

Payroll Procedures
Internal Audit Report



County of Sacramento, California

Submitted By

Eide Bailly LLP

TABLE OF CONTENTS

Executive Summary.....	1
Objective & Scope	1
Background	1
Methodology	2
Audit Results and Recommendations	3
Statement of Compliance with <i>Government Auditing Standards</i>	15



Executive Summary

Eide Bailly LLP performed an internal audit over the County’s payroll process for the Fiscal Year 2019. The purpose of the engagement was to determine if internal payroll operations are being administered effectively in accordance with various requirements, policies and procedures. As part of our internal audit, we performed procedures to identify potential opportunities to strengthen internal controls related to the payroll and human resource functions of the County. While our procedures performed did not reveal any significant errors or indications of misappropriation of County assets, we did identify instances where payroll processes can be improved, and internal controls can be strengthened, to ensure the accuracy and documentation of various payroll transactions. Our review of the payroll process also revealed weaknesses that should be mitigated related to the lack of segregation of duties within certain areas for employees who are responsible for payroll processing.

The internal audit resulted in recommendations to further improve the County’s controls as part of the payroll process. Primarily recommendations were made to improve proper segregation of duties, policies and procedures surrounding the payroll process, personnel file maintenance and documentation, and time and attendance tracking. During our review, we identified five (5) Findings and offer thirteen (13) Recommendations that would improve the County’s administration of payroll and human resources to ensure that internal controls are in place to reduce the risk of errors and misappropriation of County assets.

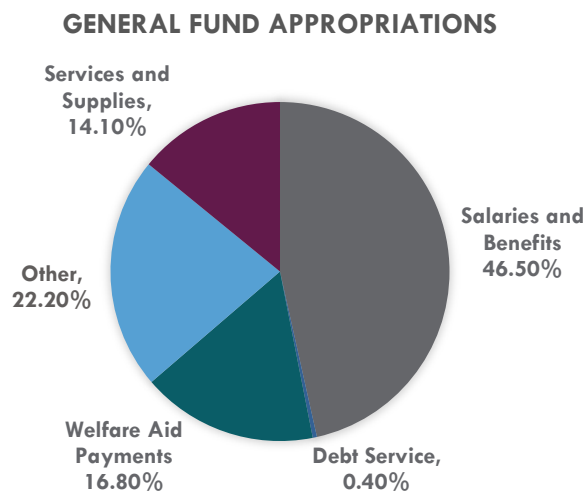
During the internal audit, it was noted that County personnel staff were very knowledgeable about their processes and procedures and attentive to any improvements that may be needed.

Objective & Scope

The objective of this internal audit was to review if internal controls are in place to reduce the risk of errors or misappropriation of County assets and that payroll transactions are promptly, accurately, and completely reported in accordance with County policies, labor agreements and state and federal regulations.

The scope of our audit was for payroll transactions recorded within the fiscal year ended June 30, 2019.

Background

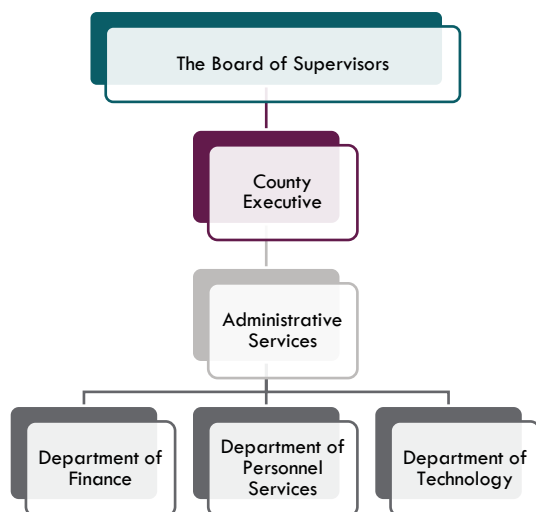


The County is the fourth largest employer in the City of Sacramento and payroll related expenses, including wages and benefits paid to employees, make up the largest budgetary category for the County. The 2019 fiscal year adopted County Budget supports over 12,000 full time equivalencies (FTEs) with salaries and benefits expenditures encompassing approximately 46.5% of the total General Fund appropriations.

The Payroll Bureau within the Department of Finance work diligently each pay period to accurately compensate employees for their time and effort worked. The bi-weekly payroll process is very time sensitive and County payroll staff operate under a time constraint each pay period in order to process employee timesheets, identify and correct errors, and complete payroll for the period.

The County has internal controls in place over the human resources and payroll functions to ensure that payroll is processed timely, accurately and in accordance with applicable regulations, county policies and procedures and labor agreements.

The payroll process of the County is complex and involves employee data, approved employee timesheets, and employee pay data stored in the Comprehensive Online Management Personnel and Accounting System for Sacramento County (COMPASS) database. The processing of the County’s payroll is a collaborative effort between the Department of Personnel Services, the Department of Finance, the Department of Technology, and departmental employees and supervisors.



Each department’s responsibility includes, but is not limited to, the following in regard to the County’s payroll processes:

- The Department of Personnel Services is responsible for providing human resource support services to each of the County’s operating departments. This includes various functions such as new employee onboarding, employee leave of absence, separation or termination, maintenance of employee personnel files, recording or updating personnel actions within COMPASS, recording time adjustments, position control, and benefit administration.
- The Auditor-Controller division of the Department of Finance is responsible for processing of the regular bi-weekly and off cycle payrolls within COMPASS and various tax reporting.
- The County Department of Technology is responsible for supporting and maintaining COMPASS including the human resource and payroll modules within COMPASS.
- Departmental employees are responsible for accurately tracking and recording their time worked, and departmental supervisors are responsible for reviewing employee’s time worked.

Methodology

Controls tested included policies and procedures, separation of duties, information technology controls over security, access and physical security, and accuracy in transactions and in the timekeeping system. Procedures performed during this internal audit included the following:

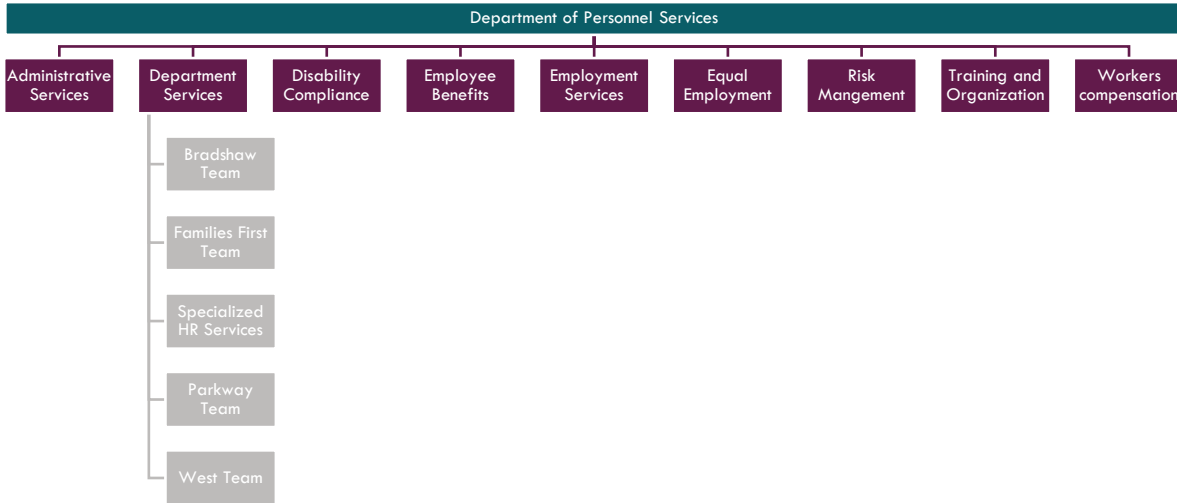
- Reviewed written policies and procedures surrounding payroll including the County Administrative Services Policies, Personnel Ordinance (chapter 2.78), payroll narrative and labor agreements.
- Conducted meetings with the Department of Personnel Service teams, the Department of Finance and the Department of Technology to gain an understanding of the County’s payroll processes and related internal controls.
- Interviewed and surveyed departmental staff involved in the payroll process regarding the various timekeeping methods and related internal controls.
- Performed various detailed testing of payroll records and tracing payroll information to source documents to ensure that transactions are properly calculated, authorized, accurate, and in compliance with County policies, labor agreements, and federal/state regulations.
 - On a sample basis we tested; payroll transactions including salary adjustments, new hires and terminations.
 - On a sample basis we reviewed; timesheets and leave transactions for regular, temporary, and out of class employees for both bi-weekly and off-cycle payrolls.
- Reviewed COMPASS user work-roles, system access controls and responsibilities for appropriate segregation of duties within the system.
- Reviewed payroll tax reporting forms for accuracy and completion.

Audit Results and Recommendations

Finding #1: User Workroles in COMPASS

Departmental Human Resources Workroles

The Department Services division of the Department of Personnel Services consists of five service teams that are responsible for providing all human resources support to the County’s operational departments (Bradshaw team, Families First team, Parkway team, West team, and the Specialized HR Services team).



These service teams consist of HR managers and Personnel staff who input payroll actions in COMPASS as needed to update employees’ payroll records. Depending on their workroles and related access levels assigned, the service team employees have the ability to record new hires, terminations, salary adjustments, time-sheet corrections, employee hours, approval of employee hours, and edit employee master data in COMPASS. A summary of the functions for key HR related workroles that have the ability to enter transactions and modify payroll data is as follows:

COMPASS Workrole	COMPASS Workrole Title	COMPASS Workrole Functions	Add and Terminate Employees	Edit HR Master Data	Timesheet Corrections	Step Corrections	Advance Step Placements	Payroll Simulations
HRD01	Personnel/Payroll Specialist	This workrole allows users to record new hires, terminations, and access and edit employee master HR data within COMPASS. This workrole also allows users to access an employee’s timesheet to make time sheet corrections and perform approval of employee hours. These actions can be input by users with the HRD01 workrole autonomously and do not require a secondary approval to be posted within the COMPASS system.	X	X	X	X		
HRD02	Personnel/Payroll Specialist Plus	This Workrole contains the same functions as HRD01, with the added function of performing advance step placements and payroll simulations. These actions can be input by users with the HRD02 workrole autonomously and do not require a secondary approval to be posted within the COMPASS system.	X	X	X	X	X	X
HRD04	Time Processor	This Workrole allows users to make timesheet corrections, input employee hours, and approve employee hours.			X			

Maintaining adequate segregation of duties is an integral part of internal controls so that no one employee has the ability to process a transaction from beginning to end. Internal controls should be designed to prevent the same person or group from initiating, approving and executing the same transaction in COMPASS. With the noted access levels above, changes made to payroll records in COMPASS could go undetected or be unauthorized in the system. For example, a user with the HRD01 or HRD02 could potentially add an employee, edit HR master data, access the employee's timesheet table to add hours, and approve the hours on the employee's timesheet. While County procedures require certain forms, such as the County masterfile form, be prepared to support and authorize certain changes made to payroll records, these manual forms do not mitigate the risk of certain employees having unrestricted access in COMPASS. The absence of review and approval in COMPASS increases the risk of invalid or unauthorized changes being made to employee master data that could potentially lead to payments to invalid employees, or inaccurate payments to valid employees. While there may be a need for the HR service team employees to have these processing abilities in COMPASS to ensure that payroll is processed timely, mitigating controls should be implemented to ensure that all changes inputted to payroll records are properly authorized and accurately recorded.

A large number of users (approximately 150) were assigned the HRD04 (Time Processor) workrole across the various County departments outside of the Department of Personnel Services. It was noted that many of these users require this access in order to view time-sheet information for reporting or budgeting purposes. However, by maintaining this workrole, those users also have the ability to input timesheet corrections and modify employee timesheets. A risk of unauthorized processing exists by allowing the modification or correction of employee timesheets by users who do not have these activities included in their normal job duties or responsibilities. Upon review and discussion of these workroles by the internal auditor, the County has subsequently removed workroles for certain employees whose job position and functions do not require it.

Department of Finance Workroles

The County Payroll area of the Auditor-Controller division within the Department of Finance is responsible for processing of the regular bi-weekly and off-cycle payrolls within COMPASS. Employees within the Department of Finance utilize the HRC06 (Payroll Bureau Technician) and HRC07 (Payroll Bureau Administrator) workroles to process payroll for the County in COMPASS.

It was noted per review of the County's user workrole listing that certain employees in the Department of Finance had HRC07 (Payroll Bureau Administrator) or HRC06 (Payroll Bureau Technician) workroles assigned, however they were not involved in the payroll processing as a part of their normal job duties and responsibilities. It was noted that a comprehensive review was not performed on a periodic basis over the payroll workroles assigned to Department of Finance staff to ensure that workroles are appropriate and in alignment with job requirements. As a result, users were granted roles not specifically related to their job titles and duties. Upon review and discussion of these workroles by the auditor, the County has subsequently removed workroles for certain employees whose job position and functions do not require it.

Recommendations

As a result of our procedures, we noted that there is potential for improved internal control and additional risk mitigation with respect to segregation of duties for COMPASS access as it relates to payroll and human resources functions. With payroll, a separation of duties is a necessity both to prevent the likelihood of unauthorized transactions and to detect unintended errors. Suggested procedures to implement at the County to further strengthen internal controls include the following:

1.1 — Periodic Review of Users Workroles

We recommend the County implement formal policies and procedures to review the Human Resource and Payroll workroles on a regular basis for incompatible functions and to ensure that inappropriate access is not granted. Documented procedures should be maintained for preventing incompatible duties amount users, ensuring there are proper segregation of duties when roles are created or changed, monitoring users, and those creating user roles. The access levels of employees who have been transferred, terminated or whose job responsibilities have changed, should be analyzed and updated on an annual basis or earlier as deemed necessary. Individuals we made inquiries of noted they occasionally review workrole functions and workroles assigned to users; however, the reviews are not formally structured and did not follow a formal policy or standardized procedure.

Management Response

The Specialized HR Service team does an annual audit/review of all HR work roles. In addition, the work roles are assessed upon request for a new or a change for a work role. The work role request process includes a review and approval by the HR service team, Specialized HR Services and third level review for HRD02. Lastly, Department of Technology reviews the role before it is added to the position. Workroles are placed on an employee's position; therefore, when the employee vacates the position (due to transfer or termination) the work role does not follow the employee to their new position. If the employee still needed access, a new work role would need to be requested for that employee. When the termination action is done, the employees account is locked/deleted to ensure they no longer have access to the system. An audit is performed each time an employee is placed in to a position (transfer or new hire). HR checks the access and submits a work role request to the Specialized HR Service Team and then the Department of Technology for review.

#1.2 — Proper Segregation of Duties

To maintain segregation of duties, it is recommended that employees involved in the human resources functions with the SAP Workroles of HRD01 or HRD02 should not be able to set up and enter an employee in the system, edit master personnel employee data and also add hours to pay an employee. Under the current process in place at the County, there is a risk that a user with these access levels can create an employee, access personnel data to direct the payment, add time to be paid on the payroll and approve this time.

Management response

The work roles (HRD01 and HRD02) are designed to allow access for HR from start to completion of processing. HR is responsible for hiring, time entry, special pays, payroll review and termination along with any HR actions for an employee. The duties for the teams are not segregated by function (time entry, hiring, termination, etc.).

The work roles HRD01 and HRD02 are audited annually by Department of Personnel Services (DPS), and each time there is a change (new request, removal, etc.) the request is verified and audited at that time. The HRD02 has additional levels of approval.

The work performed by HR staff with HRD01 and HRD02 is audited within each service team, and their work is verified and validated. If additional audit and verification are required, DPS will consider that each team with the new structure (Hiring Team, Medical Team, Payroll Team) create a dedicated Quality Assurance process and staff dedicated to that function.

#1.3 — Monitor Activity of Users with Expanded Rights

If it is deemed necessary that certain Human Resources employees require expanded rights which allows them to record actions autonomously in the system, a process to monitor this activity should be designed to independently review the activity of these individuals on a regular basis. An example of a mitigating internal control is to implement procedures to run reports of activity and transactions recorded by these employees on a regular basis to provide oversight and ensure that the changes recorded are accurate, authorized, and supported by approved documentation maintained by the County.

Management response

Such task used to be performed when the County had QA/QC team that would review the master files, documents and the actions in COMPASS. Once that team was dissolved, each team is responsible for their own QA/QC. When the new structure is put into place, each team that updates COMPASS (Payroll, Hiring, and Medical) should have an identified QA/QC process and staff that support that process.

Finding #2: County Timekeeping Systems

Employees of the County can access the Employee Self Service (ESS) to record their time worked within COMPASS as well as update personnel data as needed when changes occur. While many of the County’s departments utilize ESS as the main timekeeping system for their employees, it was noted that various County departments are utilizing a separate timekeeping system outside of ESS for some or all of the Department’s employees to initially capture employee time worked and leave taken, as follows:

Department	Timekeeping System Used
Airport	Airport Web Based System
Animal Care & Regulation, Waste Management & Recycling, South Sacramento Conservation Agency	Time Clock Plus
Drech, Office of Development & Code Services, Office of Economic Development, Office of Planning & Environmental Review, Transportation, Water Resources	SacCounty Time
Human Assistance	Time Management
Sac Area Sewer District (SASD)	SASD Timesheet System
Sac Regional County Sanitation District (SRCSD), Sanitation District Internal Services (SDISD), Sanitation District Policy & Planning (SDPP)	SRCSD Timesheet System
Transportation	INFOR
Transportation	PMO
Environmental Management	Envision

The employee time records captured from these outside systems are converted to a flat file which is uploaded into COMPASS each pay period in order for the Department of Finance payroll division to process the regular bi-weekly payroll. These systems are automated and appear to allow for consistent tracking of employees’ time, with the following exceptions noted below.

- Employees access their particular timekeeping system, as noted above, to record time worked. The employee’s time is subsequently approved by the employee’s supervisor within the system by the end of the pay period to ensure that the time entered accurately reflects the hours worked as well as leave taken. However, there were deviations noted for the Department of Airports, Transportation, and Environmental Management:
 - The Department of Airports utilizes the Airport Web Based System to capture time for approximately 80 employees who work in custodial, parks, and airfield positions. Similarly, the Department of Transportation utilizes INFOR to capture time for approximately 170 employees who are maintenance and operations staff. For these systems, employees do not enter their time and their time worked is certified through another method; the employee’s hours worked are tracked and entered into the system by the employee’s supervisor. Per discussions with department employees, this work around is utilized as the work of these employees require them to be in the field and away from County offices or terminals.
 - The Environmental Management Department utilizes Envision to track time for all department employees (approximately 124 employees). In Envision, employees time is tracked within the system and at the end of each pay period, a physical timecard is generated from the system which is then approved by the supervisor. The timecards serve as the main record of employee time and supervisor approval.

- When the employees' time records are uploaded into COMPASS from the outside timekeeping systems, the hours are integrated into the employee's COMPASS CATS (Cross Application Timesheet). Employees on the Department of Personnel service teams or the departmental timekeepers will then "approve" the employee's time as reflected on the CATS. This approval is procedural and required to process payroll for the period; it does not represent a supervisory approval of the accuracy and completeness of the employee's time. As such, the original and true supervisory approval of time is maintained in the outside timekeeping systems at the respective departments. After payroll is processed for a period, any subsequent corrections to employee time are inputted into COMPASS by the Department of Personnel service teams. These corrections are also to be duplicated in the outside timekeeping system by the department level timekeeping staff. Due to this manual process, there exists a risk that adjustments to time are not being reflected in the outside timekeeping system. Also, per discussions with related staff, for the Airport Web Based System it was noted that if there are corrections to be made to an employee's timesheet, they are only posted within COMPASS and are not recorded within the Airport Web Based System.
- As noted above, each outside timekeeping system generates a flat file each pay period for upload into COMPASS. Once this file is generated, it is placed in a shared location where COMPASS will automatically retrieve the file for processing. In the shared location, the file is accessible to the department timekeepers and IT support staff. Although accessing and editing the files is not a part of the normal business routines, there exists a risk that unauthorized changes could be made to the timekeeping files prior to being uploaded into COMPASS. Any manual changes made to the file could potentially circumvent supervisor approval.

Recommendations

In order for employees to be properly compensated for time worked, a timekeeping system should be utilized to record employee time worked as well as leave taken for each pay period. Internal controls should also be designed and implemented surrounding these systems to ensure that all time is accurately recorded and approved by the employee's supervisor. These time records should be accurately maintained in the system to support and demonstrate accountability for all payroll payments made to employees.

With the Counties multiple timekeeping systems used there is duplication of efforts required to maintain these outside time-keeping systems. Disparate systems can often result in the same data being entered multiple times between systems which is an inefficient use of staff resources and can also lead to data integrity issues (inconsistent data between systems). It is therefore a best practice to standardize, if possible, the time-keeping system utilized across the County.

#2.1 — Business Analysis of Multiple Time Keeping Systems

We recommend the County perform an analysis to determine if there is truly a business need for the multiple time-keeping systems as efficiencies and potential cost savings could be gained from standardizing the use of ESS as the main time-keeping system.

Management response

Multiple time-keeping systems are used in some cases to track time for billing purposes in various billing systems, thus using of multiple systems might be required for each department business needs.

The Department of Airports will be moving to the ESS time sheet and will follow that process for time entry by the employee and approval by the supervisor.

The County will reevaluate its various time-keeping system for efficiencies and potential cost savings.

#2.2 — Approval of Hours Worked

To align with best practice, we recommend that the County adopt policies and procedures requiring employees to maintain a record of actual daily hours worked and that those records should be signed or electronically approved by the employee and by the employee’s supervisor. We recommend that employees acknowledge that their time records are accurate, either by signing them or some other submission and acknowledgment method or technology. Having employees review and approve their timesheets prior to submission allows for prompt correction of errors and reduces the likelihood of unreported or overreported hours.

Management response

ESS does maintain a record of daily hours worked and those hours are signed electronically by the employee and by the supervisor upon approval. ESS can provide reports for tracking of time entered and approved. Supervisors do not have access to enter an employee’s time in ESS. This also includes the process for approvals of absences; those must be entered by the employee and approved by the supervisor. Supervisors do not have access to enter absences for an employee. Absences entered on the ESS time sheet are tracked and the records remain in COMPASS. COMPASS can provide reports that have the date and time the employee entered the hours, the type of hours entered, when the time was submitted and the date and time when the supervisor approved those hours.

As described above, the County has internal controls in place regarding timekeeping and approval of timesheets. Acknowledgement by the employee for the hours worked and approval of timesheets by the supervisors are all done through ESS technology. However, the County will consider strengthening its internal controls by adopting a standardized guideline or process for county staff to follow time approval process.

Finding #3: Oversight of Personnel Files and Employee Time and Pay Records

Employee Personnel File Maintenance

According to Policy 802 of the County’s administrative policy manual, *Maintenance of Personnel Files*, employee records must be maintained in personnel files including Masterfile forms. The Masterfile is a County standardized form that documents, supports and is the record of authorization for personnel actions including new hires, terminations, changes in status, compensation, etc. The Masterfile forms are prepared manually and are approved by the employee, supervisor, and appointing authority.

As part of our sample testing performed of employees that had personnel actions recorded in COMPASS, we accessed the employees’ personnel files to ensure that the actions were supported by approved Masterfiles forms and other supporting documentation as applicable. We noted the following as a result of our testing:

- From a sample review of 25 new hires, we noted the following:
 - One (1) instance where a personnel file was not created for a new employee that was hired by the County. The County was unable to locate the hiring Masterfile form and onboarding documents supporting the new hire. It was noted that the personnel specialist responsible for these files is no longer employed with the County and as such the new hire forms could not be located.
 - One (1) instance where the hiring Masterfile form was not included in the employee’s personnel file and was not able to be provided. The employee’s personnel file also did not contain the County’s policy acknowledgement or I9 verification. It was noted that the personnel specialist responsible for these files is no longer employed with the County and as such the new hire forms could not be located.
- From a sample review of 25 terminations, we noted the following:
 - Two (2) instances where the termination Masterfile form was not included in the employee’s personnel file and was not able to be provided.

- From a sample review of 25 salary adjustments that were recorded to employees' records in COMPASS, we noted the following:
 - Five (5) instances where a salary adjustment (promotion, level change, etc.) was not supported by an approved Masterfile form or other authorization form as applicable in the employee's personnel file.
- From a sample review of 25 out of class payments, we noted the following:
 - Nine (9) instances where an employee received out of class pay that was not supported by an approved out of class pay form in the employee's personnel file.
- From a sample review of 25 off cycle payrolls processed, we noted the following:
 - No exceptions noted.

Additionally, it was noted as part of the above testing performed that there were inconsistencies in the preparation of the Masterfile forms included in the employees' personnel files. For example, we noted instances where Masterfile forms were not signed and approved by the employee. We also noted many instances where the Masterfile forms were not signed and approved by the appointing authority in a timely manner, where the form was approved weeks or months after the form was prepared and the underlying personnel action incurred.

While performing our testing of payroll transactions above, it was also noted that there were instances where required forms could not be initially located by the auditors as they were not scanned into the employees' personnel files. The forms requested had to be subsequently located outside of the personnel file by the County and provided when requested. By keeping forms and documentation outside of the employees' electronic personnel files, the County is at risk of maintaining incomplete files and is not in compliance with the County Administrative Policy 802, *Maintenance of Personnel Files*. The County is also at risk of loss of personnel data and required human resources documentation. For example, as noted above in the results of our testing, there were instances where certain forms were not properly scanned into the employee's records and could not be subsequently located as the personnel employees responsible for the files had since separated from the County. While it is noted that the County has a standardized checklist of required documentation and forms that need to be contained within the personnel files, this completed checklist was not present in a majority of the employee personnel files reviewed.

Employee Time and Pay Records

Management is responsible for establishing and maintaining a system of internal control within the organization, including controls surrounding the payroll process and compliance with laws and regulations related to payroll. Due to the large volume and aggregate dollar amount of payroll transactions processed by County each year, it is crucial for the County to not only develop but monitor internal controls regularly over its payroll processes and procedures. The County should be periodically and formally reviewing the payroll practices and processes in place and related internal controls to ensure they are well designed and operating effectively as intended. If internal controls are maintained and strengthened through continuous monitoring and quality control functions, assurance can be given that measures adopted to check the reliability and accuracy of payroll transactions are being followed.

Depending on the County department, employee time is entered into COMPASS either directly by the employee or by a file that is uploaded from a separate time and attendance application as noted in Finding #2 above. Each County employee's time and attendance record, regardless of the department's application, requires supervisory-level approval for each pay period which is documented through the supervisor approval function within COMPASS or the department's timekeeping application. The employee's supervisor is ultimately responsible for approving timesheets to verify that they reflect actual time worked and to ensure compliance with County policies and procedures.

According to Policy 802 of the County's administrative policy manual, *Maintenance of Personnel Files*, a time and attendance file should be maintained that includes employee absence and overtime requests. It was noted through discussions with the various departments, the Department of Personnel service teams, and through testing performed that the method for requesting, approving, and reconciling employee overtime and leave is maintained at the department level. Due to the decentralized nature of the timekeeping functions, the process varies by department. The County does have a standardized absence request form, which is available to employees on the County's intranet, however per discussions performed it is not being utilized or required in practice in all departments.

We selected a sample of timesheets and pay records for 50 County employees across various pay periods and departments in fiscal year 2019 to perform testing over the timekeeping process at the County and related documentation. The primary objective of this testing was to evaluate the internal controls in place to ensure that time and pay records for employees are authorized and recorded in an accurate and timely manner. Our testing was designed to determine the following: 1) Employees were paid in accordance with County payroll policies and procedures, 2) The employee's supervisors properly approved the timesheet, 3) The hours worked and the leave taken on the timesheet agreed to the pay statement and approved absence request documentation, 4) The pay-rate reported on the pay statement agreed with signed documents approving the rate in the employee's personnel file, 5) Payroll changes and timesheet corrections are appropriately supported by an approved timesheet correction form, 6) Special pay items, incentive pay, and allowances are properly supported and authorized with the appropriate signed documents, 7) Vacation/etc. accruals are accrued at the correct rate based on years of service and as outlined in the MOUs, as applicable. As a result of our testing performed over the sample of employee time records, the following was noted:

- We noted instances where changes and corrections were made to employees' payroll hours subsequent to the payroll being processed, however there was no support provided for these changes. Specific instances noted include the following:
 - We noted seven (7) instances where the employee's timesheet was adjusted in a subsequent period, however a timesheet correction form was either not prepared or properly retained.
 - We noted six (6) instances where the beginning accrued leave balances (vacation, sick time, etc.) for the current pay period did not agree to the ending balance of accrued time from the prior pay period. Justification for the variances, such as a timesheet correction form detailing and authorizing the changes made to accrued leave balances, was not provided.
- We noted 16 instances where an employee received a special pay, differential or incentive for the pay period selected, however the employee's personnel file did not have the authorized documentation supporting these items.
- We noted one (1) instance where the pay period selected happened to be the final pay period for an employee. The employee used the remainder of the vacation balance the last day worked, however the employee was also additionally paid out the remainder of the vacation in the final paycheck.

Recommendations

#3.1 — Employee Personnel File Maintenance

The County should formally document the internal controls in place related to payroll, including personnel file maintenance and timekeeping activities, as well as the procedures and actions to be taken to adequately monitor these controls. Specific examples of suggested internal controls and monitoring procedures are discussed below.

Management response

The Electronic Personnel File (EPF) process and identification of the documents stored are all documented and available to HR staff. Each service team is responsible for ensuring the proper documents are recorded and saved to the employees Electronic Personnel File (EPF) and should perform internal controls and monitoring of the files (QA/QC). Each DPS team has audited their Electronic Personnel Files. The County will consider requiring each DPS team to audit their Electronic Personnel Files at least annually and will consider contacting Department of Finance Internal Audits to verify the EPF periodically.

#3.2 — Monitoring of Time Management Process

To ensure that payroll processing functions are accurate and timely for capturing all payroll transactions of the County the time management process, which includes recording employee attendance, leave and absences, and recordkeeping needs to be consistently monitored. By monitoring the processes in place, the County will encourage adherence to following prescribed County policies and procedures and identify departments and areas that need targeted training on payroll procedures. Additionally, employee time, pay records, and related documentation should be maintained to establish an accurate audit trail and official record of all transactions involving employees' time and pay. Lastly, the County should improve monitoring procedures over the timekeeping functions and processes to ensure that timesheets and timesheet adjustments are properly authorized and the related underlying documentation for time adjustments is properly retained. This can be achieved through the development of oversight and review procedures to ensure that personnel department staff process only authorized transactions which are free from error. As certain department of personnel staff can autonomously record adjustments to employee's timesheet data, the most reliable control to implement would be to require additional approval from another employee or supervisor within the system before the change is posted. However, if this is not feasible, other mitigating procedures should be in place such as management periodically reviewing a sample of timesheet corrections to ensure that they are properly supported by an authorized and retained timesheet correction form.

The collection of physical human resource employment forms and documentation is a process that is subject to human error and failure to complete and retain all required employment forms could expose the County to unnecessary risk. If personnel files are incomplete, it will be difficult to obtain accurate information about a particular employee at any given time. The County should continue to ensure that all employee records and required forms are accurately prepared and scanned into the employee's electronic personnel file. It is recommended that the County develop a system of internal controls and oversight to ensure that employee personnel files contain all required documentation. For example, the County could implement a system of regularly scheduled reviews of a sample of employee personnel files performed by management. Continuous scheduled reviews and audits of required documentation will establish accountability and ensure complete and updated personnel files for the County's employees.

Management response

Each service team is responsible for monitoring and ensuring the accuracy of the time that is transferred/entered. For those departments that use the ESS time sheet, the employee enters their time and the supervisor is responsible for the review and approval of that time. The service teams run reports to ensure that all time is entered and that the hours are not out of the ordinary. For those departments that use their own time entry system, the service teams run reports to ensure that all time is entered and that the hours are not out of the ordinary. DPS has written work instructions for time entry for employees and time approval for supervisor.

#3.3 Leave Time & Overtime Requests

We recommend that the County improve the current policies and procedures related to the pre-approval of the various compensation categories to better document and provide more specific standardized requirements for compliance. For example, it was noted per discussions with County staff that departments are not required to use the County's formal absence request form and discretion has been given to the departments to determine the method and system for requesting absences. The County should standardize as much as possible the method for requesting, tracking and reconciling leave requests to ensure accurate and timely reporting of employee time. Employee absences should be requested in advance when possible, approved by the employee's supervisor and documented through a standardized form that is retained. At the end of each pay period as part of payroll processing, the employee's time should be reconciled against the absence requests to ensure all time is accurately reported within COMPASS. Management should also give consideration to automating the process within COMPASS, where employees request leave or overtime in real-time, and transactions are automatically recorded on employees' time records and retained. Employees and supervisors can review leave requested and taken as well as leave time available electronically.

Management response

The current process requires the employee to send an absence request to their supervisor (either by online form or by email) where the supervisor approves or denies this request and then again approves the time on the time sheet. The service teams are not entering the absences for the employee (unless they are out on a leave of absence for which there is documentation). Supervisors retain the absence request information. The County will reevaluate the automation of such process via MySacCounty to ensure the records of approval are maintained.

Finding #4: Payroll Tax Reporting and Reconciliations

Segregation of Duties in Payroll Tax Reporting

Under Federal and State regulations, the County is required to deduct and withhold federal and state income taxes, Social Security taxes and Medicare taxes when employees are paid. The employer is also required to pay the full amount of taxes withheld, including employer share, to the appropriate agencies and file periodic tax returns. The Internal Revenue Service (IRS) regulations and the State of California's Employment Development Department govern the withholding of payroll taxes from employees and the payment of these taxes to the taxing authority. The County makes payments to each taxing authority based on the required schedules and then reports a summary of payments and liabilities at the end of each quarter. Payroll tax payments and related reports are required to be prepared accurately and timely by the County to avoid penalties from the taxing authorities.

The County Department of Finance is responsible for the preparation and submission of payroll tax reporting to the applicable governmental agencies, including the federal and state quarterly tax filings. For the fiscal year 2019, it was noted that one employee in the Department was responsible for preparing, reconciling, and submitting the various payroll tax reports to the taxing authorities. By not having a separate oversight and review of the payroll tax reporting process, the County is at risk for errors and inaccurate reporting of payroll tax amounts. Segregation of duties is critical to effective internal control and reduces the risk of errors.

Payroll and Payroll Tax Liability Account Reconciliations

At the end of each pay period, as part of the payroll posting to the general ledger, the County will record the corresponding payroll liabilities in COMPASS. These payroll liabilities include wages, taxes and other amounts withheld from employees' paychecks, the employer portion of taxes paid by the County, and other payroll costs for the period. These liabilities represent amounts related to payroll that are owed by the County but not yet paid. Generally, when the County submits the payments to the respective recipients, such as tax payments to the State and Federal agencies, the corresponding liabilities that were recorded for the pay period are cleared out.

It was noted that the County does not have in place formal reconciliation procedures over the balances of these payroll and payroll tax liabilities recorded in the general ledger. As a result of this, there are residual balances included within these liabilities that are many years old which have not been reconciled and corrected. Per discussions with payroll staff, the County does have informal processes in place to review these accounts, however they were not being consistently performed during fiscal year 2019. These reconciliations are performed over current payroll activity and do not address the residual balances that have remained in these accounts for many years. There is also no documented outside review of these reconciliations to ensure that they are being accurately performed. Reconciliations are an important tool to quickly identify errors and needed corrections. If reconciliations are not performed on a regular and consistent basis, errors and adjustments can go undetected, resulting in the need for significant corrections when the reconciliations are performed. Residual and outstanding balances in payroll liability accounts which cannot be explained could indicate potential errors.

Recommendations

#4.1 — Segregation of Duties in Payroll Tax Reporting

There should be an independent and documented review of the payroll tax reporting by another individual (other than the preparer) before submission to the taxing authorities. This formal review process should be implemented to ensure that amounts reported are accurate and properly reconciled to the County’s records. This added layer of review will assist in preventing errors which could lead to the County to be at risk of incurring penalties and fees from the taxing authorities.

Management response

New personnel was recently hired to prepare the tax filings and a reviewer is signing off after review.

#4.2 — Payroll and Payroll Tax Liability Account Reconciliations

It is recommended that the County develop processes and procedures to ensure that payroll and payroll tax liability accounts are being reconciled regularly, such as on a monthly basis. These reconciliations should be formally documented and have evidence of independent review.

Management response

New personnel was recently hired and started to work on these reconciliations. The County is in the process of working on current fiscal year reconciliations and will be working to reconcile prior year outstanding balances. The County has written instructions on how to reconcile. Not all accounts are reconciled in the same way due to the nature of the items that are posting to the accounts. The instructions breakdown specific ways to reconcile unique accounts. The instructions were updated as recently as March 20, 2020. In addition, these instructions will be updated again as the County re-evaluate current processes to be more efficient.

Finding #5: Payroll Policies and Procedures

An integral part of an entity’s internal control environment are the development of policies and procedures. Formal and written policies and procedures are conducive to carrying out management directives and guide the actions taken to achieve the entity’s objectives. Not having updated and formally documented policies and procedures could indicate a lack of approved current guidance and result in errors and noncompliance in the payroll processes.

Administrative Policy Manual

The Sacramento County Administrative Policy Manual is the definitive source for approved County policies, and policies 0100 — 0999 within the manual are related to personnel functions of the County. The Administrative Policy Manual provides policy statements related to specific personnel matters but does not comprise a comprehensive set of policies and procedures for administering and monitoring the multitude of pay-related activities conducted by the departments. It is noted per inspection of the Policy manual that many of the policies available have not been updated timely. Below is an example of a few policies within the Administrative Policy Manual where the last revision date was more than 20 years prior or has not been revised since the effective date:

- Policy 203, *Overtime Compensation*(Effective 8/1976, Revision date N/A)
- Policy 802, *Maintenance of Personnel Files*(Effective 3/1978, Revision date 7/1982)
- Policy 803, *Access to Employee Records*(Effective 7/1975, Revision date N/A)
- Policy 801, *Position Control* (Effective Date 12/1976, Revision Date 9/1983)

The failure to regularly review and update policies may result in staff not fully understanding the processes and controls required when undertaking their responsibilities. It may also lead to errors or gaps in controls.

Payroll Processing Policies and Procedures (Department of Finance)

Per inquiry and review of the payroll processing procedures, it was noted that while the department has a checklist that is referenced when processing payroll, there is a lack of formally written and documented payroll procedures specifically for the use of staff within the Department of Finance payroll team. By not having a structured set of policies and procedures compiled within a manual, the County is at risk of avoidable errors and inconsistencies in payroll processing functions. Additionally, this could result in processes being followed which may be contrary to best practice and may result in deviations in the processing of payroll transactions. Lastly, there is an increased risk to the payroll team's ability to ensure continuity of functions and operations in the event of staff changes and ensure that internal control processes are adequately addressed.

Human Resources Policies and Procedures (Department of Personnel Services)

The County intranet has various training guides, checklists, procedural documents and references that are available for County employees who perform human resource and timekeeping functions. These documents assist and provide guidance for processing compensation related transactions in SAP and also the related documentation required to be maintained. However, it was noted that many of these documents have not been updated for many years. Regularly reviewing procedures helps to ensure that consistent and up to date procedures are being followed by all staff.

Recommendations

#5.1 — Administrative Policy Manual

The County should regularly review the administrative policy manual to ensure that policies adopted currently reflect the policies in place and are up to date with current practices and regulations.

Management response

Most of these policies have been updated and are pending union/executive staff review. County will review these policies again, along with the procedures to make sure they are up to date.

#5.2 — Payroll Processing Policies & Procedures

A written set of policies and procedures for the payroll process should be developed and implemented. The County should establish comprehensive payroll policies and procedures in the form of a manual that sets out the roles and responsibilities of departmental and payroll staff involved in the various payroll activities. This manual should clearly provide the processes, procedures, and protocols for conducting and monitoring all types of payroll transactions and retention of the supporting documentation. It should include each person's role in the payroll process and supervisory review of all payrolls, reports and liability payments.

Management response

There is a set of documentation on all of the processes that the County personnel follow for preparing the tax filings. There are also written payroll instructions for County, Pension, Special Districts, and Off-Cycles. Payroll instructions are not just a checklist, but are step-by-step instructions that specify transactions, time specifications, file names, and folder locations.

#5.3 — Human Resources Policies & Procedures

A periodic and scheduled review process should be implemented over the County's written policies and procedures related to the payroll and human resources processes to ensure that they are current and reflect the current procedures and systems in place at the County. Policies and procedures should be treated as living documents that undergo continuous review and revisions so that they remain relevant.

Management response

The process to review the policies to ensure that these are updated has been in place. Most of the policies have been reviewed and updated; however, they are either pending Union review or Executive review. County will review these policies again, along with the procedures to make sure they are up to date.

Statement of Compliance with *Government Auditing Standards*

We conducted our audit in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Caring for our external and internal clients with a passion to go the extra mile.

Respecting our peers and their individual contributions.

Conducting ourselves with the highest level of integrity at all times.

Trusting and supporting one another.

Being accountable for the overall success of the Firm,
not just individual or office success.

Stretching ourselves to be innovative and creative, while managing the related risks.

Recognizing the importance of maintaining a balance between work and home life.

Promoting positive working relationships.

And, most of all, enjoying our jobs ... and having fun!



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