PAYROLL AUDIT

PROGRAM EVALUATION AND AUDIT

METROPOLITAN COUNCIL

November 17, 2020

INTRODUCTION

Background

Timekeeping

The Metropolitan Council's bi-weekly payroll process begins with employees submitting their time via one of four systems, TXBase, WAM, WFD, or Hastus. Depending on the system either the employee enters their time, or an admin ensures time logged is correct. Managers or supervisors then approve payable time.

Payroll Processing

The payroll team, located within the accounting and financial reporting area of the finance department, is then responsible for interfacing the payroll systems with PeopleSoft HRMS.

Distributing Pay

Most Met Council employees are paid via direct deposit. If an employee does not sign up for direct deposit, they are automatically signed up for a US Bank Focus Debit card.

Objective

The objective of the audit was to assess the internal control environment and the monitoring and administration of the payroll process.

This audit considered the Council's Thrive MSP 2040 Outcomes and Principles, including the Thrive principle of *accountability*. The Council is accountable for paying employees correctly and managing payroll efficiently and in compliance with state and federal regulations.

Scope

The audit covered payroll policies and procedures as well as payroll documentation and data from December 18, 2018 through April 30, 2020.

Methodology

To address the audit objectives, employee interviews were conducted, and procedures/processes, controls, documentation, and payroll data were reviewed. Payroll was informed of our progress throughout the audit and issues were communicated to payroll as they were identified.

FINDINGS

Several processes and procedures were reviewed. Below is a summary of the reviewed areas and results.

Timesheet Processing

A sample of 20 employee payroll submissions were reviewed to ensure proper approvals. Ten for the payroll period ending Nov 29, 2019 and 10 for the period ending April 3, 2020. For staff whose time is recorded via Hastus, they do not sign off on their time, however, they are given the opportunity to correct their time if needed. Approvals were recorded for all 20 payroll submissions.

Payroll Processing

Supporting documentation unavailable for payroll corrections

Payroll corrections from January 1, 2019 to December 31, 2019 were requested from payroll. There were 5,651 corrections in the period, of which 4,319 were for time taken due to DOT physicals or compiling accident reports. Supporting documentation was requested for 40 corrections. Documentation was unavailable for 15 corrections, including three non-DOT physical and accident corrections (of 17 requested) and 12 DOT and accident related corrections (of 23 requested). An example of why a correction may be needed is an employee forgetting to mark eight hours of vacation in a prior period. The retention schedule for Payroll-Earnings and Deduction Authorizations/Corrections and Reclassifications is the "current year plus 3 fiscal years". However, payroll has been following a different retention period for both types of corrections, those due to DOT physicals and accidents and those not made for DOT physicals or accidents. According to payroll staff, the corrections made for DOT physicals and accident reports are corrections that must be made due to system limitations rather than a correction as defined above and so payroll doesn't follow the retention schedule for these types of corrections. By not following the retention schedule for either type of correction, payroll couldn't provide evidence managers had submitted the corrections on behalf of their staff.

> **Recommendation:**
> 1. **(Essential)** Payroll should follow the retention schedule for corrections or consider updating the schedule and define what is considered a correction versus a system limitation formally in a procedure.
>
> **Management Response:** Management acknowledges payroll needs to follow Council's document retention schedule for payroll corrections. Also, management needs to define what is considered system limitation corrections versus routine (normal) corrections. Management will hold a training session with Payroll staff to ensure they are following the document retention schedule for payroll corrections regardless of the type of correction.
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> **Timetable:** 1/1/2021
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> **Staff Responsible:** Controller and Payroll Manager
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> **Thrive 2040 Principle:** Accountability

Procedures and documentation are not available for control activities

Work instructions and evidence of payroll control activities being completed in the past period were requested from payroll. Work instructions were requested for tasks identified in the narrative report (a document provided to the state auditors) as well as tasks identified during interviews with the auditee. Several tasks did not have written procedures, although there were some informal checklists. There were also several tasks where documentation was not retained and there were inconsistencies as to what is retained. As a result, it could not be confirmed that the self-identified tasks in the payroll narrative or respective checklists are completed on a regular basis. Further, there are no requirements for having work instructions or retaining documentation for control activities. Per the Green Book[1], those in key roles for a unit may further define policies through day to day procedures, depending on the rate of change in the operating environment and complexity of the operational processes. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed if deficiencies are identified.

Recommendations:

2. **(Essential)** Procedures should be created for Payroll control processes.

   Management Response: Management acknowledges the need for written payroll procedure that reflects controls. Management will initiate a review of the current procedure and create a more robust Payroll specific procedure to ensure all the necessary controls are identified, documented and followed into practice.

   Timetable: 6/30/2021

   Staff Responsible: Controller and Payroll Manager

   Thrive 2040 Principle: Accountability

3. **(Essential)** Payroll should document when they complete tasks and update the Payroll Narrative to reflect the tasks they complete and remove tasks they no longer complete.

   Management Response: Management acknowledges the Payroll process documentation needs to be updated to reflect current processes. Also, management acknowledges the need to develop checklists to ensure the completion of tasks that are defined within the process and that the checklists and related documentation are saved.

   Timetable: 6/30/2021

   Staff Responsible: Controller and Payroll Manager.

   Thrive 2040 Principle: Accountability

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[1] The *Standards for Internal Control in the Federal Government,* known as the Green Book, sets internal control standards for federal entities.

Distributing Pay

Off cycle checks

Payroll issued 132 off cycle checks during the period December 18, 2018 and December 13, 2019. Documentation was requested for a sample of 14 off cycle checks and no exceptions were found.

User Administration

Access reviews

Annually, PeopleSoft administrators verify with managers, via email, that their direct reports' access to PeopleSoft HRMS is relevant to their job function. The review is facilitated by Administrative Systems Support unit within finance. We were provided evidence of this review being completed in January 2020.

CONCLUSIONS

Supporting documentation was available for certain payroll control activities including signoffs of employee time, review of access to PeopleSoft HRMS and off cycle checks issued. However, the payroll unit could benefit from documenting all control processes within the unit as well as documenting what backup documentation should be retained for the control processes it completes.

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