



Memorandum

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THRU: Bill Greene, City Auditor (X8982)

FROM: Diana Storino, Sr. Auditor, (X8997)

CC: Rosa Inchausti, City Manager
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DATE: March 21, 2024

SUBJECT: FINAL REPORT: Payroll Audit Part 1

Attached is our final report on the subject audit. Copies of this report will be distributed to the mayor and council and posted to the Internal Audit Office website.

Thank you and your staff for your cooperation during this project.

Payroll Audit Part 1

March 21, 2024

Project Team:

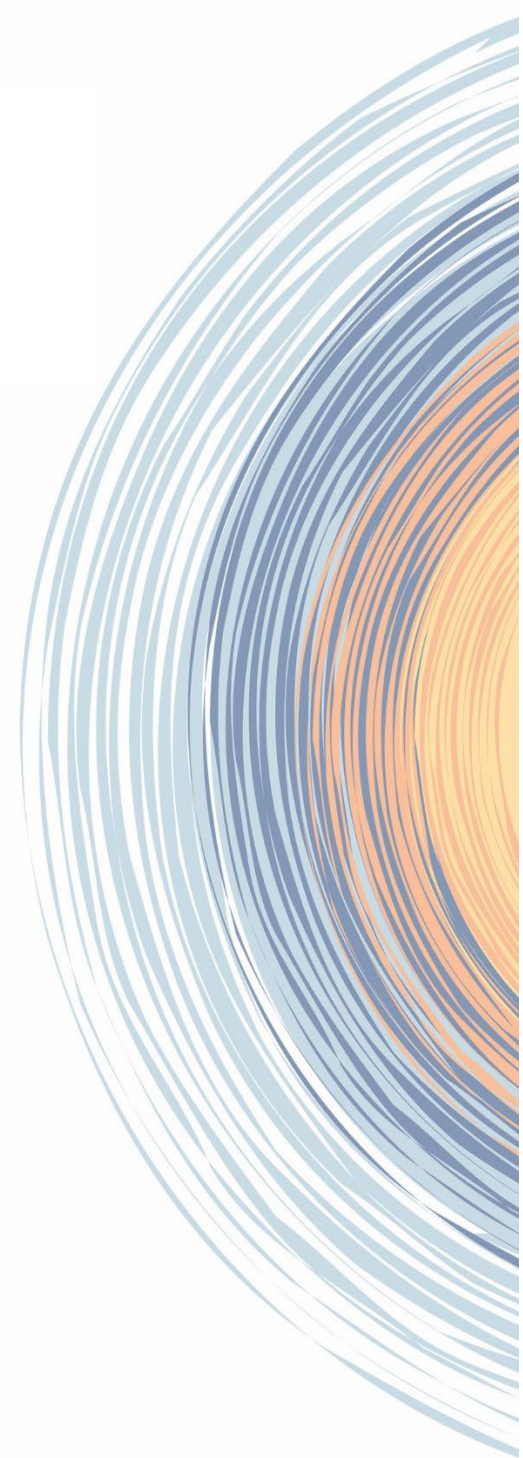
Bill Greene, City Auditor
Diana Storino, Senior Auditor

Mission Statement

To enhance and protect organizational value by providing high-quality, objective, risk-based audit and consulting services to assist the City in accomplishing strategic priorities, goals, and objectives.



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Executive Summary

Purpose

We evaluated key Payroll internal controls that ensure the accurate calculation and recording of payroll in the City's financial system. This included evaluations of segregation of duties, approval processes and reconciliations.

Background

The Financial Services Department, Accounting Division, Payroll Section (Payroll) reports to the Finance Director. This section is responsible for ensuring the accurate calculation of payroll and verifying that reported time is appropriately authorized before payroll payments are processed.

Local government payroll is governed by state and federal laws, labor contracts, and personnel rules, contributing to its complexity. This complexity arises from diverse city operations, employee work shifts, position classifications, and adherence to various guidelines and rules.

Payroll at the City of Tempe is processed bi-weekly, totaling 26 pay periods annually. For the fiscal year 2023/2024, personnel costs are projected to reach approximately \$279 million, encompassing nearly 1,500 regular employees and an additional 700 seasonal employees. Overall annual City expenditures total about \$1.3 billion. As one of the most substantial single expenses for the City, maintaining effective payroll processes is crucial to guarantee the accuracy of these payments.

Results in Brief

In general, Finance (Payroll) has a strong internal control environment. Well-established segregation of duties contributed to the accurate calculation and recording of payroll in the City's financial system. Strengthening the internal control environment further can be achieved by developing written payroll policies and procedures that offer guidance on timesheet documentation standards and requirements.

The City's payroll procedures are primarily outlined in PeopleSoft documentation, ensuring payroll distribution aligns with the City of Tempe Personnel Rules and the distinct Memoranda of Understanding (MOUs) associated with each employee group. MOUs are contractual agreements negotiated by the City and an employee group under the City's meet and confer ordinance. There are four (4) specific MOUs, namely: (1) Tempe Officers Association (TOA); (2) Tempe Supervisors Association (TSA); (3) United Arizona Employee Association (UAEA) for nonsupervisory roles; and (4) Firefighter Unit.

Since there are no uniform, Citywide payroll policies and procedures addressing timesheet documentation requirements and standards, variations exist among

departments about how timesheet authorization is documented. Certain departments have adopted informal practices, with some opting to complete a PeopleSoft Timesheet Checklist, while others choose to convey timesheet approvals through email. It is important to note that the Timesheet Checklist, with initials, offers more robust evidence certifying compliance with payroll record requirements compared to an email, which lacks the same level of guidance.

Approval processes are primarily documented through timesheets and Personnel Action Requests (PARs). Enhancing transparency, accountability, and strengthening the internal control environment can be achieved by establishing and reinforcing supporting documentation procedures, particularly in those instances when Payroll operates in the limited role of a "processor."

To maintain accuracy in the City's payroll, the Payroll Supervisor generates an Exception List Report based on email direction received from HR for each pay period. This report includes information such as long-term disability, garnishments, and military leave for effective tracking and follow-up. In these instances, Payroll functions solely as processor receiving instructions through HR emails to adjust leave or input hours as directed by HR.

During our fieldwork, we observed that, aside from relying on HR emails, Payroll also depends on the Finance Department, Risk Management, and the Fire and Police Departments to maintain essential documentation authorizing transactions related to workers' compensation payments, technical rescue specialty pay, and uniform reimbursements.

Given that Payroll staff cannot feasibly review all supporting documentation, it is important for them to receive assurances of prior review of the supporting documentation before entering information into the Payroll system. Implementing a checklist or another certifying document would be beneficial in ensuring that key information used to calculate payroll is processed accurately and in compliance with applicable rules and regulations.

Generally, Payroll liability accounts appropriately maintained a zero balance between pay periods and reconciliations were performed accurately, routinely and systematically.

Payroll reconciles 34 payroll liability accounts. We tested 17 liability accounts and noted six had balances that identified reconciling items which appeared reasonable. The other 11 accounts had a zero balance after Payroll liability payments were made. No exceptions noted.

Recommendations

Our detailed report contains a few recommendations to further strengthen management controls and evaluate business processes.

Department Responses to Recommendations

Note: Response and target date information is completed after responses are received from Client departments.

<p>Rec 1.1 Finance - Payroll develop citywide payroll policies and procedures. At a minimum, policies should address topic areas including documentation requirements and standards, verification procedures, employee responsibility and training, management oversight and record retention detailing storage and security measures.</p>	
<p>Response: Finance staff will work with Human Resource (HR)department to develop a comprehensive payroll policy that will govern the responsibilities of payroll and HR including control procedures over payroll processing.</p>	<p><u>Target Date:</u> 6/30/2025</p>
<p>Rec. 1.2 HR provide essential training to enable departments to input their own leave data, ensuring the maintenance of proper segregation of duties between authorizing transactions and operations. If implementing this approach proves unfeasible, consider the alternative of utilizing a query as a compensating control to identify any errors or irregularities before processing payroll.</p>	
<p>Response: On-demand training is currently available via NeoGov Learn for employees, supervisors, and timekeepers for time entry. HR will implement a cross check for Continuous FMLA and Sabbatical leaves (the leaves entered by HR) in order to audit the entry of these leaves.</p>	<p><u>Target Date:</u> 6/30/2024</p>
<p>Rec 1.3 Further clarify roles and responsibilities between HR and Payroll, especially in the areas of leave approval and benefit processing.</p>	
<p>Response: Finance staff will work with Human Resource (HR)department to develop a comprehensive payroll policy that will govern the responsibilities of payroll and HR including control procedures over payroll processing.</p>	<p><u>Target Date:</u> 6/30/2025</p>
<p>Rec 1.4 Identify and implement key performance measures for the Payroll function.</p>	
<p>Response: Payroll will be reviewing the following measures each pay period: 1. Number of paychecks issued broken down by FTE, Temps and Retirees (HRAR). 2. Number of off cycle checks issued 3. Percentage of employees on direct deposit 4. Number of final check calculations.</p>	<p><u>Target Date:</u> 6/30/2024</p>
<p>Rec. 2.1 Payroll verify the names on Payroll Authorization Forms against the timesheets, on a sample basis, to ensure that only authorized staff are approving timesheets.</p>	
<p>Response: Payroll will Create a new Payroll Authorization Form. Randomly audit departments to ensure names on form matches names on timesheets.</p>	<p><u>Target Date:</u> 6/30/2024</p>

Rec. 2.2 When developing policies and procedures, clarify roles and responsibilities in citywide payroll policies, especially when the source documentation originates from a department or section outside of Payroll.

Response: Finance staff will work with Human Resource (HR) department to develop a comprehensive payroll policy that will govern the responsibilities of payroll and HR including control procedures over payroll processing.

Target Date:
6/30/2025

1 – Payroll Internal Controls

Background

The City of Tempe employs a PeopleSoft time entry system for centralized electronic leave and pay requests. It uses an exception-based system for reporting regular hours. In this system, if leave or other exception hours are not entered and approved by the supervisor, employees will receive payment for regular hours based on their assigned schedule in PeopleSoft. Payroll relies on the accuracy of timesheets, spreadsheets, and forms received from other departments during the payroll processing.

Three Finance Department personnel handle payroll functions. Among them, two are full-time employees, while one is employed on a temporary part-time basis. The payroll team has experienced minimal turnover, boasting a collective experience of over 100 years in payroll management.

Recommended practices for a strong internal control environment for a Payroll function include written policies and procedures, adequate segregation of duties, approval processes and reconciliations. Together, these components help ensure the accurate calculation and recording of payroll. Additionally, performance measures are helpful to evaluate and enhance payroll functions to align with organizational objectives.

Approach

The Internal Audit Office (IAO) conducted the following steps to identify key centralized controls over the City's payroll processing.

- Identified and reviewed payroll process governing documents.
- Interviewed Payroll staff and identified queries/reports generated to assist in detecting errors prior to final pay calculation and processing.
- Assessed the segregation of duties within Payroll to ensure that no single individual has control over all aspects of payroll processing.
- Evaluated approval processes to ensure payroll transactions were properly authorized.
- Determined if reconciliations of payroll liability accounts and outstanding payroll check were performed periodically and that proper follow up procedures were consistently performed.
- Inquired if payroll area has developed performance measures that align with organizational objectives.

Results

Payroll runs numerous effective queries to identify errors before finalizing payroll disbursement, thereby reinforcing the internal control environment. The development of written payroll policies and procedures that address payroll

processing, disbursements and transaction monitoring would contribute to maintaining consistent practices in documenting timesheet authorizations.

Payroll Accuracy Verification

In each pay period, Payroll performs over 20 queries to identify errors before finalizing the payroll process. These queries are tailored to identify common mistakes that might arise during a payroll cycle, considering the unique characteristics of the City's payroll system. This practice is important due to the absence of a comprehensive City policy governing schedules. The PeopleSoft Payroll System allows the loading of work schedules that may deviate from the Memorandum of Understanding (MOU), posing a risk of noncompliance with governing documents and unauthorized payment amounts.

Policies and Procedures

The City's payroll procedures are primarily outlined in PeopleSoft documentation, ensuring payroll distribution aligns with the City of Tempe Personnel Rules and the distinct Memoranda of Understanding (MOUs) associated with each employee group. MOUs are contractual agreements negotiated by the City and an employee group under the City's meet and confer ordinance. There are four (4) specific MOUs, namely: (1) Tempe Officers Association (TOA); (2) Tempe Supervisors Association (TSA); (3) United Arizona Employee Association (UAEA) for nonsupervisory roles; and (4) Firefighter Unit.

There are no uniform, Citywide payroll policies and procedures addressing topic areas such as documentation requirements and standards, verification procedures, employee responsibility and training, management oversight, and record retention and security measures. Consequently, variations exist among departments about how timesheet authorization is documented. Certain departments have adopted informal practices, with some opting to complete a PeopleSoft Timesheet Checklist, while others choose to convey timesheet approvals through email.

Before Spring 2020, the Timekeeper and Approver would sign the last page of the timesheet and initial items on the Timesheet Checklist. However, since March 2020, it was informally communicated that an approval email would be considered evidence of supervisory approval for reported hours each pay period. It is important to note that the Timesheet Checklist, with initials, offers more robust evidence certifying compliance with payroll record requirements compared to an email, which lacks the same level of guidance.

For instance, the following text and table illustrate the verbiage found on the Timesheet Checklist:

“In accordance with the **US Department of Labor’s Fair Labor Standards Act**, the City is required to maintain certain payroll records. To ensure compliance, as the timekeeper, please initial each line to verify the following:”

Table No. 1.1 Timesheet Checklist	
Initials	Description
	A signed (authorized) leave slip request (or other supporting document) has been received for all non-regular hours.
	The leave codes have been recorded correctly (paid/unpaid sick leave, etc.)
	System verification has been made to ensure the employee has vacation/sick hours available for the current pay period.
	An updated Employee schedule has been entered in PeopleSoft for any regular employee who work sched has changed.
	An updated Employee schedule has been entered in PeopleSoft for any regular employee who work sched has changed.
	The appropriate Holiday code has been entered for all regular employees, if applicable.
	If the Holiday falls on a flex day, a sleeve slip has been obtained stated which day the employee is taking off for the Holiday (the flex days stays on the regularly scheduled dad and the Holiday moves).
	Hours have been adjusted for any employees that have terminated in the current pay period.
	I understand that once the final timesheet has been approved, no changes should be made in the PeopleSoft timesheet entry. Any changes must be submitted to payroll via an email."

Three signature lines are provided for: preparer (Timekeeper), checked by, and approved by (Supervisor).

Segregation of duties within the Payroll Section is generally well-established. However, the absence of a governing document or policy outlining roles and responsibilities has led to incompatible duties in Human Resources (HR), potentially weakening the overall internal control environment.

Employees enter their working hours into the electronic timesheet, which is then verified by the department Timekeeper and approved by the Supervisor. The Supervisor is responsible for validating and approving employee leave and premium pay requests. Given that Supervisors are more familiar with their employees' work schedules and tasks, their review is important, particularly in cases where salaries are funded through grants.

In May 2020, in response to recurring errors at the department level, HR staff clarified that a single person in HR has since been responsible for entering and approving transactions related to family medical, military, compassionate, sabbatical leave, catastrophic/supplemental, and long-term disability.

To proactively identify and prevent errors without compromising the segregation of duties, it is recommended that HR conducts regular reviews of entries and limits their access to a "read-only" status. Currently, HR staff has the ability to "edit" (make changes and corrections) in cases where issues arise with the upload from the Time

Administration System to Timesheets. Allowing such edits presents an internal control weakness, as it could compromise proper segregation of duties without the presence of a compensating control.

Table No. 1.2 below highlights personnel, timekeeping, and payroll processing duties.

Table No. 1.2 Processing Duties Segregation of Duties Across Departments				
Description	All Departments	Human Resources	Financial Services - Payroll	Information Technology - PeopleSoft Team
Input and approve employee time	X			
Submit timely Personnel Action Requests forms (PARs) for employee changes, including hiring and terminations		X		
Employee records (hire, rates, terminations)		X		
Leave Processing	X	X		
Generate payroll payments to employees and process vendor invoices.			X	
Process payroll deductions			X	
Record transactions to the general ledger			X	
PeopleSoft system operations and modifications				X

Approval processes are primarily documented through timesheets and Personnel Action Requests (PARs). Enhancing transparency, accountability, and strengthening the internal control environment can be achieved by establishing and reinforcing supporting documentation procedures, particularly in those instances when Payroll operates in the limited role of a "processor."

PARs serve as the primary forms for securing approval of information in the payroll calculation process. However, certain modifications in PeopleSoft may not necessitate a PAR. For instance, special assignment pays, like interpreter/bilingual pay, which exceeds the regular pay rate but is not a data field in the Job Data Screen, do not undergo PAR approval. HR manually inputs such special assignment pay into PeopleSoft, and the Payroll Supervisor, entering it directly into the pay lines, places it on the Exception List.

To maintain accuracy in payroll, the Payroll Supervisor compiles an Exception List Report based on emails received from HR for each pay period. This report is organized

by cost center and then alphabetically by name, recording items such as long-term disability, garnishments, and military leave for effective tracking and follow-up.

There were 107 items documented on the Payroll Exception List for the payroll period ending May 21, 2023. Out of these, 51 were supported with a PAR action. PeopleSoft automatically computes all payroll calculations based on both PARs and timesheets. The remaining 56 items were primarily identified through information conveyed by HR to the Payroll staff via emails.

During our fieldwork, we observed that, aside from relying on HR emails, the Payroll department also depends on the Finance Department, Risk Management, and the Fire and Police Departments to maintain essential documentation authorizing transactions related to workers' compensation payments, technical rescue specialty pay, and uniform reimbursements. In specific instances, Payroll functions solely as a "processor," receiving instructions through HR emails to adjust leave or input hours for long-term disability or family medical leave as directed by HR. HR does not provide certification of the calculations underlying the documentation, which often involves complex and multi-layered information, making it challenging for Payroll staff to ensure accuracy. Furthermore, HR staff mentioned their involvement in entering or updating tax withholding information, pay groups, and deferred compensation plans. Importantly, this information is not subjected to a verification or approval process once entered.

Payroll liability accounts and outstanding check reconciliations are performed systematically and routinely. The City has implemented robust procedures for resolving discrepancies and remitting unclaimed checks to the State.

Payroll conducts reconciliations of payroll liability accounts both at the conclusion of each pay period and monthly. Additionally, there is ongoing monitoring of outstanding checks to promptly identify and resolve any unclaimed checks. Ultimately, unclaimed checks are remitted to the State after the required waiting period. Audit testing of the reconciliation process is addressed in Section 3 of this report.

Establishing performance measures for the Payroll function would aid in identifying trends and assessing performance against stated goals.

The following list provides some examples of performance measures that could be considered by Payroll.

1. Number of paychecks per FTE payroll employees
2. Overtime hours per payroll employee
3. Payroll cost per paycheck
4. Percentage of employees on direct deposit
5. Number of payroll calculations per month
6. Number of off-cycle payments
7. Number of overpayments issued

Recommendations

1.1 Finance - Payroll develop citywide payroll policies and procedures. At a minimum, policies should address topic areas including documentation requirements and standards, verification procedures, employee responsibility and training, management oversight and record retention detailing storage and security measures.

1.2 HR provide essential training to enable departments to input their own leave data, ensuring the maintenance of proper segregation of duties between authorizing transactions and operations. If implementing this approach proves unfeasible, consider the alternative of utilizing a query as a compensating control to identify any errors or irregularities before processing payroll.

1.3. Further clarify roles and responsibilities between HR and Payroll, especially in the areas of leave approval and benefit processing.

1.4 Identify and implement key performance measures for the Payroll function.

2 – Payroll Testing

Background

In 2021, the City transitioned from manual to electronic timesheet entry, with HR conducting training sessions for both Timekeepers and Supervisors. Each department/cost center in the City of Tempe designates an employee as the Timekeeper. The Timekeeper is responsible for consolidating all timesheets within the department and submitting the time information to Payroll. The consolidated timesheet is then signed and approved by the department's cost-center supervisor or manager. Payroll utilizes this consolidated timesheet information for processing payroll during the respective period.

To facilitate electronic timesheet entry, Information Technology implemented an area in PeopleSoft known as the Time and Attendance System (TAS). TAS serves as the platform where electronic timesheets are loaded and managed.

Payroll staff ensures that the total hours recorded and approved on the electronic timesheet (Timesheet Earnings Screens) align with the Time Edit Report used for calculating pay lines, which result in the generation of pay. PeopleSoft automatically generates the Payroll journal, and the Payroll Supervisor imports the file into the Finance Module of PeopleSoft for accurate recording within the City's financial system.

Approach

To verify if payroll controls identified in Section 1 – Payroll Internal Controls of this report were working as prescribed, we judgmentally selected 50 timesheets from 50 cost centers across 28 departments/offices for 22 earning codes and 65 paychecks from Payroll register for pay period ending May 21, 2023 (5/8/23 – 5/21/23) and performed the following:

- Gathered and inspected payroll-related documentation such as timesheets, PARS, spreadsheets, and emails to verify payroll was properly approved, adequately supported, and accurately and timely recorded in the City's financial system.
- Verified hourly rate to the Job Data Screen in PeopleSoft and recalculated gross earnings based on the earning code tested and verified mathematical accuracy of net pay.
- Reviewed supporting documentation submitted to Payroll including timesheets, PARS, forms, court orders for garnishments, spreadsheets for uniform and tuition reimbursements and workers compensation payments.

Results

Supervisory reviews were consistently documented, confirming the accuracy of reported hours. However, the absence of citywide payroll policies and procedures

led to variations in the submission process across departments. Some departments used approval emails, while others submitted a Timesheet Checklist specifically designed to ensure compliance with federal regulations.

Of the 50 timesheets tested, all time recorded in the electronic timesheets evidenced supervisory review and approval and matched the Payroll Register without exception. Further, the hourly rates in payroll transactions matched PARs which are subject to electronic review and approval by HR.

Out of the 50 timesheets examined, 22 cost centers submitted solely an approval email, while 28 cost centers submitted both the Timesheet Checklist and an email for approval. The majority of the Timesheet Checklists contained two or more signatures; however, six cost centers only included a single signature.

Additionally, Payroll staff does not currently verify signatures on the Payroll Authorization Forms stored in Payroll. During testing of transactions, we noted some user departments submit Payroll Authorization Forms, while others either do not submit them or provide outdated forms. A binder in Payroll contains "Payroll Authorized Signer" forms, but practically, Payroll staff noted that they lack the time to verify signatures on these forms.

Numerous submitted forms are outdated, listing employees who no longer work for the City or have moved to different departments or cost centers. Notably, the form lacks a designated space for the Timekeeper's signature. Having such a space is essential for quick identification in case Payroll staff has questions or needs to adjust time. This would help ensure that the staff submitting a timesheet is indeed the designated authorized Timekeeper for the respective cost center.

Overall, the payroll transactions examined demonstrated proper approval through timesheets. However, it is noted that Payroll staff relies heavily on information submitted primarily through emails. There is a need for enhancements to ensure that email directives are accompanied by sufficient underlying supporting documentation.

Given that Payroll staff cannot feasibly review all supporting documentation, it is important for them to receive assurances of prior review before entering information into the Payroll system. Implementing a checklist or another certifying document would be beneficial in ensuring that key information used to calculate payroll is processed accurately and in compliance with applicable rules and regulations.

The following is the category breakdown of the 65 transactions that we judgmentally selected to ensure they were properly approved, adequately supported, calculated accurately, and recorded timely:

- 22 transactions tested were compensation including pay rate changes, additional compensation including specialty pay, shift differential, catastrophic pay, light duty, city business, call back, standby and interpreter pay

- 16 transactions tested were various leave and leave adjustments including
 - 4 Family Medical Leave Act (FML), Compassionate Leave, Administrative Leave
 - 7 Personal, vacation, sick, administrative, compensatory time taken, optional exempt leave
 - 5 Workers Compensation Leave
- 15 transactions tested in other benefits including
 - 4 employers paid 401/457 benefit
 - 3 long term disability
 - 3 Tuition Reimbursements
 - 5 Uniform Reimbursements
- 10 transactions tested in deductions including:
 - 7 garnishments
 - 3 auto/home/life insurance
- 2 transactions tested in terminations

Approved and Calculated Accurately – Reliance on information submittals

All transactions we tested were approved and calculated accurately without exception. Net pay was mathematically accurate.

In certain cases, accuracy testing was limited to validating amounts in the City's financial system against reports submitted by the Police Department (uniform reimbursement) or Risk Management (workers compensation). In these instances, we ensured that amounts were accurately and promptly recorded in both the Payroll Register and Payroll Summary Report. Regarding Tuition Reimbursement, we cross-verified amounts on the spreadsheet maintained by Payroll with the entries in the Payroll Register. For terminations, we confirmed that amounts in HR emails and the Personnel and Resignation Checklist were accurately and promptly recorded in the Payroll Register and Payroll Summary Report. In the case of deductions tested, we ensured that amounts were supported by third-party documentation, either retained in Payroll for garnishments or obtained from third-party vendor reports for insurance, which were submitted by HR to Payroll.

Deductions - Insurance

Employees can elect to insure their auto/home/life with a third-party vendor via payroll deduction. This process adds the auto deduction to pay line each pay period.

For the pay period under review, there were 59 employees with premium deductions from a third-party vendor, amounting to \$9,428.47. The report highlighted that three employees were not processed. While this does not have a detrimental effect on payroll, it necessitates additional time for researching discrepancies when they arise. Following best practices would recommend limiting this service area to minimize errors and avoid unnecessary processing, which can be administratively costly, especially with limited staff to address discrepancies. The City should evaluate whether home/auto/life insurance service deductions should be offered through payroll deduction, considering that they are unrelated to payroll and constitute an additional service.

Garnishment

There is currently no policy in place regarding the removal of inactive employees from the payroll system. As a result, temporary workers remain active in the system. During garnishment testing, we observed an individual who had been in the system for over 16 years but had worked only a few months during that period.

Inconsistency in leave processing and documentation

Leave Processing

While most leave hours are typically entered by employees and approved by their supervisors, our testing showed instances where HR instructed Payroll to process leave adjustments. In a specific case, HR sent an email to Payroll requesting a sick and vacation leave adjustment for 16 and 22 hours, respectively. The Payroll Supervisor documented this on the Exception List Report. Notably, there were no supporting documents attached to the email, and there was no assurance provided regarding how the hours were determined.

Among the 16 leaves tested, five leave transactions—specifically, family medical, sabbatical, and compassionate leave—were both entered and approved by the same individual in HR. This process lacks adequate segregation of duties between authorizing and recording leave.

Employer Paid 401/457 benefit

Out of four transactions tested, HR indicated two City Council appointees pay rate increases were entered 6 months after the effective date when mandated by City Council. City Council approved increases for their appointees at the August 24, 2023, City Council meeting with direction in the contracts to retro the increases back to March 1, 2023. The third employee pay increase was recorded within 10 days in August 2022 but the corresponding increase in the benefit amount was not updated until identified during audit testing more than one year later at which time the increased benefit amount was calculated and paid correctly. Additionally, when HR staff submitted the calculation spreadsheet to Payroll, the spreadsheet detail showed that the amount was not appropriately prorated. The initial spreadsheet provided by HR did not account for timing differences between the rate increase and payroll cutoff, necessitating proper proration of the amount.

Following this, the Payroll Supervisor instructed HR to prorate the amount accordingly. This serves as an example of how, when HR submits additional documentation, Payroll can review it to ensure that calculations are accurate before processing payroll. HR subsequently resubmitted a 401/457K Employer Paid Contribution spreadsheet, calculating both the increased payment amount and the required retroactive back payment.

Supporting Documentation

Retention and timeliness issues

For compassionate leave, the original donation form authorizing this leave is not retained by HR. This could pose a challenge in cases of disputes with the person donating time, as there is no proof of the initial agreement. During our fieldwork, HR staff acknowledged that this practice would be modified to retain the original donor documentation moving forward.

Regarding Family and Medical Leave (FML), HR staff mentioned that FML hours are not tracked in a module in PeopleSoft but are instead recorded in a separate Excel spreadsheet. HR explained PeopleSoft is incapable of tracking multiple FML cases on an individual when dates overlap (run concurrently) and only one date can be entered which makes the record(s) incorrect. To streamline processes and reduce the likelihood of errors, the feasibility of using the PeopleSoft module for other cases where dates do not overlap should be investigated.

Reliance on assurances rather than evidence of supporting documentation

In one of the three transactions examined, there was a considerable exchange of emails between HR and Payroll regarding the recording of time between LTD and unpaid sick leave due to a lack of medical certification documentation supporting an LTD earning code. Upon reviewing the email correspondence between HR and Payroll, concerns were raised about the coding, leading to subsequent recoding. This underscores the significance of ensuring that HR instructions are accurate and signed by the supervisor before submission to Payroll. Having a checklist documenting when medical certifications are received could be beneficial in such cases.

We also examined emails exchanged between HR and Payroll when adjustments were necessary between unpaid sick leave and LTD. HR staff mentioned encountering multiple delays in receiving medical certification documentation. Payroll further inquired about coding issues related to LTD, leading to subsequent corrections.

Information not updated timely

Employer Paid 401/457 benefit

HR is responsible for coding employees' benefit plans. In our observation, we noted a situation where an employee had a different plan computed based on a flat amount. Payroll staff clarified that special assignment pay should not be factored into the calculation. However, when salary increases took place, the system did not promptly reflect the updated benefit amount. An email dated 3/8/2013, indicated an agreement for 10% of the base salary for employer compensation for deferred compensation.

Following the employee's pay increase effective on 8/1/2022, the corresponding increase in deferred compensation benefits was not implemented until over a year later, on 10/8/2023. In both instances, we validated the adjustment amounts using the Deferred Compensation Deduction Data report, which is used for transferring funds to Nationwide.

Long Term Disability

Long Term Disability (LTD) is a partial income replacement benefits provided by the City and/or the Arizona State Retirement System (ASRS) for qualifying employees who have a documented serious, long-term illness or disability that prevents them from working for at least six months.

HR staff initiates the Personnel Action Request (PAR) for LTD pay designation, and Payroll relies on the accuracy of the information provided by HR. In the examination of three Long Term Disability (LTD) transactions, there was a case where HR staff indicated the medical documentation supporting the long-term disability benefit from 6/16/2023, through 7/1/2023, was not received until 7/26/2023. Effective July 2, 2023, the employee transitioned from Long Term Disability with Pay to State Long Term Disability. HR staff updated the status on 8/25/2023.

Recommendations

2.1 Payroll verify the names on Payroll Authorization Forms against the timesheets, on a sample basis, to ensure that only authorized staff are approving timesheets.

2.2 When developing policies and procedures, clarify roles and responsibilities in citywide payroll policies, especially when the source documentation originates from a department or section outside of Payroll.

3 –Reconciliation Testing

Background

Payroll Liability

The primary objective of reviewing payroll liability accounts is to ensure they consistently maintain a zero balance, undergo periodic reconciliation, and are subject to appropriate follow-up procedures. During the payroll processing, the funds held in the City of Tempe liability account must be disbursed to the respective third parties for retirement and health insurance benefits/programs.

Unclaimed Property

Our focus centered on payroll checks that have not been cashed and are considered stale dated. The Payroll Specialist maintains a spreadsheet containing information on checks not cashed within a reasonable timeframe. This spreadsheet includes detailed information about the dates of reminders and notifications. Additionally, it keeps track of checks that are reissued but remain outstanding beyond a reasonable time. The Payroll Specialist communicates with employees through written correspondence, phone calls, or emails as time permits.

For pay period ending May 21, 2023, the following represents the breakdown for the method of payroll payments:

Description	Number
Direct Deposit	2,104
Live Checks	121
Off Cycle*	1
Total	2,226

* Off Cycle is any check generated outside of the recurring two full week (fourteen day) periods, beginning on a Monday and ending on a Sunday.

Approach

To verify if payroll reconciliation controls were working as intended, we conducted the following audit tests:

- Verified reconciliations are performed on payroll liability accounts.
- Examined reconciliation documentation, including detailed transaction comparisons to general ledger balances.
- Conducted testing on a sample of transaction and validate the proper recording of third-party supporting documentation for payroll liability payments including invoices, statements, and other relevant documents.
- Reviewed journal entries related to payroll, focusing on entries made to Payroll liability clearing accounts.

Results

Generally, Payroll liability accounts maintained a zero balance between pay periods and reconciliations were performed accurately, routinely and systematically.

We reviewed the 5/21/2023, reconciliation for payroll liability accounts and performed the following:

- Verified employer paid liability amounts from third-party invoice to Payroll Liability Payments Schedule noting Accounting Supervisor/Controller digital signature approving document.
- Verified the deductions for benefits payments such as health insurance, retirement contributions, and other employee benefits from third-party invoices to PeopleSoft Trial Balance and Payroll Summary Report.

Payroll reconciles 34 payroll liability accounts. We judgmentally selected 17 payroll liability accounts and noted six had balances that identified reconciling items which appeared reasonable. The other 11 accounts had a zero balance after Payroll liability payments were made. No exceptions noted.

In recent years, there has been a noticeable trend of an increased number of unclaimed payroll checks that remain uncashed. This trend signals the necessity to consider potential changes in current practices to minimize the occurrence of unclaimed checks.

Following discussions with the Payroll Specialist, the primary root causes of unclaimed payroll checks, particularly those related to special awards, include outdated employee addresses—especially prevalent among seasonal workers—and instances of lost checks. If direct deposit was required for all employee, live checks would be eliminated, and the occurrence of unclaimed checks would thereby be eliminated.

The table below provides a snapshot of the dollar value of reissued checks and checks remitted to the State due to remaining outstanding for the required waiting period. While the amounts are not substantial, they have seen an increase in the last few years.

Table No. 3.1 Balances for Pay Period Ending May 21, 2023	
Description	Amount
Due to State	\$3,236
Waiting to Reissue	\$2,550
Total Outstanding Checks	\$5,786
Reissued Checks	\$4,245

Recommendation

3.1 Explore the possibility of mandating direct deposit for all employees. If not feasible, investigate potential modifications to the current practices related to unclaimed checks.

Scope and Methods

Scope

For the pay period ending May 21, 2023, we judgmentally selected 50 timesheets and 65 paychecks from City departments that enter their time worked using PeopleSoft.

Methods

We used the following methods to complete this audit:

- Interviewed Payroll, Human Resources, Benefits and Employment Services and Finance staff to gain an understanding of the system controls and reviewed supporting documentation in Payroll administration process.
- Reviewed City of Tempe Personnel Rules and Memorandum of Understandings (MOUs).
- Reviewed PeopleSoft timekeeper trainings and user instructions for payroll administration.
- Reviewed PeopleSoft User Instruction Procedures and Timekeeper Training to gain an understanding of payroll processing.
- Examined relevant payroll data, including timesheets, payroll journal, payroll registers, employee contracts and other supporting documentation.
- Verified expenses such as employee benefits, reimbursements, deductions are recorded accurately.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.