

## STAFF REPORT

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**Date:** August 23, 2023

**To:** Mayor and City Council

**Thru:** Doug Thornley, City Manager

**Subject:** Staff Report (For Possible Action): Discussion and acceptance of the external audit report of Central Payroll.

**From:** Emily Kidd, Internal Auditor

**Department:** City Manager's Office – Internal Audit

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### Summary:

The City of Reno engaged vendor BerryDunn to perform an independent performance audit of its payroll processes to help ensure compliance with laws and regulations as well as to report on the adequacy of the Payroll Division's processes. The audit report includes background information on the City, test procedures, interviews conducted, documents reviewed, and audit results.

This audit identified 12 findings; a finding is noted when the auditors identify an area of noncompliance with documented policies or processes outside of best practices. Simply put, findings identify areas of risk. The 12 findings are categorized by audit *objectives* and are listed with their recommendations below. Departmental management has developed a corrective action plan for each of the findings and is in the process of implementing those plans.

BerryDunn conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require BerryDunn to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. BerryDunn believes that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

Financial Advisory Board Input – The Financial Advisory Board received presentations of the Payroll Performance Audit from the external auditor and the internal auditor at their meeting on August 10, 2023. Their motion was for the City to consider purchasing a more modern software platform for payroll processing to minimize the manual procedures that are highly susceptible to human error. They noted the dollar value errors included in the report are a small sample of the population and, if extrapolated to the entire population, the dollar value of errors could be significant.

## **Audit Objectives and Recommendations**

### **Objective 1: Accuracy, completeness, reliability, and timeliness of significant financial, managerial, and operational information**

**1.1** Certain payments processed by departmental payroll clerks and technicians were inaccurate

*Recommendation - Audit regular and special pay codes*

**1.2** Employee earnings were calculated using an incorrect rate for certain employees in our sample

*Recommendation - Monitor the compensation rates of the highest and lowest earning employees*

**1.3** Employee earnings were calculated using an incorrect rate for certain employees in our sample

*Recommendation - Monitor the compensation rates of the highest and lowest earning employees*

**1.4** The New World system has limitations for automatically performing mass rate increases

*Recommendation - Identify and implement system controls to help prevent manual mass rate increases*

### **Objective 2: Compliance with employee policies, standards, procedures, applicable rules, and regulations of policies**

**2.1** Lack of written policies and procedures for terminating employees

*Recommendation - Document termination procedures*

**2.2** City departments are not consistently aware of the record retention policy for payroll information

*Recommendation - Train payroll staff on the record retention policy and department expectations for when and how to dispose of records*

### **Objective 3: Sufficiency of policies related to acquiring, deploying, and using resources in an economical, efficient, and secure manner**

**3.1** Lack of segregation of duties and internal controls for processing payroll

*Recommendation - Implement segregation of duties and reassign the task of entering new employees into New World*

**3.2** Lack of a written policy and procedure manual for processing payroll

*Recommendation - Develop a policies and procedures manual to help ensure accurate and consistent payroll processing*

3.3 Lack of adequate training for departmental payroll clerks and Central Payroll staff

*Recommendation - Develop training materials and facilitate training sessions with City departments and Central Payroll staff*

**Objective 4: Sufficiency of information system protection against theft, loss, and damage to help ensure confidentiality, integrity, and availability of information**

4.1 Payroll clerks have unrestricted access to employee information in New World

*Recommendation - Limit departmental payroll clerk access to PII (Personal Identifying Information)*

**Objective 5: Sufficiency of policies related to special handling of pay codes based on current bargaining unit requirements**

5.1 Pay code structures in the system require manual updates

*Recommendation - Develop and conduct quarterly reviews to verify the accuracy of payroll transactions related to special pay codes and help ensure compliance*

5.2 System limitations in eSuite™ and New World cause departmental payroll clerks and technicians to bypass internal controls for use of pay codes and changes to payroll

*Recommendation - Monitor payroll changes to employee compensation and special pay codes in New World*

**Alignment with Strategic Plan:**

Fiscal Sustainability

**Previous Council Action:**

There is no recent Council action relevant to this item.

**Background:**

*From the Human Resources Department* — Since the City's initial implementation of NewWorld, 18 years ago, there have been many changes to the City's pay and benefit structures that have led to many of the challenges that exist today. As the content of the payroll audit report highlights, the City's payroll function is highly-complex and there are notable deficiencies with the functionality of the City's current payroll system that have necessitated many of the more manual processes and procedures that exist today.

When Central Payroll was transitioned under the purview of the Human Resources Department in April 2022, Departmental leadership started observing the challenges facing the City's payroll function. With the transition of the City's Payroll Manager in July 2022, the Human Resources Department requested an external audit of the payroll function to get a holistic assessment from which to build a roadmap for improvement. The Human Resources Department collaborated

with Internal Audit to pursue this assessment.

*From the Internal Audit Division* — The Internal Audit Division can conduct the iterative spot audits of the system data and its reports, as recommended by the external audit report, in coordination with the Human Resources Department.

**Financial Implications:**

There are no financial implications associated with this item.

**Legal Implications:**

Legal review completed for compliance with City procedures and Nevada law.

**Recommendation:**

Staff recommends Council accept the external audit report provided by BerryDunn, *Payroll Performance Audit* and management's corrective action plan documented within.

**Proposed Motion:**

I move to approve staff recommendation.

**Attachments:**

External Audit Report – Payroll Performance Audit