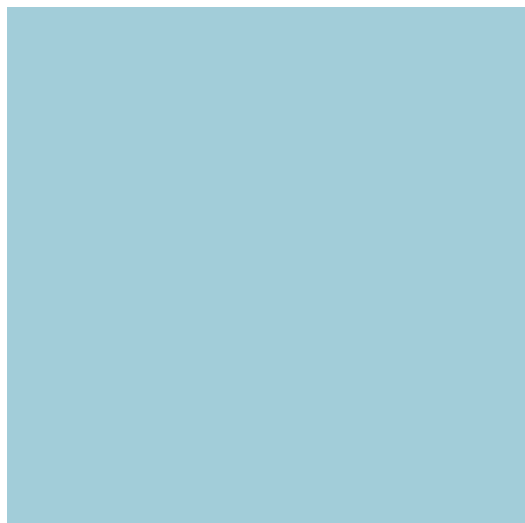


Payroll Audit



Audit Executive Summary: Payroll Fraud Risks

What We Found

During this audit, we examined the City's payroll policies, procedures, and practices to determine whether adequate controls were in place to detect and prevent payroll fraud. Specifically, we examined risks related to fictitious (i.e. ghost) employees and falsified wages.

We did not discover any evidence leading us to believe that there is any material fraud.

In addition, we found significant improvement in internal controls over those examined in 2010 and 2012. Out of ten previously issued recommendations, the City fully implemented eight and partially implemented two recommendations.

In the 2012 audit, we found substantive indicators of abuse of the City's sick leave policy. Although we did identify some indicators of sick leave abuse among a handful of employees, we did not find any widespread abuse amongst employees.

In the 2012 audit, we also found that there was no good process to ensure that terminated employees are timely removed from the payroll system. Although this process has been improved, Human Resources still relies on departments to timely notify them of employee terminations. As a result, we did find a few employees who were not timely removed from the payroll system.

Our overall opinion is that the City's internal controls mitigate the risk of ghost employees and falsified wages to an acceptable level. These internal controls appear to be effectively designed within the limitations of the current time and attendance system. However, internal controls could be improved if the City implemented an enhanced time, attendance, and scheduling solution for all city employees.

Why We Did This Audit

The City spends over \$70 million each year to provide compensation and benefits to approximately 1,000 full-time, part-time, and seasonal city employees. In 2010, we conducted an audit of overtime and compensatory time. In 2012, we conducted an audit of payroll policies and procedures. These two audits found several risks which resulted in ten recommendations.

In 2017, the City implemented a new financial system which included a payroll application and a new time and attendance software. As a result, many policies and procedures were updated as new internal controls were implemented. The purpose of this audit is to assess the City's current payroll internal control framework to determine if the risks identified in the previous two audits still exist.

Based on direction from the College Station's Audit Committee, an audit of the City's payroll fraud risks was included in the fiscal year 2021 audit plan.

Future Considerations

The City Manager could consider implementing an enhanced time, attendance, and scheduling solution for all city employees. Enhanced time, attendance, and scheduling systems offer a wide range of functionalities which reduce some of the more cumbersome, time consuming, manual processes –and mitigate many of the risks associated with human error and potential fraud. Despite these benefits, implementing a time, attendance, and scheduling solution citywide does not come without its challenges. Cities typically face resistance from departments who are accustomed to current operating practices. In addition, these systems can be cost prohibitive for some municipalities.

Payroll Audit

Table of Contents

Introduction	4
Payroll Process Background.....	4
Payroll fraud is common	5
Types of payroll fraud	5
The City's payroll and timekeeping systems.....	5
Audit Objectives.....	6
Scope.....	6
Methodology	7
Findings and Analysis.....	8
Ghost Employees on the Payroll Were Not Found.....	8
Ghost employee schemes require four elements.....	8
Controls mitigate risks of fabricated personnel and payroll records.....	8
Controls mitigate risks of falsified timekeeping documentation	9
Multiple layers of payroll authorization are required	10
Controls mitigate risks that direct deposits are being diverted	10
The overall risk of ghost employees is low to moderate	11
Controls for Falsified Wages are Well Designed Within System Constraints	11
Controls for mitigating the risk of concealment of falsified wages exist.....	11
Proper supervisory review contains three elements.....	13
Sick leave abuse can be used as an indicator of insufficient supervisory review.....	14
The overall risk of falsified wages is low to moderate.....	14
Future Considerations.....	16
Appendix A: Management's Response	17
Appendix B: Methodology	18
Appendix C: Previous Audit Recommendations	21
Appendix D: Payroll Internal Control Framework	24
Appendix E: Employment Separation.....	39

Introduction

The Office of the City Internal Auditor conducted this performance audit of the City of College Station's payroll process pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.¹

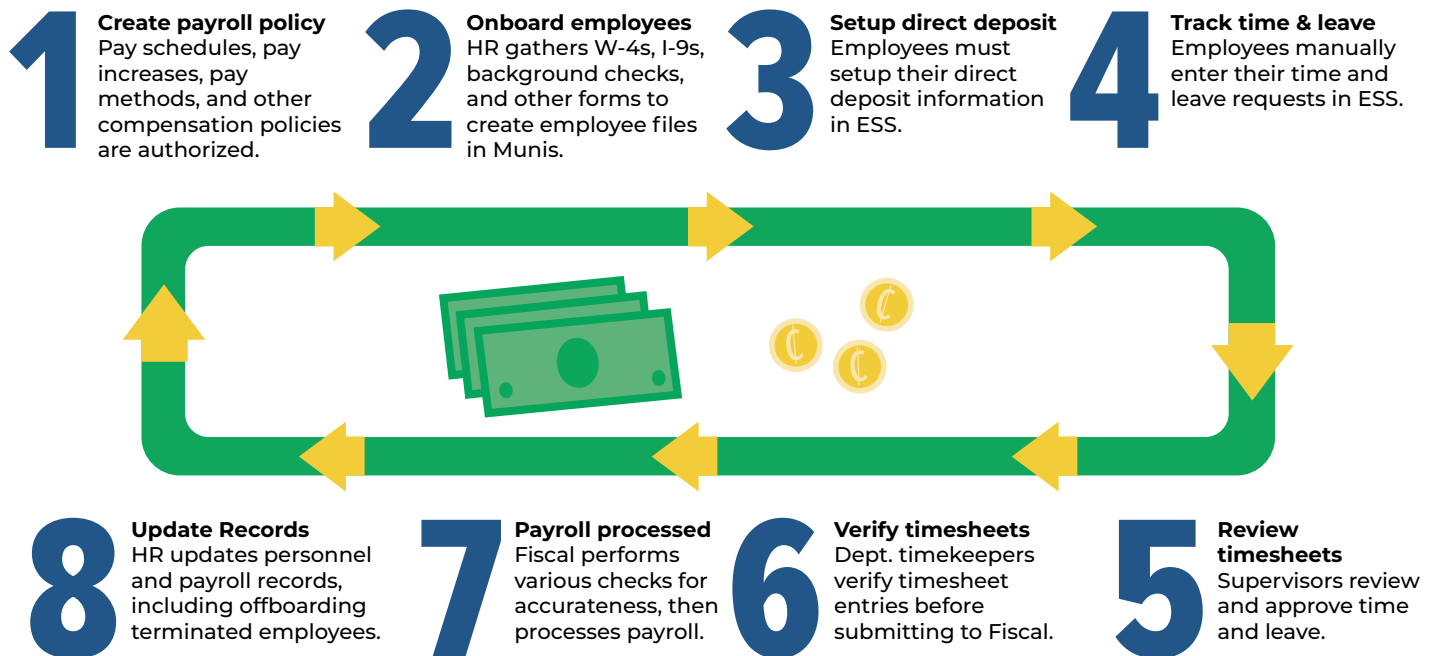
A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making.² Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information. A performance audit of the payroll process was included in the Fiscal Year 2021 Audit Plan based on direction given by the Audit Committee.

Payroll Process Background

The payroll process involves multiple departments, including Human Resources (HR) and Finance, and every employee takes part in this process when they receive payment for time worked. **Figure 1** below provides a general overview of the City of College Station's payroll process. A more detailed description of the City's payroll process as well as the key internal controls present in this process can be seen in **Appendix D**.

Just under 1,000 full-time equivalent employees were authorized in fiscal year 2020. Paying the salaries and benefits of these employees is the City's largest operating expenditure. In fiscal year 2020, the City's total operating and maintenance expenditures were approximately \$183 million. Of this amount, the City spent over \$73 million on salaries and benefits –or roughly 40% of total operating and maintenance expenses.

Figure 1: The Payroll Cycle



¹City of College Station, TX, "Code of Ordinances," § 30 (2017), 12.

²U. S. Government Accountability Office, "Government Auditing Standards 2018 Revision (GAO-18-568G)" (2018), 10-17.

Payroll Fraud is Common

According to the Association of Certified Fraud Examiners, payroll fraud is one of the most common types of occupational frauds affecting organizations.³ Some experts estimate that over 30 percent of organizations encounter some type of payroll fraud annually.⁴ Given the percentage of the total expenditures spent on salaries and benefits, the City's payroll fraud risk could be greater than many other organizations if effective internal controls were not in place.

Types of Payroll Fraud

The four most common types of payroll fraud are (1) ghost employees, (2) falsified wages, (3) commission schemes, and (4) workers compensation.⁵ The City does not offer any employees commission-based compensation; therefore, there is not a risk of city employees engaging in this type of payroll fraud. Our preliminary assessment of workers compensation found the risk of maleficence in this area to be low. As a result, this audit primarily focused on risks related to ghost employees and falsified wages.

Ghost employees are individuals who are listed in the payroll register, who are not providing services to the entity, but who are receiving a payroll check. Generally, there are two ways in which ghost employees are created. The first are completely fictitious employees which are added to the payroll. The second are employees who remain on the payroll after separation with the City. Falsified wages can be defined as an employee increasing their salary or benefits in a fraudulent manner. This can occur either by falsifying the number of hours worked, changing an employee's wage rate, or intentionally abusing one of the City's leave policies.

The City's Payroll and Timekeeping Systems

Payroll systems manage everything having to do with the process of paying employees and filing employment taxes. They are put in place to keep track of worked hours, calculating wages, withholding taxes and other deductions, compensating employees, and paying government employment taxes. A timekeeping system is the method by which an organization tracks the hours worked for each employee. Timekeeping systems range from paper time sheets to advanced time, attendance, and scheduling systems with automated timeclocks with biometric verification.

In July 2017, the City implemented Munis, an integrated financial system designed for public sector organizations. Part of the set of integrated applications included human resources, payroll, and timekeeping. Employee Self Service (ESS) is the Munis self-service application created specifically for employees. ESS provides access to personal information, pay and tax information, time entry, and time requests. ESS requires city employees to manually enter time and leave requests for supervisory approval.

Along with ESS, the City also utilizes three other systems to track shifts, schedules, and attendance, or to manage work orders. These systems are Telestaff, CityWorks, and Exaktime. Telestaff is used by the City's first responders in the Fire and Police departments. It is the automated scheduling solution that optimizes scheduling, communications, and deployment of public safety personnel and other critical resources. Although both Police and Fire use Telestaff for scheduling, only Fire uses Telestaff to account for time and attendance. Cityworks is a public asset management system that enables departments to manage public assets and their associated data, work activities, and business processes. Although other city departments use CityWorks to make work orders, only Water/Wastewater uses Cityworks to track time and attendance for most of its employees. Like in Telestaff, in Cityworks employees enter working hours manually. Exaktime is used by Parks and Recreation's temporary, seasonal, or part-time employees. ExakTime is a time tracking solution that enables its user to oversee field work. Time tracked in the ancillary systems of Telestaff, CityWorks, and Exaktime are all imported through batch files into the Munis/Payroll application for payroll processing.

³ACFE, "Report to the Nations: 2020 Global Study On Occupational Fraud And Abuse," 2020, 10–17.

⁴Robert Farrington, "The Three Types of Payroll Fraud: Are Your Employees Stealing From You?," *The College Investor*, March 25, 2015.

⁵ACFE, "Fraud-Related Internal Controls Manual," October 2019, 177–81.

Table 1: Comparison of the Functionalities of City Systems

Functionality	ESS	ExakTime	Telestaff	CityWorks
Has automated clock-in/out	X	✓	X	X
Working hours need to be entered manually	✓	X ⁶	✓	✓
Advanced scheduling system	X	X	✓	X
Work order/asset management system	X	X	X	✓

Source: Official websites and interviews with City departments.

Table 1 summarizes the major functionalities of citywide used systems. Except ExakTime, none of the used programs are automated time and attendance systems.

The other three systems are used very specifically and have their own systems and controls that are different than ESS. Because of the variation in system processes, the Internal Auditor’s Office focused the audit on ESS users and excluded the other three timekeeping systems from most audit tests.

Audit Objectives

This audit assesses the City’s payroll process by answering the following:

- Has the City implemented effective internal controls to mitigate the risks of (1) ghost employees and (2) falsified wages?
- Have improvements been made to mitigate risks identified in the 2010 and 2012 payroll audits?

Scope

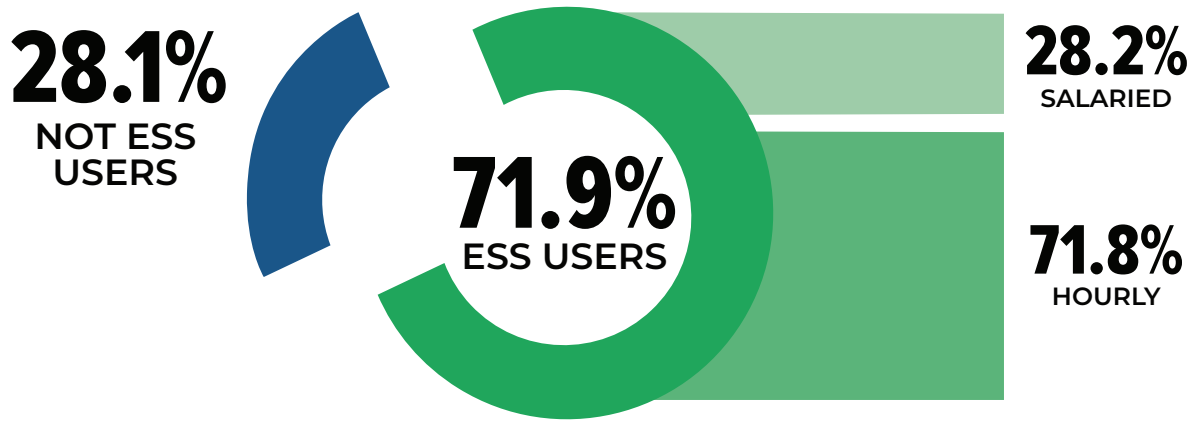
The City Internal Auditor’s Office conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that the audit team plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings 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.

Audit fieldwork was conducted from May 2021 through September 2021. For most audit tests, the scope of the audit included calendar years 2018, 2019, and 2020. By keeping 2017 out of scope for most audit tests, the audit team evaluated only full calendar years after the implementation of ESS/Munis. To obtain the most up-to-date information of payroll practices and to control for the position and supervisors’ changes, for some audit tests the audit team analyzed first six months of 2021. The audit team evaluated ESS users and excluded those employees that did not use ESS, as the majority of City employees use ESS. For instance, as of June, 2021, approximately 72% of city employees were ESS users (see **Figure 2**).⁷ Furthermore, evaluating each of these systems and their respective processes, procedures, and internal controls would have lengthened the audit resulting in this report being completed in a less timely fashion.

⁶Although working hours are calculated automatically in ExakTime, the system allows supervisors to make manual changes.

⁷This calculation includes all City employees who received any type of compensation on June 11, 2021 (including seasonal employees).

Figure 2: Breakdown of ESS and Non ESS Users (as of June 11, 2021)



Source: Data provided by IT Department.

Methodology

To identify ghost employees, we tested for indicators of ghosts by (1) searching for similar or identical names, addresses, or social security numbers, (2) identifying unusually low deductions, and (3) analyzing employees direct deposit information. We also examined terminated employees within scope to ensure that they were timely removed from the payroll system and thereby did not receive any unauthorized pay.

To identify falsified wages, we checked whether all forms of pay, including add pays, one-time payments, overtime hours, had been appropriately authorized. Moreover, we analyzed whether the City's leave related policies were clearly written and if there were any indicators of leave abuse through analyzing leave data.

A description of the procedures used to conduct this Audit are summarized in [Appendix B](#).

Findings and Analysis

Preventive controls are designed to avoid errors or fraud in transactions before they occur, whereas detective controls are designed to find errors or fraud in transactions after they have been processed. Although at first glance preventive controls appear more beneficial, it is necessary to install both types of control activities because detective controls are vital in determining if the preventive controls in place are functioning properly. We found that the City's payroll process has a mix of preventative controls such as proper segregation of duties, and detective controls such as supervisory review. Overall, these controls appear to be effective at mitigating risks associated with ghost employees on the payroll and falsified wages. For a more detail description of these controls, see [Appendix D](#).

Ghost Employees on the Payroll Were Not Found

We evaluated the internal controls designed to prevent and detect ghost employees. Generally, we found these controls to be effective. As a result, our tests did not find any indicators of ghost employees. However, there could be vulnerabilities if certain controls fail. This report will discuss those opportunities and how controls could possibly be strengthened to further prevent ghosts on the payroll.

Ghost employee schemes require four elements

For a ghost employee scheme to work, the following four things must take place.⁸

- 1. Fabricate personnel records.** The perpetrator must fabricate all the necessary personnel and payroll records for the ghost employee and enter them into the payroll system. This can be accomplished by any employee who has access, authorized or not, to the payroll system. Another method used to create a ghost is to leave a terminated employee on the payroll; the terminated employee then becomes the ghost. This requires the perpetrator to intercept termination notices or delay them, and in some cases, to change the address and bank account of the terminated person.
- 2. Falsify timekeeping documentation.** If the ghost employee is paid by the hour, the perpetrator must submit falsified timekeeping documentation to the payroll system. The perpetrator does not have to enter false hours for salaried employees.
- 3. Authorize falsified timekeeping information.** The falsified timekeeping information must be authorized. In an electronic system such as ESS, an employee that steals or otherwise obtains the supervisor's password can approve fraudulent timekeeping information.
- 4. Gain access to paycheck.** The paycheck must be issued, and the perpetrator must gain access to the paycheck. Once the hours are entered into the payroll system, the system will generate a check. If payroll is deposited directly into employees' accounts—like it is done for College Station employees—opportunity exists for embezzlement. This is because checks can be direct deposited into the perpetrator's account, the account of an accomplice, or an account the perpetrator establishes in the ghost employee's name.

Controls mitigate risks of fabricated personnel and payroll records

The City's onboarding and position authorization procedures appears to be effective in preventing fictitious employees from being added to the payroll. Critical functions are segregated and only a few employees have access to add an employee to the payroll. In addition, many forms of documentation are required to add an employee to the system – some of these documents are provided by the new hire, others by their supervising department, and finally, some by HR. The documentation required for fulltime employees is more stringent than those for part-time seasonal workers. However, in scope⁹ part-time/seasonal

⁸ACFE, "Fraud-Related Internal Controls Manual," 2021, 177–81.

⁹The audit covers all ESS users who received compensation during 2018-2020.

compensation expenses account for roughly \$288,000 per year, whereas fulltime employees cost the City approximately \$46,322,000 per year. Therefore, it may be reasonable to have less stringent onboarding procedures for part-time/seasonal employees.

The offboarding process primarily relies on the employee or the department director notifying HR of the termination of employment (see [Appendix E](#)). If the department does not submit termination action in a timely fashion, then there is a risk the employee will not be timely removed from the system. Therefore, we tested to see if any employees were not timely removed from the payroll between 2018 and 2020.

We found that timely removal of an employee’s system access does not always occur. Namely, sometimes separation actions were initiated by departments after employees’ official termination dates.

Timely submission and approval of the termination action forms is important because an employee - or someone who has access to the employee's account - still can request leave or compensation for worked hours through ESS since there is no indicator that the employee left city employment. From 2018 until the end of July 2021, we found 14 cases when the termination actions were submitted and approved with more than 14 days delay after a person left city employment. Six out of these 14 employees’ termination actions were approved 31 days later than their termination dates and all of them were part-time non-benefited employees.

This time lag presents the risk of potential ghosts in the system. This occurred because departments neglected to timely submit termination actions to HR and Payroll and internal controls in Payroll were not able to timely identify such cases. [Table 2](#), on the next page, describes the time between when an employee was officially terminated and when the personal action to remove the terminated employee from the system was approved.

We also found 4 instances within scope where employees appeared to receive some form of pay after their termination dates. We submitted these instances to Fiscal Services for their response. The explanations and support documentation provided for each of these instances were within reason.

Table 2: Days Between Official Termination & Termination Personal Action Approval Dates

PERIOD	2018	2019	2020	2021	TOTAL	%
Before or the same day	79	95	54	44	272	60%
1 -7 Days	43	32	36	29	140	31%
8 -14 Days	4	8	7	6	25	6%
15 -31 Days	2	4	1	1	8	2%
32 -255 Days	0	3	3	0	6	1%
TOTAL	128	142	101	80	451	100%

Source: Data provided by IT Department.

Controls mitigating the risk of falsified timeheets have improved

The ESS system requires employees to login manually to fill out timesheets. For hourly workers, they must enter the hours they worked in order to be paid. For salary workers, they must log into ESS to record leave. This is an improvement in controls over the paper timesheet system the City used prior to ESS. However, controls could be further strengthened with enhanced timekeeping technology such as time tracking systems with biometrics, identification badges, or global position systems (GPS). These enhanced technologies help minimize the risk of falsified timekeeping because they aid in ensuring that the employees clocking in and out are who they say they are and that they are clocking in and out from the proper location.

Multiple layers of payroll authorization are required

Supervisors are required to approve timesheets. The City's Payroll Guideline dictates that employees submit time on either a weekly or a bi-weekly schedule in ESS. Correspondingly, supervisors approve time weekly or bi-weekly. However, we found that time is not always approved by direct supervisors. There were six cases when time was self-approved/cancelled and 44 instances when time was approved by co-workers holding equivalent positions in the organizational structure.¹⁰

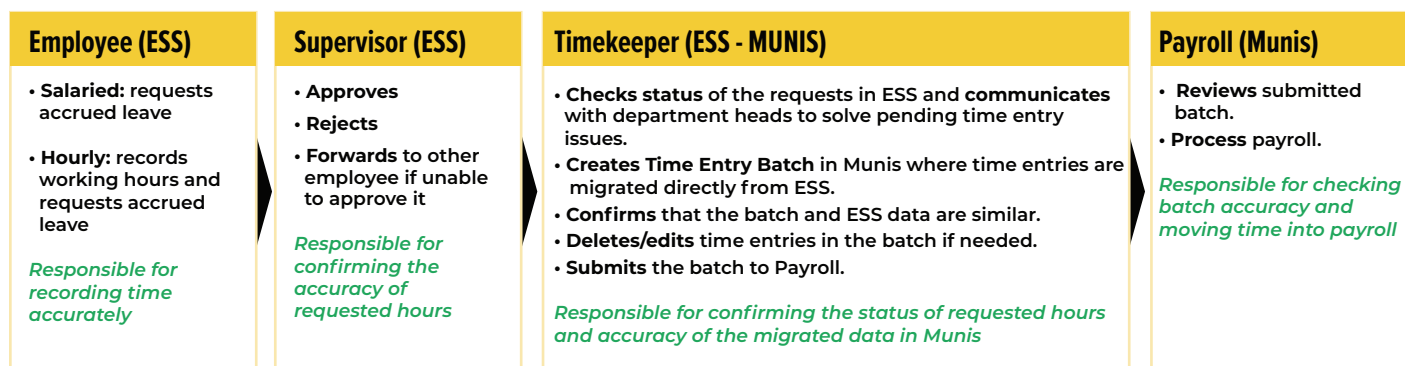
The ESS system allows employees to approve their own time or co-workers' time if they are forwarded by a supervisor. The forwarding option is a useful function of the ESS system because it makes time approval process flexible in case a supervisor is on vacation or not available to approve the time. However, the use of the forward function makes this control less effective if the final approver does not have sufficient knowledge and authority to appropriately question the time being submitted.

To mitigate the risk of processing unauthorized timesheets, two more layers of review occur – timekeepers at the department level and Fiscal Services at the city-wide level. However, the roles on each layer differ. Namely, while supervisors are responsible for confirming the accuracy of requested hours, timekeepers only confirm the approval status of requested hours and accuracy of the migrated ESS data into Munis. Fiscal Services checks whether provided information in the batch is accurate and move the time into the actual payroll after conducting a few tests defined in the Time Entry Move checklist, but they cannot confirm whether the requested hours correspond to the actually worked or used leave hours. This can only be confirmed by direct supervisors.

In addition, once a week Fiscal personnel review a report generated by IT which identifies if there are any instances of self-approval. Fiscal then checks with appropriate individuals at the department level to verify the appropriateness of the timekeeping information recorded for these individuals.

Figure 3 below describes the process by which time is entered, reviewed, approved, and processed in ESS and Munis/Payroll. For a more detailed description, along with the related internal controls, see **Appendix D**.

Figure 3: Time Entry Authorization Process in ESS



Controls mitigate risks that direct deposits are being diverted

During the onboarding process, employees are provided instructions from HR on how to setup their ESS account. When an employee logs into this account, they can setup their direct deposit information, and can change this information anytime they are logged into their ESS account. Previously, employees were required to complete a direct deposit form. Therefore, the onus is on the employee to keep their login information secure –if they don't, it is easier to create a ghost, but if they do, it is more difficult. Previously, the direct deposit documentation would need to be forged and sent into Fiscal for the scheme to work.

¹⁰This test reviewed 9,080 leave requests made in ESS by 665 employees from January 1, 2021 until July 1, 2021.

The overall risk of ghost employees is low to moderate

Given the current controls, the risk that a fictitious employee is added to the payroll is low. However, the risk that employees remain on the payroll after employment separation is slightly higher (or moderate). For the scheme to work for any significant length of time, either (1) the employee would need to maintain their system access, or (2) the employee's supervisor would need to obtain the employee's login information. This could happen if employees are not diligent in keeping their ESS login information secure. To mitigate this risk, employees are required to complete frequent information security training that covers multiple topics including password security.

Controls for Falsified Wages are Well Designed Within System Constraints

We evaluated the internal controls designed to prevent and detect falsified wages. Generally, we found these controls to be effectively designed within the limitations of the current time and attendance system. Many of the controls that mitigate the risks of ghost employees also reduce the risk of falsified wages such as segregation of duties and sufficient timekeeping review. There are two primary methods used to falsify wages. The perpetrator must either misrepresent timekeeping records or circumvent compensation authorization.

The City's primary control to ensure timekeeping is recorded accurately is supervisory review. There are secondary controls Fiscal Services has implemented to identify and correct timekeeping entries that are contrary to City policy. These controls help ensure supervisors are responsibly performing their function of ensuring time is recorded accurately. To ensure correctness of employee compensation, there is a system of checks and required documentation verified by HR for any form of pay to be authorized. For a more detail description of these controls, see [Appendix D](#).

Controls for mitigating the risk of concealment of falsified wages exist

For an hourly employee to fraudulently increase the size of their paycheck, they must either falsify the number of hours they have worked or change their wage rate. On the other hand, salaried employees must find a way to increase the salary they are paid each pay period. Although the City's internal controls mitigate risks of falsified wages, an employee could potentially falsify or conceal hours or salary amounts paid using the following concealment methods.¹¹

1. Misrepresent working hours. Because hours are recorded manually in ESS, the employee could misrepresent the time they start or stop working. The misrepresented hours could go unnoticed if the supervisor does not carefully review timesheets or lacks direct oversight to know the hours the employee actually worked. Since the City does not use any type of time clocks for hourly employees that are in audit scope, it was not possible to confirm the accuracy of the recorded and approved working hours.¹²

As of June 11, 2021, 72% of the in-scope employees¹³ were hourly workers. **Figure 4** classifies all ESS users as hourly and salaried employees across departments. Considering the existing practice, the risk of misrepresenting timekeeping records by hourly employees is moderate.

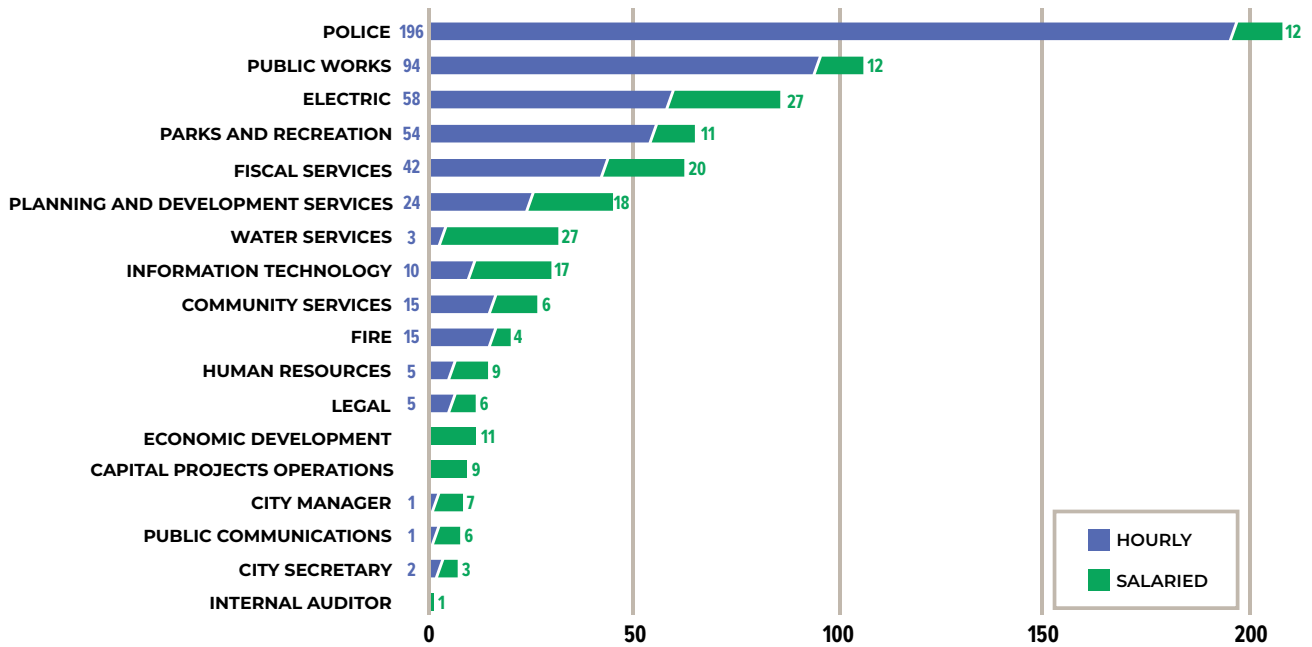
Moreover, employees can falsify wages through misrepresenting timekeeping records if they gain access to their supervisor's ESS account to approve their timesheet without the supervisor's knowledge. Audit tests did not reveal such cases. If supervisors keep their account information secure the risk of authorizing falsifying wages through supervisors' accounts is low.

¹¹ACFE, "Fraud-Related Internal Controls Manual," 2021, 177–81.

¹²Sometimes payroll documentation can be reconciled to other records—such as work orders—to assess the accuracy of timesheet entry. However, we found that these reconciliations yield unreliable results because of how work order systems are utilized by city departments.

¹³In scope are all ESS users. For this audit test, the audit team analyzed all ESS users who received any type of compensation on June 11, 2021.

Figure 4: ESS User Hourly and Salaries Employees Across Departments



Source: The City employees data was provided by the IT Department.

2. Collude with supervisor. The employee could collude with a supervisor, splitting the gains with the supervisor. This type of collusion is particularly hard to detect, as the control (the supervisor) is part of the fraud. However, collusion requires continued cooperation and concealment of at least two parties making it less likely.

3. Make changes to a timesheet after the supervisor has approved it. The ESS system has built in controls to reduce the likelihood of this happening. Once regular hours have been approved by a supervisor, the hours are locked to the employee. Employees can cancel leave requests after they have been approved. However, the ESS system sends notifications to supervisors when employees cancel leave requests.

4. Obtain access to the payroll records or have an accomplice gain access to the records. The employee must then, however, enter a change and have it accepted by the system. Due to the City’s compensation authorization procedures, the risk of this occurring is substantially reduced. Although this is much more difficult to accomplish than reporting more hours, the advantage is that it is done once rather than repeated each pay period.

We found that documentation authorizing performance increases, step increases, certifications, and across the board increases is sufficient to demonstrated that the pay employees receive is accurate. However, verification of assignment pays, and allowances proved more challenging. Employees should only receive assignment pay if they are still in that assignment. These changes are initiated and removed based on department direction. The risk that an employee will continue to receive assignment pay after the assignment has ended is mitigated due to periodic audits conducted at the department level. Because this audit focused primarily on centralized controls, assessing the adequacy of how departments are performing this function was out of scope of this audit.

For allowances, employees should need to demonstrate that there is some need for the allowance. Once approved, allowances have the risk of going into perpetuity regardless of the need still existing for the employee. We were able to verify that car allowances are appropriate. However, we were not able to verify the appropriateness of all phone allowances and gym reimbursements. This being said, gym reimbursement cost the city approximately \$40,000 per year and phone allowances cost \$58,000 per year.

Proper supervisory review contains three elements

Functioning supervisory review of employees' timesheets contain the following elements: (1) approval is done by someone who has sufficient authority to question the time entry, (2) approval is done by someone with sufficient knowledge of the work that was performed, and (3) conditions exist which reduce the risk of collusion between the employee and the approver.

Sufficient authority. We found six instances when time was self-approved/cancelled and 44 instances approved by co-workers holding the same positions in their department or division.¹⁴ These instances primarily stemmed from the ESS system allowing employees to approve their own time or co-workers' time if they are forwarded by a supervisor. The forwarding option is a useful function of the ESS system because it makes time approval process flexible in case a supervisor is on vacation or not available to approve the time.

Sufficient knowledge. Supervisors who don't directly oversee the work of their employees typically lack sufficient knowledge to question the manual time entries of their employees. Likewise, supervisors who manage large numbers of employees may find it difficult to keep track of when their subordinates arrive to work, leave to go home, take breaks during the day, or request and take leave.

In general, the optimal ratio of supervisors to employees depends on various factors such as the type of profession, nature of the organization, and skills and competencies of managers and their subordinates. There are also varying opinions amongst experts regarding optimal span of control even when factors such as those previously mentioned are held constant. Therefore, **Table 3** below describes the span of control of ESS users across the City.¹⁵

Table 3: Time Entry Approvers of ESS Users Across the City

Number of Subordinates	Number of Approvers	Percentage of Approvers	Cumulative Frequency
15	2	1%	1%
14	1	1%	2%
13	0	0%	2%
12	2	1%	3%
11	4	2%	5%
10	1	1%	6%
9	10	6%	12%
8	9	5%	17%
7	10	6%	23%
6	14	8%	31%
5	26	15%	46%
4	22	13%	58%
3	23	13%	72%
2	19	11%	83%
1	30	17%	100%

Source: ESS time entry data was provided by IT Department.

¹⁴This test reviewed 9,080 leave requests made in ESS by 665 employees from January 1, 2021, until July 1, 2021.

¹⁵This test covered ESS time entry approvals from January 1, 2021, until July 1, 2021.

Collusion mitigation. Collusion between supervisors and employees are typically identified by managers who track and monitor productivity. Collusion is also more common the fewer the number of people who are involved. We found that 17% of ESS approvers oversee the time entries of a single employee and 11% approve the time entries of two employees.

Sick leave abuse can be used as an indicator of insufficient supervisory review

Determining if supervisors are effectively performing their duty of properly reviewing employees time entries can be difficult. One way this can be done, however, is to see if employees exhibit any indicators of common abuse of payroll related city policies.

Sick leave patterns. Although there appears to be indicators of some employees abusing the City's sick leave policy – through exhibiting patterns of taking sick leave around weekends, holidays, or other leave days – this potential abuse does not appear to be widespread. There also is no pattern of these employees working for any particular department, division, or supervisor. In other words, we found a few isolated instances – 7 instances in total.¹⁶ None of these employees used any form of FMLA, catastrophic, or COVID related leave from 2018 to 2020. We examined these employees' annual performance evaluations and did not find any mention of inappropriate patterns of leave usage in these evaluations. It is important to note that these seven employees exhibit only indicators of potential sick leave abuse. To be definitive would require an employee admitting that they engaged in a violation of City policy.

For example, one of these seven employees took sick leave 24 times around the weekends, holidays, or other leave. More precisely, in 16 instances, the employee used sick leave around weekends and the remaining cases were taken around vacation. This employee has been with the City for over 30 years and may be getting close to retirement.

Sick leave in lieu of vacation. We found 38 employees who ended 2020 with 200 or more hours of vacation leave than sick leave.¹⁷ Of these 38 employees, 28 took some form of FMLA, catastrophic, or COVID related leave in 2018, 2019, or 2020 – thereby accounting for the disparity. Of the remaining ten employees, the one with the largest difference had a sick leave balance of 87 hours and a vacation leave balance of 391 hours at the end of 2020. This employee also had a pattern of taking sick leave around weekends, holidays, or other leave days. This employee retired in February of 2020.

Unrecorded leave for exempt employees. We did not find any widespread issues with exempt employees not recording their leave requests appropriately. However, we did find one employee who appeared to exhibit a pattern of not submitting leave requests when he/she was not at work.

Sick leave during the last year of employment. We found that employees who have resigned use almost the same number of sick leave hours as other employees. However, those who have retired use statistically significantly more sick leave in the last year of employment than other employees. Age differences of the comparison groups may account for some of differences in requested sick hours because people close to their retirement age could have more health-related issues.

Despite the potential indicators of sick leave abuse cited above, we noticed significant improvement over the findings from the 2012 Payroll Audit. Some of this improvement may be the result of changes in policy, improvements to internal controls, or the evolution of city culture.

The overall risk of falsified wages is low to moderate

The overall risk of falsified wages is low to moderate. Overall, we found the controls to prevent circumvention of compensation authorization to be effectively designed to mitigate risks to acceptable levels. Although we found the controls to detect and prevent misrepresenting timekeeping records to be well thought-out

¹⁶This test covered all sick leave requests made through ESS from January 1, 2018, until January 1, 2021.

¹⁷The test covered all employees who worked for the City at the end of 2020.

within the context of our current timekeeping system, there may be areas the City could efficiently reduce risks of falsified wages.

Because many of the timekeeping functions in the City are manual, the primary control to prevent and detect falsified wages is supervisory review. Therefore, the risk of inaccurate or falsified wages significantly increases if all supervisor do not adequately perform this function. Although there are some system controls and tools within the City's current system to aid supervisors in performing their oversight responsibilities, these controls are not nearly as robust as the leading time, attendance, and scheduling technologies used by other municipalities. As a result, recorded hours and leaves could not be fully verified. Due to this limitation, audit tests were designed to identify indicators of potential inaccurate or falsified wages. Consequently, the extent to which city employees accurately record time and attendance is somewhat unknown.

Future Considerations

Our overall opinion is that the City's internal controls mitigate the risk of ghost employees and falsified wages to an acceptable level. These internal controls appear to be effectively designed within the limitations of the current time and attendance system. However, internal controls could be improved if the following is implemented.

Recommendation

The City Manager could consider implementing an enhanced time, attendance, and scheduling solution for all city employees.

Background

Prior to the implementation of Tyler Munis and ESS in 2017, the City primarily used a paper timesheet system to keep track of hours worked by employees throughout the City. The 2012 Payroll audit identified several risks associated with this system. Although ESS has been a significant improvement over paper timesheets, entering time and the controls currently in use to ensure that time is entered accurately, are still largely dependent on manual processes.

Considerations

There are much more advanced time, attendance, and scheduling software and hardware solutions than the City is currently using. These systems offer a wide range of functionalities which could reduce some of the more cumbersome, time consuming, manual processes—while reducing many of the risks associated with human error and potential fraud. These systems also provide more detailed records with user friendly analytics which could help supervisors become stronger leaders with less time and training required. Finally, we found that improvements to both hardware and software technology have made it feasible to implement these technologies citywide despite differences in department operations.

Despite these benefits, implementing a time, attendance, and scheduling solution citywide does not come without its challenges. Because policies and procedures often need to be reworked, municipalities typically face resistance from departments who are accustomed to current operating practices. Therefore, successful implementation is reliant on effective change management strategies. In addition, these systems can be cost prohibitive for some municipalities. These costs largely depend on the features of the system and the number of users. We found one-time implementation costs of some municipalities to be close to \$200,000; and approximate ongoing costs to be \$5 per month per employee.

Appendix A: Management's Response

This memo documents Fiscal Services response to the audit recommendation for the Payroll Audit conducted in FY2021.

A performance audit of the payroll process was included in the Fiscal Year 2021 Audit Plan based on direction given by the Audit Committee. The Institute of Internal Auditors (IIA) states that Performance audits are performed to evaluate an organization's **actual performance** as compared with the goals and objectives set by its board of directors or members of senior leadership.

Audit Report Summary

The goals and objectives of the audit as defined in scope of the report are:

- Has the City implemented effective internal controls to mitigate the risks of (1) ghost employees and (2) falsified wages?
- Have improvements been made to mitigate risks identified in the 2010 and 2012 payroll audits?

In the audit report's Findings and Analysis section concludes:

- "We found that the City's payroll process has a mix of preventative controls such as proper segregation of duties, and detective controls such as supervisory review. Overall, these controls appear to be effective at mitigating risks associated with ghost employees on the payroll and falsified wages."
- "Our overall opinion is that the City's internal controls mitigate the risk of ghost employees and falsified wages to an acceptable level. These internal controls appear to be effectively designed within the limitations of the current time and attendance system."

However, under Future Considerations the report states:

- "The City Manager could consider implementing an enhanced time, attendance, and scheduling solution for all city employees."

Management's Response

We disagree with the recommendation proposed for the following reasons:

- The findings of the report do not support expenditure of additional taxpayer funds to enhance controls that already effectively mitigate the risk of ghost employees and falsified wages.
- 83% of City departments have time keeping solutions or mitigating controls in place that are working effectively as concluded in the report.
- The City relies heavily on project accounting, particularly for the utilities and CIP areas which is approximately 60% of the City's expenditures. Our project accounting system would not adequately be supported by a clock in- clock out timekeeping.
- The City is a conglomerate with diverse business units. The scheduling/timekeeping system needed in the Utilities is not the same system needed in Public Safety. For example, Police tracks time on a more detailed level than is needed for payroll and the Water Department utilizes their existing scheduling systems to feed service order work. Because of the diversity in operations, multiple systems would be needed, for a centralized timekeeping solution.

Conclusion

The cost of implementing a time, attendance and scheduling solution for the diverse businesses run by the City would outweigh any risk mitigation benefit that has not already been achieved with the internal controls currently in place. HR and Finance will continue to monitor and implement the mitigating controls that were identified in the payroll report to reduce any risk to an acceptable level. Therefore, no additional work is necessary.

Appendix B: Methodology

The Internal Auditor's Office evaluated the payroll process by analyzing four main components: (1) payroll process controls, (2) unauthorized persons on the payroll, (3) falsified wages, and (4) previous audit recommendations. The following summarizes the subobjectives of the audit under each of these categories and the methodology used to obtain sufficient evidence to answer each subobjective question.

Payroll Process Controls

1. What controls exist to ensure timekeeping information (hours worked, overtime, leave, etc.) must be authorized before an employee is paid?

- Gained an understanding of the system controls in Munis Payroll and ESS systems through interviews with appropriate Information Technology (IT), Fiscal Services, and Human Resources (HR) personnel; and reviewed support documentation provided by these individuals.
- Identified any instances where timekeeping information was not appropriately authorized by a supervisor prior to a paycheck being issued by identifying employees' supervisors and verifying that these supervisors are approving timesheets of their direct reports.
- Analyzed whether supervisors or time entry approvers were overloaded by identifying the number of subordinates per supervisors/approver.
- Reviewed other relevant payroll records for any red flags indicating a lack of appropriate approval.

2. Are the following duties segregated: hiring employees, entering timekeeping information, authorizing timekeeping information, processing payroll, authorizing payroll, distributing payroll, transferring funds to the payroll accounts, and reconciling the payroll bank account?

- Reviewed payroll process narratives, flowcharts, and internal control documentation.
- Updated internal control documentation based on interviews and support documentation obtained from IT, Fiscal Services, and HR (see [Appendix D](#)).
- Analyzed this documentation to identify any duties that are not appropriately segregated.

3. What timekeeping systems are used throughout the City and what controls exist to prevent unauthorized use of these systems?

- Interviewed appropriate personnel and obtained support documentation to identify the different time keeping systems used throughout the City.
- Identified the employees who use automated time keeping systems, and the access controls available in those systems such as time clocks, identification controls, etc.
- Assessed the controls present to prevent unauthorized persons from logging into ESS.

4. Are the internal controls associated with how pay is disbursed to employees adequate?

- Interviewed Fiscal Services personnel and obtained support documentation to gain an understanding of the procedures used for processing payroll and distributing payroll checks.
- Identified payroll checks that are made through direct deposit, and assessed the controls related to setting up employees' direct deposit information.
- Determined if employees are paid out of a separate payroll account that uses pre-numbered checks in sequence.

Unauthorized Persons on the Payroll

1. Have there been payrolls where the number of individuals receiving paychecks is greater than the number of authorized employees?

- Compared the number of paychecks to the number of authorized workers by reconciling the paycheck disbursement file to personnel records which document employment and termination dates.
- Tested payroll records for duplicate social security numbers, similar names, and identical addresses.
- Analyzed employee deductions and withholdings for instances where the deductions and withholding were lower than expected.

2. Have any former employees been paid after they have been terminated?

- Compared a list of terminated employees to the current payroll register.
- Compared termination dates documented in personnel records to payroll disbursement dates in the payroll journal to verify that employees were not paid after their termination date.
- Examined personnel records for employees who were terminated in the past three calendar years and determined whether each employee who received termination pay is consistent with city policy.
- Identified gaps between when an employee is terminated and when their user access is disabled.

3. Are there any employees who have been put on the payroll without the City receiving any of the documentation the City requires to demonstrate employment eligibility?

- Interviewed HR personnel to gain an understanding of the onboarding process, the controls that are in place, and the documentation that is required to create an employee file in the payroll system.
- Engaged IT to extract data from the Tyler Content Manager which contains the scanned documentation contained in each employee's personnel file. Performed analytics to identify any instances where employees' personnel files appeared to be missing any of the requisite onboarding documents.
- Examined and assessed the personnel files of exceptions because lack of onboarding documentation could be an indicator of potential ghost employee.

4. Are there any indicators of paychecks being deposited into a perpetrator's account, the account of an accomplice, or an account the perpetrator establishes in the ghost employee's name?

- Obtained the documentation authorizing direct deposit for every employee on payroll.
- Compared all account numbers into which payroll is deposited to search for duplicates.
- Analyzed all direct deposits to determine if two or more employee paychecks are being deposited in the same bank account.

5. Is there a payroll department employee who never takes a vacation (allows payroll to be processed by another employee)?

- Identified payroll system users with the highest level of access.
- Analyzed the leave usage of these employees.

Falsified Wages

1. Have all forms of pay been appropriately authorized?

- Interviewed HR and Fiscal personnel and obtained support documentation to gain an understanding of all the various ways employees are compensated and how this compensation is authorized.
- Reviewed all pay authorization documentation for a random sample of 30 employees to gain an understanding of the strength of authorization documentation and the potential exception rate.
- Reviewed merit and market adjustment authorization documentation.
- Reconciled the Police Department step plan salary schedule to uniformed employees' pay rates.
- Assessed the internal controls related to certification pay, assignment pay, and allowances.
- Analyzed the data of each type of pay increase to identify instances where pay increases fell outside of expected norms.

2. Have all overtime hours been appropriately authorized in advance of their payment?

- Analyzed payroll records for excessive overtime, especially for one person, a few people, or when only one person works overtime, and others do not.
- Reviewed department overtime policies and procedures and conduct interviews to determine how overtime is authorized. Examined the causes for any cases of excessive use of overtime.

3. Have all one-time payments or adjustments been appropriately authorized?

- Identified all forms of one-time payments or adjustments. Contacted Fiscal services personnel to gain an understanding of how these payments are processed and approved.
- Analyzed payroll records to gain an understanding of how frequently adjustments are processed.

- Analyzed payroll records to determine which employees and from which departments have the highest instances of one-time payments such as bonuses. Determined if there are any patterns of excessive use by a few employees.

4. Are there any indicators of leave abuse?

- Determined whether the City's leave related policies are clearly written, specify the City's standards and employee requirements, are flexible, and specify that violation results in meaningful discipline.
- Identified indicators of salaried employees consistently working less than 40 hours a week or failing to enter or request leave when they are out of the office for personal reasons.
- Examined patterns of sick leave abuses such as excessive absences which occur during special times of the year such as hunting season or the summer; absences that fall around holidays, weekends, or vacation; or absences that occur when vacation requests are denied.
- Reviewed the personnel files of employees with patterns of sick leave abuse to determine if any disciplinary actions have been taken.
- Analyzed sick leave and vacation usage across departments for salaried and hourly employees.

5. Are there time, attendance, and scheduling technologies which offer enhanced functionality and internal controls over the City's current system?

- Researched professional literature regarding the costs and benefits of implementing various time, attendance, and scheduling technologies.
- Identified the leading timekeeping systems used by municipalities nationwide. Contacted cities who use these systems to determine their experience in implementing them.
- Participated in vendor demonstrations of these systems.
- Conducted SWOT analysis of these systems.

Appendix C: Previous Audit Recommendations

The City Internal Audit Office conducted two previous payroll audits. The first was conducted in 2010, which primarily focused on overtime and compensatory time use¹⁸. The second payroll audit occurred in 2012. In total, these two audits had ten recommendations¹⁹. We assessed the extent to which these ten recommendations have been implemented by answering the following questions:²⁰

1. Is the City's overtime and compensatory time policy aligned with FLSA minimum requirements?

Implementation Status: Partially Implemented

Human Resources concurred the recommendation and planned to modify the current policy to realign it with the requirements of the Fair Labor Standards Act (FLSA). The FLSA only requires organizations to pay overtime one and one-half times the regular rate of pay for non-exempt (i.e., hourly) employees who actually work over 40 hours a week. There are two specific places where city policy exceeds FLSA minimum requirements. The first is regarding including holidays in calculating overtime pay. The second is paying overtime for on-call employees who are called in after their regular hours or on a holiday. The City created a guaranteed overtime code to track these costs. However, we found that this code is not always correctly applied by departments. Therefore, we engaged IT to assist us in determining the amount of overtime costs (within scope) which are above FLSA minimum requirements. Based on this analysis provided to us by IT, just under half of the overtime paid to employees is above the FLSA's minimum requirements.

2. Are there instances where temporary or seasonal workers are scheduled to work overtime?

Implementation Status: Implemented

The audit office recommended to (1) create a part-time without benefits employee classification, and (2) ensure that all city employees are appropriately classified. Human Resources concurred with the recommendation. As a result, the part-time non-benefited category of worker was created for those employees who work longer throughout the year on a part-time basis but are not eligible to receive benefits. We examine payroll records to identify employees in this category (within the scope). We found that just over \$500 in overtime was paid to part-time/seasonal workers. This amount is immaterial. It is important to note that our scope only included employees who use ESS. Therefore, a large group of seasonal workers in Parks and Recreation was excluded from our analysis. This audit evaluated the internal controls related to the ESS timekeeping system; whereas, these employees use ExakTime.

3. Has the City developed procedures to ensure that secondary employment within the City meets the four FLSA exemption criteria—the secondary employment must be (1) occasional and sporadic, (2) part-time, (3) at the employee's option, and (4) substantially different?

Implementation Status: Implemented

Human Resources concurred with the recommendation and planned to change the City's policies and procedures to ensure that FLSA secondary employment criteria was met. According to the updated Employee Handbook, current city employees are not eligible for secondary city positions. The City Manager, in consultation with the Human Resources Director, may approve exceptions to this policy related to emergency staffing needs or to address FLSA wage and hour concerns. The Employee Handbook also describes the circumstance when the secondary employment is prohibited or restricted and in case of exceptions defines the secondary employment authorization procedures. In addition, our analysis revealed that there were no instances of secondary employment in the City within our scope.

¹⁸City Internal Auditor's Office, City of College Station, "Payroll Audit Phase I: Overtime and Compensatory Time," May 2010, <https://www.cstx.gov/common/pages/DisplayFile.aspx?itemId=15416499>.

¹⁹City Internal Auditor's Office, City of College Station, "Performance Audit: Payroll Policies & Procedures," June 2012, <https://www.cstx.gov/common/pages/DisplayFile.aspx?itemId=15416515>.

²⁰Two recommendations were closely related. So, we combined our assessment of these recommendations into one objective.

4. Have security settings been changed to prevent department timekeepers from making changes to any employee's pay?

Implementation Status: Implemented

Finance management concurred with the recommendation and noted that after the first quarter of 2012, timekeepers were not eligible anymore to alter pay rates in the system. We confirmed the accuracy of their response. Timekeepers are eligible only to alter recorded hours while confirming the accuracy of migrated information from timekeeping systems to Munis. Employee's pay can be changed only through Personal Action Forms initiated by departments or Human Resources that finally should be approved by Human Resource's compensation team and Payroll.

5. Have process controls at the department level been strengthened?

Implementation Status: Implemented

Finance concurred with the recommendation and noted that they made process changes regarding how timesheets were reviewed and approved by department supervisors and delivered to department timekeepers. These process changes occurred when the City operated under paper timesheets. Since the implementation of Munis and ESS in 2017, these processes have been updated and encompass three-level verification. Namely, supervisors are responsible for confirming the accuracy of requested hours, timekeepers confirm the approval status of requested hours and accuracy of the migrated ESS data into Munis, and Fiscal Services checks whether provided information in the batch is accurate and move the time into the actual payroll after conducting a few tests defined in the Time Entry Move checklist.

6. Have security measures for changing an employee's direct deposit information been enhanced?

Implementation Status: Implemented

Finance concurred with the recommendation and planned on requiring all employees come to the payroll office to make any changes to their direct deposit information. However, after implementing Munis and Employee Self Service (ESS) systems there was no need any more to visit the office because employees can change direct deposit information online through the ESS portal. When an employee makes a change to their direct deposit information, the Payroll Administrator receives a notification. As long as employee keeps login information safe, entering or updating direct deposit information through ESS is secured.

7. Has the City implemented an automated timekeeping system?

Implementation Status: Partially Implemented

Finance concurred with the recommendation, but they emphasized that the final decision to implement timekeeping system would be up to city management. The City has not implemented an automated timekeeping system citywide, but has started using the ESS system that enables all employees to request accrued leaves, while hourly employees, in addition, record worked hours on the ESS time entry portal. Although timekeeping through ESS and Munis is digital, it is still a manual process. Along with ESS, the City also utilizes three other systems to track shifts, schedules, and attendance, or to manage work orders. These systems are Telestaff, CityWorks, and Exaktime. Telestaff is used by the City's first responders in the Fire Department. CityWorks is used by most employees in the Water/Wastewater Department to make work orders. Exaktime is used by Parks and Recreation's seasonal employees. However, still the City lacks automated timekeeping system citywide that would increase the transparency and accountability of employees' attendance and improve scheduling practices.

8. Has the City implemented effective controls to ensure that inactive employees are timely removed from the payroll system?

Implementation Status: Implemented, but some risk still remains.

Human Resources concurred with the recommendation and emphasized that delaying removal of terminated employees from the system is more widespread among the temporary/seasonal personnel. The City has established a written policy to timely inactivate employees in the payroll system that is described in **Appendix E**. However, this policy is not always followed. Most frequently, departments fail to timely submit termination actions that causes the delay of disabling terminated employees to access Munis account or ESS time entry function.

9. Is official documentation being filed for every pay rate change?

Implementation Status: Implemented

Human Resources concurred with the recommendation and noted that they were implementing an electronic EAF system that would allow for all pay changes to be sent through a workflow system, which would add the appropriate level of security. Due to the City's compensation authorization procedures, the risk of this occurring is substantially reduced. We found that documentation authorizing performance increases, step increases, certifications, and across the board increases is sufficient to demonstrated that the pay employees receive is accurate. However, verification of assignment pays, and allowances proved more challenging. The risk that an employee will continue to receive assignment pay after the assignment has ended may be mitigated due to periodic audits of assignment pay conducted at the department level. For allowances, we were able to verify that car allowances are appropriate. However, we were not able to verify the appropriateness of all phone allowances and gym reimbursements.

Appendix D: Payroll Internal Control Framework

Process Overview

Table 1 identifies each key staff members' access to key data systems. It is important to note that not every role for each individual has been listed below. Only those roles that directly pertain to the segregation of duties for Payroll processes have been noted.

Table 1: Fiscal System Access

Division	Employee	MUNIS Payroll	BB&T	MUNIS PAs
Accounting	Michael DeHaven (Treasury Manager)		Add/Edit ²¹	Entry
	Rose Cortez (Payroll Administrator)	Supervisor	View ²²	
	Teryn McGinness (Financial Support Specialist)	Clerk	Add/Edit ²³	
	Brittany Colquitt Tania Orozco-Rios (Payroll Specialist)	Clerk	View ²⁴	
Human Resources	Celeste Collins (Comp & Classification Manager)			Comp Mngr.
	Tanya Wilson (HRIS/Comp Analyst)			Comp Mngr.
	Traci Perez (HR Generalist)			Entry
	Courtney Srubar (Staff Assistant III)			Entry

²¹User is entitled to Information Reporting, Account Transfer, Positive Pay, Stop Payment, Wire Transfer, and Automated Clearing House services.

²²User is entitled to Information Reporting, Account Transfer, Wire Transfer, and Automated Clearing House services.

²³User is entitled to Information Reporting, Account Transfer, Positive Pay, Stop Payment, Wire Transfer, and Automated Clearing House services.

²⁴User is entitled to Information Reporting, Account Transfer, and Automated Clearing House services.

Table 2 identifies the internal controls present in each process described on the following pages.

Table 2: Internal Controls

Process	Controls
Personnel Actions	<ul style="list-style-type: none"> • Changes cannot be made to employee records without a Personnel Action, except that HR can change an employee’s demographic information and Payroll can make an employee inactive • Occasionally, HR sends a supervisor list to departments to ensure that department employees are reporting to the correct supervisor • In addition, segregation of duties and approval controls can be seen in Table 3
Payroll Creation & Generation	<ul style="list-style-type: none"> • In order to ensure that payroll settings are the most “up-to-date,” a Payroll is not created until it is absolutely necessary (usually Monday morning of Payroll week) • Staff verifies that the Payroll has not already been created; a regular assignment of Warrant # aids this verification process <ul style="list-style-type: none"> ◦ In addition, Payroll staff verify that there are no unfinished Payrolls • Once the settings for a Payroll have been assigned they cannot be changed • Timekeepers are assigned to each Payroll by Payroll staff • Timekeepers verify that all hourly employees have submitted time by running a report <ul style="list-style-type: none"> ◦ Water’s CityWorks and Fire’s Telestaff are work scheduler systems and require supervisor approval ◦ Parks & Rec’s ExactTime is an application for seasonal employees who clock in and out on their phones with unique logins; time is approved by supervisors • Timekeepers verify that all salaried employees have submitted time per their department’s policies • Timekeepers verify that all time submitted has been approved • Timekeepers validate each Time Entry Batch per its department’s policies • Timekeepers verify that all pending time has been removed after the Time Entry Batch has been released to Payroll staff • Payroll process procedures include a checklist of General Pre-Requisitions that must be completed before the Payroll can be generated • The insurance update and longevity update must be initiated manually before generating the Payroll • Once the Payroll is generated, changes made to employee records (i.e. Personnel Actions) will not be reflected without manually entering them • Payroll staff verify the payroll type, warrant #, payroll date, and generate settings (includes: header, ranges, periods, excluded earnings, excluded deductions, and excluded employee types) before generating the Payroll • Payroll process procedures include a “Pre-Move” Time Entry Batch checklist of validity tests • A Date out of Range, Activity Report, and Accrual Usage Report are generated for each Payroll; unusual activity is identified and investigated • Time Entry Batches are approved by Payroll staff • Payroll staff verify that all Time Entry Batches are approved and ensure the generated Payroll settings are correct • A Time Entry Move –Summary, Time Entry Move –Detail, Insufficient Base Pay (if applicable), and Accrual Overage Report (if applicable) are generated

Payroll
Verification
(EDFM)

- Accrual Overage Adjustments: the original time entry record should be backed out of exactly and then the correct entry input –all entries should be made in the Time Entry function not in EDFM
- Employee Inspection – Date out of Range & Multiple Time Entry Moves: each employee who meets the criteria for this inspection is reviewed for overtime dates outside of the pay period or for duplicate overtime listings; if any overtime is out of place or not intentional, it is deleted out of EDFM
- One Time Entry Deduction Changes: staff ensure the adjustment collects/ reimburses correctly after making the adjustments
- Staff run an error report and correct any identified errors
- Staff check to see if any benefited employees are receiving unusually low pay checks (i.e. less than \$900)
- Staff review certain Personnel Actions to ensure they were carried through properly including: New Hires, Pay Changes, Certification and Add Pay Changes, Deduction Changes, and Terminations
- When processing the accrual buyouts for terminated employees, the system will not allow employees to be paid out more than 60 hours of comp time
 - Reports for Accrual Buyout, Comp Over Limit, Vacation Buyout, and Comp Buyout are generated

Payroll Update & Submission

- Once Vendor Reports are created, staff verifies collections as necessary
- Staff verifies information on the “Final Proof” document as necessary; running the Final Proof locks the EDFM records so no other changes can be made
- An Employee Update cannot be performed until a Final Proof is run without errors; additionally, all users must be out of the EDFM to create the employee update
- The Direct Deposit File is simple to create and can be done by anyone with access to the Payroll Start & Status Menu
 - The Direct Deposit File should be validated against the Final Proof
- Only staff with BB&T access can submit the Direct Deposit File (see Table 1); the BB&T system records which user submitted the Direct Deposit File
- Before the Direct Deposit File can finish processing it must be approved by the Treasury Manager (the Fiscal Services Director approves if the Treasury Manager is out)
 - The Direct Deposit File total should be verified against the Final Proof
- Backup documentation for the Direct Deposit should be given to the person approving the transfer (i.e. the Treasury Manager)
- The accrual update is performed after the employee update to ensure terminated employees do not accrue additional balances
- Payroll staff run a report (there are two options) to identify employees who have not worked for 30 consecutive days – these employees are then inactivated for the accrual update; these reports are verified against the employee's actual time history and recent check stub
- After the accrual update is completed the report is reviewed and saved (this is done for sick leave and vacation leave)
- Staff manually ensure that staff who used a Floating Holiday, Military Leave, Reserve Duty, & Personal Accruals are adjusted appropriately by searching for certain criteria
- Staff purge any “used” pending records to clean up the employee's view in ESS
- The Check Register for each Payroll is printed and stored in case it is ever needed for reference
- The Payroll should be verified before posting to the general ledger
- The MUNIS system checks for any errors in the Payroll that might be present – these must be fixed manually by Payroll staff, who send a report on errors to a Budget Analyst
- After printing the Vendor Reports, the Payroll is verified
- Payroll staff create the backup documentation – these are the Vendor Reports – needed to create the vendor payment journal entry (AP actually does the posting)
- Each payment made to a Payroll Vendor is verified before submission; in addition, Payroll staff sends a confirmation e-mail to the City's Cash Receipts e-mail account to ensure the funds have gone through
- Payroll is charged to a separate account instead of the main fund, so funds must be moved into the Payroll account for processing
 - This control happens automatically in BB&T but it must be documented as a journal entry by Payroll staff
- Accounting is notified of the amounts they should be looking for when validating bank statements by e-mail (sent to the City's Cash Receipts e-mail address)
- A report is generated to help identify any unusual accrual activity
- A report is generated to help identify any benefited employees who were excluded from the Payroll
- Employee Service Award checks are not printed until within one hour of the event

Personnel Actions Process

1. Personnel Action is needed.
2. Who initiates the Personnel Action?
 - a. Employee: Proceed to step 3.
 - b. Entry Staff: Proceed to step 8.
 - c. HR Administration: Proceed to step 16
3. Z500s or a W-4 Change: The Employee makes a change in the Employee Self Service (ESS) system – i.e., MUNIS.
4. Is the change made to the employee's W-4? Yes: Proceed to step 25.
5. No: HR Administrator approves the change.
6. Is the change made to the employee's name? Yes: Proceed to step 25.
7. No: HR Administrator output posts the Personnel Action
8. J100s, S100s, S200s, S300s, S400s, T100s, and K100s: Department Entry Staff enters a Personnel Action in MUNIS.
9. Personnel Action is forwarded to the Department Approver (see Table 3) who reviews the change.
10. Approved?
11. No: Process Ends.
12. Yes: HR Administrator processes the change in MUNIS (i.e. enters the information changes in MUNIS).
13. The Personnel Action is forwarded to the HR Compensation Manager to verify the changes.
14. Is the Personnel Action a Supervisor Change (K100)? No: Proceed to step 25.
15. Yes: HR Compensation Manager output posts the Personnel Action.
16. X100s, X200, Z100s, Z200s, Z300s, Z600s, Z700s, and Z800s: HR Administrator enters a Personnel Action in MUNIS or imports a New Hire from NeoGov (X100s).
17. Does the Personnel Action need verification and/or approval from Department Approvers (see Table 3)? No: Proceed to step 19.
18. Yes: Codes X100-102, X200, Z300, Z301, Z304, Z311, and Z313-Z326 require verification and/or approval from the Department Approver (see Table 3).
19. Does the Personnel Action need verification and/or approval from the 2nd HR Administrator? No: Proceed to step 21.
20. Yes: Codes X102, Z200-Z202, Z300, Z301, Z304, Z311, and Z313-Z326 require verification and/or approval from the 2nd HR Administrator.
21. Does the Personnel Action need verification and/or approval from the HR Compensation Manager? No: Proceed to step 25.
22. Yes: Codes X100-102, X200, Z300-Z326, Z600, Z700, and Z800 require verification and/or approval by the HR Compensation Manager.
23. Is the Personnel Action for Record Maintenance (Z800)? No: Proceed to step 25.
24. Yes: HR Compensation Manager output posts the Personnel Action.
25. Payroll Creation & Generation Process steps 8-12.

Table 3 identifies each Personnel Action's initiator, department approver (if applicable), and who is notified about the Personnel Action (if applicable) but is not part of the workflow (i.e. on the flowchart).

Table 3: Personnel Action Summary

code	Description	Initiator	Dept. Approver	Notifications?
J100	PD/Fire Promotion	Dept.	Director	N/A
J101	Employee Transfer	Dept.	Director	N/A
J102	Career Progression Increase	Dept.	Director	N/A
J103	Shift Change	Dept.	Director	N/A
S100	Pro-Rated Performance Increase	Dept.	Director	N/A
S102	Electric Skill Level Increase	Dept.	Director	N/A
S103	PD Step Increase	Dept.	Director	N/A
S104	P&R PTNB/ST Step Increase	Dept.	Director	N/A
S105	Temporary Duty Acting Pay	Dept.	Director	N/A
S106	Return to Regular Duty Pay	Dept.	Director	N/A
S107	PD Civilian Off Train Increase	Dept.	Director	N/A
S108	P&R PTNB/ST Dual Cert. Pay.	Dept.	Director	N/A
S200	Assignment Pay	Dept.	Director	N/A
S201	Certification Pay	Dept.	Director	N/A
S202	Degree Pay	Dept.	Director	N/A
S203	Shift Differential	Dept.	Director	N/A
S205	Phone or Data Allowance	Dept.	Director	N/A
S206	Clothing Allowance	Dept.	Director	N/A
S207	Uniform Cleaning Allowance	Dept.	Director	N/A
S300	Taxable Meals	Dept.	Director	N/A
S301	Taxable Award/Gift	Dept.	Director	N/A
S302	Taxable Clothing	Dept.	Director	N/A
S400	Academy/Education Repayment	Dept. & HR	Director	HR Director
T100	Resignation	Dept.	Director	Sr. HR Consultant, Benefit Specialist, Risk
T101	Work Complete	Dept.	Director	HR Generalist, Risk
T102	Retire	Dept.	Director	HR Generalist, Benefit Specialist, Risk
T103	Discharge	Dept.	Director	HR Director, HR Generalist, Benefit Specialist, Risk
T104	Council Appointee-Separations	Dept.	HR Director	HR Generalist, Benefit Specialist, Risk, HR Director
K100	Supervisor Change	Dept.	Director	N/A

code	Description	Initiator	Dept. Approver	Notifications?
X100	New Hire	HR Admin.	Director	HR Generalist
X101	New Hire –CMO Approval	HR Admin.	CMO	HR Generalist
X102	New Hire No Show	HR Admin.	Director	HR Generalist
X200	Rehire	HR Admin.	Director	HR Generalist
Z100	Leave of Absence Add	HR Admin.	N/A	HR Generalist
Z101	Leave of Absence Remove	HR Admin.	N/A	HR Generalist
Z102	Modified Duty Add	HR Admin.	N/A	HR Generalist
Z103	Modified Duty Remove	HR Admin.	N/A	HR Generalist
Z200	One Time Deduction	HR Admin.	N/A	N/A
Z201	Recurring Deduction Add	HR Admin.	N/A	HR Benefits
Z202	Recurring Deduction Remove	HR Admin.	N/A	HR Benefits
Z300	Hired to Full Time	HR Admin.	Director	Benefit Specialist, HR Generalist
Z301	Hired to Part Time Benefitted	HR Admin.	Director	Benefit Specialist, HR Generalist
Z302	Position Transfer	HR Admin.	N/A	N/A
Z303	Pay Grade Change	HR Admin.	N/A	N/A
Z304	Reclassification	HR Admin.	Director	N/A
Z305	Raise to Minimum ²⁵	HR Admin.	N/A	N/A
Z306	Across the Board Raise ²⁶	HR Admin.	N/A	N/A
Z307	Salary Correction	HR Admin.	Director	N/A
Z308	Market Adjustment ⁵	HR Admin.	N/A	N/A
Z309	Special Exception Increase ⁵	HR Admin.	Forwarded	N/A
Z310	Pay Decrease	HR Admin.	N/A	HR Generalist, HR Director
Z311	Demotion	HR Admin.	Director	HR Generalist, HR Director
Z312	Gym Membership Reimbursement	HR Admin.	N/A	N/A
Z313	Car Allowance	HR Admin.	Director	N/A
Z314	Employee Transfer	HR Admin.	Director	N/A
Z316	Retention Bonus	HR Admin.	Director	N/A
Z317	Sign on Bonus	HR Admin.	Director	N/A
Z318	Promotion	HR Admin.	Director	N/A
Z319	HR Staff –Salary Changes	HR Admin.	HR Director	N/A
Z320	Position Realignment	HR Admin.	HR Director	N/A
Z321	CMO Approval –Salary Changes	HR Admin.	CMO	N/A

²⁵Approved before workflow begins by the City Manager.

²⁶Approved before workflow begins by the City Council.

code	Description	Initiator	Dept. Approver	Notifications?
Z322	CMO Approval –Separations	HR Admin.	CMO	HR Generalist, Benefit Specialist
Z324	Council Appointee –Salary Change	HR Admin.	HR Director	N/A
Z325	HR Only Separations	HR Admin.	HR Director	HR Generalist, Benefit Specialist
Z326	CMO Approval –Salary Change	HR Admin.	CMO	N/A
Z600	Correction	HR Admin.	N/A	N/A
Z700	Move to Active Set	HR Admin.	N/A	N/A
Z800	Record Maintenance	HR Admin.	N/A	N/A
Z500	Name Change	Employee	N/A	Benefit Specialist
Z501	Address Change	Employee	N/A	N/A
Z502	Phone Number Change	Employee	N/A	N/A
Z503	E-Mail Change	Employee	N/A	N/A
W-4	W-4 Change	Employee	N/A	N/A

Payroll Creation & Generation Process

1. Employees enter time into the appropriate time keeping system. Most City staff utilize the MUNIS time keeping system through Employee Self Service (ESS), however, Water Services uses CityWorks, Fire uses Telestaff, and Parks & Recreation uses ExactTime. Time records for each of these systems are imported.
2. Supervisors review employees' time.
3. Is time approved? No: Return to step 1. Yes: Proceed to step 5.
4. Every two weeks, Payroll staff create the Payroll in MUNIS and open it to the Timekeepers. This occurs on Monday morning.
5. Timekeepers verify that time has been submitted and approved.
6. Timekeepers create and validate a Time Entry Batch.
7. The Time Entry Batch is released to Payroll Staff in MUNIS (see step 17). This removes all previously recorded time from the "Pending Time" category.
8. Human Resources (HR) forwards Personnel Actions to Payroll via MUNIS for verification.
9. Payroll receives Personnel Actions in MUNIS and verifies them.
10. Are Personnel Actions correct?
11. No: Payroll contacts Human Resources to make corrections.
12. Yes: Personnel Actions are approved and changes are automatically made in MUNIS (see step 16).
13. Typically, on Wednesday morning, Payroll staff begin the Payroll Generate process.
14. Payroll staff update employees' life insurance coverage amount.
15. Payroll staff update Sworn Officers' and Firefighters' longevity pay information.
16. Payroll staff "generate" the Payroll. This means that the MUNIS system automatically calculates predefined pay calculations as Time Entry Batches are released –this excludes deductions.
17. Payroll staff then verify all Time Entry Batches.
18. Are Time Entry Batches correct? Yes: Proceed to step 20.
19. No: Payroll staff create a One Time Entry Batch.
20. Time Entry Batches are approved and released by Payroll staff.
21. Payroll staff "move" Time Entry Batches into EDFM for Payroll Verification.
22. Payroll is ready for EDFM verification.

Payroll Verification (EDFM) Process

1. Payroll staff purge certain overtime records to clean up employee checks and keep the history records in line. Proceed to step 6.
2. Employees enroll or change their benefits in the ProView system.
3. ProView forwards a Benefit Report to Human Resources staff every two weeks. This report shows all changes made within the system, deductions, and rate information.
4. HR manually makes corrections to the Benefit Report to accurately reflect the Pay Period.
5. HR then imports the modified Benefit Report into MUNIS.
6. Payroll staff generate deductions based on the updated information from the Benefit Report (steps 2-5). From here different Payroll staff take over different processes; processes should generally be grouped as shown on the flowchart.
7. Are there Accrual Overages? No: Proceed to step 10.
8. Yes: Identify corrections that should be made and create a One Time Entry Batch.
9. Repeat steps 19-22 of the Payroll Creation and Generation process.
10. Verify that employee checks with a Date out of Range or Multiple Time Entry Moves accurately reflect overtime.
11. Are overtime records accurate? Yes: Proceed to step 26.
12. No: Delete overtime records that are out of place or unintentional. Proceed to step 26.
13. The Fire Department and Police Department identify employees who should receive additional "Move-Up" Pay and forward a list to Payroll staff.
14. Payroll staff manually calculate, using EXCEL, how much additional pay each employee should receive in Move-Up Pay.
15. Payroll staff change these Move-Up Pay employee's pay rates accordingly. The EXCEL calculations are maintained for documentation.
16. After the Payroll is complete a list of these payments is sent to Fire and Police for verification. Creation of this report is part of the Final Tasks (Payroll Update & Submission Process step 33).
17. HR forwards Payroll a list of employees who are receiving short-term disability payments.
18. Do these employees want to use their accruals?²⁷ No: Proceed to step 21.
19. Yes: Payroll staff use this information to manually calculate, using EXCEL, how many accrual hours are needed to bring the employee to their pre-short-term disability pay. Accruals are used in the order of Sick, Vacation, Comp, Floating Holiday, and Personal Day.
20. Payroll staff change these employees' checks to reflect this accrual usage.
21. Payroll staff make One Time Entry Deduction changes based on a spreadsheet maintained by Payroll staff that tracks all deductions –this spreadsheet cannot be imported into MUNIS.
22. Payroll staff run the Error Report and fix any errors identified.
23. Payroll staff verify that no benefited employees are receiving checks below \$900. If one is found these are reviewed and adjusted as necessary. Proceed to step 26.
24. Payroll staff verify that all Personnel Actions have correctly affected the Payroll.
25. Payroll staff generate Accrual Payouts for terminated City employees and staff with over 60 hours of Comp time.
26. Payroll staff create the Payroll Final Proof, which locks EDFM records so that no other changes can be made.

²⁷It is rare that employees choose not to use their Accruals to supplement their short-term disability payments.

Payroll Update & Submission Process

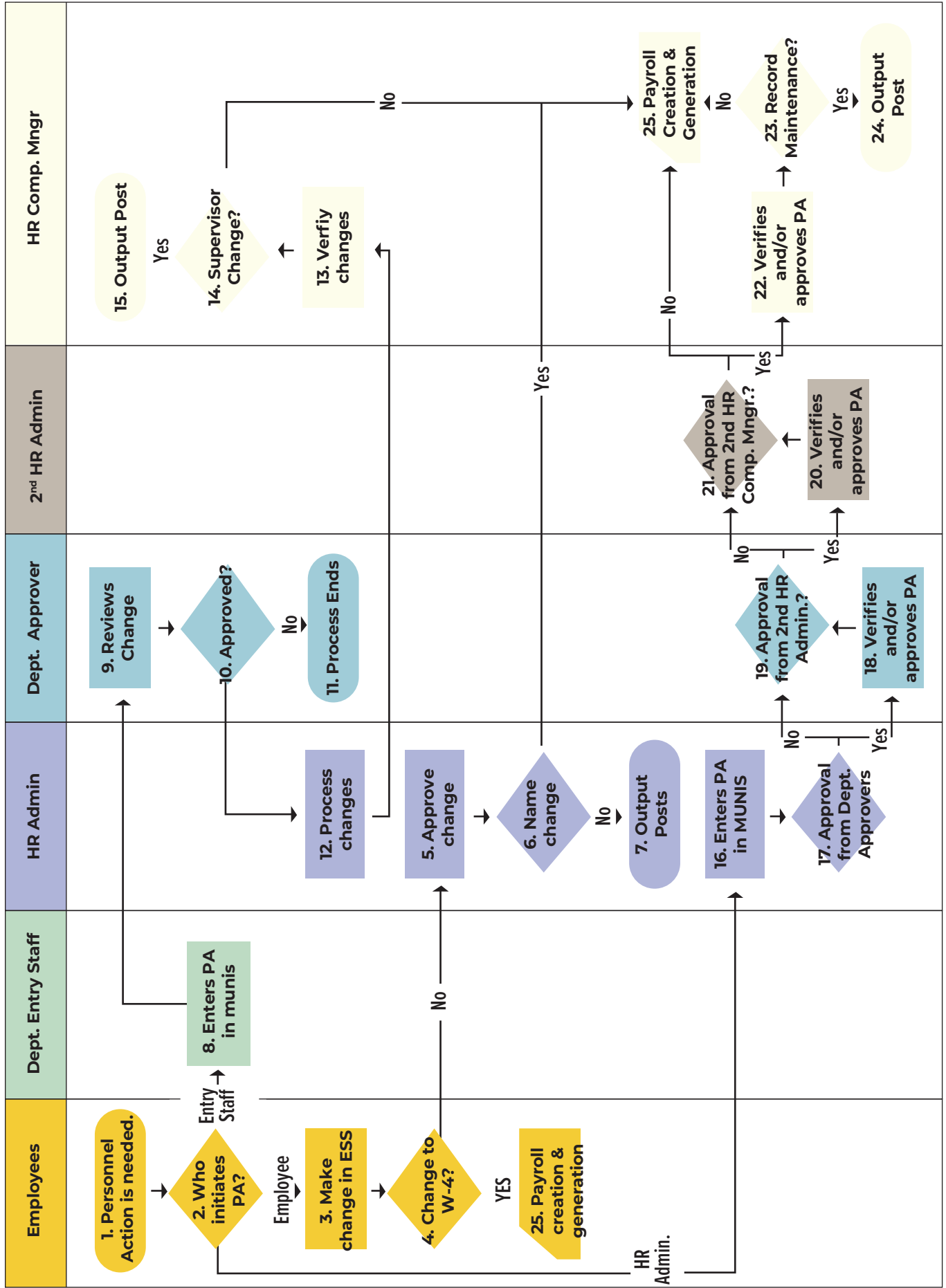
1. Payroll staff create the Payroll Final Proof and forward it to the Treasury Manger for verification in step 13.
2. Once the Final Proof is created, Payroll staff update employee records to reflect changes to employees' time and payment amounts. Proceed to steps 3 and 8.
3. Payroll staff inactivate terminated employees on the Employee Master. This is done by searching for employees with termination dates before the first day of the next payroll.
4. Payroll staff also identify and adjust an employee's pay status to "Paid Leave" for those benefitted employees who have not worked for 30 consecutive days.
5. Payroll staff update employee Accruals to reflect the Payroll.
6. Payroll staff identify employees who should have their Accruals adjusted and adjust them accordingly. An Accrual adjustment may be necessary when an employee entered 8 hours of leave but are a 10 or 12 hour employee type.
7. Payroll staff then purge Accrual "Used" Pending Records to prevent employee confusion. Proceed to step 17.
8. Payroll staff create the Direct Deposit File and the Payroll Vendor Lump Sum File (this currently includes ICMA, Nationwide, and HSA Payroll Vendors).
9. These Files are then uploaded to the BB&T system. Proceed to step 13.
10. In addition, Payroll Vendor Reports are created by Payroll staff.
11. Payroll staff perform any necessary Vendor interactions:
 - a. Create, verify, adjust, and submit the HSA Employee Contribution File.
 - b. Create and submit the ICMA Deduction Report.
 - c. Update the Nationwide payment amounts and submit the payment.
 - d. Update the ExpertPay payment amounts and submit payment.
 - e. Create the Payroll Tax and the Electronic Federal Tax Payment System Forms and submit.
12. A copy of the Payroll Vendor Reports are maintained by Payroll and forwarded to AP staff (see step 31). AP Staff uses these Reports in their process of posting the payments to the General Ledger.
13. The Treasury Manager then reviews the Direct Deposit and Vendor lump sum payments and verifies the Direct Deposit amount to the Final Proof.
14. Does the Direct Deposit amount in the BB&T system match the Final Proof?
15. No: Issues Investigated.
16. Yes: BB&T pays the Direct Deposits and the lump sum amounts due to Payroll Vendors (see step 30).
17. Payroll staff print paper Checks for appropriate Payroll Vendors. This requires the employee to obtain the blank check stock, the Signature Key Fob, and the MICR printer cartridge from their locked storage location.
18. Are all employees paid via Direct Deposit?²⁸ Yes: Proceed to step 23.
19. No: Payroll prints the employee's Pay Check and seals it in an envelope.
20. Payroll staff communicate to HR that an employee has a physical Pay Check. Payroll staff proceed to step 23.
21. HR communicates this information to the employee.
22. The Employee picks up their Pay Check from the Accounting Service Counter
23. Payroll staff print Payroll Vendor Receipts and "print" Direct Deposit Check Advices, which actually upload the Advices to the Employee Self Service (ESS) system –i.e. MUNIS.
24. Payroll Vendor Check and Receipt are mailed to the Payroll Vendor.
25. The Check Register is printed and maintained.
26. Payroll staff post the Payroll to the General Ledger.
27. Are there errors?²⁹
28. Yes: Errors are corrected and a General Ledger Posting Error Listing is created and forwarded to a Budget Analyst. Proceed to step 29.

²⁸It is City policy to have new employees provide Direct Deposit information, however, very rarely some seasonal employees may not have provided information or may have provided incorrect information for Direct Deposits.

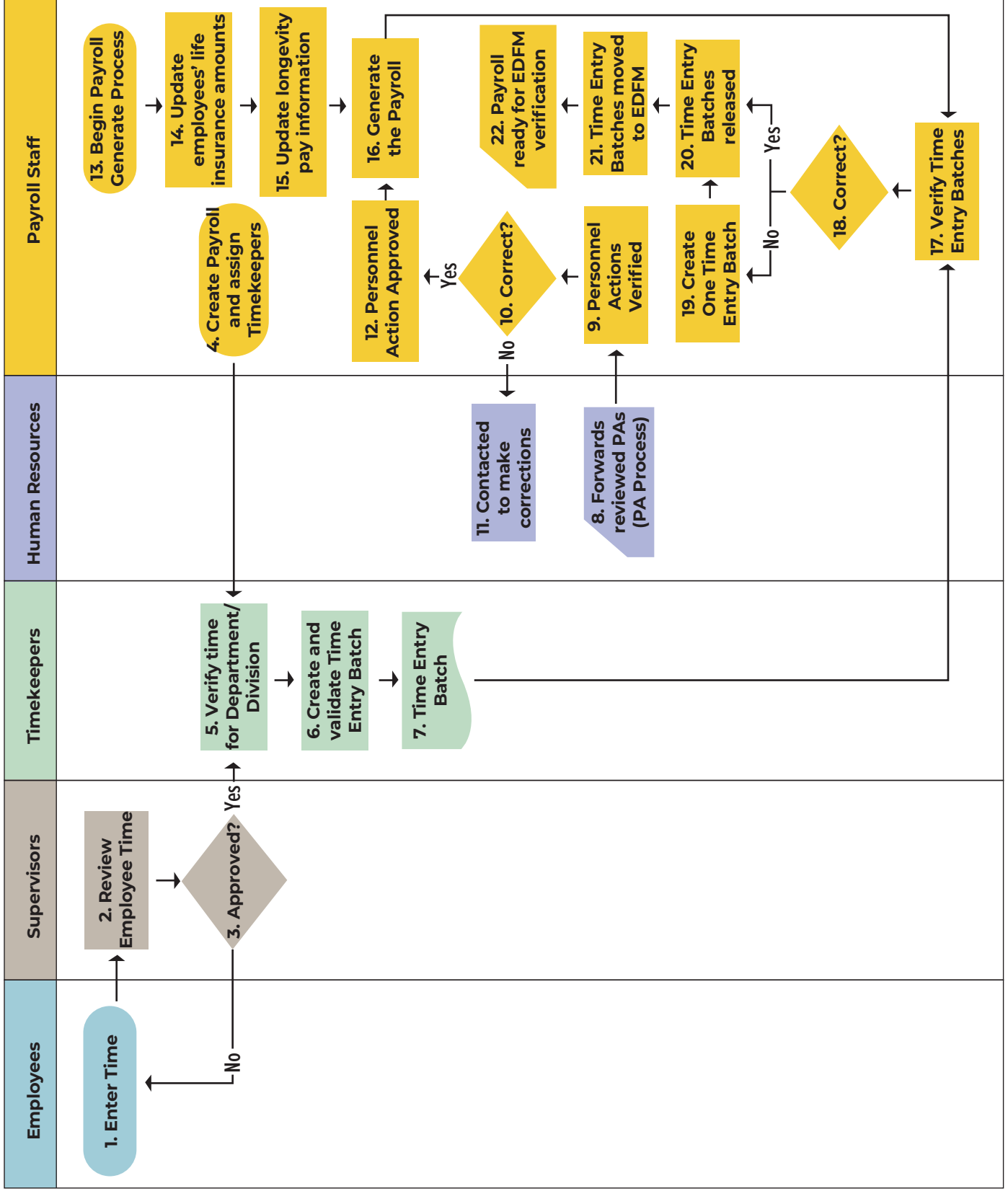
²⁹There are regularly about four Community Services employees who have payroll errors that must be manually corrected because of the way account codes are set up. Occasionally this occurs for other employees as well.

29. No: Payroll staff print the Detail Distribution Report.
30. Payroll Staff recognize the movement of Payroll funds to a separate Payroll Account in MUNIS via a journal entry –BB&T automatically transfers these funds.
31. In addition, an e-mail including the Vendor Reports is forwarded to Cash Receipts Accounting staff to aid in validating the BB&T bank statement and to post the payments to the General Ledger.
32. Payroll staff perform the Payroll Final Tasks. This includes printing the Accrual Activity Reports, examining the Deductions Not Take Report, reviewing current Benefit in Arrears balances, inactivating end dated pays, reporting new hires to the State of Texas, reporting labor statistics, making adjustments to employees who have exited their 6-month probation period, and generating the Move-Up Report (see Payroll Verification Process step 16).

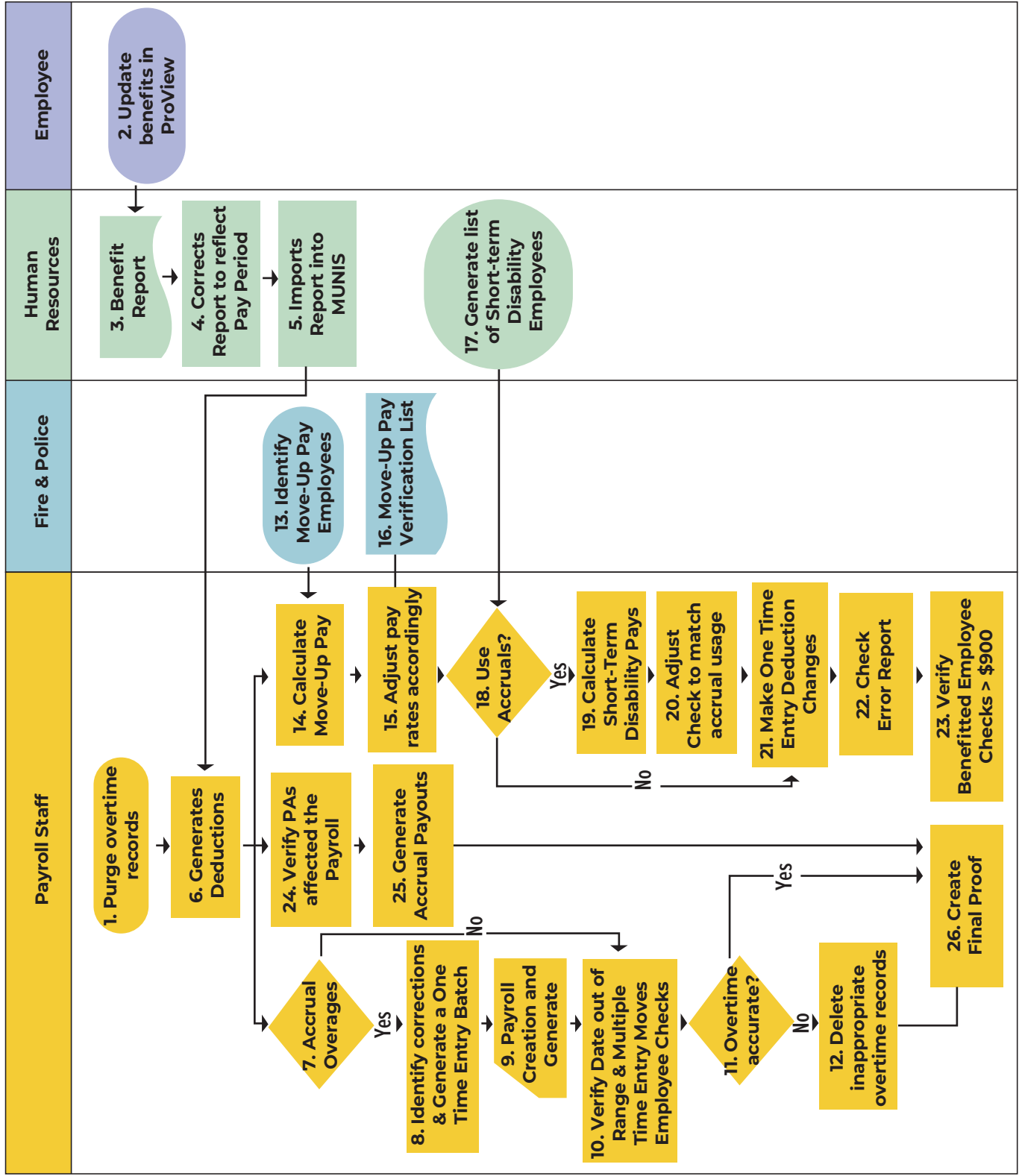
Personnel Action Process



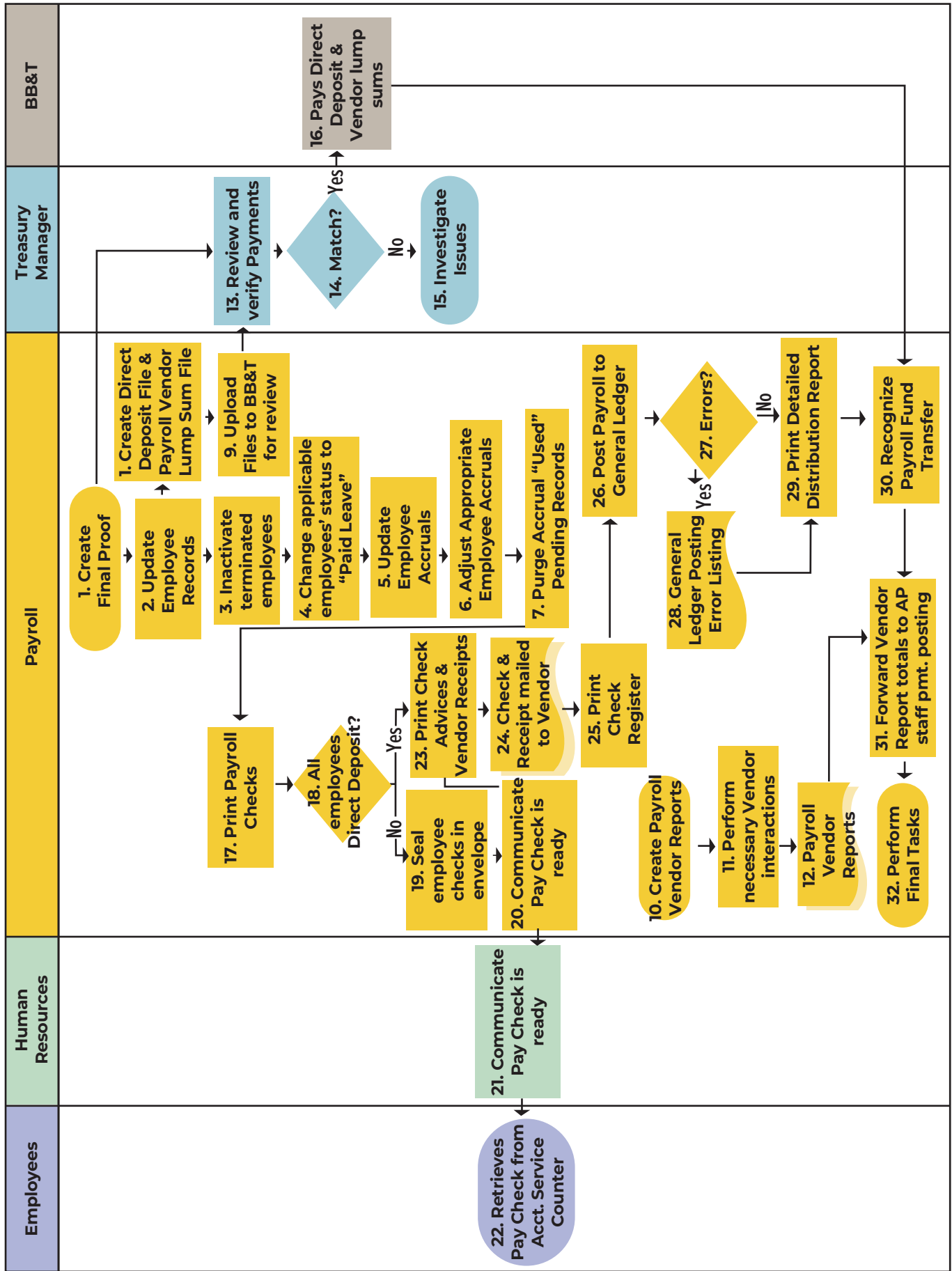
Payroll Creation and Generation



Payroll Verification (EDFM)

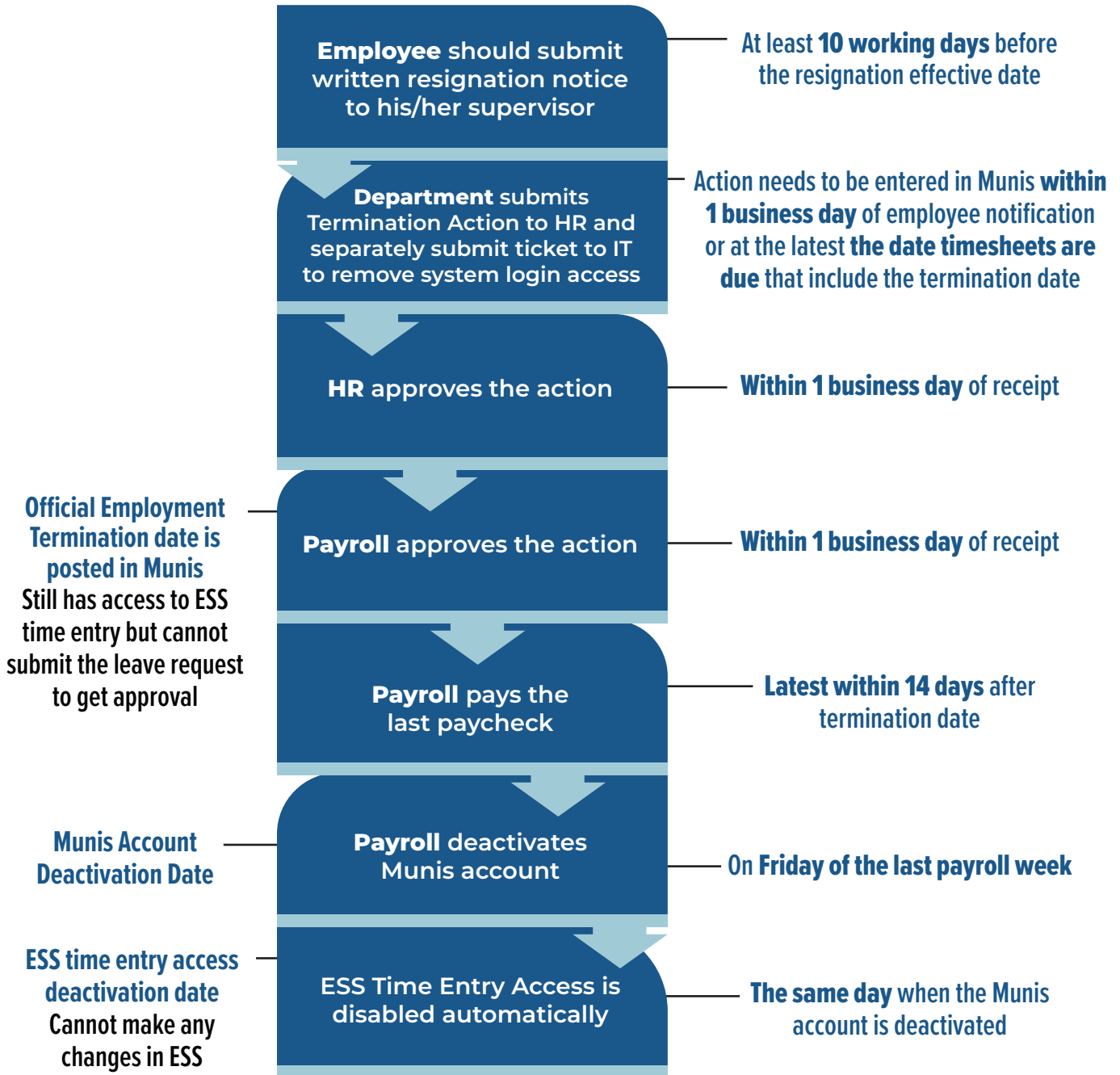


Payroll Update & Submission



Appendix E: Employment Separation

The employment separation process starts with an employee submitting a written resignation notice to his/her supervisor when the separation is not initiated by the City. Usually, the whole termination process should not take more than one payroll period. Officially, an employee is terminated when his/her termination date is posted in the Munis and it happens when the department initiated termination personal action (PA) is approved. After the approval of the termination PA, an employee can't request any type of leave or compensation for the working hours. The following flowchart visually describes the whole employment separation process.



The Office of City Internal Auditor was established in accordance with the City of College Station Charter as an independent office reporting to City Council to help establish accountability and improve City services. The Office of City Internal Auditor is responsible for conducting performance audits of departments, offices, boards, activities, and agencies of the city and providing recommendations for improvement.

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