CLERK & COMPTROLLER
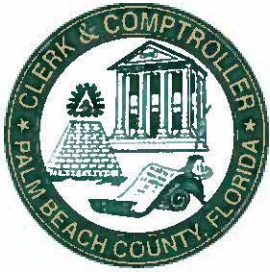# PALM BEACH COUNTY
CLERK'S PAYROLL DEPARTMENT

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Division of Inspector General

Audit Services Unit

August 24, 2018

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

An Accredited Office of
Inspectors General

Division of
Inspector General
301 N. Olive Avenue
9th Floor
West Palm Beach, FL 33401

Phone: 561-355-2722

fraud@mypalmbeachclerk.com

www.mypalmbeachclerk.com

August 24, 2018

The Honorable Sharon R. Bock, Esq.
Clerk & Comptroller

We conducted an audit of the Clerk's Payroll Department, which was included in the annual audit plan.

Our risk-assessed audit was neither designed nor intended to be a detailed study of every process, procedure, transaction or system in each area. Accordingly, the observations and recommendations included in the report are not all-inclusive.

The audit disclosed that Clerk's Payroll was providing timely and accurate service to Clerk's employees, with opportunities for improvement noted.

We appreciate the cooperation of management and staff during the course of this audit.

Respectfully submitted,

Roger Trca, CIG, CPA, CIA
Inspector General
Clerk & Comptroller Office
Palm Beach County

cc: Tracey MacNeney, Manager – Finance Services
        Darlene Malaney, Director – Finance Services
        Shannon Ramsey-Chessman, Chief Operating Officer – Finance &
        Acting Chief Operating Officer

Executive Summary

An audit of Clerk & Comptroller Payroll Department was performed by the Clerk's Division of Inspector General. This regularly scheduled audit was included on the annual audit plan.

The Payroll Department, residing within the Finance function, is responsible for three distinct employee payroll groups: Clerk & Comptroller, Board of County Commissioners (County), and Palm Tran. The County and Palm Tran payroll functions were included in a prior audit report dated June 13, 2014, and were not included in the scope of this audit. The Clerk & Comptroller Payroll Department is responsible for processing the bi-weekly payroll for approximately 670 Clerk's office employees.

The objectives were to: obtain an understanding of the Clerk & Comptroller Payroll processes, perform a risk assessment to identify risks and vulnerabilities impacting these processes, evaluate the overall effectiveness and efficiency of the processes and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

The Payroll Department provides timely, accurate service to Clerk's employees and various outside agencies. The audit identified control weaknesses and improvement opportunities. System access required strengthening and some employee's roles and responsibilities were not adequately segregated. Certain written procedures disclosed sensitive information and required further update and enhancement. Opportunities were noted to improve performance measures and related reporting.

The report contains four observations and six recommendations.

Table of Contents

Introduction

Overall Conclusion

Overall, the Clerk's Payroll Department provides timely and accurate service to the Clerk's employees and the various agencies and vendors who receive payments and reports generated throughout payroll processing. Responsibility and controls over payroll are shared with the various Clerk's departments, as the Payroll Department is largely dependent on departmental management to review and approve time and attendance data that is reported via the Kronos Time & Attendance System.

The Clerk's Payroll audit identified various control weaknesses and improvement opportunities related to information security, segregation of duties among employees, written procedures, and performance metrics and related reporting.

Objectives, Scope and Methodology

The Clerk's Audit Services Unit of the Division of Inspector General conducted an audit of Clerk's Payroll processes, which was led by Monica Alvarenga. This regularly scheduled audit was included on the annual audit plan.

The objectives were to: obtain an understanding of the Clerk's Payroll processes, perform a risk assessment to identify risks and vulnerabilities impacting these processes, evaluate the overall effectiveness and efficiency of the processes and related internal controls to mitigate the risks, verify compliance with pertinent laws and regulations as well as established policies, and compare processes with accepted standards and best practices.

More specifically, the scope included Payroll operations supporting Clerk & Comptroller Office employees. Payroll operations supporting County and Palm Tran employees were not included in the scope of this audit.

In order to meet these objectives, we conducted interviews and reviewed departmental policies and procedures. We identified the pertinent Florida Statutes and other laws and regulations. We performed a risk assessment of the payroll processes by

documenting workflows and activities, identifying key risks, and evaluating the adequacy of the internal control environment to mitigate the risks identified. We conducted testing of internal controls and transactions. Testing performed covered the period from October 1, 2016 through February 28, 2018. We utilized automated audit command language (ACL) software tools to evaluate large amounts of data against established criteria to more efficiently identify any possible exceptions or observations. In addition, we performed other procedures that were deemed necessary under the circumstances. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Background

The Payroll Department falls within the Finance function and has the responsibility of handling the payroll functions for three distinct employee groups: Clerk & Comptroller, Board of County Commissioners (County), and Palm Tran.

The Payroll Department is responsible for processing the bi-weekly payroll for Clerk's employees, including balancing the payroll function and reviewing employee data changes by Human Resources. This includes exempt (179), non-exempt (479), part time (4), temporary (5) employees and our elected official as of February 28, 2018. Clerk's employees receive payment via direct deposit with minor exceptions due to timing differences.

Measures of the Payroll Department's workload for Clerk's employees are provided below for calendar years 2015 through 2017:

	2015	2016	2017
Clerk's Employees Paid (1)	706	669	672
Clerk's Employees Checks and Advices	19,566	19,171	19,366
Clerk's Employees Gross Payments	$33,207,575	$32,022,865	$32,808,717

(1) Includes new hires and terminations during the year.

The Clerk's Payroll Department uses and interfaces with automated applications in addition to standard Microsoft Office applications to assist in its work. The applications include PeopleSoft and Kronos Time & Attendance System.

Clerk's Payroll is led by Tracy MacNeney, Manager, supported by an Assistant Manager and 12 staff supporting the total payroll function. The overall Payroll Department budget for FY 2017-2018 totals $1.08 million, with 96% allocated to departmental employee compensation and benefits.

Observations & Recommendations

1. Revise system access and authority levels assigned to employees.

System access authorities assigned to employees require revision. Best practices for segregation of payroll administration duties suggest that no one individual should be responsible for more than one task involving payroll preparation, disbursement, distribution, and reconciliation (source: Association of Certified Fraud Examiners). Certain Payroll management and staff were assigned systemic authority levels to execute duties that were overlapping or incompatible, which increase the potential risk of undetected errors or fraud.

The audit disclosed the following observations.

> ➤ On a bi-weekly basis, Clerk and Comptroller employees (exempt and non-exempt) submit their hours via the Kronos Time & Attendance System, which are approved by their supervisor. Payroll staff review and sign off on employees' hours in Kronos during processing. Our audit disclosed that controls are not in place that would prevent or detect six Payroll staff from changing their own hours or other employee's hours (e.g., overtime, paid time off) in Kronos after management has approved such hours. Changes by these six Payroll staff are not reviewed or recorded in the Kronos historical edits function.

> ➤ Two Payroll staff had multiple access rights (e.g., Secure File Transmission, Create Positive Pay File and Send POSPAY files to Banks) as well as access to prepare payroll functions within the PeopleSoft system. We noted that management had compensating controls in place to ensure that the person who prepared payroll was not the same person who submitted payment to the bank. However, access should be limited and related to employees' job duties.

> ➤ Three users had improper access to the Payroll shared drive, which includes access to sensitive information such as bank account numbers and social security numbers. Payroll management conducts ad hoc reviews and determines whether or not the user access is necessary. We noted that the last review was

conducted in April 2017 and that these three users were flagged for deletion but were not actually removed.

> Payroll staff must access websites of several external agencies (e.g., vendors, Florida Department of Revenue, Social Security Administration) during payroll processing, which host sensitive information (e.g., social security and bank account numbers). The user IDs and passwords to these external websites are shared among select Payroll staff and are stored in a physical binder. Password and access controls should be strengthened.

Recommendations:

A. Enhance monitoring controls by ensuring that any Kronos edits made after management approval of employee timecards are reviewed prior to final release of Kronos files for payment of wages in order to minimize the risk of misappropriation.

B. Ensure that staff do not have excess or unnecessary user access in the PeopleSoft system and that the three users identified during the audit are properly removed from access to the Payroll shared drive due to the sensitive information available.

C. Strengthen ID and password controls over access to external agency websites to reduce the risk of misuse of sensitive information.

Management Responses:

A. Management agrees with the recommendation. The current process has a segregation of duties and multiple verification points to ensure the hours balance from Kronos to PeopleSoft. In addition, during the audit period, we created a report that identifies all transactions updated in Kronos by the payroll team members that have this access and this has been added to our current process and procedures.
Target Completion Date: Completed

B. Management agrees with the recommendation to the extent allowed by the system. The removal of PeopleSoft users has been completed. The S drive security and monitoring of, while reviewed proactively by the Payroll Manager, is the responsibility of Clerk's Information Technology (IT) and we understand that IT is implementing an annual review process.
Target Completion Date: Completed

C. Management agrees with the recommendation. We will research the options provided by each vendor or external site related to user ID and password; however, some entities provide one access account per organization and must be shared. We will also reach out to IT to review electronic options for storing passwords. Target Completion Date: 12/31/2018

2. Improve and update policies and procedures.

Clerk's Payroll has numerous procedures in place that govern the various processes. Best practices indicate that written procedures provide guidance to employees, help ensure processes are performed accurately and consistently in accordance with management's directives, and help achieve departmental goals.

Our review of 29 Clerk's Payroll Department procedures identified the following opportunities for improvement.

> Five procedures disclosed sensitive information: two procedures included print screens with employees' names and banking information and three procedures referred to a binder where shared passwords were located.

> Two procedures were not complete: one was under review at the time of the audit and one was initiated during the audit.

> Eight procedures did not reference applicable laws, ordinances, or Clerk's Employee Handbook & Administrative policies.

We also noted that the Payroll Department utilizes a best practice by incorporating ongoing updates to procedures into employee training plans, which are monitored during employee performance reviews. This practice promotes timely updates to procedures when needed.

Recommendation:

A. Ensure that Payroll Department procedures are complete, all disclosures of sensitive information and passwords are eliminated, and relevant laws and Clerk policies are referenced when appropriate.

Management Response:

A. Management agrees with the recommendation. Procedures are and continue to be a work in progress. The purpose and authority will be included in all payroll procedures as needed.
Target Completion Date: 3/31/2019

3. Opportunities exist to implement performance measures and related reporting.

Opportunities exist to implement performance measures and reporting used to monitor Clerk's Payroll processes. Performance measures and related reporting add value to the organization when linked to Clerk strategic objectives, operating department objectives, and compliance with laws and regulations.

The two performance measure reports used by the Clerk's Payroll, the Monthly Dashboard and the Clerk Performance Measurements, do not appropriately identify the efficiency and effectiveness of the Payroll Department. The reports mainly show statistical metrics such as: high amount of manual checks, job data records, new hires, re-hires, terminations, data changes, and general deductions. This information does not sufficiently enable management to monitor the efficiency and effectiveness of the operations.

Performance measures should assess how well the Payroll Department is achieving its objectives such as potential process failures and bottlenecks, whether errors have occurred, and work load trends.

Recommendation:

A. Establish key performance measures linked to primary departmental objectives to enable comparison of actual versus desired results, including monitoring compliance with laws and regulations. Implement periodic management reporting of these key performance measures to enable optimal decision making over areas such as workload, productivity, timeliness, accuracy, and staffing requirements.

Management Response:

A. Management agrees with the recommendation; however, due to system limitations we are not able to remediate the current process. Currently we have performance measures based on the number of off-cycle checks created and additional statistical information that is utilized to identify trends and volumes. PeopleSoft does not provide for automated individual performance measures; however, we do have a work load weight and distribution process in place.
Target Completion Date: Completed

4. Enhance the timeliness of management approvals.

The Payroll Department is responsible for timely and accurate submissions of federal and state tax payments, vendor payments, and other related transactions. Opportunities exist to improve the management approval process by ensuring timely approval of such transactions prior to payment submissions.

The audit identified the following observations.

➢ Management approval was obtained after submissions were made for the following payments: biweekly IRS tax payments, monthly Florida Retirement System (FRS) payment submissions, and one vendor payment.

➢ Management approval was not obtained for the annual W2 & W3 submission. Internal Audit noted that the quarterly review of the Schedule 941 was evidenced by dated signature.

Recommendation:

A. Management should strive to review and approve payments and schedules prior to submission to enhance internal controls and to avoid inaccuracies or reconciling items.

Management Response:

A. Management disagrees with the recommendation. Employees tasked with these functions are trusted professionals and management reviews the documentation and confirmation once completed. In addition, monthly, quarterly, and annual reconciliation processes identify any discrepancies.