



**Program Evaluation and Audit**

**Payroll Review**

June 22, 2009

# INTRODUCTION

## Background

In 2003 the Metropolitan Council began processing all Council payrolls on PeopleSoft HRMS. At the current time there are six separate payrolls that are processed each pay period. The six are: Regional Administration, Environmental Services, Metro Transit Administration, Metro Transit Bus Operators, Metro Transit Office and Metro Transit Mechanics. The timekeeping data is entered into the PeopleSoft System from five sources, four of which are electronically generated and one that is a paper process. In addition there are multiple employment contracts with multiple types and rates of pay. There are approximately 3,600 pay checks issued each pay period totaling more than \$7,500,000.

## Purpose

This audit was to ensure that adequate internal controls are in place and that:

- Payroll and personnel processes are in place and functioning properly.
- Calculation of earnings, employee benefits, employee taxes and voluntary/involuntary deductions are accurate, complete and performed in a timely manner.
- Employment taxes and tax reporting are in compliance with applicable State and Federal laws.
- Accounting entries for payroll transactions are properly classified, reconciled and posted.

## Scope

The audit focused primarily on payroll transactions for calendar year 2008 and the first quarter of 2009. Financial reporting was reviewed for the first quarter of 2009.

## Methodology

### *Data Collection*

Interviews were conducted with:

- Payroll staff
- Human resource staff
- Accounting staff

The following information was reviewed:

- Payroll and Human Resource staff duties and responsibilities relating to the processing of payroll.
- Payroll transactions for a judgmental sample of 76 employees and all 46 Payroll and Human Resource department employees. The sample included employees who have had various status changes throughout the year including new hire, change in bargaining unit, promotion, transfer, termination and changes in medical coverage.
- W-4 withholding forms
- Benefit deductions
- Off cycle checks
- Form 941 reports and supporting documentation
- PeopleSoft queries
- Payroll reports
- Federal and State regulations.

## **Assurances**

This review was conducted in conformance with *Government Auditing Standards* and the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors.

# OBSERVATIONS

## Accuracy of Payroll Transactions

Audit reviewed payroll transactions for calendar year 2008 using a judgmental sample of 76 employees as well as transactions for the 46 employees of the Payroll and Human Resource departments. Employment contracts were used to confirm compensation and benefit rates.

*W-4 data tied to payroll system information.*

W-4 Federal tax withholding forms tied to tax withholding information on the payroll system with no exceptions.

*One error found in tying time reports to hours paid.*

Time reports tied to hours paid with one exception. An employee whose time is reported through the bus operators' time reporting system was paid a half hour more than what the bus operators' time reporting system showed. This was the result of the system splitting a type of pay which results in a duplication of the time being paid. The overpayment was subsequently corrected by Payroll.

This problem is an issue that had been identified by Payroll and is part of a log of outstanding issues with the software vendor. It requires that the vendor make changes to the software program that is used to process bus operators' time reporting.

*Three exceptions found in individual benefit contributions.*

The review of employee benefit contributions found three individual exceptions. One employee's benefits were erroneously terminated. The employee's job had changed from part time to full time. When it was discovered that the benefits were terminated, the employee was required to repay \$804.87, that wasn't withheld from his check, over the next two pay periods. This resulted in the employee having a medical insurance deduction of \$670.72 for two pay periods.

The second case was an employee who did not have enough hours worked to cover his insurance premiums in October and November 2008. The standard procedure would be to withhold when the employee had an adequate number of hours to allow for the deduction. The deduction did not occur until April 2009.

The third case involved an employee whose bargaining unit changed in October 2007. It was discovered in June 2008 that this employee's insurance was terminated when the bargaining unit change occurred. It was corrected in June 2008. The Human Resources Department was unable to determine what caused the termination of benefits to occur for this employee, since other employees also had a bargaining unit change at that time.

Failure to make health benefit contributions resulted in two employees not having health coverage. This situation can cause significant issues for an employee seeking medical treatment. When the situation is discovered it can result in significant financial implications for the employee.

## **Accounting**

*Tax payments are properly prepared, posted and paid.*

Payments for 1<sup>st</sup> quarter taxes were reviewed. The payments balanced to the PeopleSoft system. The processes used to compute quarterly taxes are well documented. All payments are reviewed by both the Payroll Manager and the Deputy Chief Financial Officer.

*Off cycle checks are documented and tracked.*

There are times when payroll checks need to be issued which are not processed initially on the PeopleSoft system. These checks may be issued due to grievance settlements, missing timesheets, check cancellation remakes, an employee leaving service or departmental or payroll errors. The payroll department maintains documentation for each of these off cycle checks. The number of these checks is generally less than five per pay period.

## CONCLUSIONS

While overall the payroll processing was substantially accurate, additional steps are needed to ensure that benefit contributions are accurately withheld and recorded.

Audit found the Payroll staff to be very knowledgeable concerning their work. With the complex employment contracts that the Council has with the numerous bargaining units, the Payroll staff was able to explain every type of payment that was brought to them. In the case of the discrepancy of the overpayment of one driver, the Payroll staff had identified the issue and corrected the problem prior to the audit.

## RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.

### 1. The Benefits department should implement internal controls to ensure that benefit contributions are accurately paid and recorded. (Essential)

Audit found three instances where the proper contributions for health benefits were not being made. This situation occurred when an employee’s job status changed, when an employee’s bargaining unit changed and when an employee did not have sufficient hours to make the contribution. The Benefits Department should follow up on employee status changes to ensure that the proper contributions are being made. In addition, the Benefits Department may want to run reports that identify what employees have no benefit contributions. This information could then be used to determine whether or not there should be contributions.

**Management Response:** *Processes are now in place to identify and resolve these issues. Those processes include: 1) reconciliation performed between the HealthPartners eligibility/bill and People Soft every 1-3 months; 2) querying, after each pay period, a report that shows employees who did not have a paycheck and subsequent collection of unpaid premiums; and 3) a payroll process that assesses arrears when a person has an inadequate paycheck to pay premiums. Underpaid or unpaid premiums are normally billed to the employee or adjusted on their paycheck within a month of the missing or inadequate paycheck, however due to unavoidable staffing shortages in the Benefits Department in late 2008/early 2009 the billing/adjustment response was delayed. Lastly Benefits and HRIS are working together to develop a query that would identify people whose benefits switched from elected to waived, so those people could be audited.*

**Staff Responsible:** Sandi Blaeser

**Estimated Complete:** Complete

**2. The Payroll Manager should continue to insist that the bus operator time reporting system vendor fix the system issues that result in duplicate transmittal of hours. (Significant)**

The bus operator time reporting system has a time distribution process that duplicates certain types of time. The most frequent duplication occurs with driver delay time. This issue has been on the list of issues to be addressed by the software vendor. The Payroll Manager has insisted that this be corrected.

***Management Response:** This issue is being tracked by payroll staff who will continue to work with Transit Bus Operations and the software vendor to prioritize and implement fixes.*

***Staff Responsible:** Terry Marvin, Payroll Manager and Nick Mackaman, Hastus Manager*

***Estimated Completion:** November, 2009*