



Office of the Auditor

PAYROLL AND BENEFITS AUDIT FOLLOW-UP

Progress made on recommendations

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BACKGROUND

Payroll and benefit processes are an important part of Metro's internal business services. They impact every department and employee. Timeliness and accuracy are key components of effective and efficient payroll and benefits administration.

In 2010, the Metro Auditor released an audit report with recommendations for improvements to payroll and benefits processes. The audit found that greater coordination between and within departments was needed to increase efficiency and effectiveness. Roles and responsibilities needed to be clarified, and each aspect of the process needed to be reviewed to identify areas for improvement. Ten recommendations were included in the report (see Status of Recommendations on page 8). The recommendations focused on:

- increasing department coordination to clarify roles and responsibilities;
- developing clear policies and procedures;
- improving the use of software functionality to reduce manual processes; and
- implementing stronger controls to ensure greater transparency and data accuracy.

In November 2012, Metro's ethics line received a report alleging several errors in payroll calculations. This follow-up audit was initiated in response to the allegations, because the issues raised were substantially similar to the findings from the 2010 audit. The first section of the report focuses on the errors reported to the ethics line. The other three sections detail progress made on the original audit recommendations in three areas: benefits, payroll and department coordination.

SUMMARY

Progress was made on the recommendations from the 2010 audit **Payroll and Benefits Programs: Greater coordination can improve processes.** We found that six of the original ten recommendations were in process and four were implemented. In addition, we confirmed payroll errors that were reported to Metro's ethics line in November 2012 were valid. While some steps were taken to improve the accuracy of data, these errors led us to conclude that a recommendation to improve data accuracy had not been fully implemented. In general, benefits processes improved, but payroll processes needed more work.

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SCOPE AND METHODOLOGY

The objectives of this audit were to determine the status of recommendations from the 2010 audit and verify whether errors reported to the ethics line had occurred. We interviewed managers and employees who are involved in payroll and benefits processes. We obtained and analyzed payroll data to verify the accuracy of reported errors. We reviewed contracts, meeting minutes and policies and procedures. In addition, we conducted a survey of employees to learn about roles and responsibilities and internal controls for specific payroll and benefits processes. During the follow-up work, we discovered payroll errors that were similar to those reported to the ethics line. We provided the details of those errors in a separate memo to management in January 2013. They are included in the summary table attached at the end of the report (Appendix A)

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS

We reviewed payroll errors reported to Metro's ethics line and evaluated progress made on recommendations from our 2010 audit. We verified the accuracy of the ethics line report and confirmed that the errors had occurred. As a result of our analysis, we found additional errors not yet discovered. Improvements were made in some areas noted in the 2010 audit, but other areas need further attention.

Errors reported to the ethics line were confirmed

Several types of errors were reported to Metro's ethics line in November 2012. They included errors in specific types of earnings such as uniform allowances and pay differentials for weekend work. Other errors arose in the amount of deductions taken from employee pay checks for health insurance and union dues. Some of the errors were for the same type of earning or deduction but affected employees differently. For example, some employees were paid too much for uniform allowances while others were underpaid for the same allowance. The ethics line report also alleged poor communication with the employees affected by the errors. A summary of each error and its impact is attached at the end of the report (Appendix A).

We confirmed that all of the reported errors were valid. Although some originated in other sections of the Human Resources Department, the majority arose in payroll processes. Human Resources was aware of the reported errors and had taken steps to correct them prior to the ethics line report. In some cases, additional errors were introduced while trying to correct the original problems. Some errors went undetected for several years. In other cases, we found indications that errors similar to those reported to the ethics line had occurred in the past and actions were taken to address them. We concluded effective solutions had not been implemented because the errors reappeared. During the follow-up audit, we found errors in addition to the ones reported to the ethics line. We provided information about these errors to management in January 2013. Those errors are included in the summary table attached at the end of the report.

The overall monetary impact of the errors was relatively small when compared with total payroll expenditures, but the number of employees impacted (301) and the variety of errors occurring at the same time increased their significance. In addition, 49 of the 301 employees were affected more than once, which compounded the overall impact.

Many of the errors reported to the ethics line were caused by inaccuracies in the initial set up of earning and deduction amounts. Inability to set up software calculations to process payroll information as specified in the contracts was a reoccurring cause. We also concluded that controls were weak or non-existent for preventing and detecting these types of errors during each payroll cycle. As a result, errors repeated for months and years at a time without being noticed. In some cases, the cause of the error remained undetermined, which made it more difficult to prevent it from happening again. Although procedures were set up to get payroll done on time, we found there were insufficient controls to review the accuracy of the information and detect errors before payroll was finalized.

Changes to business processes and software systems occurred frequently. Some of these changes were made without fully evaluating their impact, which had a ripple effect and caused other problems throughout the process. For example, in July 2012 cost of living increases were awarded to employees. The initial data entry of the increases was described in a post payroll meeting as having gone smoothly. Subsequent meeting notes indicated that rounding errors associated with the increases created additional work for payroll. This example demonstrates a similar finding we made in the initial audit; time was spent addressing problems after the fact and less time was spent designing procedures to prevent or detect them before they occurred.

Recommendations for benefits administration mostly implemented

Three of the ten recommendations in the initial audit were specific to benefits administration. Two others were related to the aspects of the payroll process controlled by employees in the benefits section. Improvements were made to address each of these five recommendations.

During the initial audit, the formula used to allocate health care benefit costs between employees and Metro was not always exact, which resulted in a fund balance. We also found that the formula reduced transparency because it created “composite rates” for some benefit plans that were not offered by the service provider. This made it difficult to align invoices from the service providers with the funds contributed by Metro and individual employees.

Metro improved transparency and accuracy when a new method to allocate costs among employees and plan types was put in place in July 2011. The new allocation methodology was based on employees paying a fixed percentage of health care costs regardless of plan type. This made the calculation for the employee contribution more transparent and reduced inconsistencies between the amounts paid and the services received.

Another recommendation was addressed when Metro improved the quality of information available to make health benefit decisions. This was done by improving management of the committee that makes recommendations about health care benefits. The committee now has a longer-term outlook and higher quality educational materials to help them understand the impact of their decisions. The committee recently updated its bylaws, membership and voting procedures to make them clearer and collected information from employees on an annual basis to set priorities for managing health insurance costs.

Additionally, Human Resources contracted with a new benefits broker who provided better information to evaluate plan options than the previous broker. The Benefits Manager reported that the new benefits broker had more market experience to identify a wider range of possible health care plans. The new broker was more responsive to the educational needs of the committee and provided higher quality information than the previous broker. In addition, Metro changed the fee structure for the broker from a commission to a flat amount, which reduced the risk of potentially adverse incentives for the broker.

The remaining two recommendations addressed processes initiated by benefits employees that affected payroll processing. We found that benefits processes improved through better use of software functionality. These changes automated processes that were previously done manually, resulting in more efficiency and improved data accuracy.

Metro hired a contractor to evaluate and implement functions in its software systems that were not being used. A new benefits administration feature was implemented that created standard benefits packages for each group of employees. This made it possible to assign employees to benefits packages rather than setting up each employee separately. The Benefits Manager stated that this change increased efficiency by reducing the time it takes to set up new employees. It also improved effectiveness by reducing the opportunity for data entry errors to be introduced into the system.

Recommendations for payroll administration need attention

We found limited improvements in payroll processes since the 2010 audit. Quality control procedures were weak. In several cases, payroll errors went undetected for long periods of time and were discovered by employees or the Auditor's Office. There was evidence that one of the tasks on a checklist for updating information at the beginning of each fiscal year was not followed. This caused some of the errors. In addition, errors were not tracked effectively, which made it difficult to identify the cause of reoccurring errors and design procedures to prevent them from occurring again.

Almost all payroll processing tasks were assigned to one payroll specialist who was expected to process payroll information, calculate and input manual changes, and respond to error messages. The other specialist worked mainly on timekeeping and retirement information. The specialists were not cross-trained, so the Payroll Manager was the only back-up for payroll processing. This made it more difficult to have a different employee provide an independent review for quality control. Management stated that they plan to cross-train employees between March and August of 2013.

Security settings to prevent inappropriate access to the data in software systems were not maintained for employees involved in payroll processing. Maintaining segregation of duties is a key control for effective payroll administration. This is done to prevent employees from having too much access to make changes to data. For example, well-designed payroll procedures prevent an employee from being able to change employee information if they are also able to initiate specific pay actions. The Payroll Manager had permissions in the software system for both payroll and benefits functions, which should have been segregated.

In addition, payroll employees could edit data in "correction mode" which gave them access to overwrite historical and system generated data. While use of correction mode may be appropriate in some situations, best practices state that clear policies should be established to govern its use.

We found limited progress in addressing our recommendation to reduce manual processes and calculations. Manual processes were reduced in some parts of the payroll process but not in others. For example, an automated process to calculate union dues amounts was not implemented yet for all unions. Changes to automate processes since the audit mostly impacted areas outside of payroll. A redesigned process was implemented for benefits administration and a new process to transfer finalized payroll data to the accounting system was implemented. This changed the level of involvement of Information Services employees without impacting the way payroll was processed.

There are some payroll processes that could benefit from greater automation by making use of existing software functions. One area for possible automation was prorating hours for salaried employees who work in positions budgeted as full-time but who work less than full-time. Few employees fit this description, but the time it takes to make these calculations takes away from other tasks and introduces more risks to accuracy. Management stated that this is on a list of planned activities for the future. Some improvements like automatically calculating “retroactive” payments may not be feasible because of Metro’s customization of software systems. Retroactive payments are used to automatically calculate the correct earnings amounts when pay information changes in the middle of a pay period or when errors are identified in prior pay periods that need to be corrected. These are currently done manually, which increases the time it takes to process them and the risk of data entry errors.

Taken together, underdeveloped controls increased the risk of fraud, waste and abuse. We found no evidence that this occurred. Payroll processes need restructuring to make them more efficient and effective. As we noted in the initial audit, part of the challenge of changing payroll processes was the time sensitive nature of the work. Employees are paid twice a month, which can limit the amount of time available to focus on process improvements. As some of the errors indicate, making changes without fully understanding their impact can result in problems that are equal to the ones they were designed to fix. For this reason, payroll administration would benefit from having a strategic plan for improvements that establishes clear goals, milestones and stronger controls, while still maintaining core payroll responsibilities. Incremental steps such as clarifying roles and responsibilities, segregating duties, designing additional quality control procedures and cross-training employees are needed to provide the foundation and vision for improved payroll processes.

Recommendations for department coordination were in process

General roles and responsibilities among departments were mostly clear and unchanged from the 2010 audit. Finance and Regulatory Services conducted monthly and yearly closeouts for payroll and benefit liability accounts. Information Services managed software systems to facilitate payroll and benefit processing. Human Resources entered and processed data to calculate earnings and deductions associated with payroll and benefits. Nevertheless, there was still a lack of clarity in some areas that reduced accountability. These areas required greater coordination.

Improvements were made in a couple of areas that were identified as problematic in the initial audit. Employees in Information Services have a somewhat smaller role in the semi-monthly payroll process. New processes reduced the amount of effort required to transfer data between the payroll system and the accounting system. Human Resources improved the processes to reconcile payroll and benefits accounts, which helped Finance and Regulatory Services meet its responsibilities to ensure accurate data in the accounting system. Concerns about the timeliness and accuracy of a couple of account reconciliations (e.g. COBRA, Flexible Savings Accounts) remained, but management noted improvement on most of them.

There were still some overlapping responsibilities between departments that required better coordination. Minutes of post-payroll meetings between employees in Human Resources and Information Services showed a lack of clarity about roles and responsibilities. There was no identified manager of the meetings, which reduced accountability for outcomes. Requests for changes to processes were made at almost every meeting in the last several years, but it was not clear who was responsible and what priority each request should have been given. There were indications that errors similar to those reported to the ethics line had occurred in the past, which showed that effective solutions to those problems had not been implemented.

As previously noted, a lack of clarity about roles and responsibilities impacted the effectiveness of the security profiles in software systems to segregate duties. Security profile monitoring and updating was done more consistently by Information Services and department managers since the last audit, but there were still some risks associated with inappropriate segregation of duties. Maintaining appropriate segregation of duties was sometimes challenging for payroll and benefits functions for three reasons:

- The small size of the department sometimes resulted in employees being asked to backfill roles in other parts of the department when there were vacant positions or employees were on leave. This gave employees access to parts of the systems that was not appropriately restricted access after they returned to their primary role.
- The organization of security profiles made it difficult to get a complete picture of what access an employee had. A list of security profiles documented the permissions associated with each profile. A separate list showed which profiles each employee was assigned to, but there was no single document that contained a complete summary of each employee's access.
- Software systems had built in functionality ("correction mode") that reduced the effectiveness of security profiles. Employees were instructed to edit data using this functionality for the sake of efficiency, but it reduced controls designed to only allow changes by authorized employees.

There were additional areas where improved policies and procedures would be helpful. Policies and procedures existed for payroll and benefits, but they were underdeveloped in some areas. Benefits related policies and procedures were less thoroughly developed than those for payroll. Payroll policies and procedures were thoroughly documented but did not result in efficient and effective business processes as noted previously in the report.

Based on the errors reported to the ethics line and progress made on the audit recommendations, improvements in the following areas would increase efficiency and effectiveness:

Improvement area	Payroll	Benefits
Clarify roles and responsibilities between Payroll Manager and Payroll Specialists.	X	
Develop policies for authorizing the set up of new earning and deduction codes.	X	X
Develop quality control procedures for:		
<ul style="list-style-type: none"> • accuracy of definitions and calculations routines when setting up earning and deduction codes; 	X	X
<ul style="list-style-type: none"> • setting up pay rules in the timekeeping system; 	X	
<ul style="list-style-type: none"> • accuracy of data generated during each payroll cycle; 	X	
<ul style="list-style-type: none"> • switching employees between job codes (e.g. acting out of class, full/part-time); 	X	
<ul style="list-style-type: none"> • correcting errors; 	X	X
<ul style="list-style-type: none"> • accuracy and completeness of payroll performance measure data; and 	X	
<ul style="list-style-type: none"> • account reconciliations (e.g. COBRA and flexible spending accounts). 		X
Assign responsibility for communicating with employees affected by errors.	X	X
Align security permissions with job duties.	X	X

STATUS OF METRO AUDITOR RECOMMENDATIONS

2010 Recommendations	Status
1. To increase the effectiveness and efficiency of the payroll and benefits process:	
a. Metro should assign primary responsibility for the payroll and benefits business processes.	<i>IN PROCESS</i>
b. Conduct an evaluation of the three automated systems currently used in order to assess full functionality of each.	<i>IMPLEMENTED</i>
2. The designated owner of the business process, in conjunction with the other two departments, should review the business processes for payroll and benefits and determine process improvements that will:	
a. Provide guidance to Information Services to create profiles within the automated systems that successfully segregate duties.	<i>IN PROCESS</i>
b. Allow greater transparency of health care benefit cost calculation and allocation.	<i>IMPLEMENTED</i>
c. Better manage vendor contracts and the quality of services.	<i>IMPLEMENTED</i>
d. Improve the accuracy of data in the automated systems.	<i>IN PROCESS</i>
e. Reduce manual processes and calculations that can be managed within the automated systems.	<i>IN PROCESS</i>
f. Improve the quality of information available to make health benefit decisions.	<i>IMPLEMENTED</i>
3. Once leadership is assigned, the Human Resources, Finance and Regulatory Services and Information Services departments should:	
a. Assign roles and responsibilities for each aspect of the process.	<i>IN PROCESS</i>
b. Develop clear policies and procedures for each departmental segment.	<i>IN PROCESS</i>

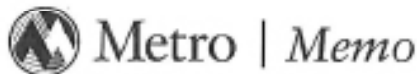
APPENDIX A: Summary of errors

Error	Background	Impact
Uniform allowance - overpayment	<ul style="list-style-type: none"> • Monthly allowance (\$19) paid twice per month instead of once. • Majority of errors began in September 2011, but some go back to 2009. • Discovered after an employee reported a missed allowance payment to payroll . • Cause of error undetermined. • Repayment from employees to Metro began in October 2012. • Additional monthly overpayments (\$35) discovered by Auditor’s Office in December 2012. • Human Resources was in the process of determining how to correct the additional errors as of January 2013. 	<ul style="list-style-type: none"> • 46 employees represented by AFSCME were overpaid by about \$13,000. Repayment to Metro was in process. • 7 employees represented by ILWU were overpaid by about \$4,500. Repayment plans had not been established.
Uniform allowance - nonpayment	<ul style="list-style-type: none"> • Monthly allowance (\$19) not paid as outlined in contracts. • Discovered after an employee reported a missed allowance payment to payroll. • Cause of error undetermined. • Employees received payments for missed allowance in November 2012 . • Additional missed annual allowance payments (\$19) discovered by Auditor’s Office in December 2012. • Human Resources was in the process of determining how to correct the additional errors as of January 2013. 	<ul style="list-style-type: none"> • 10 employees represented by AFSCME were repaid about \$2,700. • 6 employees represented by AFSCME employees were underpaid by about \$200 for the annual allowance. Corrections for missed payments had not been established.
Weekend pay differential - underpayment	<ul style="list-style-type: none"> • Increased hourly pay for weekend work not paid as outlined in contracts. • Majority of errors began in September 2011, but one goes back to July 2010. • Metro’s Labor Relations Manager reported error to payroll. • Caused by error during the set up of pay rules in Metro’s timekeeping system. 	<ul style="list-style-type: none"> • 9 employees working at Metro’s Hazardous Waste facility were repaid a total of \$4,333.
Union dues - over-deduction	<ul style="list-style-type: none"> • Collection of union dues in excess of contract provisions. • Errors began in 2009 or before. • Discovered by union representative who reported the error to payroll. • Caused by incorrect implementation of guidance about how to calculate dues. • Additional errors were created when attempting to correct the first one. • Second set of errors was caused by inaccurate set up of new deduction calculation. • Errors that caused over-deduction may have also created under-deductions but no action has been taken on this issue. 	<ul style="list-style-type: none"> • 165 employees represented by AFSCME were repaid a total of about \$4,000. • 148 employees represented by AFSCME were repaid a total of about \$1,400 for error resulting from inaccurate fix to the initial problem.

APPENDIX A: SUMMARY OF ERRORS

Error	Background	Impact
Health insurance - over-deduction	<ul style="list-style-type: none"> • Collection of health care contributions in excess of contract provisions. • Errors go back to 2009 for some employees. • Unclear how error was discovered. • Caused by incorrect implementation of contract provisions. 	<ul style="list-style-type: none"> • At least 3 part-time employees were affected. About \$4,500 was repaid to employees.
Health insurance - under-deduction	<ul style="list-style-type: none"> • Collection of health care contributions below contract provisions. • Errors go back several years for some employees. • Unclear how error was discovered. • Caused by not updating calculation table with up-to-date information. 	<ul style="list-style-type: none"> • At least 6 employees did not contribute the correct amount. Monetary amount undetermined. • Employees were not asked to repay the under-deductions.
Regular earnings - overpayment	<ul style="list-style-type: none"> • Employee was paid for two jobs on the same paycheck. • Error happened in October 2012. • Unclear how error was discovered. • Caused by leaving two jobs in an active pay status. • This was the second payroll error for the employee in a two month span and the employee was also impacted by the errors in union dues and uniform allowance. 	<ul style="list-style-type: none"> • 1 employee was overpaid by about \$3,000 during one pay period. • Employee repaid Metro the full amount in October 2012.

MANAGEMENT RESPONSE



Date: May 8, 2013
To: Suzanne Flynn, Metro Auditor
From: Mary Rowe, Human Resources Director *Mary*
Scott Robinson, Deputy Chief Operating Officer *SR*
Cc: Martha Bennett, Chief Operating Officer
Amy Davis, Payroll Program Manager
Jodi Wilson, Benefits Program Manager
Subject: Management Response to Payroll Audit

The following represents management's response to the audit report which will be issued by your office later this month. As a public agency we recognize the importance of ensuring the public funds are managed responsibly and with proper controls in place.

Human Resources (HR), Finance and Regulatory Services (FRS) and Information Services (IS) have worked on a number of improvements since the initial audit. We appreciate that the Auditor recognizes the areas of improvements and in particular in the area of benefits. Staff is committed to continuous process improvement and in particular continuing to address areas noted in the original audit and this follow up.

Response to recommendations in the Auditor's report

The following summarizes management's response to the specific recommendations noted in the audit report.

Recommendation #1

To increase the effectiveness and efficiency of the payroll and benefits processes:

- a. **Metro should assign primary responsibility for the payroll and benefits business processes.**

Response: This was noted as in process. The payroll and benefits functions have been further separated with distinct duties assigned to each. There are some unique challenges based on the size of the work group and we will look to other similar sized agencies to see how they address those challenges.

Next steps: Survey other agencies of similar size to determine if there is a more appropriate separation of duties.

- b. Conduct an evaluation of the three systems currently used in order to assess full functionality of each.**

Response: As noted this has been implemented.

Recommendation # 2:

The designated owner of the business process, in conjunction with the other two departments, should review the business processes for payroll and benefits and determine process improvement that will:

- a. Provide guidance to Information Services to create profiles within the automated systems that successfully segregate duties.**

Response: As noted this is in process. The Systems Analyst for Information Services Security periodically sends HR managers lists of employees who have access to their subject areas, which are reviewed and approved.

Next Steps: Conduct periodic reviews in conjunction with IS to ensure access is appropriate to employee's current job responsibilities

- b. Allow greater transparency of health care benefit cost calculations and allocation.**

Response: As noted this has been implemented.

- c. Better manage vendor contracts and the quality of service**

Response: As noted this has been implemented.

- d. Improve the accuracy of data in the automated systems.**

Response: Additional work does need to be done. It should be noted that a number of steps have been taken including the following:

PeopleSoft:

- Benefit options have now been defined and set up for each of the various groups of employees ensuring employees are properly enrolled in plans and are assigned correct rates.

Page | 2 Management Response to Payroll and Benefits Audit Follow up

- Setup of exempt employees has been changed to ensure consistency across the agency.
- Exempt employees are now processed through the payroll allocations process regardless of work area, ensuring accuracy and consistency.
- Implementation of delivered functionality helps to ensure that data between the HRIS module and Finance is complete, accurate and in sync between the two databases.
- Creation of excel spreadsheets used to reduce manual calculation of retro payments and part time salary allocations.

Kronos:

- New pay rules and changes to pay rules are thoroughly planned, designed and tested by both payroll and IS in a separate database to ensure they are working properly prior to migrating to production.
- Implemented standardized work week for all AFSCME employees.

Next steps: We are developing a project plan to review all pay rules set up in Kronos to ensure the accuracy. We anticipate having an RFP issued during the 1st quarter of FY 13/14 for an independent review of the current data set ups.

e. Reduce manual processes and calculations that can be managed within the automated system.

Response: An outside consultant was hired to review the use of PeopleSoft and assist with improved utilization of the full functionality of the system. Those recommendations have been implemented. See response to # 2d.

f. Improve the quality of information available to make health benefits decisions.

Response: As noted this has been implemented.

Recommendation # 3

Once leadership is assigned, the Human Resources, Finance and Regulatory Services and Information Services departments should:

a. Assign roles and responsibilities for each aspect of the process.

Response: After the initial audit, flowcharts were created to map the multiple business processes involved for the timekeeping system, payroll and benefits. Human Resources staff

has responsibility for data entry and data management for employee information, benefits, and payroll data. Information Services has responsibility for system configuration and troubleshooting system's issues encountered by staff. Finance and Regulatory services have responsibility for reconciliation and payments to the benefits and payroll vendors.

Additional emphasis will be placed on assigning accountability for action items identified in payroll meetings.

Next Steps: Meeting minutes for payroll meetings will include tracking of assignments, due dates, status, prioritization and individual responsibilities.

During the 2nd quarter of FY 13/14 we will update that document to reflect current processes and see if there are ways to further delineate duties.

b. Develop clear policies and procedures for each departmental segment.

Response: See next steps for # 3a.

Improvement Areas

A chart was provided with areas the Auditor recommends for improvements. A number of improvements have been made in these areas since the last audit. These are noted under each item below along with next steps.

The areas noted include the following:

Clarify roles and responsibilities between the Payroll Manager and Payroll Specialists

Response: The payroll specialists have responsibility for day to day transactions and processing of payroll, PERS and the Kronos timekeeping system. The payroll manager has responsibility for review and oversight of their work and also set up and testing of the database tables.

Next steps: See response to # 1a.

Policies for authorizing the set up of new earning and deduction codes

Response: The new earning and deduction codes are mandated by organization wide policy changes or contract negotiations.

Next Steps: HR will develop an internal policy outlining how new earnings and deduction codes are developed. Procedures for implementation already exist.

Quality control procedures for:

- **Accuracy of definitions and calculations routines when setting up earning and deduction codes**

Response: Addition of new earnings or deduction codes are discussed between the payroll manager and human resources director before being created. If new codes are required they are setup and tested in a separate database after discussing with IS staff to determine possible Kronos and/or interface impact. The payroll manager performs periodic review at least quarterly of all codes to determine when last used, and if dormant codes should be changed to an inactive status.

Next Steps: See response for 2d. We anticipate having an RFP issued during the 1st quarter of FY 13/14 for an independent review of the current data set ups.

- **Setting up pay rules in the timekeeping system**

Response: It is very rare that new pay rules need to be created in Kronos. Most work involves updating current rules due to contract negotiations or newly reported information from users. These changes are setup and tested in a separate database before being migrated to "production." Testing involves at a minimum the payroll manager and IS staff, and often includes the "super user" from the affected business unit. There is also increased communication between payroll and labor relations staff during negotiations to discuss suggested changes and ensure the software can perform the functions needed.

Next Steps: See response to # 1d.

- **Accuracy of data generated during each payroll cycle**

Response: Since the last audit the payroll manager takes a much more active role in reviewing payroll data throughout the process. All queries and reports are reviewed and when deemed necessary, additional queries are run to validate data. There are five check points where the payroll specialist does not continue without approval from the payroll manager and there are now two balancing points instead of one. The first balance point balances summarized hours from Kronos to PeopleSoft during the initial interface process, and the second balancing point is performed after the allocation process to ensure that the hours from Kronos successfully transferred to the PeopleSoft pay lines. This balance point looks at data at a detailed level.

Next Steps: Evaluate data found as a result of additional areas for review as identified above and create additional queries as appropriate.

- **Switching employees between job codes (e.g. acting out of class, full/part time)**

Response: There is currently a review process when an employee changes job status.

Next Steps: HR will ensure this is being completed.

- **Correcting errors**

Response: Exception reports are checked to ensure accuracy of data and errors are corrected as they are detected. When correcting errors it is standard process to determine if it is an isolated issue or if there is a broader issue.

Next Steps: Evaluate data found as a result of additional reviews identified above and create additional queries as appropriate.

- **Accuracy and completeness of payroll performance measure data**

Response: Payroll maintains accuracy statistics on off cycle checks (i.e. why the check was needed), accounts payable payments, journal entries and under/over payments. Statistics are also kept on key payroll and GL processes to monitor any substantial increase or decrease in processing times and specific data measures.

Next Steps: Survey other similarly sized government agencies as to their practices in this area.

- **Account reconciliations (e.g. COBRA and flexible spending accounts)**

Response: Reconciliations are performed in cooperation with FRS staff and both have worked together over the past two years to improve the reconciliation process.

Next Steps: Continue to work with FRS staff to refine workflow process.

Assign responsibility for communicating with employees affected by errors

Response: The method of communication varies and is determined on a case by case basis depending upon the type and magnitude of impact. If the error only impacts one employee then payroll communicates directly with that employee. If the error is a broader issue impacting a larger group of employees then the respective Union is notified as appropriate.

Align security permissions with job duties

Response: We concur.

Next Steps: We will look to other similar sized agencies to see what others are doing regarding cross training while maintaining a segregation of duties.

We want to thank the Auditor and her staff for the time and effort put into this audit update and for providing additional insight to assist in our continuing process improvement efforts.

