy of the Payroll Division's processes.

Independent ✓

Objective ✓

History of Central Payroll @ City

- 2022 – Executive Management Determination
- April 2022 – Payroll moved under Human Resources Dept.
- HR proactively requested an external audit
- Audit Information to inform programmatic improvements

External Audit - Work Standards

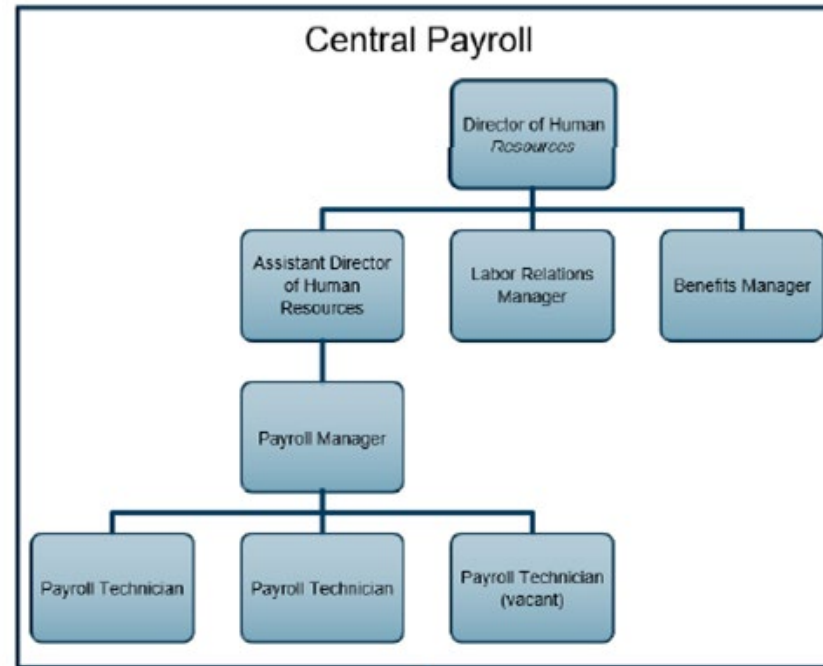
BerryDunn conducted this performance audit in accordance with generally accepted government auditing standards.

Obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions.

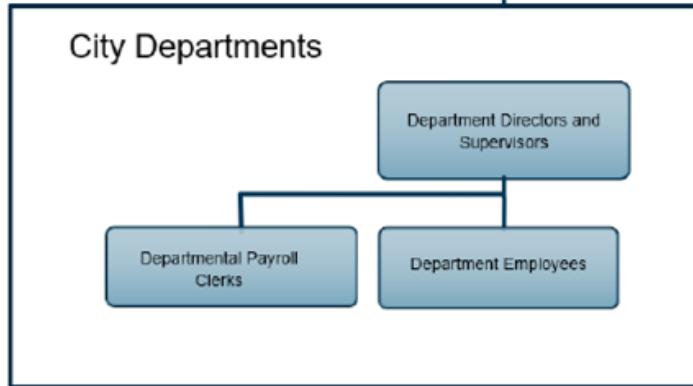
Independent ✓

Objective ✓

Central Payroll Organizational Chart



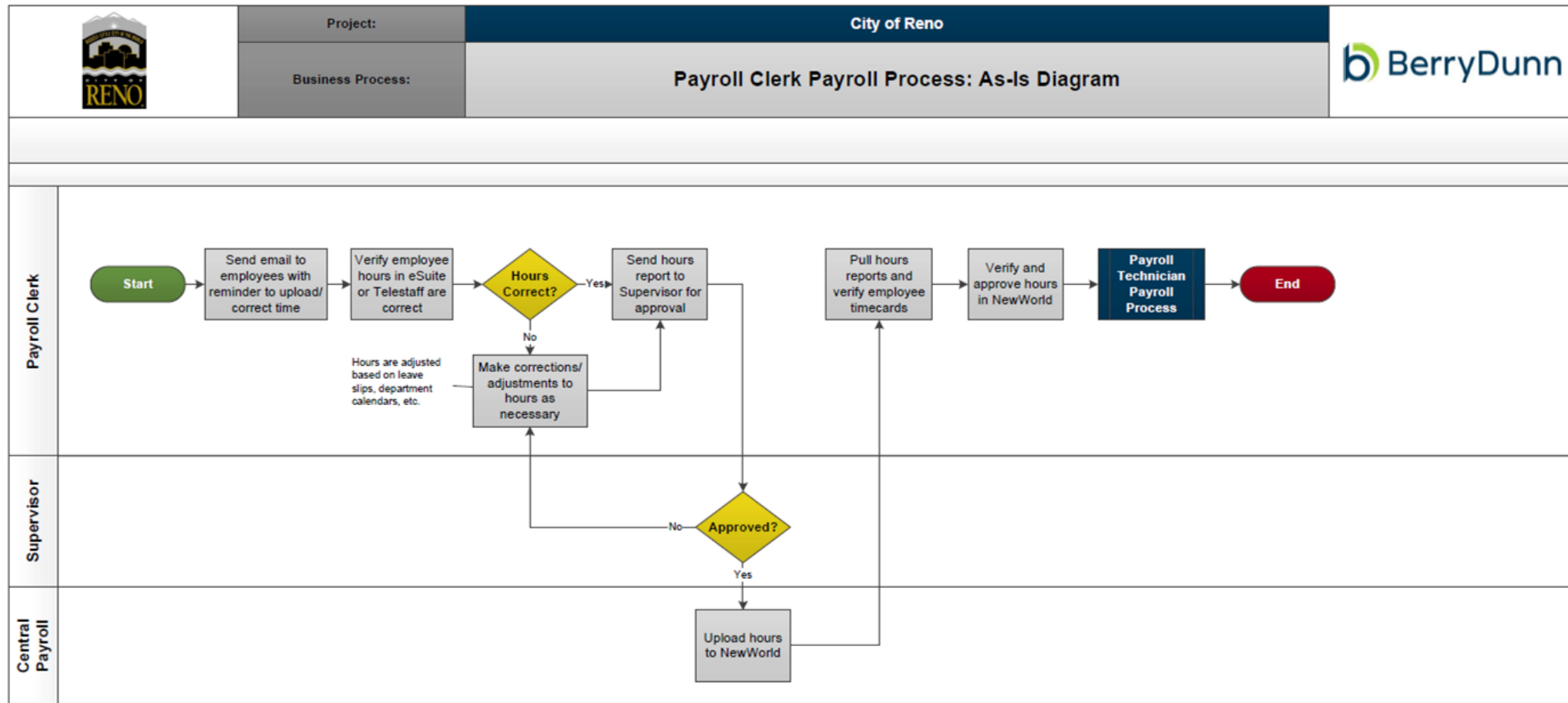
Departmental Payroll Clerks



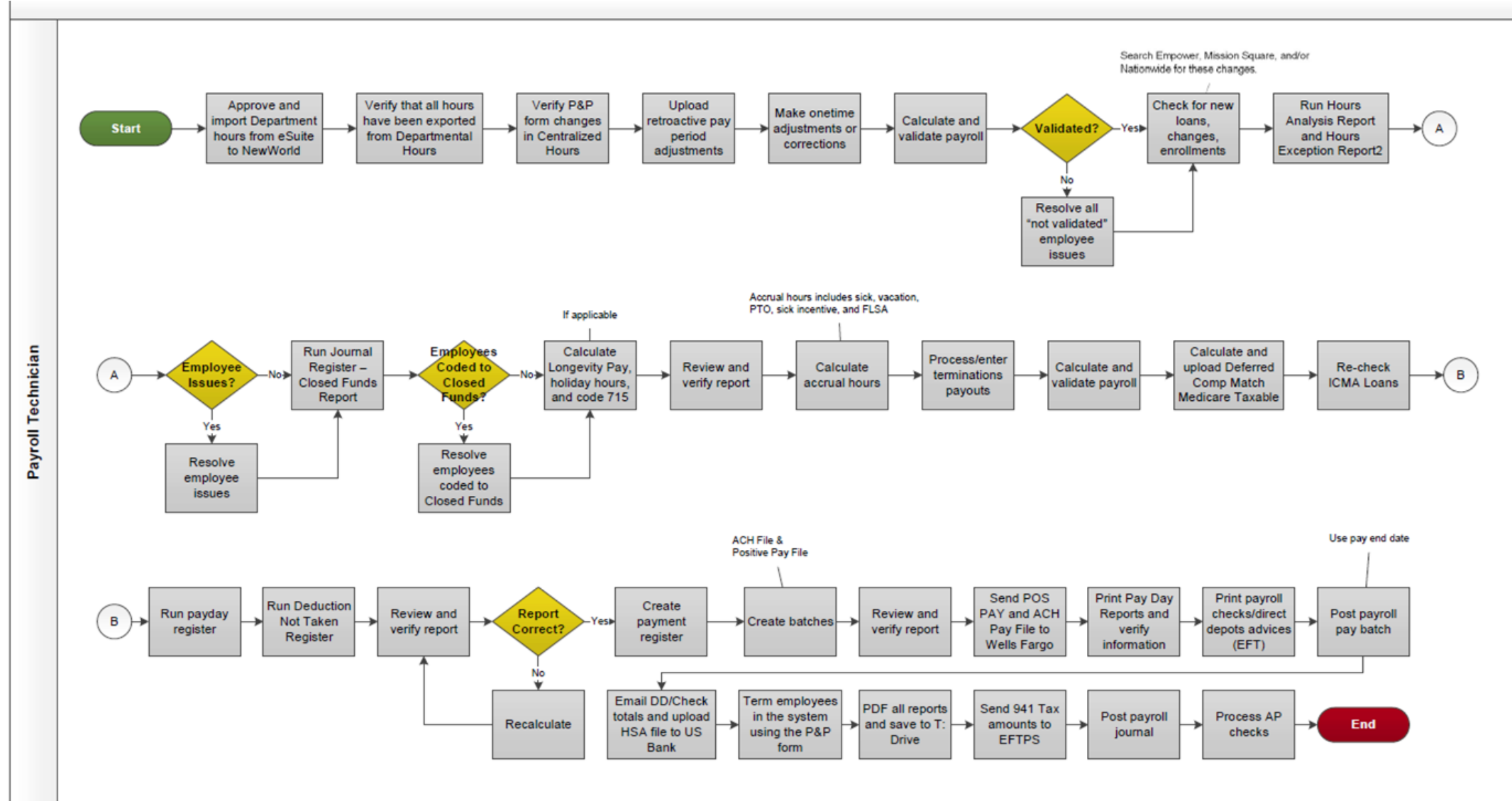
24 interviews Citywide

Department	Interviewee Title
City Attorney	Management Assistant
City Clerk	Management Assistant
City Manager's Office (City Council)	Assistant to City Manager Administrative Secretary
Civil Service	Civil Service Technician
Code Enforcement	Secretary
Communications	Management Assistant
Development	Management Assistant Management Analyst
Finance	Management Assistant
Fire	Program Assistant
HR	Assistant Director Benefits Manager Labor Relations Manager Program Assistant
Information Technology	Administrative Secretary Senior Systems Analyst Senior Cyber Security Analyst
Maintenance and Operations	Program Assistant
Municipal Court	Assistant to Court Administrator
Parks and Recreation	Administrative Secretary Office Assistant
Police and Public Safety Dispatch	Administrative Services Manager Management Assistant
Public Works	Program Assistant Management Analyst
Utility Services	Program Assistant

Departmental Payroll Clerk Payroll Process



Central Payroll Technician Payroll Process



Audit Objectives

12 Audit Findings

1

Accuracy, completeness, reliability, and timeliness of significant financial, managerial, and operational information

4

2

Compliance with employee policies, standards, procedures, applicable rules, and regulations of policies

2

3

Sufficiency of policies related to acquiring, deploying, and using resources in an economical, efficient, and secure manner

3

4

Sufficiency of information system protection against theft, loss, and damage to help ensure confidentiality, integrity, and availability of information

1

5

Sufficiency of policies related to special handling of pay codes based on current bargaining unit requirements

2



Four Categories, Generally

1. Software Limitations 1.3, 1.4, 4.1
2. Ongoing Oversight 1.1, 1.2, 5.1, 5.2
3. Documented Policies 2.1, 3.1, 3.2
4. Employee Training 2.2, 3.3



Audit Oversight – Follow-up Process

- Internal Audit Division will follow-up on the corrective action plan systematically until the actions have been implemented or management accepts the risk of inaction
- Follow-up reporting will be presented to the Council

Impact

“Salary and benefits account for **78%** of the expenses in the General Fund.”



Internal Audit Function @ City

- To provide the City of Reno with an independent appraisal function designed to assist the Reno City Council, constituents, and City management in establishing accountability, transparency, and a culture of continuous improvement in City operations.
- At its core, Internal Audit helps the organization achieve its objectives.



Recommended Motion

I move to accept the external audit report, *Payroll Performance Audit*, and management's corrective action plan documented within.

Ranking of Audit Findings

The purpose of the ranking system is to provide guidance on which recommendations the City should prioritize to efficiently allocate its resources and efforts.



Ranking of Audit Findings

High Priority –

- Recommendations related to significant issues involving noncompliance with established policies, procedures, and state requirements that the City should prioritize.
- This category includes circumstances where the consequence of the error carries significant financial implications for the City and require immediate attention.

Ranking of Audit Findings

Medium Priority –

- Recommendations related to weaknesses in internal controls within the payroll process that require attention and have a moderate impact on the City's resources.

Ranking of Audit Findings

Low Priority –

- Additional recommendations related to weaknesses in internal controls that the City should monitor and improve upon to help ensure accurate, consistent, and timely payroll processing.
- These recommendations do not require immediate attention or allocation of resources by the City.

Audit Recommendations & Corrective Action Plans

Finding #	Priority	Audit Recommendation	Corrective Action Plan/Management Responses Human Resources Department
1.1	High	BerryDunn recommends that Central Payroll regularly audit City employees' base pay rates to verify that employee compensation for regular and special pay codes is accurate, in order to ensure compliance with state and federal requirements.	With the assistance of the Internal Audit Division, Central Payroll will regularly audit City employees' base pay rates.
1.2	High	BerryDunn recommends that the payroll manager monitor employee compensation rates of the highest and lowest earners and use the findings as a benchmark for evaluating the accuracy of pay rate changes for all employees.	With the assistance of the Internal Audit Division, Central Payroll will monitor review employee compensations rates of the highest and lowest earners on a bi-annual basis.
1.3	Low	BerryDunn recommends Central Payroll periodically review payroll reports from New World and audit for accuracy and completeness. Central Payroll and the Department of Information should clearly define payroll reporting requirements and help ensure that the payroll system is configured to capture and report the necessary data for monitoring and helping to ensure payroll compliance.	The City is aware of the configuration and functionality limitations of its current technology solution, especially as it relates to the system's reporting capabilities. By September 2023, the City will confer with its current payroll system provider to determine if there are reporting and configuration upgrades that can be made. Absent system upgrades by the system vendor, the City will not be able to implement this recommendation.
1.4	Low	BerryDunn recommends that Central Payroll work with its system vendor to identify any available updates or changes to the New World system that would help avoid the risk of having to perform manual or retroactive rate increases.	The City is aware of the configuration and functionality limitations of its current technology solution, especially as it relates to the system's reporting capabilities. By September 2023, the City will confer with its current payroll system provider to determine if there are reporting and configuration upgrades that can be made. Absent system upgrades by the system vendor, the City will not be able to implement this recommendation.

Audit Recommendations & Corrective Action Plans

Finding #	Priority	Audit Recommendation	Corrective Action Plan/Management Responses Human Resources Department
2.1	High	BerryDunn recommends the City establish written policies and procedures for processing employee terminations that are in line with State DOL requirements.	Central Payroll is in the process of cross-training amongst the members of the team and crafting a standardized desk manual to enhance the consistency in payroll processing procedures, including standards related to employee responsibilities and record retention. The anticipated timeframe for the completion of Central Payroll's standardized desk manual is December 2023. By September 2023, Central Payroll will initiate quarterly training for Departmental Payroll Clerks.
2.2	Low	BerryDunn recommends that the City train all staff involved in payroll processing on the record retention policy and each employee's responsibilities related to payroll record retention and disposal.	Central Payroll is in the process of cross-training amongst the members of the team and crafting a standardized desk manual to enhance the consistency in payroll processing procedures, including standards related to employee responsibilities and record retention. The anticipated timeframe for the completion of Central Payroll's standardized desk manual is December 2023. By September 2023, Central Payroll will initiate quarterly training for Departmental Payroll Clerks.
3.1	High	BerryDunn recommends that the City separate the duties of entering and removing employees from New World from Central Payroll's responsibilities. HR should assign the function to an employee who does not approve timecards or process payroll for City employees. We recommend that Central Payroll should also regularly monitor and audit employee information and payroll data to identify terminated employees who are still listed as active in the payroll system	The City is in the process of separating the duties of entering new employees and employee changes in New World from Central Payroll's responsibilities. The timeline for completion of the separation of duties is not yet available. With the assistance of the Internal Audit Division, Central Payroll will regularly monitor and audit employee information and payroll data for terminated employees.
3.2	High	BerryDunn recommends that the City formally adopt a set of payroll procedures that are maintained and updated by the payroll manager to help ensure consistent procedures are being followed by the payroll technicians, payroll clerks, department supervisors/directors, and City employees.	Central Payroll is in the process of cross-training amongst the members of the team and crafting a standardized desk manual to enhance the consistency in payroll processing procedures. The anticipated timeframe for the completion of Central Payroll's standardized desk manual is December 2023. By September 2023, Central Payroll will initiate quarterly training for Departmental Payroll Clerks.

Audit Recommendations & Corrective Action Plans

Finding #	Priority	Audit Recommendation	Corrective Action Plan/Management Responses Human Resources Department
3.3	Medium	BerryDunn recommends that City staff who have a role in processing payroll, including payroll clerks, supervisors and Central Payroll staff, be provided with training on established payroll policies and procedures to help ensure consistent implementation of payroll procedures.	Central Payroll is in the process of cross-training amongst the members of the team and crafting a standardized desk manual to enhance the consistency in payroll processing procedures. The anticipated timeframe for the completion of Central Payroll's standardized desk manual is December 2023. By September 2023, Central Payroll will provide quarterly training for Departmental Payroll Clerks.
4.1	Medium	BerryDunn recommends that the City implement access control policies and procedures to limit employee access to PII to only those with a legitimate need to access it.	The City is aware of the use of PII as the primary source of interface for technology solution integrations. By September 2023, the City will confer with its current payroll system vendor to determine if there is a way to limit end user access to PII without impacting automated integration with other systems currently utilized for payroll processing.
5.1	Low	BerryDunn recommends the Central Payroll and the internal auditor develop and conduct reviews to verify accuracy of special pay codes and help ensure compliance with the CBAs.	The City is aware of the challenges with special pay codes as they are primarily assigned and managed at the Departmental level. With the assistance of the Internal Audit Division, Central Payroll will develop a regular, rotating review of special pay codes.
5.2	Low	BerryDunn recommends that the payroll manager regularly monitor changes made in New World by payroll clerks and the labor relations manager by reviewing the payroll audit reports to determine whether changes made to City employees' pay rates and pay codes were accurate. The payroll manager should use the audit trails in New World to review payroll changes on a quarterly basis to help ensure compliance with City policies and procedures for payroll and state and federal requirements for compensation.	With the assistance of the Internal Audit Division, Central Payroll will monitor changes made in New World by quarterly reviewing audit trails and change reports.