THE CITY OF
CLARKSVILLE
TENNESSEE'S TOP SPOT

June 18, 2013

The Honorable Mayor Kim McMillan
City Council Members
Audit Committee Members
Clarksville, Tennessee 37040

<u>Executive Summary of Transit Payroll Audit</u>

The following is an executive summary of the findings and management's comments in response to the findings related to the internal audit report on Transit Payroll. The full audit report is attached and contains additional details about the findings and recommendations as well as more background information.

The objectives of the audit were to:
- Report on City Transit Department payroll activity from January 2011 through March 2012.
- Determine compliance with Federal and State payroll-related law relevant to compensation and payroll records.
- Determine compliance with City Code and City Human Resource policy.
- Determine whether Fox Lawson & Associates pay study scales were properly implemented.
- Evaluate payroll-related local policy and procedures (City Code and City Human Resource Policy) for compliance with FLSA requirements.
- Evaluate the design and effectiveness of internal controls over the payroll process during the audit period.

Our audit revealed the following results related to our original objectives:
- Based on our statistical, generated sample of 259 payroll transactions out of a total population of 2,425 transactions during the period January 2011 through March 2012, we are 95% confident (3% tolerable error) that all transactions are accurately calculated and properly supported.
- Our testwork revealed the following in regard to compliance with Federal and State payroll-related laws:
  - Supporting documentation required by the Tennessee Lawful Employment Act is missing in 17 out of 79 (22%) files tested for compliance with the Act.
- Based on our testwork regarding compliance with City Code and City Human Resources policy, we are 95% confident that City Transit Department personnel files are fully compliant with City Code and Human Resources policy.
- Based on our testwork regarding the implementation of the Fox Lawson & Associates study, we are 95% confident that City Transit Department's employees were paid in accordance with the FLA study during the period tested.
- Based on our testwork regarding compliance in regard to City policy and procedures related to the requirements of the Fair Labor Standards Act, we are 95% confident that the City Transit

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- Department complies with all FLSA related City Code requirements and City policy and procedures.
- Our evaluation of the design and effectiveness of the internal controls surrounding the payroll process revealed the following:
  - In general, internal control procedures are operating effectively. However, we found three significant deficiencies in control procedures related to the following:
    - The employee setup and payroll process procedures are not formally documented (not written- just training notes).
    - The payroll data entry is reviewed for accuracy by the same person who performs the data entry. Both the primary processor and the primary's backup have authority to both process payroll and set up new employees and/or change pay rates.
    - ADP system controls need to be established that support proper segregation of duties (ex. require a reviewer acknowledgement before processing).

During the conduct of the audit, the auditors became aware of two situations that prompted them to make two additional recommendations to management.
- A change from semi-monthly to bi-weekly payroll periods and the adoption of a five business day payroll lag would create significant efficiencies in the payroll process;
- Documenting the decision to outsource payroll processing to a 3rd party would provide written evidence that Transit considered the various alternatives and the reasons why outsourcing was selected instead of the alternatives.

Transit management agrees with all of the findings and recommendations set forth by the auditors. Full details are contained in the report.

Internal Audit wants to thank Transit staff and management for their help and support throughout the performance of the audit.

If you have any questions about the audit, the findings, or the recommendations please contact me at 648-6106.

Respectfully,

Lynn Stokes
Director of Internal Audit

cc: Bill Harpel, Chief of Administration
     Debbie Frazier, Interim Director of Finance
     Jimmy Smith, Transit Director

THE CITY OF

CLARKSVILLE
TENNESSEE'S TOP SPOT

Internal Audit Report

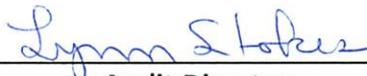|	
Audit Title:	**Payroll Audit**
Department:	**Transit Department**
Audit Period:	**January 2011 through March 2012**

CITY OF CLARKSVILLE

TRANSIT DEPARTMENT

PAYROLL AUDIT
AUDIT # 1306

_____
Auditor

_____
Audit Director

_____
April 2, 2013
Date

CITY OF CLARKSVILLE
INTERNAL AUDIT REPORT

City General Payroll Audit

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Internal Audit Report

Origin of the Audit

The Internal Audit department reviewed the City of Clarksville's Transit Department payroll to provide assurance and advisory services related to payroll. This audit was included in the FY 2013 Audit Plan approved by the Audit Committee.

Audit Objectives

Our objectives for this audit were to:
- Report on City Transit Department payroll activity from January 2011 through March 2012.
- Determine compliance with Federal and State payroll-related law relevant to compensation and payroll records.
- Determine compliance with City Code and City Human Resource policy.
- Determine whether Fox Lawson & Associates pay study scales were properly implemented.
- Evaluate payroll-related local policy and procedures (City Code and City Human Resource Policy) for compliance with FLSA requirements.
- Evaluate the design and effectiveness of internal controls over the payroll process during the audit period.

Scope and Methodology of the Audit

Our audit scope included tests of payroll compliance related to compensation on the federal, state and local (City Code and City Human Resource policy) level.

The scope did not include an audit of benefits or payroll deductions.

Our audit scope included the City Transit Department internal control structure and the payroll transaction activity during the selected audit period (January 2011 through March 2012). We assessed the effectiveness of the controls by assessing the accuracy of the existing payroll process and structural adequacy and the sustainability of the internal control structure.

The audit scope included an evaluation of IT payroll permission controls, but did not include an evaluation of the financial systems or the adequacy or design of IT or financial systems.

Evidence to support our conclusions was gathered from direct inquiries of management and staff as well as observations of source documentation and tests of the controls surrounding the

transaction approval, calculation, and record keeping requirements of the payroll process. From a population of 2,425 transactions, we randomly selected a sample of 259 transactions and 79 associated employee personnel files for review.

Statement of Auditing Standards

We conducted this audit in accordance with various auditing standards. These 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. The Internal Audit Department has not undergone a peer review but a review is planned and budgeted in FY 2014.

Background

Reasons for Audit consideration:
In FY2011, payroll expense made up 57% of the Transit Department's total expenditures.

2011

■ Payroll Expenditures   ■ % of total
■ Payments to Suppliers   ■ Other Expenditures/Transfers

20%
23%   57%
0%
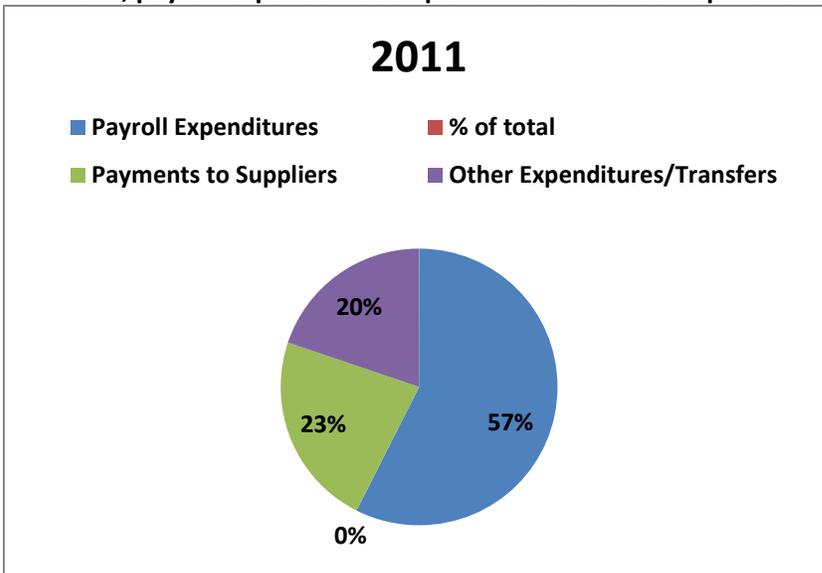
Source: CAFR for 2011 (Capital and Totals - Statement of Revenues, Expenditures and Changes in Fund Balance). Other expense/transfers is the Total Expenditures less the payroll and payments to suppliers for the FY.

Wage expense trend:

Wage Expense

3,800,000.00
3,600,000.00
3,400,000.00
3,200,000.00
3,000,000.00

FYE 2010   FYE 2011
——Wage Expense

In FY2011, payroll expense was $3.6M which indicates an approximate 9.8% increase over the FY2010 expense ($3.6-$3.3M [in FY2010] = $.3M or 10%). The main reason for the increase is the implementation of the Fox Lawson & Associates (FLA) pay study (phased in from 04/01/2011 through 5/31/2011). The FLA study reviewed all full time positions to determine the appropriate classification and pay grade for each position and employee.   The implementation of the study aligns the labor rates for City employees with other municipalities in the region.

The Transit Department payroll process:
Employee positions must be approved by Human Resources and supported by an approved City budget before they can be filled. When an employee fills a position, they are assigned a position control number (proves the position is budgeted), and an employee control number. After their employee number has been assigned, their rate of pay, work schedule, pay schedule, and personal information are entered into a spreadsheet at Transit and the payroll pertinent information is entered into ADP Pay Expert (a 3rd party vendor software package).

Employees are paid on a semi-monthly schedule. There is no payroll time lag for the Transit Department's full time employees so estimates are made for time worked each pay period. These estimates are reconciled to actual time worked in the follow-up pay period.

Transit payroll hours are reviewed and approved at the supervisor level. Any rate changes and hours worked are entered centrally by the accountant in charge of payroll processing, but processed by ADP (3rd party vendor).

Each Transit supervisor is responsible to (payroll specific):
- Account for the hours worked, overtime worked, and leave used by employees
- Review and approve/deny requests for overtime and leave submitted on leave slips
- Ensure that records of all time worked, overtime, and leave documentation are recorded on a timesheet with copies of leave forms attached
- Track the leave time for all department employees (on timesheet)
- Send timesheet and leave slips to accounting for review and processing
- Reconcile time worked against time paid in the previous period and send adjustment information to central processing
- Perform an annual performance evaluation for each employee in the department and send a copy to Human Resources department for filing

Central processing is responsible to:
- Enter any new employee data (after approval)
- Enter previous period adjustments
- Enter time and rates for all employees
- Check that all timesheets are signed and approved
- Check timesheets for accuracy (OT calculated correctly, leave taken available)
- Enter payroll information into ADP Pay Expert
- Review ADP payroll ledger information against timesheets (review of data entered on each time sheet and summary data against control totals)
- Submit the payroll to CFO for review and approval

CFO is responsible to:
- Approve the payroll
- Initiate the funding of the net payroll into the Transit Payroll Account

- Initiate the funding of the payroll liabilities into the Transit Accounts Payable Account, which is a clearing account. This account is funded from the Transit Operating Account for the net amounts of any liabilities associated with processed check runs and payrolls are moved until they clear.

ADP is responsible to:
- Process the payroll
- Create paychecks and pay notification
- Print, submit, and maintain payroll reports
- Send paychecks and pay notifications to Transit accounting department
- Request Federal payroll related liability payments
- Cut checks for garnishments and child support

Human Resource department is responsible to (payroll specific):
- Maintain personnel files that support employee setup, pay, and performance
- Provide guidance through Human Resource policy and procedure
- Assess compliance with City Code requirements
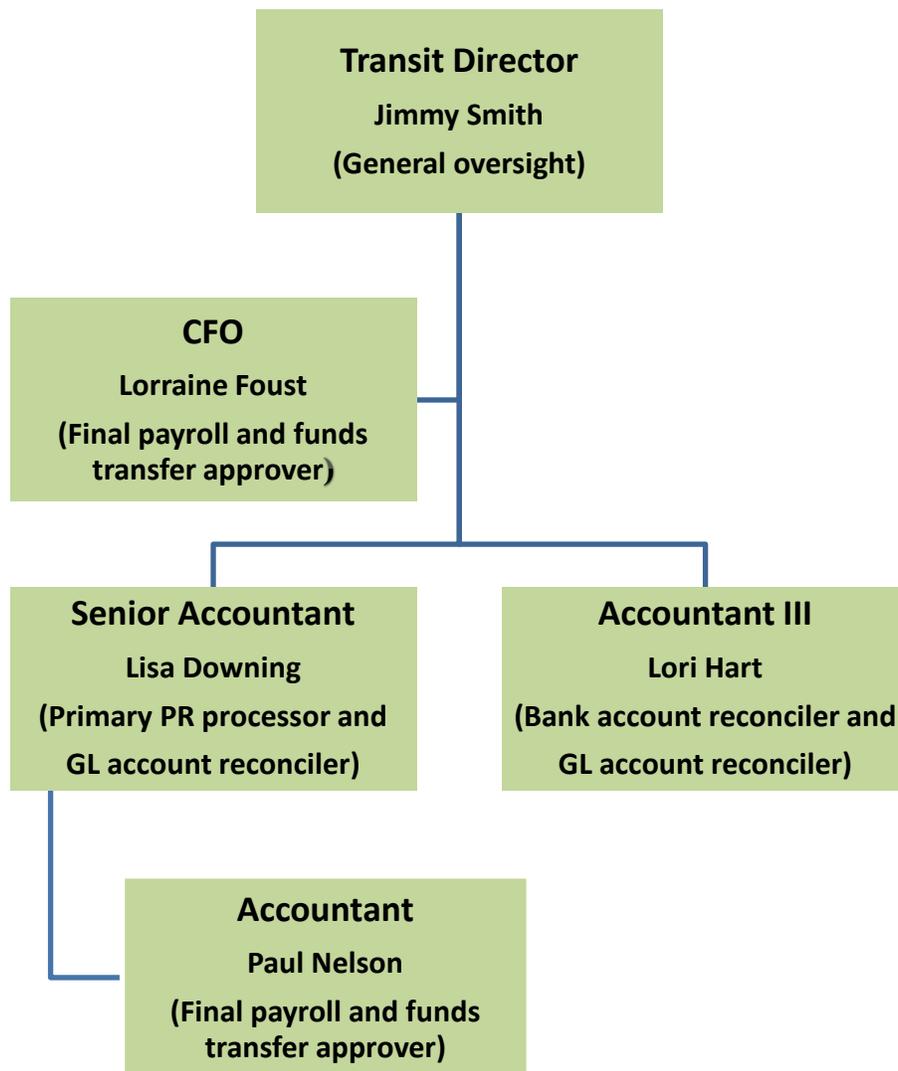- Provide support for any benefits paid

Finance department is responsible to (payroll specific):
- Coordinate indirect payments (collect and submit Transit's share of City benefits that need to be paid collectively)

In addition to payroll transactions that pay employees for their hours worked, payroll transactions included taxable benefits, retro pay adjustments, and longevity payments.
- Taxable benefits such as vehicle usage benefits are computed and added to the employee's wages.
- Retro pay adjustments pay the difference between what was supposed to be paid to an employee and what was actually paid. This occurs when an effective date of a payroll change happens before the start of the current pay period.
- Longevity payments are annual payments made to each employee that has more than 6 years of service with the city. The amount paid is easily calculated (service years at a specified measurement date x specified rate) and is paid in a separate payment to employees once per year.

Payroll Roles – Transit Department:

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                        ┌─────────────────────────┐
                        │    Transit Director      │
                        │      Jimmy Smith         │
                        │   (General oversight)    │
                        └─────────────────────────┘
                                     │
        ┌─────────────────────────┐  │
        │          CFO            │  │
        │     Lorraine Foust      │  │
        │ (Final payroll and funds│  │
        │   transfer approver)    │  │
        └─────────────────────────┘  │
                                     │
              ┌──────────────────────┴──────────────────────┐
    ┌─────────────────────────┐          ┌─────────────────────────┐
    │   Senior Accountant     │          │     Accountant III      │
    │      Lisa Downing       │          │       Lori Hart         │
    │ (Primary PR processor and│         │(Bank account reconciler and│
    │   GL account reconciler)│          │  GL account reconciler) │
    └─────────────────────────┘          └─────────────────────────┘
              │
    ┌─────────────────────────┐
    │       Accountant        │
    │       Paul Nelson       │
    │ (Final payroll and funds│
    │   transfer approver)    │
    └─────────────────────────┘
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Source: Discussions with Transit Department Management.

Payroll Partners – Services Provided to Transit Department:

Human Resources-Benefits support

- Determine benefit rates

- Benefit coordination

Human Resources-Payroll Support

- Set deadlines

Transit Department

Finance

- Coordinate indirect payments to vendors

ADP Payroll Support (3rd Party)

- Provide payroll processing service

- Provide payroll reporting service (incl W-2s)

- Payment of certain direct vendors
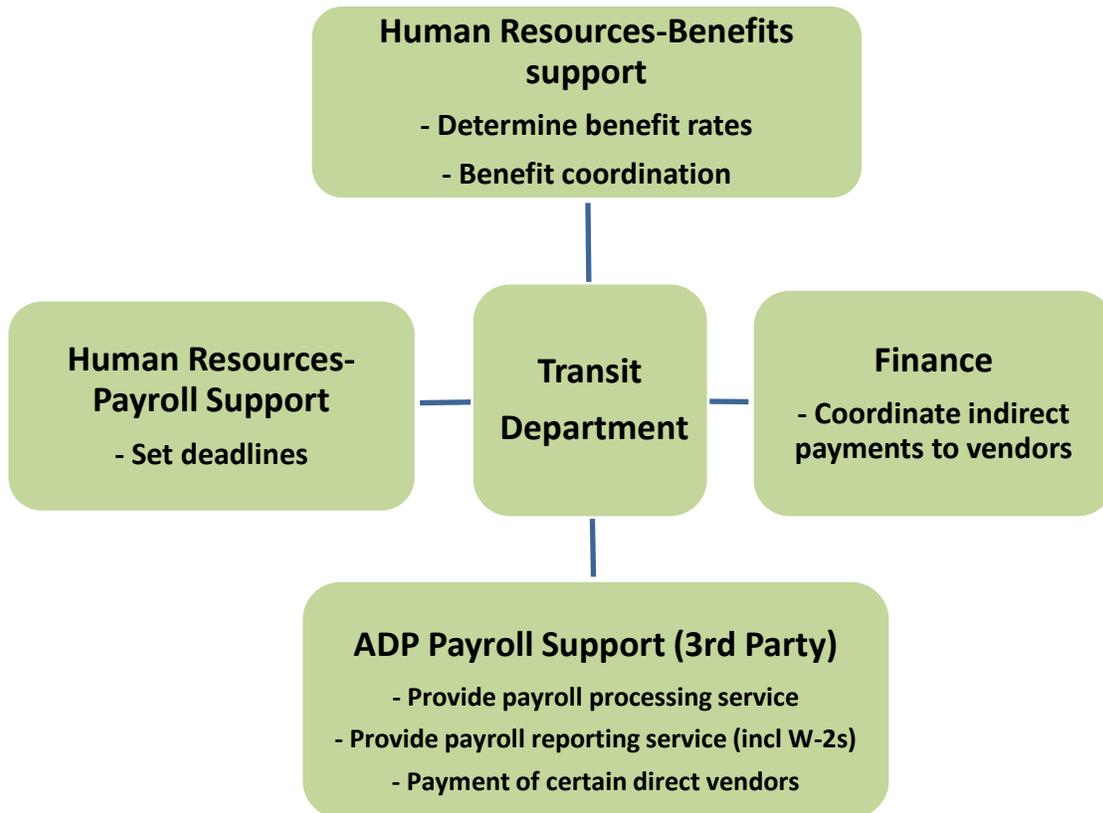
Source: Discussions with Transit Department Management, Finance, IT and a review of the ADP contract.

Internal Controls and Compliance with Federal and State Laws, City Code, and City Policies:

Relevant Procedures and Controls	Yes	No	Other	Status
Internal Controls:				
Do payroll procedures exist?	X			Procedures are not written. The procedures were determined through discussions with the Transit primary payroll processor, the Transit CFO, the Transit Administrative Assistant, City HR, and City Finance. The described procedures were validated by observation, evidence in payroll backup, and evidence in personnel files.
Are the payroll process roles clearly defined and understood?	X			Roles are clearly defined and specific. The central role (primary payroll processor) directs the process and monitors compliance.
Do procedures provide that all authorizations (new hires, status changes, separations) include Human Resource approval and document immediate transmittal to the payroll accountant?	X			Employee changes have to be signed by HR, department management, and the Mayor. Documented on status change forms.
Segregation of Duties:				
Are key duties and responsibilities in authorizing, processing, recording, and reviewing transactions segregated?		X		Authorization of hours worked, OT and leave is agreed to by both the employees and the functional supervisors (documented on timesheets). All timesheets are consolidated and reviewed for accuracy at a central point (accounting). Processing of the payroll has been farmed out to a 3rd party (ADP). The payroll information entered into ADP is reviewed by CFO prior to approval. Check printing

Relevant Procedures and Controls	Yes	No	Other	Status
				is performed by ADP. Clearing accounts for both Payroll and ADP make for easy reconciliation (accounting). Payroll-related GL accounts are reconciled monthly (accounting). Segregation of duties is not clear due to lack of formal written procedure and current practice allows/requires the same person to enter all payroll information into the ADP system as well as review the ADP generated reports against timesheets when the report comes back from ADP.
Does the software system access prevent any one employee from unilaterally changing payroll?		X		ADP had provided data entry access (employee setup and payroll entry) to 2 Transit employees. The primary payroll processor and the backup for the primary payroll processor. Approval rights are provided to the Transit CFO.
Are controls in place to prevent the person who prepares the time sheets from changing the time after approval?	X			Once time cards are approved they are never sent back to employees. Any adjustments (after submission) are made after review and approval in a following period.
Are overtime hours, standby time worked, detailed and approved prior to being paid (by someone other than who prepares payroll)?	X			All timesheets, overtime and leave approvals are approved by the department management. They are included as support for the payroll in which they were paid (held by department).
Are time sheets, overtime approvals, and leave form approvals documented and maintained?	X			All have approval documented. Held at the department. Approval is also documented on the timesheets.

Relevant Procedures and Controls	Yes	No	Other	Status
Is access to personnel files restricted?	X			Held in HR. Locked room except during business hours when access to the room is monitored and restricted. Access restricted to auditors, those with payroll roles, and management as needed.
Is access to payroll files restricted?	X			Held in Transit building in locked rooms (older in storage room/more recent in Transit accounting area). The backup held in Transit accounting is in a locked room except during business hours when access to the room is monitored and restricted. Access restricted to auditors, those with payroll roles, and management as needed.
Is payroll system access restricted appropriately for those with payroll roles?	X			ADP- Full access for primary payroll processor and backup. Approval access only for CFO. The person who enters employee data into system can also process payroll. No 2nd party validation is required by ADP.
Is ADP payroll system access confined to those with a payroll role?		X		Yes. But, no requirement for separate review of data entered is programmed into the ADP. Only final approval (more high level) requires a different approver
Is check stock secured?	X			ADP controls check stock, prints all checks and sends by courier to Transit accounting for employee distribution.
Does the City maintain adequate bank account controls over payroll?	X			The City maintains a separate bank account for payroll clearing and accounts payable clearing. The

Relevant Procedures and Controls	Yes	No	Other	Status
Is the ability to transmit funds to the bank segregated from the ability to prepare payroll?	X			**activity is nominal (bank transmittal, a handful of checks, and payments of liabilities). The balance of the accounts once all checks, the transmittal and payroll liabilities clear is $0.** **The preparer of payroll releases the payroll once it is determined to be supported and accurate to the CFO for processing approval. The CFO reviews and gives final approval for the transmittal.**
Procedures to ensure that payroll is properly calculated:				
Verify the time paid against supporting documents: a. Time sheets (hourly and salary NE)	X			**All employees fill out timesheets and all timesheets document approval and agreement on hours worked, OT, and leave.**
b. Default time	X			**All FT start with the default and adjustments are made from there (OT, Leave, LWOP if applicable).**
c. Overtime (hourly and salary NE)	X			
d. Leave (vacation/sick/other)	X			
Verify rate paid is documented and validated in the personnel file	X			**Personnel status changes are in the personnel file. Automatic pay adjustments (mass changes) are not, but can be verified through documented City Council actions.**
Verify the overtime is calculated correctly	X			
Verify vacation /sick/holiday/other leave on the timesheet is supported by validated leave forms or holidays	X			

Relevant Procedures and Controls	Yes	No	Other	Status
Payroll policy and practice are in compliance with Federal and State of Tennessee laws and City Code and City Human Resource Policy:				
Payroll policy and practice is in compliance with the Federal (FLSA and ERISA), and State guidance (related to hours, compensation, and record keeping)?	X			
Payroll policy and practice is in compliance with City Code (related to hours, compensation, and record keeping)?	X			
Payroll policy and practice is in compliance with Human Resource policy (related to hours, compensation, and record keeping)?	X			
Is the compensation in accordance with the Fox Lawson & Associates pay study after the implementation?	X			

Results of Audit:

Auditor testing and research revealed the following findings:

1. <u>**Some personnel files (22% of tested files) are lacking documentation required under the Tennessee Lawful Employment Act.**</u>

   Criteria: Per TN Code Annotated δ 50-1-703 (a) (3) [Tennessee Lawful Employment Act] employers must validate the lawful employment status of their employees. To prove lawful employment was validated, employers need to request and maintain eligibility verification documents as outlined in the Act.

   Condition: Only 62 of 79 (78%) employee personnel files sampled had the required documentation.

   Cause: The regulations surrounding documentation requirements relating to lawful employment have changed over time. The Tennessee Lawful Employment Act which went into effect on January 1, 2012, created the updated standard but efforts have not been made in the City to bring all employee files up to the new standard as of the audit report date.

Effect: The City Transit Department is not in compliance with the Tennessee Lawful Employment Act. The Department could be added to a published list of offenders and possibly subjected to fines if a complaint is filed and the Department is found to be in noncompliance with the validation requirements.

Recommendation: The Transit Department and the Human Resources Department need to initiate steps to ensure the required Tennessee Lawful Employment Act actions are taken and that the resulting documents are obtained and maintained in each employee's personnel file.

Responsible Department: Transit Department

Management Comments: It's our understanding that the files tested and presented in the finding were examined at Human Resources which demonstrate a lack of synchronization between HR and CTS.

There was a shortage of information at CTS concerning the Tennessee Lawful Employment Act, although for the most part we followed those guidelines. Because of the orientation procedures completed at the Human Resource Department, which include the procurement of the I-9 form and other identification, it was assumed by us the proper documentation had been obtained.

The failure in obtaining the required identification is in the fact that part-time employees are not processed through orientation at Human Resources until becoming full-time so we must not have acquired this information in a few cases.

Agree _____X_____   Disagree _____

Corrective Action Plan: We will procure the documentation required by the Tennessee Lawful Employment Act, retaining one copy for our personnel files and forwarding another copy to the City Human Resources Department.

Projected Completion Date: Immediately.

Responsible Manager: Jimmy Smith, Director

2. **Segregation of payroll access needs to be documented in written procedure.**

   Criteria: Written procedure should be developed that demonstrates segregation of duties in the following areas:
   - Employee setup
   - Payroll processing
   - Payroll review
   - Payroll approval

   Access to the ADP payroll system should be restricted to support the segregation.

Condition: Currently 2 employees have full user rights to the ADP Pay Expert software. These employees are only restricted by informal procedure.   The individuals have the capability to set up new employees, change pay rates and also process payroll.

Cause: The Transit Department has limited staff and is providing the full scope of payroll processing duties. The department has relied on trusted employees to fill the payroll roles and to minimize the risk of not fully segregating payroll functions. The Department does not use the Munis Payroll module (normally provides workflow approval).   There is no Munis employee setup (normally an HR support role).   ADP provides access controls only upon request (no internal IT guidance).

Effect: The payroll process is performed without a formal internal control process.   Current payroll procedure and access configurations (through ADP) increase the Department's exposure to payroll fraud. The current method of control relies too heavily on trusting employees to restrict their system interaction.

Recommendation: The Transit Department should document the duties of the Payroll Setup role, the Payroll Processor role, the Payroll Reviewer role, and the overall Payroll Approver role. This documentation of duties needs to:
- Provide a way to segregate the employee setup and payroll processing functions.
- Provide for a detailed payroll reviewed by someone other than the processor for each payroll.
- Require a review of all rate changes to source documents.
- Address the system controls needed in ADP w/ the vendor.
- Document the duties of the Payroll Setup role, the Payroll Processor role, the Payroll Reviewer role, and the overall Payroll Approver role.

 Writing the procedure and controls down will allow for a formalization of proper segregation of duties and allow for a smooth transition of responsibilities when they shift from one employee to another.

Responsible Department: Transit Department

Management Comments: Because we have a small accounting staff the segregation of duties for the payroll process has been challenging. Our three staff members perform all accounting functions for the department.

Agree _____X_____   Disagree _____

Corrective Action Plan: We will work with ADP to set up access limitations in order to make payroll processing available to personnel as backup to the primary payroll employee.

We will implement an independent detailed review of the processed payroll report by someone other than the person processing payroll.

We will separate the payroll bank reconciliation function from the payroll processing function.

Projected Completion Date: August 1, 2013

Responsible Manager: Lorraine Foust

Other Recommendations:

Although not considered findings, auditor testing revealed some inefficient policies. We suggest that management consider the following recommendations:

1. Recommendation: Improve the efficiency of payroll processing by creating a payroll lag and moving to a bi-weekly payroll.

   The following efficiencies could be gained by such a move:
   - No reconciliations of assumed work activity versus actual work activity are required (currently required each pay period).
   - Standard deadlines create less confusion about payroll cutoff.
   - End of the work week cutoff simplifies OT calculations.
   - Possibility of overpayment to employees as they terminate is reduced or eliminated.
   - More time is available to review payroll activity which reduces errors.

   After reviewing case studies, the auditors believe implementation of a payroll lag and a bi-weekly payroll system can be accomplished with minimum impact to employees. Please contact the audit team for some specific examples.

   Management Comments: We're under the City's Human Resource umbrella; we will comply with whatever decision is made by the City of Clarksville.

   Consideration of the loss of a week's salary at the inception is a challenge.

2. Recommendation: Consider documenting the reasons behind the decision to use an outside vendor for payroll processing instead of using the Munis Payroll module.

   Currently, Transit Department management has decided against using the Munis Payroll module for payroll processing. The cost of using the outside vendor to provide payroll processing services was $9,000 for calendar year 2012.

   Considerations:
   - What are the capabilities of the Munis payroll module
   - How much would using the Munis payroll module (instead of outsourcing the payroll processing function) cost the Transit Department
   - Who would be responsible for the following if the Munis Payroll module was used:
     - Employee setup
     - Employee maintenance
     - Entering periodic payroll information (hours/leave/OT)
     - Safeguarding and cutting checks
     - Printing and distributing
     - Making payroll liability payments (federal/state/benefit vendors/all other designated vendors including garnishment and child support orders)
     - Payroll reporting
     - Creating and issuing W2's and W3's

The auditors recommend that the above issues be listed and addressed by Transit management, HR, and IT. Once HR and IT answer the concerns of Transit management an informed decision can be made regarding whether outsourcing is the best approach for processing Transit payroll. Documenting the decision will provide evidence that consideration was given to both methods and the reasons for the final decisions.

Management Comments: At the time we decided to use ADP processing there were two accountants at CTS. One accountant was handling all accounts payable, accounts receivable, billing, vault and ticket sales and payroll plus other duties as necessary. The other accountant oversaw all grant funding maintenance, cash requests, regulatory and financial reporting. With ever increasing grant procedures and a growing Transit System, we weighed whether to hire a new accountant or use ADP who would take care of approximately half of the payroll processes including safeguarding and cutting checks, printing and mailing checks to CTS, making payroll liability payments *on time*, preparing and submitting payroll reporting, both government and CTS needs and creating and issuing W-2's and W-3's.

There was also no backup if the person who processed payroll could not be present at the time payroll needed to be processed. *At that time*, a new employee would have cost in the neighborhood of $40,000 year including benefits. ADP would cost us about $5,000 to $6,000 per year, saving $34,000 to $35,000 annually. Also, Macola had updated their software and the payroll module was too complicated to use over the previous one. When Macola was contacted they informed us that they had very few users of the new payroll. It was just too complicated for us to be able to handle with 2 accountants. Thus the ADP decision.

Although we have added an accountant since the onset of ADP, this position is responsible for aiding and acquiring the experience to be able to take over as Finance Director in the future. Regulations and requirements have increased tenfold in the past ten years therefore there isn't any leeway for taking up payroll procedures.

Of the $9,000 paid to ADP in 2012, $1,000 of the charges were to used to convert from the former Macola general ledger account numbers to MUNIS object codes.

MUNIS added more time consuming and extra procedures to all areas. Frequently MUNIS support cannot not explain why a procedure doesn't work and because of this adds retroactive manual work to us to fix the problems. Additionally, when one or two of the persons in the permissions process is out of town or absent, requisitions and journal entries come to a stop until they return to work.

Limited personnel make a switch to MUNIS unfeasible at this time. This department processes the payroll in its entirety rather than processing records provided from other departments. MUNIS software has proven to add much more work than our previous system in all areas. With the workforce we have at present it would be unwise to further burden our accounting system.

Conclusion:

Our audit of the City Transit Department's payroll process revealed the following results related to our original objectives:

- Based on our statistical, generated sample of 259 payroll transactions out of a total population of 2,425 transactions during the period January 2011 through March 2012, we are 95% confident (3% tolerable error) that all transactions are accurately calculated and properly supported.
- Our testwork revealed the following in regard to compliance with Federal and State payroll-related laws:
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- Based on our testwork regarding compliance in regard to City policy and procedures related to the requirements of the Fair Labor Standards Act, we are 95% confident that the City Transit Department complies with all FLSA related City Code requirements and City policy and procedures.
- Our evaluation of the design and effectiveness of the internal controls surrounding the payroll process revealed the following:
  - In general, internal control procedures are operating effectively. However, we found three significant deficiencies in control procedures related to the following:
    - The employee setup and payroll process procedures are not formally documented (not written- just training notes).
    - The payroll data entry is reviewed for accuracy by the same person who performs the data entry. Both the primary processor and the primary's backup have authority to both process payroll and set up new employees and/or change pay rates.
    - ADP system controls need to be established that support proper segregation of duties (ex. require a reviewer acknowledgement before processing).

During the conduct of the audit, the auditors became aware of two situations that prompted them to make two additional recommendations to management.
- Consider a change from semi-monthly to bi-weekly payroll periods and the adoption of a five business day payroll lag. This would create a number of efficiencies in the payroll process;
- Consider documenting the decision to outsource payroll processing to a 3rd party.

The auditor would like to thank the Transit Department management and staff for their help and support during the performance of this audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.

If further information about this audit is desired please contact Internal Audit at 931-648-6106.