

# Audit Report Highlights

**Employee Leave Payroll Audit** **September 2022**

**Total Potential Recoveries<sup>1</sup> \$23,223.20** **Total Cost Savings<sup>2</sup> Not Applicable**

**Payroll Annual Budget<sup>3</sup> = \$594 million** **County Annual Budget<sup>4</sup> = \$1.4 billion**

## Why DIA Did This Audit

The purpose of this audit was to conduct a targeted examination of the payroll process with a focus on leave induced payments. The audit was approved as part of the 2022 Audit Plan. Payroll was identified as high risk due to the Auditor of State (AOS), in the external audit for Fiscal Year 2020, identifying a payroll overpayment. The audit period under review was January 1, 2020 through December 31, 2020.

The objectives of this audit were to:

1. Determine the extent of any additional payment inaccuracies relative to employee leave.
2. Assess current leave payment process for control deficiencies.

## What DIA Found

HR Payroll is committed to ensuring timely and proper pay even during the pandemic which required additional work of administering new County and Federal requirements. DIA noted the following internal control or compliance issues:

- Inaccurate pays and leave occurred due to clerical and system errors and lack of monitoring controls;
- Pays were issued without appropriate support documentation of time worked or leave taken;
- Employees were paid for time after the employees separated from County employment;
- Manual pay adjustments and checks occurred without appropriate support or documented approval;
- Leave donations and separation payouts lacked appropriate controls and oversight;
- Inadequate segregation of duties existed in the payroll system, as IT employees were responsible at times for recording payroll transactions related to employee leave.

*Recommendations have been rated by priority: High, Moderate, Low, or Business Process Improvement. The report contains 11 recommendations:*

- 18 High** – 30 days to complete
- 0 Moderate** – 90 days to complete
- 0 Low** – 180 days to complete
- 0 Process Improvements**- No action required

<sup>1</sup>Total amount that could potentially be recovered from overpayments. (Findings 1-3: (\$3,042.66 + \$867.54 + \$809.67 + \$18,503.33) The amount the County could potentially save annually by implementing recommendations. (Cost savings may not be identified.)

<sup>3</sup>Taken from the 2020 adopted budget, which includes operating appropriations from all County funds. (The budget includes all personnel service expenditures (salaries and employer portion of contributions).)

<sup>4</sup>The County Annual Budget includes operating appropriations from all County funds.

# Audit Report Highlights

Employee Leave Payroll Audit

September 2022

## Background

HR Payroll division is committed to ensuring timely and proper pay for over 5,000 Executive Agency employees.

The County payroll process is multi-faceted.

- HR Payroll Officers and Time & Attendance Payroll Administrators manage timekeeping.
- HR Generalist ensure eligibility and completion of employee actions, such as leave requests.
- Employee Service Specialists enter actions that affect pay into the payroll system, such as pay rate changes.
- Fiscal Payroll Officers generate the pay register.
- HR Payroll Officers review the payroll for accuracy.
- Fiscal Payroll issues employee paychecks.



## What DIA Recommended

DIA provided HR Payroll management with recommendations for improving internal controls. We provided these recommendations during fieldwork to lessen potential risks. Doing so during the course of fieldwork, rather than at audit completion, allows the department a chance to remedy identified issues immediately and have no surprises when the report is written.

HR Payroll is working to address the issues noted in this report. Based on their responses, we believe corrective action will be taken to mitigate the risks identified. Management responses follow each recommendation in the report. Recommendations we made for management included:

- Management should review, revise, and document their processes to implement controls as needed.
- HR Payroll should consult with the Law Department on recovering the overpayments and issuing the underpayments.
- HR should implement a document management system for electronic storage and retrieval of personnel records on a shared drive for improved record retention.
- Requests for manual pay adjustments and checks should be in writing. The resulting manual pay adjustments and checks should be reviewed by a supervisor for appropriate and adequate support.
- Leave donations and accumulated time payouts should be reviewed by a supervisor for appropriate and adequate support.
- Management should ensure that write-access in the payroll system is limited to authorized users only to the extent necessary to perform tasks within their roles and responsibilities.

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*Internal Audit would like to express our appreciation for the cooperation and assistance received from HR and Fiscal Payroll during this audit. The strides made help improve the County's efficiency and accountability.*

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# Internal Audit Report

**Employee Leave Payroll Audit  
Fiscal Office and Department of Human Resources  
January 1, 2020 - December 31, 2020**

**Director of Internal Auditing: Monica Houston, CPA,  
CGMA, CFE, CIDA**

**Audit Manager: Joshua Ault, CIA**

**Senior Auditor: Tom Schneider, CPA**

**Staff Auditor: Dawn Meredith**



*Release Date 10/28/2022*

**INTERNAL AUDIT REPORT**  
**Employee Leave Payroll Audit**  
**Cover Letter**

September 16, 2022

To: Director of HR Employee Services, Patrick Smock, and current management of HR Payroll

The Department of Internal Auditing (DIA) has conducted an audit of Employee Leave Payroll for the period January 1, 2020 to December 31, 2020. During the performance of the external financial statement audit for Fiscal Year ended December 31, 2020, the Auditor of State issued a finding of recovery due to an erroneous overpayment to an employee on leave. Our main objective was to determine the extent of any additional payment inaccuracies relative to employees on leave as well as assess the adequacy and effectiveness of current leave payment process in mitigating the risk of errors or irregularities.

To accomplish our objectives DIA conducted interviews with management and staff regarding HR Payroll's procedures and operational controls over the payroll function. In addition, we conducted control and substantive testing to assess leave actions and resulting pay transactions for accuracy.

Our audit procedures disclosed internal control weaknesses related to payroll and recordkeeping. This report provides the details of our findings. DIA identified non-compliance with HR Payroll's policies relative to the administration of leave. We are confident corrective action has been taken or will be taken to mitigate the risks identified in this audit report. We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 HR Payroll staff and management, and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. A draft report was provided to HR Payroll management for review. Management responses are included within the audit report.

Respectfully,

A handwritten signature in blue ink that reads "Monica Houston". The signature is written in a cursive style with a large initial "M".

Monica Houston, CPA, CGMA, CFE, CIDA  
Director of Internal Auditing

Cc: Cuyahoga County Council  
William Mason, Chief of Staff  
Greg Huth, Law Director  
Michael C. O'Malley, Cuyahoga County Prosecutor  
Catherine Tkachyk, Chief Innovation Officer (Executive Agency Audit Liaison)  
Sheba Marshall, Director of Human Resources and Total Rewards & HRIS

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## Glossary

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<b>Accumulated Time Payout</b>	A payout to an employee of vacation leave upon separation and sick leave upon retirement. The County's Employee Handbook provides further criteria for payout eligibility.
<b>Auto-Pay</b>	Auto-pay refers to employees set up to be paid automatically for their regularly assigned work hours even if no timesheet has been submitted by the employee.
<b>CBA</b>	Collective Bargaining Agreements (CBA). A written legal contract between an employer and a union representing employees. The County has several CBAs which provide varying rules in the handling of union employee pay, such as overtime eligibility and leave.
<b>ESS</b>	Employee Services Specialists. Employees tasked to enter employee actions in the payroll system (SAP), such as pay increases or interruptions, upon receiving requests from HR Generalists.
<b>FLSA</b>	Fair Labor Standards Act (FLSA) is a federal law that sets minimum wage, overtime, minimum age requirement for employers and employees.
<b>FMLA</b>	Family Medical Leave Act (FMLA) is a federal law that allows eligible employees to take up to 12 weeks of unpaid leave for specific medical or family reasons.
<b>HR Generalists</b>	Employees who perform human resource services for assigned County agency/agencies including tasks such as assessing eligibility and paperwork completion necessary to process employee actions, such as requests for leave (e.g., FMLA).

**INFOR Mainframe**

System used by Fiscal Payroll Officers to generate the pay register and issue employee payroll.

**INFOR Workforce Management**

Integrated payroll and time entry system replacing the legacy systems (INFOR Mainframe, MyHR and SAP) as of 7/3/2022.

**Interruption**

Refers to employee actions relating to an unpaid status (e.g., family medical leave, separation, suspension), entered into the payroll system (SAP) instructing the INFOR mainframe to interrupt the employee's auto-pay.

**Leave Donation**

Vacation or sick leave donated from one employee to another. The County's Employee Handbook provides further criteria for leave donation eligibility.

**MyHR**

Electronic timekeeping system used by most exempt and nonexempt employees.

**Payroll Officer**

Employees tasked to ensure the completeness and accuracy of timekeeping and payroll on behalf of supervisors and employees in various departments throughout the County. Payroll Officers must understand rules that impact the handling of employee leave and pay, such as FMLA, FLSA and CBAs. Payroll officers also enter employee leave taken and accrued in SAP.

**SAP**

System Applications Process (SAP) is the system utilized by HR to track and store employee benefits, timekeeping, and payroll data.



## Report Details

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### Purpose

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The purpose of this audit was to conduct a targeted examination of the payroll process with a focus on leave induced payments.

The Audit Committee approved DIA's 2022 audit plan to include an audit of payroll. Payroll was identified as an area of high risk due to the Auditor of State (AOS) audit for Fiscal Year 2020 identifying a payroll overpayment for an employee that consistently occurred over a period of several weeks. The AOS issued a Recovery Notice relative to the finding. We conducted our review through inquiry and testing of expenditures during the audit period. DIA evaluated processes for compliance with existing policies, contractual agreements, and applicable legal statutes.

The audit included review and evaluation of procedures, practices and controls as deemed necessary.

### Audit Objectives

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The objectives of this audit were to determine:

#### 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.

- The extent of any additional payment inaccuracies relative to employees on leave.
- If current leave payment processes operate within a control conscious environment.

### Scope

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To accomplish our objectives, we focused on payroll for the audit period January 1, 2020 to December 31, 2020. The County's Fiscal Office issued 26 biweekly payroll payments ("pays") to all active County employees based on the payroll data (paid hours and hourly rates) received from County agencies and entered into the pay register used to produce paychecks. DIA tested these pays. Pays for the 15 agencies outside of audit jurisdiction were excluded from review.

Interviews with management and staff were conducted to document the controls in place and determine if they were designed appropriately. Additionally, tests of transactions and controls were performed to determine if pays were accurate and controls were operating effectively and in compliance with applicable legal statutes.

## Methodology

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DIA conducted interviews with management and staff, along with general walk-throughs, to gain an understanding of the processes related to payroll and employee leave. DIA documented controls in place and performed substantive testing which included analytical procedures, test of details using sampling methods, as well as verification of payroll accuracy and leave usage based on payroll records. An analysis was performed to identify anomalies for potential overpayments for each population by comparing records to the pay register. From those anomalies, a sample was selected for detailed testing based on the American Institute of Certified Accountants (AICPA) A-133 sampling guidance:

- 33 employee interruptions (100% of 33 employees)
- 20 employees with unpaid leave recorded in timekeeping records (10% of 189 employees)
- 60 auto-pay employees with locked (incomplete and/or unapproved) electronic timesheets (out of 1775 employees)
- 8 auto-pay employees with paper timesheets (10% of 80 employees)

## Audit Procedures

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Although every audit conducted by the DIA is unique, the audit process for most engagements consists of the following three phases:

- Planning
- Fieldwork
- Reporting

The planning phase of an engagement entails gathering sufficient understanding of the area being audited to identify and reduce key audit risks to an appropriate level. DIA must document and develop a plan for each audit engagement, including the engagement's objectives, scope, timing, and resource allocation.

The fieldwork phase of an engagement entails executing the audit steps. This usually includes testing, reviewing, and analyzing data along with interviewing the appropriate personnel. Each audit has unique aspects and therefore the audit fieldwork and analysis performed on each audit segment should be customized for that assignment. See Methodology for a summary of fieldwork performed.

DIA prepares written reports to communicate the results of each engagement. The format and nature of the report can vary depending on user needs and the type of engagement. Additionally, DIA requires all engagements to receive an appropriate level of supervisory review and quality control as required by professional standards.

At the time of report release, DIA resources required to complete the audit were as follows:

Stages		Actual Hours
Planning		173.05
Fieldwork		557.56
Reporting:		149.25
Review	80.50	
Draft Report	68.75	
<b>Totals</b>		<b>879.86</b>

## Background

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During completion of AOS's annual audit for Fiscal Year 2020, a payroll overpayment was identified for an employee with missing timesheets. The overpayment consistently occurred over a period of several weeks due to control failures and the use of auto-pay. Auto-pay means an employee will be paid for their regular work hours even if no timesheets were submitted. The AOS issued a Recovery Notice relative to the finding. They did not expand their sample size or perform any additional work to determine the extent of the concern.

The County's payroll process is managed as follows:

- HR Payroll Officers each manage timekeeping for a group of approximately 400-600 Executive Agency employees in the payroll system (SAP). The work is split with Time and Attendance Payroll Administrators. Non-Executive Agencies (NEAs) perform their own payroll processing however are not within DIA jurisdiction to review.
- HR Generalists, upon receiving requests for employee actions (e.g., leave requests, pay increases), ensure employees are eligible and complete the necessary paperwork.
- Employee Service Specialists receive the paperwork and enter employee actions in the payroll system (SAP).
- Fiscal Payroll Officers generate the pay register using the timekeeping data received from SAP (and other sources for NEAs).
- HR Payroll Officers review the pay registers for accuracy and request Fiscal Payroll make any necessary manual adjustments or remove any pays for employees who should not be paid.
- Finally, Fiscal Payroll issues paychecks to employees either through direct deposit or check.

## Commendable Practices

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DIA commends HR Payroll and Fiscal Payroll for their continuous commitment in ensuring the timely and proper pay for over 5,000 employees. This is especially noteworthy over the course of the pandemic, which presented HR Payroll with the added work of administering additional County and Federal leave requirements. Furthermore, DIA especially thanks HR Payroll and Fiscal Payroll personnel for their time and assistance during the transition to the new payroll and time entry system.

Our audit procedures disclosed the following commendable practices:

- HR Payroll is knowledgeable in numerous timekeeping, overtime, and leave requirements across 36 Collective Bargaining Agreements, laws such as the Fair Labor Standards Act and Family Medical Leave Act, and other leave programs in the HR Employee Handbook.
- HR Payroll has been committed to implementing monitoring controls to mitigate the risk of pay and leave inaccuracies inherent in a payroll system set to autopay, where employees with late termination actions or incomplete paper or electronic timesheets could still be paid if not detected.
- The County's decision to upgrade to a new payroll system in 2022 should eliminate risk by discontinuing the autopay feature and use of paper timesheets, as it is set to pay employees based on completed and approved electronic timesheets only. This will reduce errors and save HR Payroll the time spent keying in paper timesheets, reminding supervisors and employees to complete and approve timesheets on time, and determining whether the autopay was accurate once late timesheets are finally completed and approved.

## Priority Level Criteria for Recommendations

<b>High (P1)</b>	<b>Highest-Ranking Officer's immediate attention</b> is required. Corrective action is strongly recommended ( <u>30 days</u> ).
	<ul style="list-style-type: none"> <li>• Financially material loss or potential loss</li> <li>• Lack of or failure of internal controls requiring considerable time and resources to correct</li> <li>• Non-compliance with laws, regulations, and policies resulting in significant loss of funds, fines, or restrictions</li> <li>• Significantly negative effect on the County's reputation or public perception</li> </ul>
<b>Medium (P2)</b>	<b>Senior Management's attention</b> is required. Corrective action is recommended ( <u>90 days</u> ).
	<ul style="list-style-type: none"> <li>• Financial loss or potential loss</li> <li>• Internal controls exist but they are not effective, or they are not consistently applied</li> <li>• Non-compliance with laws, regulations, and policies resulting in loss of funds, fines, or restrictions</li> <li>• Negative effect on the County's reputation or public perception</li> </ul>
<b>Low (P3)</b>	<b>Management's attention</b> is required. Corrective action is recommended ( <u>180 days</u> ).
	<ul style="list-style-type: none"> <li>• Financial loss or potential loss is minimal</li> <li>• Internal controls exist, but could be improved</li> <li>• Non-compliance with laws, regulations, and policies is a minimal risk</li> <li>• No effect on the County's reputation or public perception</li> </ul>
<b>Business Process Improvement (P4)</b>	<b>Management or supervisory attention</b> recommended but not required
	<ul style="list-style-type: none"> <li>• Process improvement recommendation</li> <li>• Financial loss or potential loss is minimal or not applicable</li> <li>• Non-compliance with laws, regulations, and policies is a minimal risk or not applicable</li> <li>• No effect on County's reputation or public perception</li> </ul>

In an effort to assist the auditee in making the best use of their resources, we have prioritized the recommendations according to the table above.

## Findings and Recommendations

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### **FINDING    Leave Donations and Separation Payouts Lack Controls**

Leave donations lack appropriate controls. Additionally, separation payouts for accumulated leave lack appropriate oversight.

In its testing of 33 employees with interruption actions, DIA identified one employee who donated sick leave to a fellow employee however did not have their accrued leave deducted in the payroll system. This resulted in an overpayment of \$3,042.66 (114 hours at a rate of \$26.69/hour) in their accumulated time payout when the donating employee separated from County employment. DIA reviewed the support related to the leave donation and accumulated time separation payout and noted the following issues:

- The “Employee Leave Donation Form” and “Family Medical Leave Donation Work Flow Form”, while filled out properly, do not require signatures for review or a secondary review for approval and/or verification the donation was completed accurately.
- While the “Accumulated Time Payout Form” used to calculate separation pay does require secondary review and two sets of signatures, the form was incomplete and lacked signatures by both the “Timekeeper” and “Payroll Administrator” (Payroll Officer) for authorization and to document oversight.

Upon receipt of completed leave donation forms from HR Generalists, HR Payroll Officers input the leave adjustments in the payroll system through entries referred to as Quota Corrections. There is not a secondary review of the forms for the appropriateness and accuracy of input of leave adjustments.

HR Generalists prepare a “Family Medical Leave Donation Work Flow Form” to track the donated leave between recipients and donors. HR Generalists add to the Form upon receiving an “Employee Leave Donation Form” from a donating employee. HR Generalists provide these forms to payroll officers to determine the necessary leave adjustments in the payroll system for both the donor and recipient.

Accumulated time payouts are reviewed by HR Payroll Officers upon an employee’s separation from County employment. Timekeepers prepare and provide HR Payroll Officers “Accumulated Time Payout Forms” documenting their calculation of the payout based on the time balances reported in the payroll system. HR Payroll Officers are expected to review the form for completeness and accuracy and are required to sign to evidence secondary review.

Due to risk of input errors or unauthorized transactions, secondary review of system entries, especially those that impact the accuracy of pay and leave (such as with leave adjustments and

accumulated time payouts) is best business practice. To facilitate the secondary review, supporting documentation, either physical or electronic, should be maintained for all leave adjustments and accumulated time payouts made in the payroll system, SAP.

### **Risk to the County if Not Corrected**

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Lack of a formal policy can lead to inconsistent practices and management's expectations not being met. Failure to obtain approval and conduct oversight when issuing manual leave adjustments and accumulated time separation payouts limits management's ability to detect unauthorized or inaccurate payments. This could cause the County to incur unnecessary costs if the payments are not recovered.

Overpayments could be deemed an illegal expenditure per AOS Bulletin 2003-005 and those responsible could be held jointly and severely responsible.

### **Recommendations**

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1. (P1) HR Payroll should add a policy that a secondary review and two sets of signatures are received on leave donation forms to verify the completion of the leave adjustments in the payroll system for both the donor and recipient. This would address the risk as is accomplished similarly on the Accumulated Leave Payout Form by secondary review and two sets of signatures.

***Management's Response:***

***Develop a leave donation process map. This will encompass the work flow from beginning to end, including authorizations of the Employee Leave Donation Form and FML Donation Work Flow Form.***

***Target Date for Completion:***

***Process mapping and policy development target date November 18, 2022***

2. (P1) HR Payroll should add a policy enforcing its requirement that the Accumulated Leave Payout Form be filled out completely and signed by both the "Timekeeper" and "Payroll Administrator" (Payroll Officer) before payouts may occur.

***Management's Response:***

***Develop a written policy regarding staff completion of the Accumulated Leave Payout form – including required approvals.***

***Target Date for Completion:***

***Process mapping and policy development target date November 18, 2022***

3. (P1) Management should consult with the Law Department on whether recovering the overpayment identified in the audit finding is necessary.

***Management's Response:***

***Refer information regarding this accumulated time payout to the Law Department.***

***Target Date for Completion:***

***Referral to Law Department target date November 4, 2022.***

**FINDING    Paid After Termination**

Employees were issued overpayments for time not worked after they separated from County employment. Also, HR Payroll did not take effective measures to recover detected overpayments in a timely manner.

DIA identified 3 employees who were erroneously issued a paycheck for 80 regular hours in a pay period after their termination dates:

- An employee was issued a direct deposit on 9/26/2020 for \$867.54, which was received by the employee on 9/30/2020 per the ACH confirmation from the bank. HR Payroll did not detect the overpayment.
- An employee was issued a paper check on 3/20/2020 for \$809.67, which was endorsed and cashed by the employee on 3/24/2020 per the check image from the bank records received by DIA. HR Payroll detected the overpayment and issued a letter dated 1/21/2021 requesting the employee pay back the funds. HR Payroll agreed to and provided a payment plan to the employee in March 2021, however, as of 8/5/2022 the employee has not paid back any funds.
- An employee was issued a paper check on 10/2/2020 for \$1,124.86, however, it was never cashed or voided. As of 7/25/2022, according to Fiscal Payroll, the bank records show the check is still outstanding. HR did not detect the overpayment.

When an employee separates from County employment, HR Generalists submit termination documentation to Employee Services Specialists (ESS). ESS are required to terminate employees in SAP (the County's payroll system) timely through a termination interruption, a type of employee action. Timely termination of employees in SAP is critical for ensuring that terminated employees are not paid after their effective termination date as many employees are "auto-pay". Auto-pay means the employees are set up in SAP to be paid 80 regular hours every pay period even if no timesheet is submitted.

Per policy, as a detective control for untimely termination, Human Resource (HR) Payroll Officers are expected to review a weekly termination list provided by the HR Generalists to verify that



payment to terminated employees does not occur. HR Payroll Officers are to notify Fiscal Payroll of any erroneous pay transactions for removal when an occurrence is identified.

The termination interruption inputs in SAP to deactivate the pay for the 3 employees were entered untimely by ESS, which allowed for the auto-generation of the 80 regular hours of pay after termination. The ESS were late due to untimely receipt of termination documentation from HR Generalists.

The detective control for HR Payroll to prevent payment to terminated employees failed due to the inherent risk with the manual review being a voluminous process.

The overpayment detected by HR Payroll was not recovered in a timely manner, because HR Payroll lacks a formal recovery process.

### **Risk to the County if Not Corrected**

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Failure to ensure timely deactivation in the payroll system could result in terminated employees being erroneously paid after their effective termination date. Failure to detect overpayments in a timely manner could be deemed an illegal expenditure per AOS Bulletin 2003-005 and those responsible could be held jointly and severally responsible.

### **Recommendations**

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1. (P1) Management should confirm pay and leave accuracy through targeted reviews of timesheets, leave balances, and paychecks. Although the new timekeeping system within ERP has removed the “auto-pay” feature, the targeted reviews are necessary to ensure there are no repeat or new issues in the new system that result in overpayments.

***Management’s Response:***

***Review employee termination process for issues that may cause delays or bottlenecks. Ensure the process is documented and communicated.***

***Target Date for Completion: November 10, 2022***

2. (P1) With the new system in place, Management should ensure that HR Generalists are providing employee action paperwork to the Employee Service Specialists (ESS) timely. This should be included in Management’s targeted review to reveal whether employee actions affecting pay and leave are being entered accurately and timely.

**Management's Response:**

**Review employee termination process for issues that may cause delays or bottlenecks. Ensure the process is documented and communicated.**

**Target Date for Completion: November 10, 2022**

3. (P1) Management should consult with the Law Department on recovering the two erroneous pays received by terminated employees as noted in the finding.

**Management's Response:**

**Refer overpayments noted to the Law Department**

**Target Date for Completion: October 11, 2022**

4. (P1) Management should inform the Fiscal Department that the outstanding check issued to the terminated employee should be voided.

**Management's Response:**

**Notify Fiscal Office to stop payment/void outstanding check.**

**Target Date for Completion: October 6, 2022**

5. (P1) HR Payroll should adopt a formal overpayment recovery process, as well as a process for rectifying underpayments. This should include formal procedures for notifying the Law Department upon discovery, required supporting documentation, creating a log to document activity and track the status from discovery to recovery, issuing a recovery request letter, and consulting with the Law Department for authorization of HR Payroll to issue payment plans. The log and supporting documentation should be accessible by both HR Payroll and the Law Department.

**Management's Response:**

**Develop a process map for overpayments including discovery, logging and tracking, communication to employee, notification of Law Department.**

**Target Date for Completion: November 23, 2022**

## **FINDING     Inaccurate Pays and Leave**

Inaccurate pays were issued due to input errors and lack of monitoring controls.

Within its testing of employee leave, DIA identified 15 employees with pay discrepancies and 10 employees with leave balance discrepancies when comparing payroll and timekeeping records. Of the 15 employees, 13 were overpaid \$18,503.33 and 2 underpaid \$313.39.

Additionally, one employee was issued pays for 400 hours of expanded family medical leave which was not tracked in timesheets or the payroll system and thus lacked an accurate accounting of the hours taken and balance. DIA did not identify any overpayments for the pay periods reviewed related to the approved expanded family medical leave.

All 13 payroll overpayments, 1 of 2 underpayments, and 7 of 10 leave discrepancies were the result of manual process deficiencies including data entry errors/omissions, misapplication of overtime calculations or collective bargaining agreement terms, inadequate review, and/or unsupported manual adjustments to SAP and the pay register. As indicated in the *Manual Pay Adjustments and Checks Lack Support and Review* Finding, 11 of these overpayments and the 1 underpayment were due to payroll officers issuing manual pay adjustments and/or paychecks by phone or email (referred to as “call ins”) to Fiscal Payroll.

The remaining 1 of 2 underpayments and 3 of 10 leave discrepancies were the result of a system issue which went undetected during the pay register review process.

The lack of accounting for the employee’s use of the 400 hours of expanded family medical leave was because the leave balance was never set up in the payroll system for the employee to use in their timesheets. Instead, the employee indicated unpaid leave in their timesheets and Payroll Officers requested Fiscal Payroll issue the pays manually.

As a best business practice, adequate payroll controls and processes should be in place to detect clerical errors or system issues which may result in inaccuracies to employee pay and leave balances. This requires adequate documented support and review and approval of timekeeping and payroll.

### **Risk to the County if Not Corrected**

Inadequate payroll processes and controls can result in unauthorized or inaccurate payments to employees, which could cause the County to incur unnecessary costs if the payments are not recovered. Inaccurate leave balances could result in the unauthorized use of leave or inaccurate accumulated leave payouts upon separation. Overpayments could be deemed an illegal expenditure per AOS Bulletin 2003-005 and those responsible could be held jointly and severely responsible.

## Recommendations

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1. (P1) Management should implement controls that will adequately mitigate the risk of errors and irregularities. Processes and procedures should be formally documented via a written departmental policy manual that payroll officers are expected to follow. Such controls should include, but are not limited to:

- Employees are only paid for hours recorded in a submitted and approved timesheet.
- Collective bargaining agreements terms are followed (i.e. the calculation of overtime hours). This could be implemented with automated rules within the ERP timekeeping system and/or training as needed to payroll officers.
- Sufficient review of all pay registers and timekeeping records to avoid inaccuracy. This could possibly be accomplished through sub-certifications at the supervisor and/or departmental level.
- Manual pay adjustments and checks are documented as recommended in the Manual Pay Adjustments and Checks Lack Support and Review Finding.
- Leave donations and separation payouts are documented as recommended in the Leave Donations and Separation Payouts Lack Controls Finding.
- HR's retention schedule is followed consistently through appropriate digital retention of all payroll related documentation, including timesheets and leave forms.
- Approvals must be evident with signatures on any payroll related documentation, including paper timesheets and leave forms or electronically within the payroll system, if available.

### **Management's Response:**

***Several issues have been mitigated by the roll-out of the Infor Workforce Management (WFM) (aka MyTime) system. These include but are not limited to: the elimination of the "call in" process of manual pay adjustments by phone or email; automated pay, accrual and overtime rules configured into the system for each collective bargaining and non-bargaining group; elimination of paper time sheets, differential, adjustment forms and other paper documents; and elimination of auto-pay. Employees are now paid only for hours submitted and authorized on their electronic time sheet. In addition, although always a challenge, staffing is much closer to full complement than it was during the audit period of 2020. This allows for more sufficient review of pay registers, timekeeping records and adherence to retention schedule. Digital retention of records is a long-term goal.***

### **Target Date for Completion:**

***Develop team to review remaining payroll related documentation to ensure they are sufficient for the future and include signatures target: October 21, 2022 to develop team, December 16, 2022 for full review.***

2. (P1) Management should assess whether a proper reconciliation has occurred to minimize the occurrence of missing leave accruals for federal sick leave in the payroll system. If a reconciliation results in additional occurrences, Management should assess whether the omissions were substantial enough to warrant re-issuing corrected W-2s and filing a corrected claim to obtain additional tax credits, if possible.

***Management's Response:***

***Human Resources will consult with appropriate department(s) to assess if a reconciliation of federal sick leave, corrected W-2s, and/or corrected tax credit claims are necessary. If so, corrections will be performed.***

***Target Date for Completion: December 16, 2022***

3. (P1) Management should consult with the Law Department on recovering the overpayments and rectifying the underpayments noted earlier.

***Management's Response:***

***Consult with Law Department on recovering overpayments and rectifying underpayments.***

***Target Date for Completion: November 2, 2022***

## **FINDING    Manual Pay Adjustments and Checks Lack Support and Review**

Manual pay adjustments and checks occurred without appropriate support or documented approval.

In 2020, Fiscal Payroll issued manual pay adjustments or checks at the request of Human Resources (HR) Payroll Officers by phone or email (referred to as “call ins”) without supervisor or secondary approval to authorize the manual adjustment. In addition, no supporting documentation was maintained for the issuance of manual pay adjustments or checks. Fiscal Payroll did not maintain the communication from HR, and HR was not maintaining support.

As noted in the *Inaccurate Pays and Leave* Finding, all 13 overpayments and 1 of 2 underpayments were related to manual process deficiencies. More specifically, 11 of those overpayments and the 1 underpayment were due to payroll officers issuing manual pay adjustments and/or paychecks through “call ins” to Fiscal Payroll:

- 4 overpayments related to the use of paid leave hours (3 donated leave and 1 furlough) not yet loaded in the payroll system, with timesheets indicating unpaid leave taken, and a failure to retroactively apply the use of paid leave in amended timesheets once loaded in the system. Consequently, the employees used the leave in later timesheets and paid for the leave a second time.
- 7 overpayments related to reasons unidentified based on the available support. The timesheets indicated unpaid leave, but because of the lack of available information, DIA could not discern whether the manual pay adjustments and/or paychecks represented actual hours worked or paid leave taken.
- 1 underpayment related to overtime hours that were understated. The number of overtime hours paid did not match the number of hours recorded in both the timesheet and payroll system. DIA could not discern a reason for the difference based on the available support.

HR Payroll Officers determine the necessary issuance of manual pay adjustments and paychecks through the review of their assigned employees on the biweekly pay register provided by Fiscal Payroll. The issuance of manual adjustments or checks should commence with adequate supporting documentation and supervisor authorization. Supporting documentation, either physical or electronic, should be maintained for all payroll adjustments made from the payroll system to the pay register system for employee hours or earnings.

For most of the 2020 audit period, Fiscal lacked a policy requiring appropriate supervision and documentation before issuing manual pay adjustments and checks for employees. On 10/15/2020, the Assistant Fiscal Officer issued a memorandum instructing the Fiscal Payroll department to require that requests for manual pay adjustments and manual checks be made in writing, email or memo, and have supporting documentation.

HR Payroll lacked a policy to define the criteria for allowable manual pay adjustments and checks, the types of supporting documentation required, and procedures for the proper handling of manual pay adjustments and checks.

### **Risk to the County if Not Corrected**

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Lack of a policy and failure to obtain approvals and maintain supporting documentation for issuing manual pay adjustments or paychecks increases the risk of issuing unauthorized or inaccurate payments to employees, which could cause the County to incur unnecessary costs if the payments are not recovered. Overpayments could be deemed an illegal expenditure per AOS Bulletin 2003-005 and those responsible could be held jointly and severely responsible. Failure

to keep copies of records and supporting documentation compromises the audit trail and limits management's ability to detect unauthorized or inaccurate payments.

## Recommendations

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1. (P1) HR Payroll should create a policy to define the criteria for allowable manual pay adjustments and checks, the types of supporting documentation required, and procedures for the proper handling of manual pay adjustments and checks. Types of manual pay adjustments and checks include:

- Hours worked or paid leave taken missing from timesheets for current period
- Retroactive pays due to pay rate changes or changes to previous timesheets
- Reversals of incorrect pays and reissuance of corrected pays
- Accumulated time separation payouts

### ***Management's Response:***

***In the Infor Workforce Management (WFM) (aka MyTime) system, payroll staff no longer enter hours worked on timesheets or submit "call-ins." Payroll staff may enter paid leave time, but that requires authorization prior to payment. Changes to previous time sheets are calculated by the system and require authorization. Accumulated time separation payouts are calculated by the system and are double checked on paper by payroll staff then require payroll supervisor signature. Reversals and reissuances follow a process including payroll manager signature. They are then reviewed by the Fiscal Payroll Manager prior to any payment being made. A process should be defined for retroactive pays due to passage of collective bargaining agreements.***

### ***Target Date for Completion:***

***Develop team to review remaining payroll related documentation to ensure they are sufficient for the future and include signatures target: October 21,2022 to develop team, December 16 for full review.***

***Process map for retroactive payments due to passage of collective bargaining agreements target: December 16, 2022***

2. (P1) HR Payroll should discontinue the practice of issuing manual pay adjustments and paychecks for paid leave not yet loaded in the system. If management wishes to continue the practice to prevent pay delays to employees who have exhausted all paid leave, a supervisor should track occurrences and perform a secondary review each pay cycle to ensure that the leave is loaded in the system and Payroll Officers applied the use of paid leave retroactively in an amended timesheet.

**Management's Response:**

***In the Infor Workforce Management (WFM) (aka MyTime) system, payroll staff no longer enter hours worked on timesheets or submit "call-ins."***

**Target Date for Completion:**

***Completed 7/3/2022 upon the implementation of INFOR Workforce Management.***

3. (P1) Requests from Payroll Officers to the Fiscal Department to issue manual pay adjustments and paychecks should be made in writing (email or memo) and have supporting documentation instead of "call-ins". A Payroll Officer's supervisor should be copied on every Fiscal Department notification to document to the Fiscal Department that the supervisor was notified and review conducted.

**Management's Response:**

***In the Infor Workforce Management (WFM) (aka MyTime) system, payroll staff no longer enter hours worked on timesheets or submit "call-ins."***

**Target Date for Completion:**

***Completed 7/3/2022 upon the implementation of INFOR Workforce Management.***

4. (P1) Each pay period, an HR Payroll supervisor should review any manual pay adjustments and paychecks that were issued to ensure the policy was followed. If the system allows for settings requiring supervisor review/approval of manual adjustments and checks, that function should be enabled.

**Management's Response:**

***In the Infor Workforce Management (WFM) (aka MyTime) system, payroll staff no longer enter hours worked on timesheets or submit "call-ins."***

**Target Date for Completion:**

***Completed 7/3/2022 upon the implementation of INFOR Workforce Management.***



## **FINDING Pays Lacking Support and Authorization**

Documentation supporting payroll transactions and proper authorization of such is not obtained and/or retained in a consistent manner.

DIA identified the following instances in its testing of employee leave for 8 auto-pay paper timesheet employees who were issued their full weekly pays:

- 2 missing timesheets. The timesheets could not be found in the payroll division's offices. However, sufficient approved paid leave hours were recorded in the payroll system.
- 18 timesheets with no supervisor signature on the signature line, thus lacking evidence of review and approval.
- 19 timesheets with no employee signature on the signature line and 79 timesheets with the employee's name pre-filled on the signature line, thus lacking evidence of authentication of completion by employee.

For the above paper timesheet employees, despite the occurrences of non-retention and lack of signatures, DIA received sufficient supporting documentation to assess the corresponding pays were accurate.

DIA identified the following instances in its testing of employee leave for 60 auto-pay electronic timesheet employees who were issued their full weekly pays:

- 1 employee with missing timesheets for 2 weeks. These timesheets were not generated in MyHR (the County's timekeeping system during 2020) for the employee to fill out.
- 2 employees each with incomplete timesheets for 1 week with less than their full hours (40) reported.
- 1 employee with 1 blank timesheet.

For the above electronic timesheet employees, DIA was unable to assess the corresponding pays for accuracy, as neither completed timesheets or any other documentation system entries evidencing work was performed or leave used for the missing or incomplete portions of the timesheets were provided.

Properly completed, reviewed, and approved timesheets provide assurance of the accuracy for payroll. Signatures provide authenticity for the individuals attesting to the information provided on a timesheet.

Utilizing a centralized document management system ensures that copies of records and supporting documentation are easily accessible and enhances management's ability to reconcile its systems. Additionally, it ensures compliance with record retention laws such as:

- Fair Labor Standards Act – Per 29 CFR Part 516, employers must keep certain payroll records for each non-exempt worker including, however not limited to, the hours worked each day and total hours worked each workweek for at least three years.
- Cuyahoga County Ordinance O2013-0002 – Adopts a Public Records Policy for Cuyahoga County which requires each public office to have a records retention schedule in place which shall specify the methods and length of time records shall be kept. The Department of Human Resources (HR) Records Retention Schedule states payroll records are required to be maintained for three years after the end of the fiscal year.

Auto-pay means the employee will be paid for their regular work hours even if no timesheet has been submitted by the employee. For auto-pay employees, payroll is handled by an “exceptions only” process. This means the mainframe system is set to issue these employees their full pay, unless the pay is overridden by system entries or manual entries by Human Resource (HR) Payroll Officers or Fiscal Payroll.

The auto-pay process is dependent on timely, complete, and accurate timesheets to deliver the timekeeping information necessary to calculate accurate pay and leave balances. It is also dependent on adequate review for accuracy by HR Payroll Officers.

Adequate controls are essential to detect autopay employees paid without support of completed original or amended timesheets. Per HR policy, as a detective control, HR Payroll Officers are expected to review the weekly “Timesheets Not Submitted and Approved” reports from MyHR to ensure that “locked” timesheets (timesheets that are blank, incomplete, not submitted, or not approved) are amended and complete.

The compensating control of HR Payroll Officer review and monitoring failed to prevent or correct the errors. More specifically:

- The missing paper timesheet could not be found in the payroll division’s offices due to the inherent risk with paper-based filing systems and lack of scanning to a centralized document management system.
- The instances of paper timesheets lacking employee and supervisor signatures occurred because the payroll division lacked a formal policy requiring payroll officers obtain the signatures before accepting the timesheets and authorizing the employee’s pay.
- Missing electronic timesheets were not generated because the payroll division lacked an effective detective control to identify active auto-pay employees whose timesheets were not generated in MyHR.
- Incomplete and blank electronic timesheets occurred due to a failure by the HR Payroll Officers to ensure there were corrections with completed amended timesheets that were exported and reflected in the payroll system.

## **Risk to the County if Not Corrected**

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Failure to retain records and supporting documentation compromises the audit trail, limits management's ability to reconcile its systems, and does not comply with record retention laws.

Not obtaining evidence of properly completed, reviewed, and approved timesheets can result in potentially unauthorized or inaccurate payments to employees, which could cause the County to incur unnecessary costs if the payments are not recovered. Failure to detect overpayments in a timely manner could be deemed an illegal expenditure per AOS Bulletin 2003-005 and those responsible could be held jointly and severely responsible.

## **Recommendations**

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1. (P1) Management should consult with the Law Department on whether recovering the pays not completely supported identified in the audit finding is necessary.

***Management's Response:***

***Law Department should be consulted regarding recovery.***

***Target Date for Completion: October 31, 2022***

2. (P1) For improved record retention, HR should implement a document management system for electronic storage and retrieval of payroll records on a shared drive. This would eliminate missing paper records and make payroll records immediately available. All supporting documentation (e.g. timesheets, leave forms) should be signed and uploaded into the appropriate folder.

***Management's Response:***

***Paper documentation and auto-pay issues have been addressed by the implementation of the Infor Workforce Management (WFM) (aka MyTime) system. All time sheets and leave forms are now electronically submitted in the WFM system. All time sheets require entry of time records and authorization for an employee to be paid. That is, employees are no longer auto-paid.***

***Implementation of a centralized document management system is a long-term goal. Fair Labor Standards Act requirements are met by information storage in the WFM system. Other retention challenges have been mitigated as staff is now much closer to full complement. Payroll was severely understaffed during the audit period.***

***Target Date for Completion:***

***Completed 7/3/2022 upon the implementation of INFOR Workforce Management.***

## **FINDING     Inadequate Segregation of Duties**

Inadequate segregation of duties was identified within the County's payroll system, SAP.

During testing of employee leave, DIA identified the following payroll transactions entered in the payroll system by an IT employee:

- Timekeeping entries for days of leave taken
- Emergency leave accruals
- Correction to misstated vacation leave balance

Segregation of duties is a key internal control intended to minimize the occurrence of errors or fraud by ensuring that no employee has the capability to both perpetrate and conceal errors or fraud in the normal course of their duties. During 2020, the County utilized SAP as a payroll system to record and track employee leave and pay for County employees under the Executive's authority.

The Information Technology (IT) department 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. IT should not have write access to record transactional activity within an organizational payroll system.

According to HR procedures, HR Payroll Officers are tasked to input timekeeping entries and leave accruals. HR Payroll Officers enter leave accruals in the payroll system for the following purposes:

- Donated sick or vacation leave to fellow employees under certain circumstances
- Unused accumulated sick leave from prior service
- Bereavement leave for the loss of certain relatives
- Leave conversions from sick to vacation (eligible in some Collective Bargaining Agreements)
- Emergency leave accruals (through The Families First Coronavirus Response Act)
- Corrections to leave balances due to missing or misstated leave accrued or taken

The HR Department had a business need for IT to assist in complex transactions and was unaware of the segregation of duties concern.

### **Risk to the County if Not Corrected**

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Employees performing tasks outside of their roles and responsibilities increases the risk of errors or unauthorized changes, because of the employee's lack of knowledge or training in the subject

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or lack of the appropriate supervision to ensure that work is reviewed for accuracy and proper purpose.

Errors or unauthorized changes could lead to the overpayments of employees for unauthorized leave accruals, which could cause the County to incur unnecessary costs if the payments are not recovered. Overpayments could be deemed an illegal expenditure per AOS Bulletin 2003-005 and those responsible could be held jointly and severally responsible.

## **Recommendations**

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1. (P1) Management should request direct access to view the roles and responsibilities of users in the payroll system to ensure that the principle of least privilege is followed. Management should ensure that IT employees do not have write access to record transactional activity within the payroll system and that the write access is limited to appropriate users. If management determines there is a business need to allow IT employees to have write access, management should regularly monitor the audit log to ensure that IT employees are only engaging in authorized activity.

### ***Management's Response:***

***HR does follow the principle of least privilege. However, HR submits that there is a business need to allow IT employees to have write access in the Infor Workforce Management (WFM) (aka MyTime) system. The WFM system does allow for a person by person audit. HR, I.T. and Infor will work together to identify or develop a more robust auditing function. If a more robust audit cannot be developed, write access permission will be revisited.***

### ***Target Date for Completion:***

***Development of a more robust audit function in WFM target December 16, 2022***