Finance – Payroll Audit Report

October 2007

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1.0 Management Summary

We have completed an operational audit of the Regional Municipality of York's ("the Region's") Financial Services Payroll Branch ("Finance Payroll") processes. The focus of our review was to assess the effectiveness and efficiency of the Region's payroll system and procedures.

The average payroll per pay cycle processed by Finance Payroll in 2006 was $5.32 million. Payroll processing has been moving towards increased automation since 1999 with the implementation of PeopleSoft. Implementation of the Time & Labour application, used to collect timesheet information, began in 2003 and has not yet been rolled out to all departments. It is the Region's plan to fully automate the payroll process in the coming year.

Based on the work we performed, the Region's payroll process is operating effectively. However, Time & Labour has not yet been rolled out to approximately half of the Region, and TEAMS has not yet been implemented. These applications would allow the payroll function to operate both effectively and more efficiently through increased automation and utilization of PeopleSoft. Internal control improvements were noted and discussed with appropriate management. They included opportunities for cross-training of individuals, updating documentation guidelines, and improving lines of communication. We have provided our detailed recommendations in the body of the report.

A draft copy of this report has been discussed with Finance Payroll and Human Resources. They have provided us with their comments and have agreed to take the necessary actions to implement the recommendations.

We would like to take the opportunity to express our appreciation to the staff at the Region for their cooperation and assistance in the completion of this audit.

2.0 Introduction

Finance Payroll is comprised of seven employees who work together and to help ensure proper payroll processing on a weekly basis. Individual Branches across the Region employ timekeepers that are the gateway between an employee's timesheets and entry to the payroll system used to generate payroll.

The payroll function is responsible for all forms of compensation. This includes salaries, wages, vacation allowances, sick leave pay, and employee deductions and contributions. Employees at the Region are paid on a bi-weekly basis. Approximately half the Region is paid in week number one and the other half is paid in week number two.

The payroll process at the Region consists of three major areas:

- *Corporate Services* - *Human Resources Branch* – responsible for the input of employee information into PeopleSoft. This includes income tax deductions, pay grades, and other employee record information.

- *Individual Branches* – responsible for inputting employee hourly data into the Time & Labour application (role out of Time & Labour is ongoing, not all Branches have been completed.)

- *Finance Payroll* – responsible for the transactional processing of Time & Labour data through PeopleSoft to execute payments and reconciliations.

The financial magnitude of payroll to the Region is substantial and continues to grow:

	2006	**2005**	**% Increase**
Pay Advices Produced	114,544	107,808	9.9%
Pay Advices Per Pay Cycle	2,203	2,073	6.3%
T4 and T4As Produced	5,411	5,171	4.6%
Total Taxable Income T4 and T4A	$276,694,247	$252,624,930	9.5%
Average Taxable Income	$51,136	$48,854	4.7%
Average Payroll Per Pay Cycle	$5,321,043	$4,858,172	9.5%

In the most recent Ontario Municipal CAO's Benchmarking Initiative ("OMBI") for calendar 2005, the Region was generally ranked above average in regards to benchmarks for its' payroll process in relation to other member Municipalities.

3.0 Objectives and Scope

The objectives and criteria of the audit engagement were as follows:

- Ensuring proper segregation of duties and cross training of individuals;
- Ensuring payroll addition, changes and deletions are adequately authorized;
- Ensuring adequate personnel records and documentation is kept safe and securely stored;
- Ensuring adequate salary/wage payout procedures;
- Ensuring payroll and unclaimed salary/wage reconciliation procedures are complete and timely;
- Determining supervisory and management checks points;
- Determining the efficient and effective use of Information Technology ("IT") resources (Time & Labour and PeopleSoft)
- Sufficient management reporting.

Our Audit Plan was developed based on the specified objectives outlined in this engagement. As part of the Audit Plan, we performed various audit procedures of the payroll system in the Financial Payroll Branch. The procedures performed were based on our assessment of risk and involved the use of a sample size with a 90% confidence factor computed based on statistical methodology.

The procedures performed to meet the objectives included:

- Selecting a sample of active employees in 2006 and tracing their timesheet to their hourly pay rate, and agreeing their pay to the payroll register, Interface File and the corresponding bank statement

- Selecting a sample of employees who experienced a change in pay or position (in 2006) and determined the respective change was completed correctly and in a timely manner
- Selecting a sample of terminated employees in 2006 to determine the timing of when the employee was removed from PeopleSoft and ensuring no subsequent payroll payments were made
- Selecting a sample of hired employees in 2006 to determine the timing of when the employee was added into PeopleSoft and ensuring payroll payments were made appropriately
- Review of documentation in personnel files in Human Resources
- Payroll cycle walk-through with appropriate personnel in Finance Payroll
- Review of training manuals and other related documents in Finance Payroll
- Walk-through of various individual departments to determine the physical and IT security of personnel records and documentation. Departments included Human Resources, Finance Payroll and Community Services & Housing
- Interviews with appropriate personnel across the Region, including Financial Services, Human Resources, Transportation and Works, Community Housing & Services, Long Term Care, Information Technology, Health Services and Emergency Medical Services.

The period under review for this audit engagement was January 1, 2006 to December 31, 2006. Please note that payroll for York Regional Police was not within the scope of this engagement.

4.0 Detailed Observations and Recommendations

4.1 Segregation and Cross Training of Individuals

Observation

1. Reliance on key personnel

There are limited personnel involved in the configuration of the PeopleSoft application in regards to the payroll system. Likewise, employees involved in payroll have a working knowledge of the Time & Labour application, but very few have expert knowledge. This has lead to a high degree of reliance on key personnel within the organization and thus makes the payroll process vulnerable. The payroll process is time sensitive and staff absences could cause a strain on the required employee resources that ensure day to day operations are not interrupted.

2. Training

We have not identified a directive or training on directives by Finance Payroll to each individual department, managers or timekeepers on their assigned roles and responsibilities as they relate to the payroll function, which is necessary to process payroll on a bi-weekly basis.

A timekeeper's role was initially defined as one which enters hours into Time and Labour. We understand that a timekeeper's current role has evolved into one that is closer to a Payroll Clerk's function. This increases risk to the payroll function as Finance Payroll has not trained these individuals for these duties and we are uncertain as to the level and consistency of training across the Region, if any, they may have received from other sources.

We are aware that managers who approve time have been trained in areas such as the collective agreements and procedural requirements. As such, there is a high degree of reliance on these managers to approve time entries put forward by timekeepers to ensure payroll hours are appropriate.

Finance Payroll and the IT Branch do not have a sufficient amount of staff persons trained at the expert level on the PeopleSoft applications.

Recommendations

1. Develop Experts

Finance Payroll and IT Branch work towards cross training more individuals to become experts at the end user level of system configuration. Based on the complement currently in Payroll Finance, we believe three persons in Finance Payroll and two persons in IT are appropriate. This should be done in connection with the new system upgrade that is expected to occur in October 2007. These persons should commence providing advanced services as currently provided by the resident experts to better service other individual branches.

2. Training sessions

Mandatory training sessions and training on directives from Finance Payroll for all employees working in the payroll function (Payroll Finance, branch managers, and timekeepers) be held to ensure consistency, accountability and reliability of information across the Region. Training should be provided to personnel based on their defined role of their position. This should be available to new and current employees.

Management Response

One Payroll Clerk is currently being cross-trained on Time & Labour functionality. She will commence providing advanced services as she becomes more familiar with the product over the balance of the year. Two Technical Support staff have been cross-trained in Time & Labour configuration, including Rule Program development, and have been gradually adopting primary support for the production environment.

From the Finance Department perspective, the role of the timekeeper in the user departments is to enter time into the Time & Labour system. Currently, Finance Payroll provides training to new timekeepers as they come on staff, as well as providing training to existing timekeepers when changes are made to the system, as the result of an upgrade for example. In many instances timekeepers are also required, as a result of their respective departmental organization, to perform other Payroll and Human Resources related duties. Training in these areas is conducted by the individual departments, based on business needs. A review of the job descriptions for staff involved in the timekeeping function will be undertaken in 2008 to ensure consistency and eliminate duplication. Due date is Q2 2008.

Documentation of procedures for timekeepers is currently available. Enhanced documentation for managers who are responsible for approving the time entered into the Time & Labour system will be developed in 2007. Application incident management scripting, as well as configuration documentation, is available to the ERP Technical Support team within network and eDOCS folders. Due date is Q3 2007.

4.2 Payroll Action Form Processing

Observation

We noted two instances where employees were paid for additional pay periods due to the Payroll Action Form not being completed to communicate changes in employment status. In the first instance, a terminated employee was not removed from the system and was approved for payroll for two consecutive pay cycles by their branch. In the second instance, an employee resignation was not communicated, resulting in the employee being paid for three consecutive pay cycles after leaving the Region.

The Payroll Action Form is a tool created to communicate employment status changes to parties that need to be aware of these changes. The form is the responsibility of the individual branch manager to complete and then forward it to Finance Payroll to generate final pay calculations. It should then be forwarded to Human Resources.

Finance Payroll and Human Resources are two distinct branches with interdependency on a daily basis. However, we noted that these two branches do not have clearly defined roles and responsibilities. As a result, Region employees often become confused as to which branch they are to communicate information such as changes to employee information. The lack of clearly defined roles and responsibilities could increase risk of payroll inefficiencies as information may take time to eventually be routed to the correct location.

Recommendations

1. Policy to notify and create accountability
Communicate to management that the Payroll Action Form should be prepared immediately after termination of an employee. The Payroll Action Form should be delivered to and entered by Human Resources prior to completion of the second pay cycle following termination to eliminate the risk of potential overpayment.

2. Implement an internal control
Human Resources Consulting notify Payroll Finance once they have had their exit interview with an employee. Finance Payroll will maintain a list of personnel that are no longer with the Region. This list will be cross referenced at each pay cycle until the Payroll Action Form is received to ensure no additional hours are approved by the individual branches. This control will significantly reduce the risk of overpayment in these circumstances.

3. Organization wide communication
Human Resources and Finance Payroll communicate and clarify the roles and responsibilities of their respective branches to Region employees. This will help employees determine who to contact for specific situations.

4. Management checkpoint
Approvers should take due care in approving all time for their direct reports and ensure a critical review process is always followed. A communication should be sent to approvers to remind them of the importance of their function.

Management Response

The Region pays its staff on a two week delayed basis. i.e. wages are paid 2 weeks following the end of the pay period. Consequently, at least four weeks could elapse before a terminated employee is fully paid all monies owing. The employee must be kept active in the system until that time.

The resignation / termination process will be reviewed by Payroll and Human Resources staff in Q4 2007 to address the timing issue mentioned above.

Training documentation will be developed by Finance Payroll and delivered to all managers so that they understand their responsibilities in this area. Due date is Q2 2008.

Enhanced documentation for managers, with emphasis on their responsibilities with respect to approving time entered in the Time & Labour system, will be developed in Q2 2008. Managers will be held accountable for the time they approve for payment. Human Resources and Finance Payroll are exploring possible methods to evaluate problem areas and highlight these to senior management. Due date is Q2 2008.

4.3 Personnel Records and Documentation

Observation

Human Resources Filing Guidelines (“Guidelines”) that are used by staff to determine what type of documents should be kept in an employee's personnel file, requires updating. When the Guidelines were written they did not take into consideration electronic personnel files that would become available, potential differences in file contents depending on an employee’s status as union or non-union, and what types of documents are transient versus official records. Having numerous copies of documentation such as performance appraisals also increases the risk of exposure of confidential information.

a. Current pay rate information is not held in the employee file as per the Guidelines. However, the PeopleSoft system is kept up to date with this information and provides personnel with the ability to track all changes of an employee’s record history.

b. Some personnel files in the Human Resource Branch have performance appraisal reviews while others do not. Reviews are usually kept with the employee’s Branch supervisor. Non union employees are required to have a periodic performance appraisal, while union employees are progressively being introduced to periodic performance appraisals.

c. As per the Guidelines, Human Resources stores active personnel files on-site, along with terminated personnel files for the current and prior year. In a sample of 49 employee files, we noted difficulties in finding two files. The first had been erroneously sent to outside storage due to confusion arising from which one of the two positions this employee held resigned. The other file used the employee’s traditional name, which differs from their English name.

Recommendations

The Guidelines be updated to reflect present day administration requirements. Human Resources use this opportunity to streamline filing requirements by:

- Identifying paper and electronic file information requirements;
- Identifying differences between transient day to day performance administration versus official records;
- Sharing this information with other Branches to minimize the risk of exposure of confidential information; and,
- Clarifying naming standards for files.

Management Response

The H.R. Management team will review the guidelines and create Employee File Standards to better reflect the presence of electronic records and reflect current administrative requirements. This will be done no later than Q4 of 2007.

4.4 Payout Procedures

Observation

Each Finance Payroll and Branch employee dealing with payroll has their own set of notes and procedures they use as a personal guideline. The current structure of the payroll process is decentralized by having individual branches enter all time into the Time & Labour application. Thus, Finance Payroll depends upon a number of employees external to their branch to input hours into the system. The individual branch managers and timekeepers working on payroll should therefore have a minimum set of directives, based on their defined role, from Finance Payroll. This will help ensure efficient and effective payroll processing with the least amount of issues.

Recommendations

Finance Payroll prepare and document a policies and procedures manual for the processing of payroll. The manual can be used for training new employees, and guidance for personnel familiar with the process. The manual will set a framework and minimum requirements to be followed by Finance Payroll and individual branches. This will help build an accountability framework between departments.

Management Response

An upgrade of the HR/Payroll system is currently underway with an expected completion date of Q4 2007. A documentation specialist who will be tasked with the responsibility of developing a policy and procedure manual for Payroll, including Time & Labour, will be recruited as part of the upgrade process.

4.5 Information Technology Resources

Observation

1. Transportation and Works use of TEAMS
TEAMS has not yet been interfaced with Time & Labour. As a result, time data must be manually entered into TEAMS and into Time & Labour. This process of double keying is inefficient and increases the risk of input errors. TEAMS is a self sufficient program that allows T&W to run their own reports, track resources, and budget.

2. PeopleSoft Passwords
PeopleSoft passwords are not required to be changed periodically. It is a best practice to ensure users are prompted to change their passwords at pre-defined intervals.

3. Departments continue to process manually
Our interviews indicate that there are individual branches that operate a manual timesheet system. We noted that due to this inefficient method of timesheet data input, the resources required to process payroll for these branches are higher than those branches using Time & Labour.

Recommendations

1. TEAMS conversion plan
TEAMS continue working towards implementation of the module to interface with the Time & Labour application to be effective and efficient.

2. Password changes
The Region require password changes on a regular basis for application software users. We have been advised that the PeopleSoft system upgrade will have this feature. Passwords should also be configured to have a minimum set of characters and numbers.

3. Branches should automate
The Region continue with its' roll out strategy of electronic applications. Branches currently on a manual timesheet system should convert to an automated based system. Meetings should be held with IT to identify currently available software that can meet the branch's needs. An implementation plan should be developed for each branch to transition their payroll process functions. The conversion from a more manual payroll processing system to the current electronic system in Time & Labour has increased efficiency, reduced impact of human errors, and reduced time spent on inputting hours. However, there are currently some branches not working with Time & Labour, and some branches that do not have automated timesheet software. Automation and congruence with Finance Payroll will create a more effective and efficient process.

Management Response

The Time & Labour roll out will be completed in Q4 2007, not including the interface of the TEAMS module. TEAMS will be completed Q1 2008. The integration methodology designed for TEAMS will also be utilized for the integration of any time capture or scheduling system, such as Schedulesoft (EMS, LTC) and eScheduling (YRP). The integration of these systems will streamline the data capture process for over 75% of the employee base.

The implementation of Schedulesoft in EMS will be put into production in Q2 2008. Schedulesoft is the first step to aiding the 24 hour operations in eliminating the need for a paper based timesheet.

Automated password administration was an identified requirement for the PeopleSoft HRMS and is scheduled to be implemented following the upgrade to the Version 8.0 platform, in particular to support the implementation of broader employee self-service. In conjunction with the HRMS upgrade scheduled for Q4, 2007 all users will receive new, random and encrypted passwords during the migration process. Human Resource Services is planning a pilot self-service deployment in 2008, which would include password administration.

4.6 Management Reporting

Observation

Meetings with individual branch managers highlighted that needs are not being met with the current reporting system. Due to differing branch requirements, there is a trend not to request specialized query reports from Finance Payroll. Branches cannot query payroll information for their areas due to infrastructure, privacy, and data integrity issues.

T&W relies on its TEAMS software for management reporting purposes. They have found that the software provides them with sufficient information to analyze their operations and approve time.

1. Management reports in general
There is inconsistency between individual branches relating to reports they indicate they receive, reports they find useful, availability of reports, and the timeliness of reports. An assessment was performed by Finance Payroll to highlight the needs of individual branches, however a disconnect exists.

2. Standard reports cannot be modified
Various standard reports are generated in an Adobe Acrobat format (PDF). This format does not allow branches to manipulate data for analysis.

3. Not enough query functionality
Resources and the current reporting framework may not be sufficient to supply timely information to branches. The current process requires each individual branch to request queries through Finance Payroll. Due to large demand of queries across the Region, branches have experienced time delays in their requests.

Recommendations

1. Reporting
Payroll Finance revisit and reassess the requirements of individual branch managers to renew their understanding of required reporting. Once needs are reassessed the Strategic Plan commenced in 2006 can be updated and reports can be made available or delivered on a more timely basis.

2. Format of reports
Create reports in a format that allows for greater analysis and corroboration, i.e. Microsoft Excel.

3. Reports Specialist
Based on the current data infrastructure, Payroll Finance should not allow individual branches to access live payroll data to run queries. Needs of individual branches should be met by way of the above recommendations and continuance of the Strategic Plan. Should these recommendations not solve current issues with timeliness, training or adding resources within the branch to handle query requests could be considered.

Management Response

A reporting strategy is currently underway. User departments have provided a wish list of reports, however, the technology is not currently available for them to produce their own custom reports. There are also issues surrounding the confidentiality of the information being requested as it pertains to the Privacy Act. Payroll will utilize its query specialist (currently on secondment) in the second half of 2007 to assist in the development of generic reports to a user friendly format. Due date is Q1 2008.

Original Signed	*Original Signed*
Lloyd Russell	**Ken Hill**
Commissioner Finance	**Director, Financial Services**
Original Signed	*Original Signed*
Jim Davidson	**Karen Close**
Commissioner Corporate Services	**Director, Human Resources Services**
Original Signed	
Paul Duggan	
Director, Audit Services	