Internal Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

Payroll Audit
Cuyahoga County Human Resources
January 1, 2014 – December 31, 2014

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Audit Report Highlights

Human Resources – Payroll Division — June 2017

Total Potential Recoveries[1] = $102,000 | **Total Cost Savings[2] = $1 million**

County Payroll Annual Budget[3] = $558 Million | **County Annual Budget[3] = $1.4 billion**

Why DIA Did This Audit

This report provides results and recommendations from the Department of Internal Auditing (DIA) related to financial activity, internal controls and operational procedures in the County's Payroll Division (HR Payroll) in Human Resources (HR). This audit had two purposes:

1) To identify any control weaknesses, data errors, or inconsistencies in the payroll process. This includes calculation of earnings, pay rates, deductions and tracking of leave time balances; and,
2) To determine if operational procedures utilized by HR Payroll comply with all governing laws, and policies are carried out accurately and consistently.

What DIA Found

DIA performed audit procedures for the period January 1, 2014 through December 31, 2014 on HR Payroll. We extended the audit period if findings were noted in areas of higher risk (e.g. instances of unauthorized pay rates changes). We found internal control weaknesses related to payroll and expenditure cycles, asset safeguarding, and recordkeeping. We identified noncompliance with state and federal regulations, and with the County's Personnel Policies and Procedures Manual (PPM). In addition, the Information Technology Department (IT) was unable to grant DIA full access to HR Payroll's system (SAP), resulting in an audit scope limitation. IT stated that a security issue would not allow DIA to obtain full, read-only access. DIA was unable to generate and query reports directly from SAP. The most noteworthy issues identified are listed below.

- 11 employees received $38,964 in unearned wages beyond their termination dates. Four ($26,280) of the 11 employees failed to refund the County, including one employee receiving earnings for more than 6 months past termination, totaling $19,230.
- DIA identified segregation of duties violations on pay rate changes made in SAP. Out of 1,154 pay rate changes for 53 employees between 2007 and 2014, personnel (IT, HR Payroll) other than the HR Personnel Division made 766 (66%) pay rate changes. HR Personnel consists of HR analysts tasked with inputting pay rate changes into SAP. The 766 pay rate changes recorded did not receive subsequent review or approval authorizing the posting in SAP by a non-HR Personnel employee.
- During a review of employees that received a pay increase from 2013 to 2015, HR did not maintain supporting documentation totaling $163,415 in salary increases. Supporting documentation included documents from position audits, such as requests for position audits, comprehensive questionnaires, and final determination letters. In addition, nine employees received unauthorized salary increases, totaling increases of $58,502, between 2010 and 2016. Omission of salary increases on personnel agendas for the Executive's approval and increases exceeding approved rates led to unauthorized salary increases.
- HR misclassified four law enforcement employees in SAP, which led to inaccurate employer and employee OPERS contributions. OPERS requires contributions of 18.10% for employers and 13% for employees working in law enforcement. Instead, HR's misclassification resulted in 14% and 10% contributions, respectively. HR corrected the law enforcement employees' classifications going forward. However, over $55,000 was not contributed ($32,000 employer, $23,000 employee) from 2014 through June 2017.

"What DIA Found" continued on next page.

[1] *Total overpayments identified by DIA the County could potentially recover.*

[2] *The amount the County could save by implementing recommendations. This is a result of policy changes that could reduce expenses or increase revenue.*

[3] *Taken from the updated 2017 budget approved by Council on December 28, 2016. The County Annual Budget includes operating appropriations from all County funds. The County's Annual Payroll Budget includes all personnel service expenditures (salaries and employers portion of contributions).*

Audit Report Highlights

Human Resources – Payroll Division **June 2017**

What DIA Found (cont'd)

- The County offers vacation time (VT) and exchange time (ET) to eligible employees. The PPM stipulates maximum balances for both types of leave. We identified 63 employees that exceeded the ET maximum of 40 hours and 4 employees that exceeded the VT maximum. Although SAP had controls in place to prevent employees from exceeding the maximum balances, HR Payroll did override the controls after receiving requests from department heads. We identified over $376,000 in potential savings if the PPM is enforced.
- The PPM does not allow Executive exempt employees to receive paid overtime (OT). These employees may earn ET for time worked over 40 hours, with unused time expiring six months after it is earned. The payroll timesheet system restricted Executive exempt employees from entering OT. However, HR Payroll did override the control when department heads requested OT for Executive exempt employees. Although the Fair Labor Standards Act allows exempt employees to earn OT, the County's PPM specifically prohibits it. In 2014, 132 exempt employees received OT compensation. These employees received over $1.7 million in OT between 2014 and 2016. DIA confirmed that 33% of the $1.7 million paid in OT was approved by department heads.

What DIA Recommended

We focused on providing County management with best practices and sound internal controls to mitigate potential risks related to various functions in HR Payroll. We made recommendations focused on resolving weaknesses noted above, to help move HR Payroll toward a more efficient and productive function prior to the implementation of the County's new Enterprise Resource Planning (ERP) system. We communicated these recommendations to HR Payroll. Based on their responses, we believe corrective action has been or will be taken to mitigate the risks identified during this audit. Management responses are included at the end of each section in the report. We made the following recommendations to improve the operations of HR Payroll:

- HR should require monthly communication with Executive agencies, especially large agencies, to confirm and receive a list of terminated employees. HR Payroll should consult with the Law Department on recovering the $26,280 in overpayments.
- IT should restructure the roles and responsibilities in SAP and designate only authorized employees (HR Personnel) access to make pay rate changes in the system.
- HR Payroll should maintain supporting documentation for all new hires, terminations, position audits, pay rate changes, and personnel agendas. All salary increases should be authorized and included on the Executive's personnel agenda.
- HR should require supervisor approval following the posting of new hire information in SAP. The supervisor should be confirming classifications are accurately entered (e.g. OPERS contributions). In addition, HR Payroll should consult with the Law Department and discuss how to proceed with the inaccurate contributions for the law enforcement employees.
- HR should annually generate a report from SAP to identify VT and ET balances over the PPM's maximum. Employees and supervisors should be notified to develop a plan on using the balance. Employees should work with their supervisors to spend down excess ET and VT.
- HR should perform a comprehensive review on controls overridden in SAP (e.g. OT and leave balances). All manual overrides should be well documented and approved by an immediate supervisor. SAP and the new ERP should restrict employees from deviating from the County's PPM. HR should update the PPM if current processes do not align with the current policy.

CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING

INTERNAL AUDIT REPORT
Cuyahoga County Human Resources Department
Cover Letter

June 23, 2017

To: Chief Talent Officer, Douglas Dykes and the current management of the Cuyahoga County Human Resources Payroll Division:

The Department of Internal Auditing (DIA) has conducted an audit of the financial operations and general accounting of the Cuyahoga County Human Resources Payroll Division (referred to in this report as "HR Payroll"[1]), for the period of January 1, 2014 through December 31, 2014. DIA extended the audit period where necessary to recognize new processes and procedures in HR Payroll, and to further review significant risks identified.

The objectives of this audit were to conduct audit work related to the internal controls over the payroll function of HR Payroll to ascertain if procedures currently being utilized are operating as intended by management. Another objective was to determine if the payroll procedures used are consistent with the Cuyahoga County's Employee Policies and Procedures Manual (referred to in this report as "PPM") and all governing laws and regulations. In addition, a further objective was to ensure all expenditures and transactions are properly supported, approved and recorded.

To accomplish our objectives, we focused on HR Payroll's operational controls, the payroll and expenditure cycles as well as specific compliance mandates. Interviews with management and staff, along with general walk-throughs of payroll processing and other check-issuing cycles were conducted to document the controls in place. In addition, substantive testing methods included analytical procedures and tests of detail using sampling methods.

Our audit procedures disclosed internal control weaknesses relating to payroll and expenditure cycles, asset safeguarding, and recordkeeping. DIA identified non-compliance with Ohio Revised Code, federal regulations and the PPM. In addition, DIA was denied full access to HR's payroll system in violation of the Internal Audit Charter, resulting in a scope limitation on the audit. This report provides the details of our findings.

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 the evidence obtained provides a reasonable basis for our findings and conclusions.

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[1] *For clarification, we will reference the Human Resources Department, as whole, as "HR" within this report; and we will reference the Payroll Division in HR as "HR Payroll" within this report.*

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to the HR Payroll staff and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. We provided a draft report to the Chief Talent Officer for comment. Management responses are included within the audit report. HR Payroll's processes could substantially improve if recommendations are implemented currently and with the County's new Enterprise Resource Planning (ERP) system. Based on responses received from HR Payroll and scheduled monthly meetings between DIA and HR Payroll, we believe corrective action is being taken to mitigate the risks identified during the payroll audit.

Respectfully,

Cory A. Swaisgood

Cory A. Swaisgood, CPA
Director of Internal Auditing

Cc: Audit Committee
Cuyahoga County Council
Sharon S. Jordan, Chief of Staff
Robert Triozzi, Law Director

Contents

Glossary

CBA		Collective Bargaining Agreement – Contract negotiated "collectively" between management and unions for union employees.
ERP		Enterprise Resource Planning – Business management software integrating core business processes. The County was in the planning stages of implementing a new ERP system during the audit.
ET	-	Exchange Time – According to the PPM, ET can by earned for hours worked beyond the 40-hour normal workweek for exempt employees. ET can be used as leave time within six months of accrual.
FLSA	-	Fair Labor Standards Act – Federal law that sets minimum wage, overtime, and minimum age requirements for employers and employees.
INFOR	-	Cuyahoga County's payroll software used by Fiscal Payroll to generate pay registers and other payroll related reports, such as W-2s.
MyHR	-	Cuyahoga County's electronic timekeeping system used by most exempt and non-exempt employees.
ORC	-	Ohio Revised Code.
OT	-	Overtime – Offered to non-exempt employees for hours worked beyond the normal 40-hour workweek.
OPERS	-	Ohio Public Employees Retirement System
SAP	-	System Applications Process – Information system utilized by HR to track and store employee benefits and payroll data.
PPM	-	Cuyahoga County's Employee Policies and Procedures Manual.
VT	-	Vacation Time – According to the PPM, each full-time permanent employee, after one year of service with any political subdivision in Ohio, is eligible for VT.

Report Details

Purpose

The purpose of the payroll audit was to identify any control weaknesses, data errors, inconsistencies or noncompliance in the payroll process, which includes calculation of earnings, pay rates, deductions and tracking of leave time balances. DIA reviewed the payroll process in detail and documented payroll procedures to ensure there were adequate guidelines in place. DIA communicated any deficiencies or noncompliance identified to HR Payroll for corrective action.

This report provides results and recommendations related to financial activity and operational procedures in HR Payroll. We focused on providing County management with best practices and sound internal controls to mitigate potential risks related to various functions in HR Payroll, such as tracking leave time, retaining records, segregation of duties, proper authorization and support of documentation, tax and withholding information, OPERS deductions, timesheets, employee termination process, and compliance with statutory legislation.

Audit Objectives

Based on the risk assessment conducted by DIA, the objectives of this audit are to determine whether:

- Procedures currently being utilized are operating as intended by management.
- HR Payroll has a Policies and Procedures Manual that adequately addresses its processes. The manual is current, consistent and user-friendly.
- HR Payroll is operating in a control conscious environment with adequate controls in place to effectively and efficiently achieve the organization's goals.
- All payroll expenditures, including leave payouts and overtime payments, are accurate and timely paid.
- All payroll expenditures and hourly rates are properly approved and accurately recorded.
- Proper segregation of duties exists and pay changes are posted by authorized personnel.
- All amounts (salaries, overtime, fringe benefits, etc.) are paid out to bona fide employees and accurately recorded in pay registers.
- Computations of rates, benefits, and deductions are accurate.
- Reporting information (W-4s and pay registers) is timely and accurate.
- Procedures are in place to adequately track leave time taken and maintain leave time balances.
- All procedures, transactions, and reports are in accordance with all governing laws, regulations and policy.

Control conscious environment –
Adequate level of internal control awareness; proper separation of duties; existence of a proper monitoring system; appropriate authorization/approval of expenditures; and adequate safeguarding of financial, physical, and information assets.

Scope

Our audit of HR Payroll covered the period of January 1, 2014 through December 31, 2014. DIA extended the audit period in certain areas to accurately report on and recognize new processes and procedures incorporated during the audit. The audit period was also extended to further review significant risks identified.

Methodology

To accomplish our objectives, we focused on the operation controls for payroll, the major revenue and expenditure cycles as well as specific compliance mandates. We conducted interviews with management and staff, along with general walk-throughs, in order to document whether controls were in place and operating effectively. In addition, substantive testing methods included analytical procedures, test of details using sampling methods, as well as confirmation of transactions and/or assets.

To achieve our audit objectives, we:

- Conducted interviews with HR Payroll management and staff.
- Reviewed the County's PPM.
- Reviewed HR Payroll's training history.
- Reviewed and tested for proper segregation of duties.
- Reviewed proper safeguarding of financial, physical, and information assets.
- Performed substantive and control tests on the expenditure cycle, such as termination payouts and overtime payments.
- Conducted compliance tests on local, state, and federal regulations.

Background

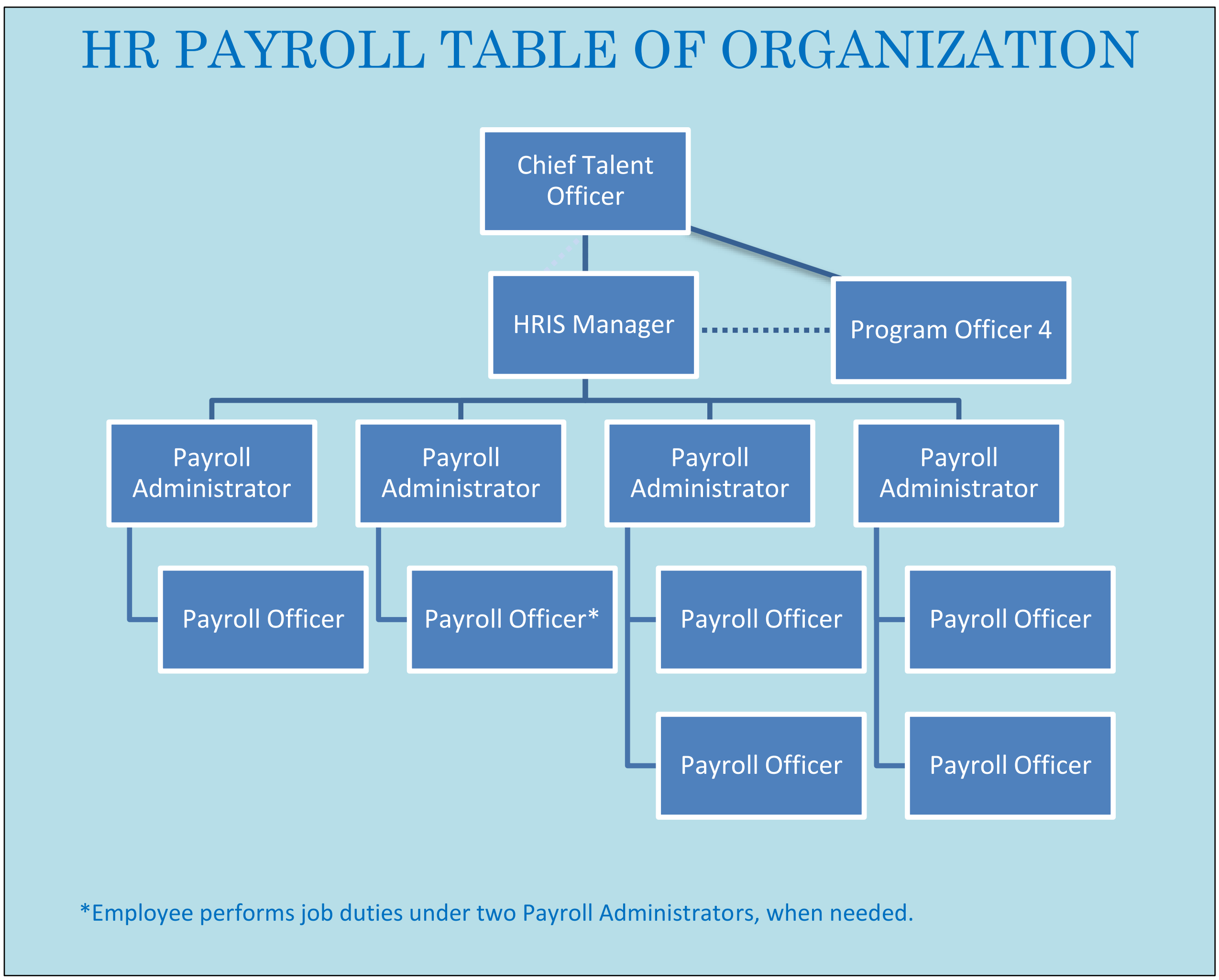
The Cuyahoga County HR Payroll Division is responsible for the maintenance of employee payroll earnings, deductions and leave time balances specific to Executive agencies, and some non-Executive agencies[2]. Cuyahoga County has 23 payroll agencies, of which 12 agencies submit their payroll through HR Payroll. Prior to 2011, the payroll process was decentralized for all 23 agencies. Each agency submitted their payroll data to the County Auditor every two weeks for payroll processing. Since the new form of government in 2011, HR has centralized the HR payroll process for 12 agencies, including the Sheriff's Office and Clerk of Courts.

Each County employee is paid, via direct deposit or physical check, every two weeks. The County Fiscal Office's Payroll Division (formally County Auditor) runs payroll through their payroll system, INFOR, after all earnings and deduction data is received

[2] *Prior to the charter form of government, effective January 1, 2010, separate elected officials involved with the County's operations managed their respective County agency (e.g. Sheriff was elected and managed the Sheriff's Office). With the new charter, these formally elected positions, such as Sheriff, Treasurer and Clerk of Courts, became appointed positions under a newly created elected position, Executive. Non-Executive agencies consist of agencies not under the Executive's authority, according to the charter.*

from HR Payroll and other outside agencies. The 11 other outside agencies submit their payroll directly to the Fiscal Office by way of electronic files.

HR Payroll consists of four Payroll Administrators and six Payroll Officers, all working under the HRIS Manager (Manager). HR Payroll is responsible for certifying payroll, which confirms payroll data is accurate and complete prior to forwarding to the Fiscal Office for payroll processing. Payroll Officers review timesheets submitted, hours worked and manually enter data, if necessary, into a data tracking system, SAP. Manual entries consist of overtime hours, termination payouts, retroactive payments, and leave time taken. HR Payroll is also responsible for manually entering certain payroll deductions in SAP, such as pre-tax parking benefits. Tax and pension deductions are calculated in SAP through pre-populated tables. After each payroll run, HR Payroll receives payroll and certain vendor checks, like Charity Choice, for distribution. With the current, antiquated system in place (SAP), the HR payroll team has worked overtime during payroll weeks to ensure the payroll process is timely completed prior to payday.



Findings and Recommendations

Objective #1 – Terminated County Employees are Timely Cut-off from Receiving Pay Checks.

FINDING Four County Health and Human Services employees received over $26,000 in unearned wages after their termination dates.

The County utilizes SAP to store employee information and payroll data, including addresses, benefits, hire and termination dates, pay rates, leave time, and hours worked. SAP is updated by HR personnel. Most non-Executive agencies store and track payroll data in their own systems. All Executive agencies and some Non-Executive agencies track and submit payroll data through HR Payroll. At the end of each pay period, payroll data is submitted to the Executive's Fiscal Office (Fiscal Office) and pay registers are generated for all agencies in the County (Executive and non-Executive). The County's IT Department receives non-Executive agencies' employee hire and termination dates during the payroll run to update SAP. The Fiscal Office and HR Payroll should have adequate preventive controls in place to ensure County employees are not paid beyond termination dates.

DIA tested for erroneous payments to employees terminated prior to 2015. We selected employees with regular earnings 20 or more days after termination and employees with "Other Earnings" 60 or more days after termination. "Other Earnings" includes leave pay outs which could occur up to two months after termination. The following issues were noted during our test of 29 employees identified as potentially being paid past their termination dates:

- Termination dates for 16 employees were inaccurate in SAP based on supporting documentation received from non-Executive agencies. Employees were from Juvenile Court, Board of Developmental Disabilities (BODD), Board of Health and Board of Elections (BOE).
- Agencies did not maintain support on termination dates for two employees from Public Defenders and HHS. The two employees were potentially overpaid $576 after their termination dates. One employee received one payroll payment 165 days after the employee's termination date.
- 11 employees received payments in error after their termination date, totaling $38,964. These employees were from the Prosecutor's Office, Juvenile Court, Planning Commission, and HHS. Non-Executive agencies (e.g. Prosecutor's Office, Juvenile Court, and Planning Commission) are responsible for reporting accurate employment dates to the Fiscal Office. HR Payroll is not responsible for overpayment to non-Executive agencies.
    - Out of the 11 employees, 7 employees refunded the County a total of $12,684.

- The remaining four were HHS employees who have not refunded the overpayment, totaling $26,280. One of the employees was overpaid $19,230 for 197 days (6+ months) past the termination date. HR Payroll mailed a letter to the aforementioned employee requesting reimbursement. As of this report date, the employee did not respond to the letter. DIA did not receive confirmation supporting notification of overpayment on the other three employees.

DIA tested one pay period in 2014 to compare pay rates between the pay register, INFOR, and SAP. The INFOR pay rate was higher than SAP for 17 employees, all from non-Executive agencies. Supporting documentation from the agencies confirmed the SAP pay rate was inaccurate. Since SAP is not the system of record for most non-Executive agencies, the Fiscal Office and IT are not concerned about inaccurate or missing hire and termination dates in SAP.

Risk to the County if Findings Not Corrected

The County should always have accurate employee information on all County agencies in SAP. Although employees are not paid out of SAP, incorrect termination dates in SAP could affect the termination payouts.

Recommendations

1.1 Monthly, HR Payroll should request a termination list from all HR analysts under the Executive to confirm the accuracy of SAP termination dates.

1.2 The termination list should also be distributed to HR Benefits to ensure employee benefits are terminated in a timely manner.

1.3 Any payment made to an employee beyond their termination should be well documented with appropriate authorization. All support should be maintained according to the record retention schedule.

1.4 HR Payroll should consult with the Law Department on recovering the $26,280 overpayment discovered by DIA.

1.5 HR Payroll should research the potential overpayments on the HHS employee, which lacked supporting documentation. DIA will distribute results on the Public Defender employee to the Public Defender's Office.

Management's Response

1.1 *HR Payroll in conjunction with HR Employee and Labor Relations staff have developed a process reinforcing the process HR Payroll staff uses to verify that the "action" (the entry in the SAP HRIS system) to terminate an employee's pay has been completed. This required development and training of a Centralized SAP Data Entry Team made up of current HR administrative employees, and managed by an HR Business Partner. Once a member of this dedicated team completes the* *termination action, the SAP system creates a Personnel Action Notification paper form. HR Payroll staff is required to compare the information on this document with that in the SAP HRIS system for uniformity, notify the Centralized SAP Data Entry Team should any discrepancy occur and require correction in the system (See Exhibit A).*

***1.2** HR Benefits has developed a process to ensure that employee termination notification is received, and terminations are completed timely. In addition to receipt of termination documentation in one of two forms from HR Personnel staff, HR Benefits runs or receives three bi-weekly or monthly termination reports, plus signed Personnel Agendas listing terminations. This thorough process has been implemented to ensure that no terminated employees are overlooked, all termination actions are completed in the HRIS, all terminated employees receive COBRA information, and all employee termination information is logged appropriately. (See Exhibit B).*

***1.3** HR Payroll has developed a process to reinforce the required use of the "Accumulated Time Payout Form" to document any payment made to an employee after termination, ensure that calculations are reviewed, checked for accuracy, and approved in writing by a supervisor. Payment must be authorized prior to the payroll run and all documentation retained in the employee payroll file per the record retention schedule (See Exhibits C and D).*

***1.4** HR Payroll in conjunction with HR Employee and Labor Relations and Law Department staffs have created a process map developing uniform methodology to ensure that any discovered overpayment is fully documented and reported; that the impacted party is notified and a repayment plan is developed. In addition, this process includes a trigger to notify the Law Department to pursue legal remedies should a repayment plan not be agreed upon, as well as appropriate records retention (See Exhibit E).*

In addition, HR, in conjunction with the HR Training Team, authored a communique entitled "Ensuring Timely Off-boarding of Employees" and provided it to Juvenile Court, Planning Commission, Public Defender and County Prosecutor payroll teams. This memo reinforces the importance of timely off-boarding, the risks inherent in delayed off-boarding, and repercussions. In addition, the memo offers HR Payroll's assistance to these partner agencies to ensure that employees are off-boarded within 48 hours of terminating employment. (See Exhibit F)

Lastly, HR Payroll has consulted the Law Department regarding these payments. In two cases, notification was made in 2014, and partial repayment was made. Unfortunately, full repayment was not completed prior to one employee's death. In the remaining cases, HR and the Law Department have consulted an outside collections firm.

***1.5** HR will provide the County Public Defender's Office a copy of the final Internal Audit report accompanied by a memo encouraging the office to contact IA for information regarding a potential* *overpayment within 15 days of Audit release. In addition, HR Payroll is researching the potential overpayment to an HHS employee.*

Objective #2 – Proper Segregation of Duties and Application Controls are Evident in SAP. Pay Rate Changes in SAP are Authorized and Accurate.

FINDING Audit Scope Limitation – DIA was denied access to view the roles and responsibilities in SAP.

The County utilizes SAP to record and track all pay rates for County employees under the Executive's authority. IT is responsible for creating and maintaining user roles and responsibilities in the system, which define user access and the screens a user can modify, add, or delete. These roles and responsibilities should be designed with the principle of least privilege, which dictates users should only have access to the minimum information required for them to perform their assigned duties.

DIA attempted to test segregation of duties between users in SAP. We requested direct access to view the roles and responsibilities of users in the system and identify if certain users were granted access to unnecessary areas in SAP. IT staff would not assign DIA this access due to their security concerns, and stated DIA would need root administrative access. This type of access would hypothetically allow DIA to make changes to system code and perform other IT functions. IT also referenced DIA's ability to pull data needed out of SAP since SAP is antiquated and unsupported. DIA may generate reports with bad data if given the ability to run reports.

After research, DIA could not find support for these assertions and requested system documentation from IT to show the relationship between the access requested and overall system access. No documentation was provided by IT and DIA was never provided access to the requested reports. This was a direct limitation on the scope of our audit procedures and non-conformance with Internal Audit's Charter, which requires authorization to be granted for unrestricted access to all of the County's records and systems (manual and electronic).

FINDING Segregation of duty violations were found on pay rate changes in SAP.

DIA performed additional testing to demonstrate assurance on user access in SAP. Specifically, DIA attempted to confirm segregation of duties existed with pay rate changes in SAP. According to HR procedures, the HR Personnel Division modifies pay rate changes unless a cost of living adjustment occurs. In that case, HR Payroll updates a table in SAP to adjust the pay rate for all applicable employees.

We reviewed pay rate changes made by 53 employees in HR and IT to ensure changes were made by appropriate personnel (HR Personnel). The 53 employees made 1,154 pay rate changes between 2007 and 2014. These employees consisted of employees in HR

Benefits, HR Payroll, HR Personnel, and IT. 766, or 66%, of pay rate changes were done by departments other than the HR Personnel department. No further review or approval was noted for pay rate changes made in SAP by HR Benefits, HR Payroll, or IT. The following table shows our results for the number of pay rate changes for the 53 employees from 2007 through 2014:

These results do not mean employee pay rate changes were unauthorized, but the posting of the increase was not approved. Pay increases were tested further by DIA on page 11.

Violations by Department			
Department	**No**	**Yes**	
HR Benefits		6	
HR Payroll		252	
HR Personnel	388		
IT		508	
Grand Total	388	766	1,154

The roles and responsibilities in the system are not designed to limit access to only the users that should be allowed to make pay rate changes. These violations were still occurring in SAP as of December 2016, which is the date DIA last reviewed such changes.

FINDING User IDs in SAP were completely deleted out of the system when employees were terminated. Furthermore, reviews for terminated employees with active user IDs in SAP were infrequently performed.

A request was made for a listing of User IDs assigned to roles and responsibilities in the system and their associated names. Sixteen of the 38 User IDs reviewed from the segregation of duties test above were not on the listing. IT stated that User IDs are deleted out of SAP when an employee is terminated or transfers to another County agency where the employee is assigned a new User ID in SAP, if needed.

IT stated that User IDs are deleted out of the system to ensure the total active User IDs is less than the maximum contractual amount. However, the User IDs could be deactivated instead of deleted and still meet the contractual obligations. This process is not documented and there are no written, or electronic, supervisor authorizations for any User ID deletions.

IT only reviews User IDs for terminated employees on an infrequent basis and never for existing employees' due to their reliance on system controls. These system controls do not appear to be mitigating the risk on deactivating terminated employees from SAP. Authorizations are tied to the positions assigned to an employee in SAP. For example, if job duties change for a user the system should only allow them the authorizations assigned for that position. However, if the employee positions are not timely updated in SAP then any change in authorizations would be delayed.

FINDING HR did not maintain all supporting documentation for employee pay rate increases from 2013 to 2015, totaling $163,415 in salary increases. In addition, nine employees received unauthorized salary increases, totaling $58,502, between 2010 and 2016.

Cuyahoga County employees can receive pay rate increases for the following reasons:

- Position change (promotion or reassignment);
- Temporary work level;
- Cost of living adjustment (COLA) through Executive approval or collective bargaining agreement;
- Non-bargaining position audits for classified positions.

The Executive must approve all pay rate increases for employees under the Executive's authority through a personnel agenda prepared by HR. HR Personnel Analysts complete a Personnel Action Notice (PAN) to initiate a change in an employee's status, including terminations and pay rate changes. The HR Analyst, HR Director, and employee's director approve and sign the PANs. After the required approvals and receipt of supporting documentation, HR prepares a personnel agenda for the Executive's approval. No changes are made in SAP to the employee's record until the Executive approves the agenda. Supporting documentation for pay rate changes include the following:

- Request from director or board to promote or reassign employee;
- Request from director or board to place employee at a temporary work level;
- Resolution or communication from Executive approving COLA for non-bargaining employees;
- Collective bargaining agreement on pay rate increases for bargaining employees; or
- Documentation to support pay rate increases on position audits (see below for details).

Section 5.09 of the County's PPM states "Non-probationary, non-bargaining, classified employees who believe that their duties have changed significantly and feel that their classification is no longer appropriate may request a position audit." The employee is required to complete a comprehensive position questionnaire (CPQ) developed by the Archer Company. This provides HR with information on the employee's duties to make an informed decision on a pay increase.

The employee's Director and the HR Director review and sign the CPQ prior to adding the pay increase to the personnel agenda. During our review, we noted OBM was not notified of any pay increases after a position audit was completed in order to review if sufficient funding was available. As of the audit, HR is currently providing a salary impact letter to OBM.

DIA generated a list of all Executive employees with a pay raise greater than 5% from the 2014 pay registers and requested support from HR to ensure all raises were supported and completed in accordance with the County's PPM. A judgmental sample identified the employees that represented the greatest potential risk for non-bargaining employees. We used the following criteria to select our sample:

- DIA researched the payroll registers for people with a raise and large "Other Earnings" in 2014 as this combination was unusual.
- We selected employees with pay rate changes made by infrequently-used User IDs in SAP. Pay changes made by personnel who do not make changes as a regular part of their job duties increases the risk of unauthorized changes.
- We selected employees that had an above-average number of changes made to their payroll master records in SAP.

Total Executive employee population and sample size for 2014:

	Total Population with Raises Larger than 5%	Non-Bargaining Employees Sampled
Number of Employees	912	24
Average Increase	12%	20%

DIA reviewed payroll and personnel files for all non-bargaining employees tested. During our review of the 24 non-bargaining Executive agency employees with raises greater than 5% we noted the following:

- One HR Payroll employee in the Sheriff's Office received a 9% raise in 2010, entered into the system by the employee's staff. HR did not maintain supporting documentation other than two letters about a job audit done in 2012 and another in 2013. The job audit in 2012 recommended a decrease in pay. The HR Director noted on the letter the offer was rejected. The 2013 letter recommended paying the employee the same salary the employee had been paid since 2010, but the effective date was 2013, not 2010. The HR Payroll employee received about $5,000 more a year than was authorized from 2010 through 2013.
- Six Executive employees' pay rate increases between 2013 and 2016 were not on personnel agendas sent to the Executive, totaling $39,786 in salary increases.
- During review, we noted the signatures of the Executive and the former HR Director did not appear to be consistent between agendas. The Executive and former HR Director delegated signing authority, but many signatures did not clearly specify who was signing on their behalf. The Executive did pass an Executive Order to allow specific individuals to sign on his behalf. The former HR Director had no such policy.
- Payroll documents are not always securely stored in HR; anyone with access to HR can access the confidential documents.
- HR had multiple personnel folders for each employee: payroll file, personnel file, benefits file, position audit file, and disciplinary file, in five different areas in the HR office. We noted PAN forms, personnel agendas, and position audit supporting documentation was not stored consistently for each employee.

- Personnel agendas authorizing pay rate changes are not filed in employee payroll files.

Of the 24 non-bargaining employees, 14 had position audits between 2013 and 2015 resulting in pay increases totaling $106,056. This averaged $6,629, or 14%, per employee. DIA reviewed all documentation maintained to ensure the process of each position audit complied with Section 5.09 of the County's PPM. We noted the following issues:

The County hired the Archer Company to address pay equity issues.

- Salary increases recorded in SAP for three employees did not agree to support (HR support and/or Archer Company recommendation). The Archer Company did assist in making decisions on some position audits in 2014. Three pay rate increases included a letter from the former Director of HR which stated a pay increase was necessary due to the "Archer Study". DIA was unable to find support from the Archer Company for these employees' pay raises, which were $18,716 more than the approved amounts. One (IT) employee received a salary increase of $13,000 more than the position audit support.
- Seven employees did not have position audit requests maintained, totaling $39,413 in salary increases.
- Six position audits did not have CPQ support for raises, totaling $33,568 in salary increases.
- Four position audits did not have support to show who was interviewed, what analysis was done to come up with the conclusion, and recommendation from an HR Manager, totaling $22,022 in salary increases.
- Nine position audits did not have a determination letter which notifies the employee of HR's decision, totaling $44,696 in salary increases.

Risk to the County if Findings Not Corrected

If the County does not follow its own policies and management's expectations, and HR does not obtain approvals and maintain records, the County is at risk of paying employees at the wrong rate, which could potentially lead to litigation and to the County spending unauthorized funds.

There are no procedures in place to detect when unauthorized users have made pay rate changes in the system. If the current roles and responsibilities are not overhauled and detective controls implemented, the risk of unauthorized pay rate changes is greatly increased.

The deletion of User IDs when employees are terminated, or creation of a new User ID each time an employee transfers to a new agency, limits the audit trail and accountability for changes made in the system.

Recommendations

2.1 The IT Department should comply with the authority granted to DIA under the Internal Audit Charter allowing unrestricted access to all County's records and systems, both electronic and manual. The County should establish a good governance structure on generating data out of County systems, like SAP. This way, the County can ensure accurate and complete data is pulled from the system and distributed to the requestor, like DIA.

2.2 To address the segregation of duty violations, the IT Department and HR should:

- Structure the roles and responsibilities in SAP so that only HR Personnel staff have access to make pay rate changes in the system. One employee should not have control of all, or multiple, phases of the payroll process as is the case when HR Payroll employees update pay rates. HR Benefits employees should never make pay rate changes as their duties pertain to maintaining and updating benefits for employees. IT users should not make changes to pay rates due to the nature of their roles and super user privileges within the system.
- A comprehensive review of the roles and responsibilities should be undertaken to ensure that employees only have access to view or update records as required for their job duties.
- Train HR Personnel staff to make batch updates to pay rates unless an emergency circumstance arises where an IT override is required. The override must be well documented and approved by HR Personnel.

2.3 IT application controls are actions that software performs automatically. These controls should demonstrate that software applications used for specific business processes (such as payroll) are properly maintained, used with proper authorization, monitored, and create audit trails. To address the application control deficiencies, the IT Department should:

- Discontinue the practice of deleting IDs out of the system. User access should be end-dated and User IDs deactivated when IT receives a termination notification from HR so the audit trail is maintained and the total active user licensure requirement for the SAP contract is met.
- Increase the review of user access in the system to a quarterly basis to ensure all terminated employees are removed timely and to ensure that users only have the access needed to perform the duties required for their positions. This should include communication from IT to user department management to verify that employee access is based on job duties and that no changes in duties have occurred since the last period of review.
- Change the User ID naming convention so there is a clear audit trail for all changes made in the system by a user throughout their history with the County, for example when employees transfer between County agencies.

2.4 To address the unauthorized pay rate changes, HR should

- Continue to provide OBM with a salary impact letter. During the audit, HR began providing a salary impact letter to OBM after a position audit results in a pay increase to ensure appropriations are sufficient to cover salary increases.
- Maintain all position audit supporting documentation.
- All pay rate changes (new hires, terminations, promotions, position audits) should be included on the personnel agenda sent to the Executive for approval and stored electronically in the employee's files.
- Any individual signing on behalf of a public official should clearly specify their name when doing so, and all public officials in the County should formalize a list of names with signing authority on their behalf.
- HR should implement a document management system for electronic storage and retrieval of personnel records on a shared drive. Departmental folders should be created with access restricted to authorized users. Approved HR Personnel should upload all supporting documentation received into the appropriate file. For example, HR Personnel should place PAN forms in the personnel and payroll files.

Management's Response

2.1 *HR will provide IT a copy of the final Internal Audit report accompanied by a memo regarding compliance with the authority granted to Internal Audit by Audit Committee Charter within 15 days of Audit release.*

2.2 *HR Payroll in conjunction with IT, HR Benefits and the HR Training Team have developed, trained and activated a Centralized SAP Data Entry Team made up of current HR administrative staff to be solely responsible for individual pay changes in SAP. This process includes HR Payroll staff confirming the accuracy of pay changes in the SAP HRIS system. (See Exhibit G).*

HR Payroll in conjunction with HR Benefits reviewed the process of HR Benefits staff entering new hire non-County Executive employee information in the SAP HRIS system. This is necessary only when employee information has not been entered by the non-County Executive HR staffs timely. It should be noted that this information is only entered to calculate salary based life insurance rates. It does not impact employee pay. Nevertheless, an updated process is being planned for the Centralized SAP Data Entry Team to make these entries when necessary. More importantly, HR Payroll, in conjunction with the HR Training Team, is authoring a memo entitled "Ensuring Timely On-boarding of Employees" to be provided to non-County Executive HR staffs and IT to reinforce the necessity of their timely entry of new employees into the SAP system. Timely entry would eliminate the need for HR to make these entries. (See Exhibit H).

HR Payroll in conjunction with HR Compensation and HR Benefits Teams have authored a map of the current process for completing batch pay updates in the SAP HRIS system, including verification *of the accuracy of batch updates by Payroll Administrators. This team will also develop a new process during implementation of the ERP system in 2018 with batch updates completed by the HR Compensation Team. Current plan is for these batch updates to undergo a two-step verification for accuracy – by both Employee Service Specialists and HR Payroll - prior to activation. (See Exhibit I).*

2.3 *HR will provide IT a copy of the final Internal Audit report accompanied by a memo regarding these suggested application controls within 15 days of Audit release. It should be noted that IT has already developed a plan to complete SAP system user audits quarterly. This will allow both HR and IT to review all user IDs that have completed pay rate changes.*

2.4 *As noted, HR has developed a Salary Impact Letter to notify Office of Budget and Management when a position audit results in a pay increase. This allows for OBM review to ensure that sufficient funds exist for any pay increase. (See Exhibit J).*

The HR Compensation Team has developed a uniform Position Audit process, including requirements to maintain documentation based on the records retention policy. (See Exhibit K).

HR Payroll has engaged a team of staff to prepare to fully utilize the electronic document storage capabilities of the ERP system during and after the planned 2018 implementation. This will include tiered restricted access to personnel agendas, personnel records, departmental folders, PAN forms etc.

HR will provide the HR Compensation Team a copy of the final Internal Audit report accompanied by a memo assigning the Compensation Manager responsibility for ensuring that the County Executive and Chief Talent Officer have written delegation of signing authority on file, and that all HR Personnel Agendas are signed only by the named official or an authorized proxy within 15 days of Audit release.

Objective #3 – Overtime is Consistently Paid and in Compliance with the PPM.

FINDING OT Payment Discrepancies were Found for Non-Exempt Employees.

FLSA is a federal law that requires certain employees (non-exempt) to be paid overtime (OT) for all hours worked over 40 hours in a workweek. It is County policy to comply with all requirements of the FLSA, therefore the County categorizes all positions as *non-exempt* or *exempt* based on the nature of the position in Section 6.01 of the PPM:

- "Non-Exempt employees receive compensatory time (comp time) or OT for time worked beyond forty (40) hours in a workweek." Employees represented by a collective bargaining agreement (CBA) are subject to comp time and OT based on their respective agreements.

- "Exempt employees do not receive compensatory time or overtime for time worked beyond forty (40) hours in a workweek. Subject to the provisions of 6.08 of (the PPM), however, exempt employees may be eligible to receive exchange time for time worked beyond forty (40) hours."

HR Payroll reviews comp time and OT hours each payroll week for supervisor approval. Most non-exempt employees use time sheets submitted at the end of each workweek through MyHR. Supervisor approvals for non-exempt employees using MyHR are done prior to payroll processing to verify and monitor earnings and usage.

Comp time and OT hours for bargaining employees using time clocks is a manual procedure. Each pay period, HR Payroll reviews OT tracking reports, time clock punches, OT hours worked per day, and supervisor initials on OT timesheets completed by department management. Once OT and comp time hours are verified, they are manually entered in SAP. HR Payroll reviews time clock punches in SAP for these employees (e.g., Sheriff's Office and Public Works), and compares punches to comp time and OT hours on the OT tracking reports. Discrepancies are further investigated by HR Payroll.

To test the accuracy of comp time and OT paid, DIA obtained the population of all County employees that received 100 hours or more in OT or comp time paid during any bi-weekly pay period in 2014. DIA haphazardly selected a sample of payroll transactions to ensure the accuracy and authorization of comp time and OT hours paid, and that controls in place were working effectively. We sampled 30 payroll transactions totaling $110,541 in OT out of 91 ($301,449) payroll transactions where employees were paid 100 or more hours during a given pay period.

- Two out of the 30 payroll transactions were missing support for the payments: one OT payment to a Sheriff's Office Sergeant totaling $5,202 and one comp time payment to a Public Works employee totaling $2,030.

In addition, DIA performed a high dollar test on the 10 employees earning the most OT in the County for 2014, totaling $588,793. We tested 45 records for the 10 employees (five pay periods each), totaling $134,375, to ensure OT was accurately paid. The following was found:

- Three OT payments were overpaid ($764) and nine were underpaid ($2,019) in 2014.
- Missing documentation was noted for two transactions ($5,962).

Finally, Medical Examiner (ME) employees were paid out in 2014 for comp time accrued prior to 2013. Before migrating their payroll process to SAP, ME employees were allowed to accrue comp time and exchange time simultaneously regardless of their exempt or non-exempt status. This occurred prior to the new form of government in 2011. The migration in 2012 required HR Payroll to determine the exempt or non-exempt status of ME employees and pay the remaining accrued comp time balances earned up to the migration date with the approval of the ME. As a result, nine employees in our sample of 30 tested received $34,579 in 2014 for comp time accrued. DIA was provided with an accurate report of comp time hours from the ME's system, but no written approval of the ME was provided.

FINDING Over 130 Exempt Employees Received OT in Violation of the PPM in 2014.

While employers are not required to compensate exempt employees according to FLSA laws, some employers can choose to pay exempt employees additional compensation. As noted on page 17, although the County's policy Section 6.01 does not allow OT for exempt employees, the County does provide exchange time for additional hours worked.

DIA compared Executive employees with exempt status in 2014 to the pay registers. We attempted to ensure exempt employees were not receiving OT, in compliance with County policy. Of approximately 900 exempt employees, 132 (15%) received OT in 2014, contrary to the PPM. HR Payroll stated that department directors requested approval from the HR Director for exempt employees to earn OT, even though there was no exception in the PPM to support this process.

MyHR has a control in place to ensure exempt employees cannot enter and earn OT on their timesheets. HR Payroll was overriding this control after receiving requests from department directors. DIA requested the approvals and expanded our testing on the 2014 exempt employees into 2015 and 2016. The following table displays our results:

Year	# of Exempt Employees that Received Additional Compensation	$ Value of OT Compensation	Approval from Department Director and/or HR Director	% of Approved Additional Compensation
2014	132	$619,535	$575,708	93%
2015	91	$595,871	$2,015	0.3%
2016	81	$524,297	$1,033	0.2%
Total	**304**	**$1,739,703**	**$578,756***	**33%**

**DIA confirmed the HR Director only approved $35,051 (2% of total) of the OT earned by exempt employees.*

Emails from department directors requesting OT for exempt employees lacked consistency. Some emails reviewed were missing the following essential information:

- Name of exempt employee earning OT.
- Date range the exempt employee was allowed to earn OT.
- If exempt employee was paid at straight time or time and a half.

Risk to the County if Findings Not Corrected

HR Payroll does not have formal procedures in place for manual OT payroll processing or an adequate IT system for automatically calculating OT hours. Without the proper oversight of the comp time and OT processes there is an increased risk of payroll errors occurring. These errors could lead to payroll under or overpayment and intentional or unintentional misstatements of payroll expenditures and expose the County to potential lawsuits.

There was no formal policy allowing OT compensation for exempt employees; in fact, the policy prohibits it. There are no documented procedures on the OT approval process currently in use. The County is violating its own policy if HR Payroll continues to pay OT to exempt employees and increases its risk of litigation. Since the PPM prohibits employees from paying OT to exempt employees, payroll expenditures may not be consistent with management and Council's expectations.

Recommendations

3.1 We recommend HR fully develop their PPM to align with current processes. The PPM should be followed as well as bargaining agreements on comp time, ET and OT payments, for both exempt and non-exempt employees. The PPM should be revised if the County continues to pay exempt employees additional compensation, like OT, and the policy should be approved by the Executive and Council. The County should be cognizant of FLSA Section 541.604 if modifying the current PPM.

3.2 Supporting documentation, either physical or electronic, should be maintained for all entries and payroll adjustments made from SAP to INFOR for employee hours or earnings. Supporting documentation includes OT tracking reports and revised paper payroll registers for changes made to Fiscal Payroll. HR Payroll should periodically perform a review/audit on support maintained and compare to pay ledgers.

3.3 HR Payroll should also develop and distribute written procedures on the approval process for OT. Requests for additional compensation to exempt and non-exempt employees should include names, date range, reason, and pay rate and include a supervisor’s signed approval.

3.4 HR Payroll should work with IT to have the system automatically calculate OT for time clock employees. SAP should automatically calculate each employees' comp time and OT per the respective CBAs. Each payroll week, HR Payroll should review for errors or unusual OT or comp time hours,

3.5 OT should not be entered manually unless errors are found. In cases where manual entries are necessary to calculate OT accurately, the payroll employee's supervisor should review and approve the entry.

3.6 IT controls should be put in place to ensure employees abide by federal, state and local leave policies. HR Payroll should not override controls in the payroll system unless the current policy is revised to allow the override to occur with specific management approval.

3.7 If the HR Director, with approval from the Executive, allows exempt employees to receive paid OT, HR should create a formal written policy stating the process exempt employees must go through (e.g. director approval, straight time or time and a half, timeframe noted, etc.).

Management's Response

3.1 *Affected agencies will be notified by September 30, 2017 to ensure compliance with the PPM regarding exempt employees and OT moving forward. To ensure uniformity until that time, HR Compensation has developed an auditable method for agencies that experience an anticipated exempt employee work requirement spike. This includes documentation such as the Exempt Extra Hours Request Form and Exempt Extra Hours Tracking Report. HR is currently reviewing the PPM and authoring suggested revisions for review by the Law Department, approval by the Executive and submission to Council. This will allow for final decision regarding exempt payment of additional compensation. Target completion date is 2018. (See Exhibits L, M).*

3.2 *HR Payroll has developed a process for auditing overtime entries once per quarter, including ensuring that all support is appropriately maintained and matches pay ledgers. Audit records will be maintained per the records retention schedule. (See Exhibit N).*

3.3 *HR Compensation has developed an auditable method for agencies who experience an anticipated or unanticipated exempt employee work requirement spike. Documents such as the Exempt Extra Hours Request Form and Exempt Extra Hours Tracking Report include names, date range, reason, pay rate and supervisor approval. (See Exhibits L, M)*

3.4 *Cuyahoga County has embarked on implementation of a new ERP system, with an expected completion date in 2018. HR Payroll has already assigned and developed a team of staff to work with the County's ERP consultants to ensure that automatic calculation of OT and comp time are included, based on the requirements of the County's multiple CBAs. Once live, this ERP will allow HR Payroll staff to focus on investigation of outliers rather than completing thousands of data entries.*

3.5 *The anticipated 2018 implementation of the new ERP system will limit the need for payroll to manually enter OT, and allow for OT entries made by payroll to be more readily reviewed by payroll supervisors. Until that transition, HR Payroll and IT have mobilized a pilot program to minimize payroll's manual entry of OT. The first phase, allowing direct supervisor entry of OT, began in July. Historically, supervisors have entered data into a database that lacked connectivity, requiring HR Payroll staff to data enter that information into the SAP HRIS system. Beginning in the Corrections Division of the County Sheriff's Office, Sheriff Supervisors are now entering time clock employee OT information into the MyHR ESS system, to take advantage of the existing connectivity between MyHR and SAP HRIS. This should allow HR Payroll to focus on the causes of outliers rather than* *data entry. This program will cascade through the Sheriff's Department and then be rolled out in the Department of Public Works and other time clock agencies. (See Exhibit O).*

3.6 *Per the Chief Talent Officer, federal, state and local leave policies are to be enforced. Regarding potential revision of policy, HR is currently reviewing the PPM and authoring suggested revisions for review by the Law Department, approval by the Executive and submission to Council. Target completion date is 2018.*

3.7 *HR Compensation and HR Payroll have developed an auditable method for agencies who experience an anticipated or unanticipated exempt employee work requirement spike. Documents such as the Exempt Extra Hours Request Form and Exempt Extra Hours Tracking Report include names, date range, reason, pay rate and supervisor approval. (See Exhibits L, M).*

Objective #4 – Leave Balances are Monitored to Ensure Compliance with the County's PPM.

FINDING Leave Balances were found in excess of the County's PPM. HR Payroll was overriding system controls.

The County offers various types of leave time to eligible employees. DIA performed audit procedures to ensure leave time was accrued in compliance with the County's PPM. We noted the following on exchange time (ET) and vacation time (VT).

Exchange Time

Section 6.08 of the County's PPM establishes 40 hours as the maximum ET balance County employees can maintain. In addition, Section 9.05 states that ET accrual must be used within six months of accrual. Employees in overtime-exempt positions may receive ET on an hour-for-hour basis for time worked beyond 40 hours in a workweek.

Exempt employees are able to view their available ET balances through MyHR with the corresponding expiration dates. SAP does not allow the accrual of ET over 40 hours. SAP is coded to track the expiration date for earned ET and notify the employee through MyHR. However, HR Payroll was overriding controls when requested from department heads to increase the maximum balance allowed and to extend (or eliminate) expiration dates.

Vacation Time

Section 9.02 of the County's PPM states employees could lose VT if the balance exceeds the maximum amount. "Employees may carry their vacation leave from year to year, up to a maximum of three years. Once an employee accumulates the maximum allowable vacation balance for the employee's current accrual rate, the employee has a period of one (1) year from the date on which the maximum balance was attained to use the accrued time in excess of the maximum allowable balance. Upon the end of the year period, any time over the maximum amount will be forfeited. Upon separation from County service, an employee is entitled to compensation for any earned and unused vacation leave to his or credit at the time of separation."

An employee continues to accrue vacation time during the following year when they are beyond the maximum balance. Therefore, an employee can accrue as much as 4-year's vacation leave before time is forfeited. For instance, an employee who accrues 120 hours per year is allowed a maximum balance of 360 hours (3 years x 120 hours). When this maximum is reached, the employee has one year to use accrued time in excess of the maximum. However, as the employee will accrue 120 hours during this year, if no time is used, the employee will accrue a balance of up to 480 hours before any time is forfeited.

HR Payroll has a control in place to notify employees through MyHR when VT exceeds the maximum allowed and is set to reduce the employee's VT if not used within a year. MyHR will display the employee's expiration date when any excess vacation hours must be used. HR Payroll does not require any acknowledgement from employees on how and when excess VT will be used. In accordance with the PPM, any excess vacation not used during the one-year extension will be forfeited and automatically taken from the employee's vacation balance. We noted forfeited vacation was restored for employees after a request was submitted by an employee's supervisor to HR Payroll. In SAP, any restoration of vacation time is done manually through a quota correction by HR Payroll.

DIA requested an SAP report detailing leave time balances of all leave-eligible County employees as of April 1, 2017 and sorted the data to identify the employees over the maximum. The following table summarizes the number of employees with leave balances over the ET and VT maximums and the resulting savings identified by following the maximum policy for these two types of leave:

5,068 employees were eligible for VT as of April 1, 2017. 940 of the 5,068 employees were eligible for ET

Type of Leave	Total EEs Accruing Leave	EEs over policy max	Highest balances over max	Potential Savings by following policy
Exchange	940	63	515	$ 268,847*
Vacation	5,068	4	862	$ 7,476**
			Total	$ 376,323

**Exempt employees who maintain ET balances over the 40-hour max will more likely use ET before using VT, which is paid out at 100% to employees upon separation from the County. ET balances in excess of management's expectations (PPM) could have a negative financial impact on the County.*

VT balances are paid out upon separation. ET balances are not.

*** These four employees' VT balances did not expire a year after the maximum VT balance was exceeded. Furthermore, these employees continued to accrue VT over the maximum allowed. According to the PPM, any unused earned vacation time is paid out at the time of separation. The results in the table above indicate that these four employees could receive a payout of vacation leave in excess of the maximum VT allowed upon separation.*

In addition to the results noted in the table above, DIA also found the following noteworthy items related to ET and VT balances:

- Of the 63 employees above the ET 40-hour maximum noted,

    - The IT Department had 17 employees over the maximum 40 hours. In December 2014, the former Chief Information Officer requested an extension of 120 hours over the maximum of 40 hours for the IT Department because of the need to work additional hours. He also requested to eliminate expiration dates on ET earned. The request was granted by the HR Deputy Director at the time. However, the policy does not specify if the 40 hours can be exceeded nor was there a formal process to grant the request.
    - The remaining 46 exempt employees exceeding the maximum ET balance did not have any formal approval or documentation to support the accumulation of ET over the 40-hour max.
- Four employees were given ET at the time of hire (hire letters obtained by DIA) because they did not have any prior Ohio public service and the County offered ET as incentive to accept employment with the County. Although DIA understands the need to offer this benefit to high-level positions, no formal policy was finalized granting the Executive or a designee the authority to offer such benefits prior to hiring these employees. There was a policy in draft form at the time of the audit and is anticipated to be signed by the Executive and approved by Council by the end of 2017.
- 178 other employees (at April 1, 2017) could potentially be in violation of the PPM if VT balances are not used or reduced within a year from the date the maximum balance was reached. These employees are not in violation of the PPM as of April 1, 2017. However, they should be closely monitored by HR Payroll.
- There was no process in place to hold employees accountable to spend down their excess balances. HR Payroll can and has restored employees' balances, which contradicts the PPM. For example, lost VT was restored to the four employees above due to various reasons (e.g. failed to get notified they were over the max through MyHR).

During the audit HR worked with employees with excess balances to reduce their ET balances by certain deadlines, in order to bring them in compliance with the County's leave balance policy.

Finally, DIA tested the leave report obtained from IT for completeness and accuracy by randomly selecting a sample of 25 employees from the report to recalculate ET and VT balances as of April 1, 2017. We compared balances contained in the leave time report to the official leave time record (SAP) and MyHR. The following issues were identified during our testing of ET and VT balances over the maximum allowed:

- ET per MyHR did not agree to ET in the IT report for two employees, totaling a variance of 19 hours (MyHR had a greater balance). One employee had over 13 hours more in MyHR than in the report provided by IT. Employees view their ET balances in MyHR.
- No instances noted in VT balance testing.

FINDING One Sheriff’s Office Employee Received More Vacation Time than Allowed.

Section 9.02 of the County's PPM governs VT for most non-bargaining County employees. For bargaining employees, their respective CBA mandates the vacation policy. During payroll processing, VT and accruals are automatically calculated when timesheets are exported or time punches are downloaded into SAP. Employees can view their leave time balances in MyHR.

For bargaining employees in the Sheriff's Office, the vacation balance is updated automatically when SAP calculates and awards the accrued VT on his or her anniversary date. In cases where SAP does not award the correct amount of VT, HR Payroll Officers make quota corrections to fix the errors. Vacation for bargaining employees is accrued in the "background" in SAP in order to comply with CBAs requiring vacation be added at the employee's anniversary date. This means that vacation is being earned but the bi-weekly accrual of vacation is not reflected in SAP as it is for non-bargaining employees.

DIA randomly selected a sample of 25 employees in 2014 to review VT usage and accrual activity. DIA used SAP and MyHR to recalculate the vacation earned and used by County employees during the 26 pay periods of 2014. One of the 25 employees tested did not accrue vacation in accordance with the CBA. On the employee's anniversary date, SAP awarded the Sheriff’s Office employee 96 hours of VT instead of the 80 hours earned (Difference of $439). When the employee's sick time was converted into vacation time per the CBA, 15 months after the error occurred, the employee's vacation error was identified and subsequently adjusted by 16 hours. There were no detection controls in place to identify the error in a timely manner.

Risk to the County if Findings Not Corrected

Failure to maintain ET balances under the established maximum balance of 40 hours could result in County employees accumulating and abusing the ET policy by using ET rather than VT. Employees with ET balances over the maximum will likely use ET before using VT for time off. The County will end up paying more in unused earned VT at separation because County employees are entitled to receive pay for all unused VT at the time of separation, without a cap.

The erroneous accrual of VT for County employees could result in the County paying employees for unearned vacation time through paid time off or upon separation. In addition, compensated leave time is reflected in the County's financial statements and errors in the accrual of leave time could lead to misstatements of the County's liability.

Recommendations

4.1 Supporting documentation, either physical or electronic, should be maintained for all manual entries of leave time.

4.2 HR Payroll should perform an annual review on vacation accruals, specifically on Sheriff's Office CBAs, since vacation accruals occur annually rather than bi-weekly. This review can be limited with adequate IT application controls in place.

4.3 All manual corrections, including IT control overrides, of VT and ET balances should be reviewed and approved by a supervisor. This review can be automated, meaning manual updates to leave balances require a supervisor's approval before they can be posted to the system.

4.4 IT application controls should be added to SAP and the new ERP that will not allow employees to accrue more than the maximum balance allowed under their respective CBAs or the County's PPM for either ET or VT. IT application controls are actions that a software application does automatically. These controls should demonstrate that software used for specific business processes (such as payroll) are properly maintained, used with proper authorization, monitored and create audit trails.

4.5 All Executive agencies should comply with the County's PPM. If the current PPM does not align with current processes on VT and ET accrual, the PPM should be updated. DIA understands that unforeseen circumstances or special projects may occur. The County should update their current PPM to address such circumstances if employees need to work extra hours. The policy should be approved by the Executive and Council.

4.6 HR should consider updating the policy on specific new high-level employees receiving ET (and other incentives, such as relocation expenses). The current draft policy should be authorized by the Executive and introduced to Council for approval. The policy should clearly define how ET is awarded (or advanced). Specifically, we recommend the policy address the following:

- Who can authorize these incentives during contract negotiations;
- Who has final approval on the new hire contracts;
- If advanced ET expires;
- Require the use of VT before ET, which will reduce the liability of VT balance payout for each employee upon separation;
- Limit termination payouts of VT to only hours in excess of ET advances;
- Whether high-level employees that are advanced ET should receive additional ET for hours worked over 40 in a week; and
- If the advanced ET can be used to extend separation from the County.

4.7 HR should annually generate a report from SAP to identify employees with VT over the maximum allowed. Employees over the maximum VT and their supervisors should be notified so the situation can be addressed.

4.8 HR should develop a procedure for employees to work with their supervisors to create a plan to spend down excess VT. This plan should indicate when the employee expects to use the excess time throughout the year, taking into consideration operational needs, and submitted to the employee's supervisor and HR. This also assists the supervisor in scheduling for the year.

4.9 HR should consider a best practice of paying out a percentage of unused earned vacation time at the end of each year. The Auditor of the State of Ohio's Office has a policy on paying out leave time annually. For example, if an employee accrues 80 hours in a year, they can elect to trade-in unused VT hours for a percentage payout according to a schedule similar to the following:

- 47.9 hours or less accrued and unused – 50% of hours are paid out
- 48 to 79.9 hours accrued and unused –65% of hours are paid out
- 80 hours accrued and unused – 80% of hours are paid out.

This type of payout schedule would be beneficial to both the County and its employees.

- County benefits:
  - Creates a savings by paying out a fraction of earned unused VT every year instead of the total balance upon employee separation.
  - Also creates a savings for the County upon an employee's separation since employees generally leave the County at a higher pay rate than at their start date. Each year of employment an employee may receive pay rate increases in the form of cost of living adjustments, promotions, etc.
  - Reduces HR time needed to monitor employees with excess VT balances in the current system. The new ERP will eliminate the need for manual monitoring VT.
- Employee benefits:
  - Extra compensation for unused VT by cashing in VT once a year.
  - Reduces the number of employees who exceed the limit and would lose VT due to operational needs or other constraints to use the leave during the one-year grace period.

Management's Response

4.1 *The anticipated 2018 implementation of the new ERP system will limit the need for manual entry of leave time.*

4.2 *HR has informally notified the Law Department regarding a preference for uniformity in vacation accrual. That is, HR recommends that future Sheriff Department CBAs include bi-weekly vacation accruals. This will be beneficial for multiple reasons moving forward – including consistency within the new ERP system, the PPM etc.*

4.3 *The anticipated 2018 implementation of the new ERP system will allow for settings requiring supervisor review of all manual corrections of VT and ET balances.*

4.4 *These controls are currently in place in the SAP system. There will be no future overrides. In addition, there are specific spend down plans in place for employees who have exceeded the cap in* *the past. The anticipated 2018 implementation of the new ERP system will allow for application controls that will continue to cap employees at the maximum ET and VT balances allowed in their specific circumstances. (See Exhibits P and Q).*

4.5 *HR is currently reviewing the PPM and authoring suggested revisions for review by the Law Department, approval by the Executive and submission to Council. Target completion date is 2018. Moreover, HR has authored and distributed an agency memo regarding ET balances above the maximum threshold, as well as individual letters to effected employees specifying an immediate and specific spend-down timeline to meet the current requirements of the PPM. Employees exceeding VT thresholds will be notified and specific spend down plans will be enacted. (See Exhibits P and Q).*

4.6 *As mentioned, HR has authored a draft policy on incentives for upper management employees including authorization, approval, ET, VT, payout upon termination, etc. This draft policy is currently under final Law Department review. (See Exhibit R).*

4.7 *A process and timeline is being developed to generate regular reports to identify employees who have exceeded the 3-year VT accrual. These employees and their supervisors will be updated regularly by HR Analysts and Business Partners.*

4.8 *An integral part of effective HR management is guiding stakeholders in the judicious use of excess time balances to the mutual benefit of the employee and the organization's operational needs. In 2018, the ERP system will allow for greater employee self-service. Employees and supervisors will be easily able to monitor and demonstrate responsibility for their VT balances. However, prior to the ERP, and after, HR fully commits to functioning as a business consultant to ensure that employees and supervisors benefit from appropriate VT usage plans.*

4.9 *HR is currently reviewing the PPM and authoring suggested revisions for review by the Law Department, approval by the Executive and submission to Council. This IA recommendation will be given full consideration throughout this process. Target completion date for PPM review is 2018.*

Objective #5 – Other Payroll Payments such as Leave Payouts are Accurately Calculated and Timely Dispersed.

FINDING Employee Termination Payouts Contained Errors, Missing Supervisor Approvals and Processed as Manual Checks

Section 6.14 of the PPM states that accrued vacation leave and compensatory time will be included in an employee's last paycheck. It further states no employee shall be paid for any unused sick leave upon termination of employment except that, upon retirement, an employee with 10 or more years of service may receive cash payment for one-fourth of the accrued, unused sick leave hours, not to exceed 240 hours (30 days).

A terminated employee may be eligible to receive vacation, sick, and/or compensatory time in addition to any regular hours worked during the period preceding the employee's termination date, according to the PPM or CBA. DIA randomly selected a sample of 45 out of a total population of 1,528 employees terminated from 22 County agencies in 2014 and performed a recalculation of employee termination payouts (28 of the 45 employees were paid out).

According to Section 11 of the CBA with The Ohio Patrolmen's Benevolent Association, representing Deputy Sergeants in the Cuyahoga County Sheriff's Office, "An Employee with ten (10) or more years of service, upon retirement, is entitled to compensation, at his current rate of pay, for fifty percent (50%) of any earned but unused sick leave to his credit at the time of retirement of employment, not to exceed six hundred forty (640) hours [eighty (80) days]." DIA noted the following on one employee in the aforementioned CBA:

- The employee had 10 or more years of service and received 100% of accrued but unused sick leave at retirement instead of 50% of unused sick leave.
- The final unused sick leave for the employee was 85.95 hours.
- The employee received $2,342 (85.95 sick hours x pay rate of $27.25) in his final pay.
- The employee should have received 50% of the unused sick leave equal to a payout of $1,171 (42.975 x pay rate of $27.25).
- The overpayment totaled $1,171 due to this clerical error. HR Payroll sent a letter notifying the employee of the overpayment and requesting reimbursement subsequent to DIA's discovery. As of this report date, the employee did not respond to the letter.

DIA also tested controls in place for employee termination payouts. We specifically tested for employee and supervisor approval of the payouts and maintenance of supporting documentation. Out of 28 termination payouts totaling $182,024, the following instances were noted:

- No evidence of supervisor approval was noted on 18 termination payouts (64%), totaling $163,867.
- Notation of review and signature to acknowledge payout by the terminated employee was not evident on 27 termination payouts (96%) totaling $127,411.
- Final leave payouts are not direct deposited; a physical check is issued for review prior to disbursement. The terminated employee must obtain the check from HR or request the check be sent by mail.

Risk to the County if Findings Not Corrected

County agencies do not have a standard procedure to ensure all payouts for terminated employees are reviewed and approved by the employee and their supervisor before being submitted for payroll processing. This should alleviate the discrepancies in hours and amounts. Failure to have formal procedures in place and the resulting inconsistencies could result in noncompliance with the County's PPM and CBAs. Furthermore, erroneous payments to terminated employees could expose the County to potential litigation.

Recommendations

5.1 HR should consult with the Law Department on recovering the overpayment identified in the audit finding, totaling $1,171.

5.2 HR should develop, approve, and implement a policy which at a minimum addresses the following:

- Address the recovery process of payroll overpayment. If an overpayment is made, HR Payroll should notify the Law Department so a determination can be made if recovery is necessary.
- Leave payout calculations should be regularly reviewed and approved by an immediate supervisor for accuracy prior to the payroll run. A formal policy should be developed on approving leave payouts over a certain dollar amount (i.e. $10,000).
- Leave payouts should be direct-deposited. All payouts should be reviewed for accuracy prior to the payroll run (preventive control) rather than reviewing the leave payout after the payroll run (detective control). This would reduce the cost of resources to manually issue another check.

COBRA is the Consolidated Omnibus Budget Reconciliation Act that gives workers and their families who lose their health benefits the right to choose to continue benefits provided by their group health plan for limited periods of time under certain circumstances.

- Terminated employees should receive notification and sign a termination letter prior to their last day of employment. HR Personnel should develop a letter for terminated employees. This letter should notify the employee that their building access, computer access, etc. will be shut off on their last day of employment and they will only be eligible for benefits until the end of the current month unless COBRA is elected. HR Payroll should provide HR Personnel with an estimated amount of leave payout to be included in the letter. The letter should be distributed to HR Payroll, Benefits, and IT after it is signed and returned by the terminated employee.

Management's Response

5.1 *HR has scheduled meetings to consult with representatives of the Law Department regarding this payout to discuss possible solutions.*

5.2 *HR Payroll in conjunction with HR Employee and Labor Relations and Law Department staffs have created a process developing a uniform method to ensure that any discovered overpayment is fully documented and reported; that the impacted party is notified and a repayment plan is developed. In addition, this process includes a trigger to notify the Law Department to pursue legal remedies should a repayment plan not be agreed upon and followed. All records will be maintained per the records retention policy. (See Exhibit E).*

HR Payroll has developed a process to reinforce the required use of the "Accumulated Time Payout Form" to document any payment made to an employee after termination, ensure that calculations are reviewed, checked for accuracy, and approved in writing by a supervisor. Payment must be authorized prior to the payroll run and all documentation retained in the employee payroll file per the record retention schedule. (See Exhibits C and D).

HR Payroll staff has mapped the payout process and is investigating the potential risks and weaknesses in direct deposit of leave payouts in the current system. This IA recommendation is being given full consideration. Once all risks and weaknesses are addressed, HR Payroll anticipates moving forward. At the latest, this goal will be reached at implementation of a new ERP system, expected in 2018 (see Exhibit S).

HR Personnel and Payroll staff have developed an updated, uniform termination letter which includes specific information regarding building and computer access, benefits, COBRA etc. The IA recommendation regarding the next steps of including estimated amount of leave payout and employee signature is being given full consideration as HR works through logistics. (See Exhibit T).

Objective #6 – Computation of All Pension Deductions are Accurate.

FINDING Inaccurate OPERS deductions occurred with four law enforcement personnel in the Sheriff's Office.

The County participates in the OPERS pension program as mandated by ORC 145.03 (A). This involves an employer and employee contribution on a biweekly basis. OPERS, in conjunction with ORC mandates the contribution amount for the employer and employees. For local employees, as allowed by ORC 145.48, the rate is 14% for employer contribution and 10% for employee contribution. For law enforcement personnel, the rate is 18.10% employer and 13% employee, as allowed by ORC 145.49. These rates were applicable during our audit period (2014) through the audit report date (2017).

During testing of 2014 contributions, we noted four Sheriff's Office law enforcement employees had the local employee contribution rates deducted, and not the law enforcement. The four employees were never coded as having law enforcement duties in SAP, so their contribution rates were incorrect. OPERS did not detect the error since they only receive information on employee job classifications from the County. The following table notes the variances:

Year	Actual Employer Contributions	Correct Employer Contributions	Variance	Actual Employee Contributions	Correct Employee Contributions	Variance
2014	$29,024	$36,992	($7,968)	$20,732	$26,566	($5,834)
2015	$34,578	$44,071	($9,493)	$24,699	$31,654	($6,955)
2016	$35,681	$45,849	($10,168)	$25,486	$32,930	($7,444)
1/17-6/17	$16,023	$20,329	($4,306)	$11,450	$14,601	($3,151)
Total	$115,306	$147,241	($31,935)	$82,367	$105,751	($23,384)

**DIA only calculated variances in OPERS deductions from 2014 through June 2, 2017. These employees appeared to be incorrectly coded from their hire dates. These inaccuracies could be greater than reported above.*

As of the date of this report, the correct law enforcement rates are being contributed going forward.

Risk to the County if Findings Not Corrected

By not being properly classified as law enforcement, the affected employees' accounts were underfunded for the employer and employee contributions to OPERS. This error could lead to litigation with the employees if not detected and corrected in a timely manner. The County was also in violation of ORC 145.49 (B) by not contributing the correct rate for law enforcement personnel.

Recommendations

6.1 HR Payroll should communicate these findings to the Law Department to determine how the County should proceed in correcting prior years' contributions and make the pension plans whole. The four employees should also be notified of the error and corrective action.

6.2 OPERS should be notified of this error so the employees can be changed to law enforcement employees in the pension plan.

Management's Response

6.1 *HR Payroll and HR Employee & Labor Relations have begun the process of gathering documentation for upcoming meetings with representatives of the Law Department to discuss solutions.*

6.2 *HR Payroll and HR Employee & Labor Relations have begun the process of gathering documentation for upcoming meetings with representatives of the Law Department to discuss solutions.*

Objective #7 – Payroll Checks are Direct-Deposited as Mandated by County Policy.

FINDING Paper checks were regularly issued to 52 employees in 2014 and appeared to continue through 2016.

County Ordinance 2012-0025 amended Section 6.12 of the County's PPM, and states in part, "In lieu of paper paychecks, the County shall electronically transfer net pay into an employee's checking or savings account at the financial institution of the employee's choice. Enrollment in the Direct Deposit Program is mandatory. Employees not eligible to secure direct deposit via a bank account will be offered alternative means." Furthermore, the County passed this ordinance to enforce compliance with Ohio Revised Code Section 9.37(G).

DIA noted the following regarding paper checks issued to Executive and non-Executive County employees in 2014:

2014 Payroll Paper Checks	Total	Executive Agencies	Non-Executive Agencies*
Number of Paper Payroll Checks Issued	7,678 $10,871,050	3,377 $6,015,645	4,301 $4,855,405
Number of Employees Issued Paper Payroll Checks	2,011	1,250	761
Agency with Most Paper Checks Issued Number of Checks Issued	BOE 1,768	HHS 1,392	BOE 1,768

**The County's PPM is strictly enforced under Executive agencies. DIA separated Executive from non-Executive agencies in this test. However, we did attempt to review reasons for non-Executive agencies receiving paper payroll checks.*

The County's Fiscal Office notes the following reasons for issuing paper checks:

- First two checks to new employees.
- Employees changing bank account information.
- Using a financial institution other than the 99 institutions in INFOR. There is only enough space in INFOR for 99 banking institutions to be held. An employee is notified when this occurs.
- Employee made a good faith effort to obtain a savings or checking account from the list of financial institutions in which direct deposit is available to the County.

DIA selected all employees that received paper checks at least 10 times in 2014 to test in detail. We requested supporting documentation from HR Payroll and the Fiscal Office in order to ensure paper checks were only being issued for the reasons noted above. The following table shows the number of employees we attempted to test:

Payroll Paper Checks Issued more than 10 times in 2014	Total	Executive Agencies	Non-Executive Agencies
Number of Employees	197	52	145
Dollar Amount	$4,684,150	$1,558,154	$3,125,996

The Fiscal Office nor HR Payroll had documentation to support the 197 employees that were issued paper checks over 10 times in 2014. There was no enforcement of the County's ordinance to mandate employees to setup direct deposit for payroll disbursements. After DIA communicated the above results to the Chief Talent Officer, HR Payroll began enforcing the policy. As of June 2017, HR Payroll has reduced the number of continuous paper checks issued to employees from 52 to 2 per pay period and letters have been sent to bring the remaining employees into compliance.

Risk to the County if Findings Not Corrected

The County increases the risk of noncompliance with County ordinance and ORC section 9.37(G) when failing to disburse payroll via direct deposit. According to the ordinance, "If an employee fails to comply with the terms of this direct deposit policy, then the employee may be subject to discipline." Issuing paper checks unnecessarily increases the use of County resources as checks have to be issued through the data center and County employees must disburse them. Furthermore, the risk of check manipulation and fraud schemes increases.

Recommendations

7.1 DIA recommends HR Payroll enforce Ordinance 2012-0025 and ensure employees are enrolled in direct deposit. Reasons should be appropriate and well documented if an employee is continuously issued a paper check. These reasons should be consistent with the County's ordinance and the PPM.

7.2 In addition, the County plans to implement a new ERP software to integrate all County business activities. The payroll application should not limit the number of financial institutions for direct deposit.

Management's Response

7.1 *HR Payroll developed an aggressive campaign, including hand delivered memos, US Mail, Certified US Mail, notification of supervisors and reprimands to prod employees receiving paper paychecks for an invalid reason. Currently, no employees receive paper paychecks for reasons other than the exceptions noted. (See Exhibit U).*

7.2 *HR Payroll has had extensive discussions with the ERP vendor and has been assured that the number of financial institutions available for direct deposit in the ERP system is not limited.*

Objective #8 – Federal Withholding Forms (w-4s) are Accurately Completed, Submitted to HR, and Updated in SAP.

FINDING Employees with Zero or Little Federal Withholdings did not Reconcile to their Federal Exemptions on Form W-4.

Employees complete a form called Employee's Withholding Allowance Certificate (W-4) so their employer can withhold the correct federal income tax from their pay, based on status and exemptions. Employees should consider completing a new form each year and when their personal or financial situation changes. DIA selected 28 employees with zero and 12 employees with very little federal tax withheld for 2014, and verified filing status and exemption information completed by the employee on Form W-4 to information in SAP.

The filing status and exemption information between the Form W-4 and information in SAP did not reconcile for 13 out of 40 employees tested. This could lead to the employer not withholding the employee-authorized amount for taxes. Three Form W-4s could not be located. If an employee fails to give an employer a properly completed Form W-4, the employer must withhold federal income taxes from his or her wages as if he or she were single and claiming no withholding allowances. Two of the three employees had more than zero withholding allowances. We calculated potential federal tax under withholdings for the two employees to be $12,295 in 2014 since the Form W-4 was not located.

Risk to the County if Findings Not Corrected

An employee may be subject to a $500 penalty if he or she submits, with no reasonable basis, a Form W-4 that results in less tax being withheld than is required. There is also a criminal penalty for willfully supplying false or fraudulent information on Form W-4 or for willfully failing to supply information that would increase the amount withheld. The penalty upon conviction can be either a fine of up to $1,000 or imprisonment for up to 1 year or both.

In addition, the County increases the risk of ghost employees if W-4s are not maintained or monitored.

Recommendations

8.1 DIA recommends that SAP employee information regarding filing status and exemptions should agree to employee-signed Form W-4s. After a Form W-4 is received, the allowance amount should be recorded in SAP and verified for accuracy by a supervisor. This could be done through a system workflow function where allowance amounts are not posted to the system until approved.

8.2 HR should require every employee to re-submit Form W-4 (and Ohio's Form IT-4) every so many years (e.g. 5 years). HR should mention this in the orientation sessions for new employees.

8.3 If an employee submits a valid Form W-4 that appears to be unusual, i.e. a large number of exemptions claimed so no federal tax is withheld, Payroll should:

- Advise the employee the IRS may review withholding to ensure it is adequate.
- The IRS may direct County Payroll to withhold income tax for the employee at a certain rate if the review indicates the employee’s withholding is inadequate. Once this occurs, the employee will not be allowed to decrease their withholding unless approved by the IRS.

- Inform employees of the importance of submitting an accurate Form W-4 and provide details on penalties as noted in the finding.

8.4 DIA also recommends that withholding exemptions (Federal W-4 and Ohio IT-4 exemptions) should be easily accessible for employees to view in MyHR. This recommendation should be implemented in the new ERP, as well.

Management's Response

8.1 *HR has developed an online submission system for newly hired employees to electronically submit tax forms. Members of the HR Training Team then review the forms with each new employee at new hire orientation to ensure accuracy. Forms are then forwarded to HR Payroll for data entry and filing. This is a process that can be further improved by consideration of a workflow function requiring allowance amount approval by an HR Payroll supervisor in the new ERP system in 2018.*

8.2 *After the implementation of the ERP, HR will consult with IT regarding development of a plan and assertive schedule for regular resubmission of W-4s, most likely by agency.*

8.3 *A subset of HR Payroll staff will be selected to develop a process to track and communicate with employees who submit W-4 forms that appear to be inaccurate. Communications will include language to inform employees of the importance of these forms, and peril of submitting incorrect information.*

8.4 *Complete employee self-service is a goal of the new ERP system. This will include employees easily accessing their tax information as well as time balances and other crucial information in 2018.*

Objective #9 – Payroll Records are Retained According to ORC 149.351.

FINDING HR Payroll was unable to provide requested support documentation.

Ohio Revised Code 149.351, Section A states, in part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part.

HR's record retention and disposition policy, Schedule Number 2010-48 – Payroll Records, approved June 2, 2010, states the retention period is three years before records can be destroyed. The schedule does not include the retention of receipts.

DIA requested multiple documents and support from HR Payroll during the audit. The items requested pertained to transactions from January 1, 2014 through December 31, 2014. During the course of the audit the following records were requested from HR Payroll but were never received:

Overtime/Compensation Time Documentation:

- One Deputy Sergeant in the Sheriff's Office was paid $11,164 (258 Comp. time/Overtime hours) in three periods without proper documentation and approval supporting these payments.
- One Public Works employee was paid $2,030 (110.5 Comp. time/Overtime hours) in one pay period without proper documentation and approval supporting the payment.

Change of Direct Deposit Documentation

- 5 of the 22 (23%) requested change-in-direct-deposit forms or other form of deposit authorization could not be located.

Risk to the County if Findings Not Corrected

Failure to keep copies of records and supporting documentation and dispose of them properly compromises the audit trail, limits transparency within the agency, and limits the County's ability to reconcile its systems. All of these factors contribute to the possibility of misappropriated funds. The unauthorized destruction of records could potentially subject the County to civil lawsuits allowable under ORC sections 149.351(B)(1) & (2).

Recommendations

9.1 HR should review their records retention schedule and update as necessary to be in compliance with ORC 149.351 The schedule should be updated to include all relevant electronic and paper records such as receipts and provide adequate guidelines for employees to follow. Absent a record retention policy these records should be maintained indefinitely. All files destroyed within the department should be on an approved RC-3 for proper destruction.

9.2 A policies and procedures manual should be developed to ensure compliance with the approved records retention schedule. HR should conduct a training session on the records retention policy and schedule to ensure all personnel are familiar with the schedule and its contents. The schedule and required forms should be placed on the shared network for department-wide access.

9.3 HR should implement a document management system for electronic storage and retrieval of personnel records on a shared drive. This would eliminate missing records and make personnel records immediately available only to those with authorized access. All supporting documentation, including personnel agendas and PAN forms, should be uploaded, as well, into the appropriate folder.

Management's Response

9.1 *A subset of HR Payroll staff has been selected to meet with the Public Records Manager to review the records retention schedule and ensure it is appropriately inclusive. After any required updates, training will be held to ensure that staff is well versed on, and follows requirements.*

9.2 *As HR reviews the PPM and suggests revisions, clear language regarding records retention will be crucial. In addition, once HR's records retention schedule has been reviewed, all HR Payroll staff will complete training.*

9.3 *HR Payroll is developing a process map to plan for a secure electronic filing system to coincide with the planned 2018 implementation of the ERP. Electronic filing will include distinct files and secure access to documents based on individual or group employee permissions.*

Objective #10 – HR Payroll Personnel are Adequately Trained and Processes are Consistent Among Personnel.

FINDING Inconsistencies among HR Payroll processes were noted. No cross-training among staff was evident.

DIA evaluated the adequacy of design and operation of the management framework, practices and controls in place to manage and oversee the payroll process to ensure its quality, accuracy, and consistency. Efficient procedures are essential in the daily operations of HR Payroll. Employees should utilize their time performing duties that ensure daily operations are carried out accurately and in the most efficient and timely manner.

Performance management includes activities which ensure that goals are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product or service, as well as many other areas.

During our walk-through of operations in HR Payroll, we noted the following:

- Management's review of payroll reports prior to certifying payroll is not evident during payroll week prior to the final payroll register run.
- After review of the department's organizational chart and walk through of current processes, some payroll administrators appear to take on the responsibilities of payroll officers (their subordinates) without monitoring controls in place. They should not be authorizing and approving their own work. Doing the work of their subordinates may delay their own work or prevent them from taking time off.
- We also found the Manager performing tasks that could or should be performed by payroll administrators or payroll officers. The Manager performs multiple duties

during payroll week and lacks time to manage the payroll run to ensure all procedures are timely performed prior to submitting payroll data to the Fiscal Office.

- Tasks and duties of the current Manager requires the Manager to work over 40 hours a week and on weekends. Other HR personnel do not have the training and knowledge to assist the Manager if assistance is needed or the Manager is absent.
- There was no cross-training in place to promote consistency and efficiency in the payroll process. We found inconsistencies in termination payouts between equivalent HR Payroll staff.
- There was no cross training in place to enable a continuation of duties when a vacancy requires it, whether due to vacation, illness, FMLA, or retirement.

Risk to the County if Findings Not Corrected

If departments do not have policies and procedures in place to maximize efficiencies in daily operations, inefficiencies in procedures will continue until management evaluates and reassesses them. A lack of efficient procedures could result in daily operations not being completed in a timely manner. Performing unnecessary steps in day-to-day operations could prevent employees from focusing on the more important departmental processes. Without cross-training or review of current processes, there is no consistency in the payroll process among the staff.

Recommendations

10.1 DIA recommends HR Payroll, along with Fiscal Payroll, evaluate daily operations to ensure procedures are efficient. Policies and procedures for personnel should be updated to follow and reference as a daily guideline. This should ensure consistency in the payroll process regardless of who is performing the tasks. Creating a process to cross-train employees would make the transition smoother and more efficient when absences occur.

10.2 We recommend Payroll administrators and the Manager do not perform tasks they have approval authority unless proper monitoring controls are put in place. Specifically, any job duties performed by payroll administrators should be reviewed and approved by the Manager. Administrators and the Manager could timely accomplish more of their own work if they are not completing work for their subordinates.

10.3 The Manager's duties and tasks should be evaluated to identify areas of efficiencies and limit process setbacks during the payroll run. Other current HR personnel should be trained to gain knowledge on the Manager's role in HR Payroll. This training can be beneficial to assist the Manager during payroll run and when the Manager is absent.

10.4 The Manager should document that payroll reports are reviewed for accuracy before certifying payroll. A control should be implemented showing that a level of authorization and review has been performed and evidenced by initials, dates, check marks, etc. prior to certifying payroll.

Management's Response

10.1 *HR Payroll staff has undergone training in process mapping, and is diligently working to document as many uniform processes as possible prior to the ERP "Brown Paper Processes" beginning in August. Cross-training is a goal that will be addressed as staffing levels allow.*

10.2 *HR Payroll is developing process maps of all tasks. Goals of the 2018 ERP implementation include allowing Manager and Administrators to focus less on data entry duties and more on management, and ensuring that appropriate approvals are required in the system.*

10.3 *HR Payroll is currently restructuring roles and job descriptions. Among other changes, this will allow multiple staff to be trained to complete various Manager duties.*

10.4 *Manager review, approval and authorization of the bi-weekly payroll reports will be an expected feature of the ERP system in 2018.*

Recommendations for the New ERP System.

The County was in the process of planning and implementing a new ERP system during the audit. This system will integrate the Fiscal Office's accounting system with the systems utilize by Fiscal Office payroll and HR Payroll. Throughout this payroll audit, control weaknesses found should be corrected with the new ERP system, but correcting these now ensures the process is consistent and data is reliable when migrating to the new ERP system. Specifically, the following was noted throughout the audit:

- All manual records and supporting documentation were kept in multiple folders and locations: a payroll file, personnel file, benefits file, position audit file, and disciplinary file were found in five different areas in the HR office.
- Personnel other than HR Payroll were able to make pay rate changes. In addition, security access was not periodically reviewed to ensure SAP access matches job duties.
- User IDs were deleted from the system when no longer needed, eliminating the audit trail.
- Pay rate changes were made in SAP without supervisor approval needed.
- Application control overrides in the system occurred.
- Leave Payouts and "Other Earnings" (retroactive payments) did not require supervisor approval.
- Manual adjustments to pay, leave time, deductions, etc. did not require supervisor approval prior to entry into the system for payment
- Employees were unable to view withholding information, specifically federal and state exemptions in MyHR.

- Employees could accrue more leave time in the system than the policy allows.
- OT was calculated manually for some employees, rather than automatically in the system and, in addition, not reviewed for errors.

Recommendations

We recommend HR Payroll review this audit report and consider implementing applicable recommendations into the new ERP system. Specifically, the following information technology controls should be included:

- All manual records and supporting documentation should be electronically stored for security and easy access. Access to such records should be restricted to authorized personnel. These records should include personnel files, such as hire and termination letters, PAN forms, executive personnel agendas, leave payout documentation, other earnings payments, adjustments to pay support, etc.
- Structure the roles and responsibilities in the new system so that only designated HR staff have access to make pay rate changes in the system.
- A comprehensive review of the current roles and responsibilities in SAP should be undertaken to ensure that employees only have access to view, update, or delete records required for their job duties.
- Develop procedures that create a review and approval process for all pay rate changes in the new system. No pay rate changes should be posted in the new system until supervisor approval is electronically obtained.
- Users should not be deleted out of the system. User access should be end dated and User IDs should be deactivated (not deleted) when termination notification is received so the audit trail is maintained.
- Applications controls in IT systems ensure the input data is complete, accurate and valid. IT application controls should be in place to ensure employees abide by federal, state and local policies, including the County's PPM. For example, overrides to the current IT control preventing exempt employees from earning OT should not occur unless the PPM allows the override to occur with management approval.
- Electronic supervisor approval should be obtained on all "Other Earnings" payments, such as retroactive and leave payouts, or a formal policy should be developed for approving "Other Earnings" over a certain dollar amount (i.e. $10,000).
- Any manual adjustments to pay, leave time, deductions, etc. should be electronically reviewed and approved by a supervisor before officially being paid or changed in the system (park and post).
- Employee payroll information, such as withholding exemptions (Federal W-4 and Ohio IT-4 exemptions), should be accessible for employees to view in the new ERP.
- IT application controls should be added to SAP and the new ERP that will prevent employees accruing more than the maximum leave balances allowed under their respective CBAs or the County's PPM.

- The County's new ERP system should be designed to automatically pay OT specifically for bargaining time clock employees. SAP should automatically calculate each employee's comp time and OT per their respective CBA. Each payroll week, HR Payroll should review the calculations for errors or unusual OT hours.
- The new ERP system should generate a report that will flag “out of range” transactions. Prior to finalizing payroll, the system should generate an exception report for HR Payroll to further review potentially “unusual” transactions. This report should flag transactions such as large “Other Earnings” payments and OT hours, and significant changes from the prior pay period (e.g. pay rate increases and deduction changes). HR Payroll should ensure supporting documentation was maintained for these transactions before finalizing payroll.

Management's Response

The following recommendations are accepted and will be pursued as the County migrates to the new ERP system:

- *Future electronic storage of distinct HR records, with restricted access by category*
- *Designation of pay rate change roles and responsibilities*
- *Review and approval processes for pay rate changes*
- *User deactivation, rather than deletion, from the system*
- *Application adherence to the PPM, CBAs and law, including leave balances etc.*
- *Approval of all “other earnings” payments*
- *Approval of manual adjustments to pay and leave time*
- *Employee self-service allowing employee view*
- *Firm caps on leave time accruals*
- *Automatic calculation of OT*
- *Exception report on “out of range” transactions*
- *HR Payroll anticipates coding the ERP system to flag outliers. As recommended, these will be placed on an exception report for review and verification prior to finalizing payroll. All supporting documentation will be maintained per the records retention policy.*

Follow-up Response from the Chief Talent Officer on Four Areas of Focus

Prior to release of the report, the Chief Talent Officer wanted to ensure complete resolution for changes they have made, and future changes they will make. There are four additional areas of focus for which they want to capture in their responses, and they include:

- ***Aligning organizational structure with current and future needs.***
  - *We have introduced a change in job duties and responsibilities, with an emphasis on strategy and shifting priorities.*
    - *A Sr. Payroll Manager job has been developed. This job focuses on aligning payroll with organizational strategic priorities, premium delivery of customer service and the assurance that HR complies with all policies, practices and applicable laws.*
    - *The Payroll Administrator job will be refocused and revamped. An emphasis will be placed on process improvement, project management, and regular customer engagement. In addition, this job will focus on analytics and application of problem solving.*
    - *We will reduce the number of Payroll Officer jobs and once the current Payroll/HRIS Manager retires, we will not refill that position.*
    - *A Director of Employee Services job will be filled and the Payroll, HRIS and employee services functions will report up to it.*
- ***Designing and implementing employee and functional area development plans to enhance specific and overall knowledge.***
  - *Skill and competency development plans have been initiated for our payroll team*
    - *We have worked with the Employees Resources Council (ERC) and our own OED & Training team to provide training to our payroll team.*
    - *We are regularly engaging our payroll team and providing them with opportunities for professional growth and networking.*
- ***Identifying and focusing on performance goals and metrics to drive results.***
  - *Each employee on our payroll team has annual performance goals and must deliver and drive identified metrics in their sections.*
- ***Ensuring accountability is clearly articulated, aligned and followed.***
  - *Once we hire the Sr. Payroll Manager, accountability for frontline decisions will be made by this person.*