

FOLLOW-UP REPORT

Payroll Division, Controller's Office

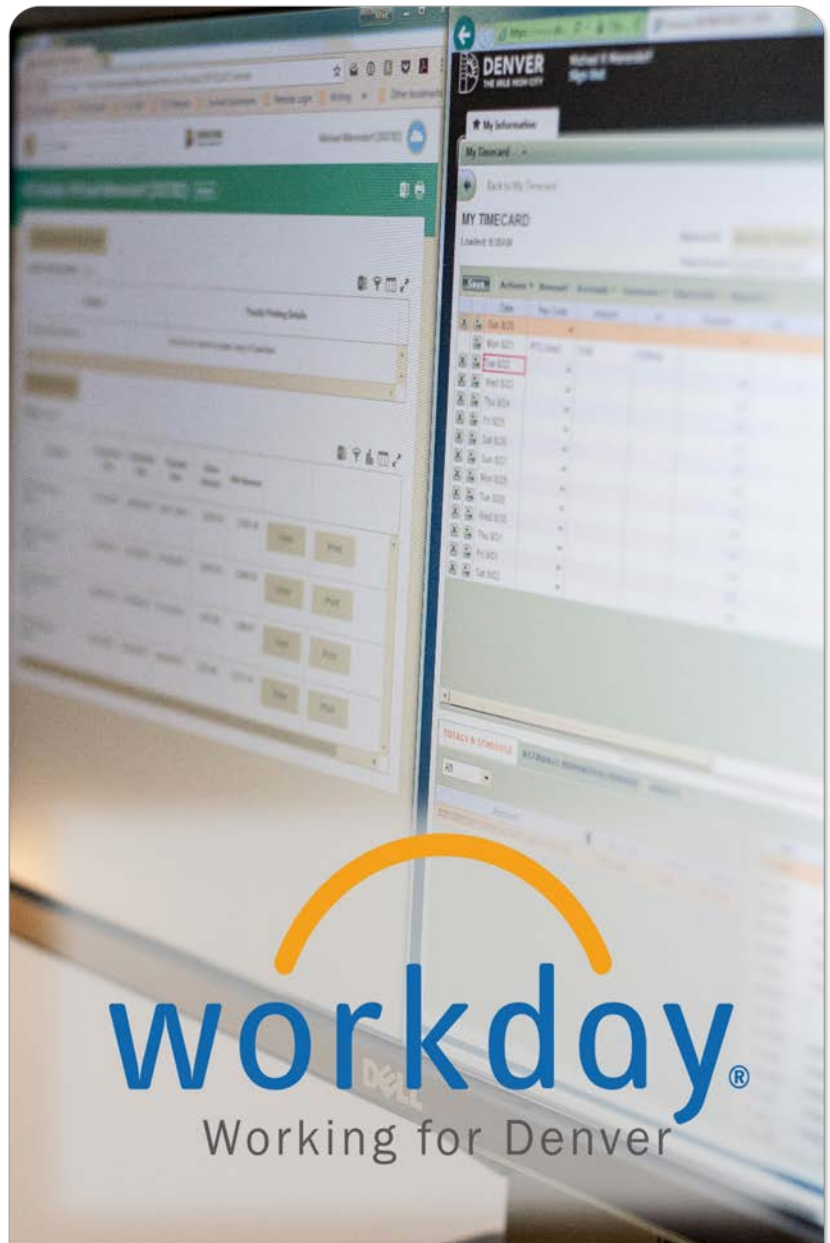
Payroll System Conversion and Internal Controls

December 2018

**Office of the Auditor
Audit Services Division
City and County of Denver**



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December 27, 2018

AUDITOR'S REPORT

In keeping with generally accepted government auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our division has a responsibility to monitor and follow up on audit recommendations to ensure that audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

Our follow-up effort for the Payroll System Conversion and Internal Controls audit issued September 21, 2017 determined that the Controller's Office, Office of Human Resources, and Technology Services Project Management Office implemented all 19 of the recommendations made to them in the audit report. I commend these agencies for their actions in response to the 2017 audit.

For your reference, this report includes a highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and Controller's Office, Office of Human Resources, and Technology Service Project Management Office personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Jeremy Creamean, Internal Audit Supervisor, at 720-913-5028.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



Payroll System Conversion and Internal Controls December 2018

Follow-up Status

We made 19 recommendations in our September 2017 audit. The Controller's Office, Office of Human Resources, and Technology Services Project Management Office, as appropriate, have implemented all recommendations.

Objective

The first objective of the audit was to assess the effectiveness of the internal control framework surrounding the City's payroll process to ensure that payroll was processed completely and accurately from January 2017 through May 2017. The second objective was to assess the effectiveness of the City's process to convert its payroll-related functions to the new enterprise resource planning (ERP) system, Workday.

Background

The Controller's Office, working closely with the Office of Human Resources and Technology Services, and Sierra-Cedar, a third-party consulting firm, converted the payroll and human resources functions to Workday on January 1, 2017.

Annual 2016 citywide payroll costs were about \$1.2 billion. There are approximately 11,000 full-time equivalent employees, or 13,652 individuals, as of January 2017.

REPORT HIGHLIGHTS

Highlights from Original Audit

In our assessment of the payroll process and the conversion to Workday, we had two findings. First, we found that the City's payroll process has internal control deficiencies, as follows:

1. Eleven percent of employee timecards were not approved by supervisors, which created a risk that employees would be paid incorrectly or for time not worked.
2. There was no effective mechanism to monitor, categorize, and report to management approximately 3,800 monthly employee payroll-related inquiries and requests. There was also no process to modify training and job aids to help reduce the volume of such inquiries and requests.
3. The Payroll Division did not have updated formal written procedures for processing payroll, which could have resulted in undetected errors.
4. Internal controls over the payroll system were inadequate. For example, Workday lacked some important business process rules that would assist in preventing errors. Additionally, several deficiencies were noted relating to the reports used by the Payroll Division to review payroll data for accuracy.
5. Some employees were not terminated timely and stayed active in the City's payroll and timekeeping systems, which could have resulted in overpayments.

Second, we noted that the City's conversion of its payroll process to Workday was accomplished successfully. However, lessons learned could be applied to the conversion to Workday for Financial Processes. We identified two issues as follows:

1. There was no single record-keeping repository requirement, and documentation of test phase results and other key documents were not readily available or updated timely.
2. Ninety-one percent of supervisors completed the initial Workday training. Workday training was not mandatory for new employees.

Based on these issues, we concluded that with development of stronger policies and procedures, the Payroll Division would be better positioned to ensure effective oversight.

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RECOMMENDATION STATUS OF IMPLEMENTATION

FINDING 1: The City's Payroll Process Has Internal Control Deficiencies

Recommendation

- 1.1 **Incident Management Process** – The Controller's Office should develop a method in Salesforce for categorizing recurring incidents accompanied by policies and procedures for using incident data.

Status: Implemented

Auditee Action

The Controller's Office has developed a software solution using Salesforce for identification, categorization, and reporting of recurring incidents. This includes naming conventions and filters for staff and supervisory use. Payroll has also developed procedures to help guide staff in the review and handling of incidents.

Recommendation

- 1.2 **Review of Incidents** – The Controller's Office should determine the appropriate level of management for regular review of Salesforce incidents and develop procedures for identifying recurring problems and devising resolutions.

Status: Implemented

Auditee Action

The Controller's Office established procedures for identifying and resolving recurring payroll issues or questions recorded in Salesforce with the initial review by the Payroll supervisor. These matters are categorized and aggregated into a report that is analyzed in a monthly meeting of payroll supervisors. Based on a limited review, we confirmed that the metrics report from Salesforce can be used to provide a method for filtering incident data and to develop metrics for assessing staff response time and workload.

Recommendation

- 1.3 **Training for Incident Review** – The Controller's Office should develop training to help implement policies and procedures for appropriate level of management to regularly review Salesforce issues to identify recurring problems and take steps to resolve them.

Status: Implemented

Auditee Action

In addition to developing staff procedures, we confirmed that the Controller's Office uses case error incident information compiled from Salesforce data in team staff meetings for subject matter discussion and training purposes to help reduce response time and reoccurrences.

Recommendation

- 1.4 **Updated Written Procedures** – The Controller's Office should develop detailed written procedures regarding the Workday payroll process, from initiation of the process to recording the final journal entries. This should be a living document, subject to revision as the City's payroll process under Workday evolves.

Status: Implemented

Auditee Action

The Controller's Office developed, and continues to update, Workday procedures, many of which are detailed desk procedures used by staff. Procedures are stored on the Controller's shared document management and storage site accessible to authorized primary and back-up users. We reviewed selected procedures and determined that they included the Workday payroll process from the loading of transactions to the recording of final journal entries.

Recommendation

- 1.5 **Employee Training on Written Procedures** – The Controller's Office should develop and provide additional training to ensure that employees are aware of all the procedures that are required for their position as well as to ensure that employees are aware of the job requirements of positions for which they are the back-up.

Status: Implemented

Auditee Action

The Controller's Office established procedures and primary/back-up contact lists for various areas of the payroll processes. This list also includes other applicable guidance and resources. Based on limited reviews, we determined that the Controller's Office has detailed procedures and provides training in recurring staff meetings and through City websites, which helps ensure payroll employees have access to sufficient guidance to meet job requirements.

Recommendation

- 1.6 **Timecard Approval Requirements** – The Controller’s Office should review and revise policies and procedures related to enforcement of timecard approval requirements.

Status: Implemented

Auditee Action

The Controller's Office has revised procedures and developed a management reporting and agency feedback mechanism related to approval of timecards. The Controller's Office also sends biweekly reminders to approvers with appropriate, relevant guidance. Lastly, the Controller's Office has developed an enforcement reporting mechanism for low-compliance agencies.

Recommendation

- 1.7 **Payroll Approvals Training** – The Controller’s Office should develop and provide additional training related to payroll approvals.

Status: Implemented

Auditee Action

The Controller's Office, in conjunction with the Office of Human Resources, has developed additional training related to timecard approvals. The Controller's Office also sends biweekly reminders to payroll approvers that includes timecard approval training and applicable guidance under the City's Fiscal Accountability Rules.

Recommendation

- 1.8 **Department of Public Safety Timecard Reports** – The Controller’s Office should ensure that accurate reports for timecard approval rates are available for the Department of Public Safety employees.

Status: Implemented

Auditee Action

The Controller’s Office established a reporting mechanism that includes timely payroll period reporting to Public Safety for timesheets of career service employees that were either not approved by managers or missing. The Controller’s Office also provided evidence of follow-up with Public Safety management when timecard approvals of groups (cost centers) were not in compliance with Fiscal Accountability Rules. For non-career service employees, a scheduling system is used with employee schedules input into Telestaff and approved at the beginning of the pay period. As a result, only exceptions, such as unplanned leave or overtime, require

supervisory approval after the fact. Only approved exceptions are paid. As such, the underlying risk has been addressed and it appears that the recommendation has been implemented.

Recommendation

- 1.9 **Payroll Reports** – The Controller’s Office should evaluate current risks and controls related to payroll register reviews and add or revise reports to better identify high risk transactions, such as pay rate changes, new employees, terminated employees, employees paid at a rate outside their pay range, zero pay employees, excessive hours, and other payroll-related risks.

Status: Implemented

Auditee Action

The Controller’s Office developed reports to help identify high-risk transactions. Although these reports are not provided to the agency, the Office of Human Resources, as a knowledgeable resource, may be contacted to help resolve any issues identified. Based on a limited review, we determined that the different reports used by Payroll would identify high-risk transactions.

Recommendation

- 1.10 **Payroll Review by Agencies** – The Controller’s Office should ensure that reports that detail significant changes from one pay period to the next are reviewed and approved by personnel with direct knowledge of agency payroll details, such as human resources personnel assigned to the agency or senior agency management.

Status: Implemented

Auditee Action

The Controller’s Office regularly provides payroll reports to agencies, generally either monthly or each biweekly pay period. The reports include the payroll register and others requested by agency staff. Agencies do not receive copies of the reports used by Payroll for incident reviews. This is because of insufficient time during the payroll process. Most agencies also do not have payroll or internal human resources staff with direct knowledge of payroll details.

Recommendation

- 1.11 **Compensation Pay Range** – The Office of Human Resources should take necessary steps to ensure that employee compensation falls within their pay range, unless there is a valid exception.

Status: Implemented

Auditee Action

The Office of Human Resources has implemented a Workday "alert mechanism" that indicates when a salary is outside the compensation range. Staff are alerted when employee compensation falls outside of the pay range. Therefore, staff can review the incident and take corrective action, as necessary.

Recommendation

- 1.12 **Periodic Reviews of Internal Controls** – The Controller's Office should develop and implement policies and procedures to routinely review the Payroll Division's internal control structure, including business process rules, to determine when further enhancements can be made.

Status: Implemented

Auditee Action

The Controller's Office established a framework and is developing an internal control review policy. The Controller's Office uses internal control guidance included in the City's Fiscal Accountability Rules and Career Service Authority rules when updating payroll procedures. Lastly, the year-end close process and twice per-year Workday upgrade processes further demonstrate examples of the Controller's ongoing review of internal controls. While the Controller's Office has not formally documented a single policy to review Payroll's internal control structure its practice of assessing internal controls when updating procedures, implementing other audit recommendations, and using Fiscal Accountability Rule guidance provides assurance of the routine review of the Payroll internal control structure.

Recommendation

- 1.13 **Timely Terminations** – The Office of Human Resources should terminate or inactivate all non-working employees in relevant systems within a specified timeframe.

Status: Implemented

Auditee Action

The Office of Human Resources established procedures for agencies to help ensure terminated and/or inactive employees are properly terminated in Workday. We determined that Human Resources communicated requirements to assigned employees as well as through citywide announcements of the changes.

Recommendation

- 1.14 **Policies and Procedures for Terminations** – The Office of Human Resources should implement policies and procedures addressing specific circumstances defining when terminations or inactivation should be done and provide training to help enact such policies.

Status: Implemented

Auditee Action

The Office of Human Resources has established policies on terminations, communicated them to City employees, and follows up with agencies when appropriate. Human Resources also has provided training and offers guidance on the process.

RECOMMENDATION STATUS OF IMPLEMENTATION

FINDING 2: The City’s Conversion of Its Payroll Process to Workday Was Successful, but Lessons Learned Can Be Applied During the Conversion to Workday for Financial Processes

Recommendation

- 2.1 **Project and Test Documentation** – The Technology Services Project Management Office should ensure that project and test issue logs are documented, maintained, and updated timely.

Status: Implemented

Auditee Action

The Technology Service Project Management Office mandated the use of the SharePoint site for all project records. Project records are available and accessible for all authorized users. We also observed the office’s manager access the SharePoint site that maintained project records. The SharePoint site included examples of project and test issue logs. In addition, we accessed another project database, ServiceNow and determined that Technology Services has established a mechanism to document, maintain, and make available project issue logs to staff.

Recommendation

- 2.2 **Project Record Repository** – The Technology Services Project Management Office should reassess the project’s record repository to ensure records are available and accessible.

Status: Implemented

Auditee Action

The audit team observed the Technology Service Project Management Office manager access the SharePoint site that maintained project records. The site included examples of project and test issue logs available and accessible for all authorized users. As part of our testing, we also accessed another data base, ServiceNow, and confirmed that Technology Services established a mechanism to document, maintain, and make available project issue logs to staff.

Recommendation

- 2.3 **New Employee Workday Training Needs** – The Office of Human Resources should evaluate Workday training needs and best methods for new employees and supervisors.

Status: Implemented

Auditee Action

The Office of Human Resources has evaluated and offers training for both new employees and supervisors to ensure Workday issues are addressed. For example, we confirmed that Human Resources offers training related to timecard approvals for supervisors and managers and application of equipment differentials as required by Career Service Authority Rule 5.

Recommendation

- 2.4 **Training Needs Surveys** – The Office of Human Resources should conduct employee surveys to identify potential additional Workday training needs.

Status: Implemented

Auditee Action

The Office of Human Resources conducted a survey in December of 2017 to identify potential Workday training needs, which resulted in the Employee and Manager User Guide. In addition, Human Resources responded to other Workday training needs and issues raised by agencies and City employees. In addition, we determined from current Workday training course evaluations that training appears to meet City employee needs as evidenced by favorable ratings.

Recommendation

- 2.5 **Training Revisions** – The Office of Human Resources should review current training offerings and, if needed, revise to ensure that common Workday-related issues or questions are addressed.

Status: Implemented

Auditee Action

The Office of Human Resources developed new training offerings such as the Employee and Manager User Guide and has a process to update Workday training and job aids. Human Resources also demonstrated that it responds to Workday training needs and issues raised by agencies and City employees with revised or new training .

CONCLUSION

We found that the Controller's Office, Office of Human Resources, and Technology Services Project Management Office, as appropriate, have fully implemented all recommendations and adequately mitigated the risk identified during the original audit. As a result, we conclude our follow-up effort related to the audit of Payroll System Conversion and Internal Controls.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Controller's Office, Office of Human Resources, and Technology Services Project Management Office for their cooperation during our follow-up effort and their dedicated public service.

Office of the Auditor

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