

Department of Human Resource Management
Payroll Unit
Review of Payroll Process

Distribution: Malik D. Evans, Mayor
Michael Burns, Deputy Mayor
Rose Nichols, DHRM Director
Patrick Beath, Corporation Counsel

Office of Public Integrity
Date: December 5, 2024
Contact: Hannah Hellman
Phone: 428-6121

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) conducted a review of payroll in the Department of Human Resource Management (DHRM) Payroll unit. OPI examined the adequacy of the internal controls in the payroll process and compliance with approved policies and procedures.

The results of the review indicate that, in general, DHRM is accurately processing payroll. However, we noted several internal control deficiencies that require management attention to ensure compliance with City and Department policy.

- ◆ OPI noted differences between hours reported in the timekeeping systems (Kronos, Red Alert, and Telestaff) and hours paid in the Workday payroll registers for 2 of 75 time records examined. These instances resulted in an overpayment of \$285.59 and an underpayment of \$107.50.
- ◆ OPI noted 2 instances of incorrect payments made to terminated employees. OPI noted 1 instance of overpayment totaling \$10,079.24. OPI noted 1 instance of underpayment totaling \$915.90.
- ◆ OPI noted 3 employees that appeared on a payroll register after their termination dates. These employees did not receive payments after their termination dates.
- ◆ OPI noted payroll processes and procedures are not formally documented.
- ◆ OPI noted an inadequate segregation of duties within the Payroll unit.

OPI also noted that the overtime authorization process in the Rochester Fire Department (RFD) appears to be ineffective. This is consistent with the findings in the RFD Payroll Process audit report issued August 25, 2023. The administration in the RFD has previously responded to this finding.

II. BACKGROUND, OBJECTIVES, AND SCOPE

A. Assignment

The Office of Public Integrity routinely includes payroll system review in its annual work program. City Administration requested this review.

B. Background

The City of Rochester employs over 3,000 employees. The Department of Human Resource Management is responsible for recruiting, developing, and retaining employees for the City of Rochester. The department has seven organizational units including Administration, the Civil Service unit, Labor Relations, Staffing Services, the Benefits unit, the Training and Safety unit, and the Payroll unit.

The Payroll unit is responsible for processing the City's payroll in accordance with federal and state laws, City policies, and the collective bargaining agreements between the City and the various unions. The Payroll unit is also responsible for maintaining the timekeeping system and providing employees with answers to payroll questions.

C. Objectives and Scope

The objectives of this audit were to ensure compliance with established policies and procedures, as well as to evaluate the internal controls over payroll records, payroll preparation, and the deferred compensation program.

In this review, OPI examined City payrolls for the period January 1, 2023 through August 12, 2023. OPI examined a sample of 25 employees for each of the following categories of employees: biweekly non-uniformed, biweekly uniformed, and weekly employees. OPI also examined one sample of 25 employees who elected to contribute to the 457 plan deferred compensation program, and another sample of 25 employees whose employment was terminated within the scope period.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is

subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

We conducted this audit in accordance with the Global Internal Audit Standards issued by the Institute of Internal Auditors. 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.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The Office of Public Integrity examined personnel records, payroll registers, timecards, and schedules to determine compliance with City and departmental policies. Generally, based on the examination of City records and the results of various audit tests, the majority of employees appear to be paid accurately.

However, we noted several internal control deficiencies which require management attention to ensure compliance with City and departmental policies.

A. Time Keeping Differences

OPI noted differences between the hours reported in timekeeping systems (Kronos, Red Alert, and TeleStaff) and the payroll registers generated in Workday.

In our scope period, OPI reviewed time records for 75 employees, 25 from each of the following categories: non-uniformed biweekly employees, non-uniformed weekly employees, and uniformed biweekly employees. We noted that 65 employees utilize Kronos for timekeeping purposes while 10 RFD employees utilize Red Alert as a timekeeping system. OPI noted 2 instances where the hours recorded in Kronos did not agree with the hours reported in Workday

payroll registers. These instances resulted in an overpayment of \$285.59 and an underpayment of \$107.50

We were unable to agree all hours recorded in Red Alert to hours recorded in the Workday payroll registers, as these systems are not integrated and do not record information in the same manner. Red Alert records multiple categories of hour and leave accruals that are used for timekeeping purposes pursuant to the International Association of Firefighters (IAFF) collective bargaining agreement, but are not impactful to the amount paid nor the City's tax liability, and thus are not reported to Workday. This makes verifying the hours reported to Workday challenging, and allows opportunities for errors.

Payroll compliance entails an organization adhering to all legal regulations surrounding the processing of payroll and filing of payroll-related taxes. Utilization of payroll software and strong timekeeping systems are among the best practices for payroll compliance. Payroll software calculates and processes payroll automatically, while staying current with all applicable regulations as updates occur. Furthermore, a strong timekeeping system maintains accurate records of time worked, minimizes errors, and makes the payroll process easier to manage. Payroll compliance relies on the integrity of the data being used; it must be accurate, complete, and consistent. A payroll software that integrates with timekeeping systems will provide the highest level of data integrity and payroll compliance.

Currently, payroll processing consists of multiple automated and manual processes, and utilizes multiple software systems. The use of multiple systems and manual processes result in a complex process that creates opportunities for error and potential fraud. Additionally, there is no system in place to identify discrepancies between Workday payroll registers and Kronos timecard records. DHRM relies upon department supervisors to ensure timecards are complete and accurate.

◆ Recommendation

DHRM should exercise care and diligence when preparing payroll. DHRM should partner with Workday Support to explore the development of a function to identify differences between Workday Payroll Registers and Kronos Timecards prior to finalizing payroll to ensure employees are paid the appropriate amount.

B. Incorrect Payment Amounts for Terminated Employees

OPI reviewed the termination pay of 25 employees and noted 2 instances in which errors in termination pay went uncorrected, totaling a net amount of \$9,163.34 in overpayments.

OPI noted 1 instance totaling \$915.90, in which an employee was underpaid due to an incorrect calculation by the payroll system. The employee retired halfway through the payroll period and the payroll system calculated the gross pay at half of the correct hourly rate.

OPI noted 1 instance totaling \$10,079.24, in which an employee was paid an accrual payout twice in error. This payment occurred after the employee's termination date. This overpayment has not been recovered from the employee.

Errors in the calculation of payroll can result in the overpayment or underpayment of employees, and can impact the City's payroll tax liability amount. Both errors both occurred in the calculation of gross pay.

◆ Recommendation

DHRM should exercise diligence and care when processing final payments. DHRM should consider implementing an automated process to examine calculations of hours multiplied by rate, to ensure the payroll system is accurate.

C. Process Errors for Terminated Employees

OPI noted 3 employees' terminations in Workday were delayed, causing them to continue appearing on Workday payroll registers as active employees with zero pay. They did not receive pay after their termination. One employee appeared on 5 payroll registers after their termination, one employee appeared on 3 payroll registers after their termination, and one employee appeared on 1 payroll register after their termination.

When employees are terminated from employment, they should no longer receive pay from the City. Employees who are terminated but remain active in the payroll system create opportunities for errors, fraud, and theft.

The opportunity for fraud arises when there are delays in termination. Additionally, as more errors occur, the probability that they will be identified and corrected decreases.

Summary of Errors in Processing Terminations

<u>Error Detail</u>	<u>Employee</u>	<u>Count of Pay Periods Error Occurred in</u>
Termination Delay in Workday	Employee 1	5
Termination Delay in Workday	Employee 2	4
Termination Delay in Workday	Employee 3	1
Total	3	10

◆ Recommendation

DHRM should exercise diligence and care when processing terminations and final payments. Creating a process guide detailing specific procedures to be performed and which role is responsible for each procedure may help to eliminate duplicate payments and ensure retroactive payments are applied to all eligible former employees in a timely manner. DHRM should explore if an automated analysis for duplicate payments, mismatching pay periods, and zero pays can be implemented. Additionally, DHRM should continue to work with other departments to ensure timely communication to DHRM regarding employees who separate from the City.

D. Undocumented Processes and Procedures

OPI noted a lack of documentation detailing the established policies and procedures to complete the payroll process in DHRM. OPI was not provided with documentation detailing the specific responsibilities of each role in the Payroll unit, nor documentation detailing the procedures to be completed to process payroll and which role is responsible for each procedure.

OPI noted no methodical system in place to identify errors prior to the processing of payroll. The Payroll unit reviews exceptions manually prior to processing payroll, but does not have the staff or tools to do so methodically. Errors frequently occur at the department level that the Payroll Unit must manually identify and correct to ensure employees are paid correctly. These manual corrections and other duties that must be performed to accurately process payroll are not formally documented. We also noted a lack of communication within the

Payroll Unit, as well as between DHRM and other departments regarding employees separating from the City.

Internal control systems consist of all policies and procedures in place to ensure compliance with applicable laws and regulations. Internal control systems also assist in the prevention of fraud, sabotage, theft, misuse of information, and other activities that can compromise the security and integrity of an organization and its information. Preventive control activities, such as documented policies and procedures, are used to prevent errors or fraud from occurring. Documented policies and procedures provides guidance to staff and promotes continuity of activities in the event of employee absences and turnover.

There is a deficiency in the internal controls in the DHRM Payroll Unit. There is an increased risk of error in processing payroll with no detailed policies and procedures documented to refer to and ensure payroll is processed correctly.

◆ Recommendation

DHRM should conduct an overall review of the entire payroll process, including the necessary procedures and applicable deadlines to process payroll accurately and in a timely manner. Additionally, DHRM should create standard operating procedures detailing the specific procedures and tasks related to processing payroll, and a document that details a high-level overview of the payroll process.

E. Inadequate Segregation of Duties

OPI noted that members of the Payroll unit perform multiple duties outside of the scope of their position. The Payroll unit applies a system approval to timecards that were approved by employees regardless of whether the supervisor approval is present. The purpose is to ensure that in the event that supervisor approval is not present due to unforeseen circumstances, employees will still receive their earnings. Additionally, many of the staff perform duties and tasks beyond their position on an as-needed basis, resulting in an inadequate separation of duties.

Internal control systems consist of all policies and procedures in place to ensure compliance with applicable laws and regulations, as well as to prevent fraud, sabotage, theft, misuse of information, and other activities that can compromise the security and integrity of an organization and its information. Preventive internal control activities, such as separation of duties, are used to prevent errors or fraud from occurring. Separation of duties means no single individual has sole control over an entire process. This ensures any errors, intentional or unintentional, will be discovered by another individual.

Inadequate separation of duties can lead to errors, operational inefficiency, and potentially fraud. Additionally, inadequate separation of duties can cause a delay in detection of errors or fraud.

There is limited staffing in the Payroll unit, often causing members to perform duties outside the scope of their role to ensure payroll is processed in a timely manner. While cross-training is vital in the event of absent employees or turnover, there is not enough oversight when incompatible duties are being performed by a single employee.

◆ Recommendation

DHRM should complete a detailed process map of the payroll process. DHRM should establish routine duties and procedures to be completed per role in the Payroll unit, and should document all duties that authorize payment, record payment, and process the payment. If there is not enough staff to separate these duties, DHRM should establish additional oversight when a single employee is performing duties of each category. DHRM should follow establish policies for completing the payroll process.

DEPARTMENTAL RESPONSE

The response of the Department of Human Resource Management to findings in this report begins on the next page.



To: Timothy R. Weir, Director of the Office of Public Integrity
Hannah R. Hellman, Senior Field Auditor/Investigations

From: James Caswell, Payroll Systems Supervisor, Human Resource Management
Thomas Miller, Associate Director, Human Resource Management
Rose M. Nichols, Director of Human Resource Management

Date: November 26, 2024

Subject: Departmental Response to Payroll Unit - Review of Payroll Process

On behalf of the Department of Human Resource Management (DHRM), we would like to thank the Office of Public Integrity, specifically the efforts of Hannah Hellman, for taking the time to perform such a comprehensive audit on the extremely complex and important Payroll Function for the City of Rochester.

Below you will find DHRM's responses to the several internal control deficiencies identified in the audit report that require management attention to ensure compliance with City and Department Policy:

A. Time Keeping Differences

The reason for the differences is that previously when SharePoint time input corrections were processed by the Payroll Unit those corrections were not also being made to the actual timecard for the impacted employee. This process has now changed in that all SharePoint time input corrections made are then followed up with corrections made to the employee's timecard in Kronos. Additionally, there were also improvements made to the Kronos Sign-Off Process where instead of manually splitting the timecard information into three (3) different files, it is now combined into one (1) EIB upload for less manual intervention within the process.

Currently, DHRM is working to move employee time keeping from Kronos to Workday which will provide new capabilities for reconciling timecards to Payroll Registers as well the development of a function between Telestaff for Public Safety employees and Workday.

B. Incorrect Payment Amounts for Terminated Employees

For the overpayment cited in the audit report related to a separating employee receiving their Vacation Accruals paid out twice in error, an internal procedure has been implemented to specifically address these types of future payments. This procedure includes for each weekly and bi-weekly payrolls, a DHRM Payroll Systems Specialist sends out an email to both the Payroll Systems Supervisor, James Caswell, and the Associate Director of Human Resource Management, Thomas Miller, containing the names and number of unused Vacation Leave hours being paid out to recently separated employees who are receiving

their final payouts. Prior to these payouts being processed, both James Caswell and Thomas Miller review and approve all payouts to ensure their appropriateness and accuracy.

For the underpayment cited in the audit report related to a separating employee who retired in the middle of a pay period receiving their gross pay at half of the correct hourly rate, that was specifically related to a configuration of the IAFF Injured On Duty Pay Code. That Pay Code has since been updated in Workday to reflect hourly rate times of the hours listed instead of based off the scheduled hours memo code. Going forward when someone separates from the City in the middle of a pay period, they will receive their gross pay at their correct hourly rate.

C. Process Errors for Terminated Employees

The processing errors for terminated employees cited in the audit report is not actually an internal DHRM Payroll Unit issue but rather an issue with some City Departments not providing timely notifications to the DHRM Staffing Unit when employees within their Department separate from the City.

To address this, the DHRM Staffing Unit will be sending out an email to all Departments' internal Human Resource Liaison reminding them of the extreme importance of the need for timely communications when employees within their Departments separate from the City.

Additionally, the DHRM Payroll Unit will begin to send reports to the DHRM Staffing Consultants each pay period with a list of employees who have zero earnings for that particular pay period. Upon receipt of these reports, the DHRM Staffing Consultants will follow up with the appropriate City Department to determine if the reason for the zero earnings is that the individual has recently separated from the City or if the employee is on some type of leave of absence, which will need to then be properly documented in Workday.

D. Undocumented Processes and Procedures

In April of this year, DHRM began to process map all payroll related processes and procedures. To date, (23) process-mapping sessions have been conducted and it is anticipated that these session will conclude by December 31, 2024.

As part of this process-mapping, DHRM is identifying and documenting each of the steps of the payroll process, what parties are involved (both internal and external), the time each step takes to accomplish, the issues encountered during any part of the process, and potential improvements that can be made to the overall City payroll process.

During these process-mapping sessions, each of the potential improvements to the payroll process is assigned to a member of the Payroll Team at which time they research it to determine if it is feasible. If it is deemed feasible, they then proceed to document and implement it.

E. Inadequate Segregation of Duties

In addition to the previously mention process-mapping session, the Payroll Unit has also created a checklist for both weekly and bi weekly payroll processing to help separate procedures and duties between the staff members. Additionally, with the separation of duties based upon the checklist, there is also a review completed by the Payroll Systems Supervisor when a Payroll staff member completes a task to ensure that the procedure was completed correctly. This double check verification system has helped tremendously to alleviate one (1) employee performing duties at a time.