



## **Audit of the Payroll Process**

**Project #16-09**

**Prepared by**

Office of the Inspector General

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# SOUTH FLORIDA WATER MANAGEMENT DISTRICT

May 4, 2017

Audit and Finance Committee Members:

Re: Audit of the Payroll Process -  
*Project No. 16-09*

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. Our objectives focused on whether the payroll process provides for adequate segregation of duties and that established internal controls over the payroll process are functioning as designed.

Sincerely,

A handwritten signature in blue ink that reads "J. Timothy Beirnes".

J. Timothy Beirnes, CPA  
Inspector General

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## **BACKGROUND**

In accordance with our FY 2016 Audit Plan, our Office conducted an Audit of the Payroll Process. The District disburses approximately \$150 million annually for salaries and benefits, which represents approximately 20% of its annual expenditures. Payroll is administered by the Human Resource Information System and Payroll Services Unit (HRIS), which consists of five employees, who process the bi-weekly payroll for approximately 1,370 employees. Payroll processing is very time sensitive; HRIS staff have a very short timeframe to process employee timesheets, correct errors, and complete payroll.

The District has established internal controls over the payroll process to ensure that payroll is processed accurately, timely, and in accordance with applicable laws and policies and procedures. Payroll is processed through the District's SAP Human Capital Management module, which consists of Organizational Management, Benefits Administration, Personnel Administration, Time Management, Travel Administration, and Training and Events Management.

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Our objective was to determine whether the payroll process provides for adequate segregation of duties and that established internal controls over the payroll process are functioning as designed. To accomplish our objectives, we performed the following:

- Reviewed flowcharts and other documentation regarding internal controls over the payroll process.
- Reviewed SAP payroll interfaces.
- Conducted tests of payroll records to ensure transactions are properly authorized, approved and accurate.
- Traced payroll information to source documents including pay rate approvals and benefits.

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

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## **AUDIT RESULTS**

### **Executive Summary**

Overall, HRIS does an effective job of processing the bi-weekly payroll within the mandated timeframe and often under challenging circumstances. However, our review of the payroll process revealed internal control weaknesses related to the lack of segregation of duties with the HRIS employees who are responsible for payroll processing. The Supervisor has unrestricted access to all of the components within the Human Capital Management module in SAP. These components include Organizational Management, Benefits, Personnel and Travel Administration, as well as Time Management, and Training and Events Management. The HRIS team, consisting of a Supervisor and four Analysts, have the various levels of authority to change timesheet, benefits and payroll records (see table on Page 5 for approval authority details).

This level of authority enables the HRIS Supervisor and staff to both initiate and execute timesheet and payroll transactions autonomously, which result in a lack of segregation of duties and an internal control weakness. For example, the Supervisor and a HRIS staff have the authority to add new employees and remove separating employees in the SAP Human Capital Management module. This approval authority is necessary to ensure that payroll is processed and errors are corrected in a timely manner but compensating controls should be implemented to reduce the risks associated with this control weakness. Thus, to strengthen internal control over the payroll process and compensate for this weakness, we recommend that any changes to payroll records made by the HRIS Supervisor and other authorized staff should be recorded in an exceptions report and reviewed by the Human Resources Bureau Chief.

Employee supervisors and managers are responsible for timesheet approvals and adherence to District policies and procedures. We noted various errors and warnings resulting from employee time sheet input that causes inefficiencies and unnecessarily delays completion of the payroll processing. Good internal controls would require time approval managers to routinely review the audit report that is run every payroll for errors or warnings related to their employees before time is approved. Accordingly, we recommend that managers and supervisors routinely conduct such a review.

We conducted an audit test to verify that all employees included in the SAP payroll register are bono fide employees by comparing employees recorded in the SAP payroll register to those in

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the District's Honeywell Win-Pak standalone ID card database. Our comparison of employees included in the SAP payroll register to those in the District's Honeywell Win-Pak standalone ID card database revealed no fictitious employees.

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## Strengthen Internal Controls over Payroll Processing

A prerequisite to a good system of internal controls is maintaining adequate segregation of duties between employees so that no one employee or small group of employees have complete control over a particular financial transaction from beginning to end. Good internal controls over the payroll processing function ensures that one employee is not in a position to initiate, approve and execute transactions and then periodically review and reconcile recorded amounts. Our review of internal controls over the payroll process indicated a lack of adequate segregation of duties, which results in an internal control weakness.

The payroll process starts with employees or time administrators completing timesheets for the recent two week period using SAP's Employee Self Service (ESS) or the Cross-Application Timesheet (CAT2). ESS is a web based portal that employees can access from the District's portal page to complete their timesheets. CAT2 can be utilized by employees and certain administrative employees who are designated as time administrators to complete timesheets for employees in their section. After timesheets are completed, they are released in SAP for supervisory approval. Most often, approval is performed by the employee's immediate supervisor but the Bureau Chief, or Division Director within their organizational hierarchy can also approve employee time provided they are authorized time approvers in SAP. (See Appendix 1 for Time Entry and Approval Process flowchart).

The HRIS team consists of one supervisor and four analysts. The Supervisor has unrestricted access to all of the components within the Human Capital Management module in SAP. These components include Organizational Management, Benefits, Personnel and Travel Administration, as well as Time Management, and Training and Events Management. Both the Supervisor and HR Analysts have various levels of authority to change timesheets, payroll records and benefits as noted in the following table:

Human Resource Processing Activities	HRIS Supervisor	HRIS Analyst	HRIS Analyst	HRIS Analyst	HRIS Analyst
On-board New Employees	X	X			
Off-board Separating Employees	X	X			
Implement Salary Changes	X	X			
Change Timesheets and Payroll Records	X		X		
Change Employee Benefits	X			X	X



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The HRIS Supervisor and Analysts processing authority is essential to ensure that payroll changes are made and errors are corrected in a timely manner. Without the authority to originate, approve and/or change payroll records, payroll processing could be unreasonably delayed and deadlines missed. In the last 18 months, there has been a 75% turnover of HRIS Analysts, which resulted in the HRIS Supervisor stepping in to enter new hires, benefits and execute the payroll. However, this level of authority enables the HRIS Supervisor and other authorized staff to both prepare and process payroll, which are incompatible functions<sup>1</sup> that result in a lack of segregation of duties and an internal control weakness.

When there is a lack of adequate segregation of duties with any process, compensating internal controls should be implemented to mitigate the risks related to the existing control weakness. Accordingly, we recommend that any changes to payroll records made by the HRIS Supervisor and/or the four other authorized staff should be reported in an exceptions report and reviewed by the Human Resource Bureau Chief.

### **Recommendation**

- 1. All changes made to payroll records by the HRIS Supervisor and staff should be reviewed by the Human Resources Bureau Chief as a compensating control for the insufficient segregation of duties.**

**Management Response:** Agree. The Human Resources Bureau will utilize the existing SAP exception report that captures any activity performed in the payroll module. The Bureau Chief will review the HRIS Supervisor's changes captured on the exception report.

**Responsible Division:** Human Resources Bureau - Administrative Services

**Estimated Completion Date:** Complete

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<sup>1</sup> Incompatible functions is a concept of segregation of duties that is defined as job duties that place an employee or department in a position to initiate, approve and execute transactions.

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## **Time Administrator and Supervisory Review of Timesheets Needs Improvement**

A key component of a good internal controls system is adherence to policies and procedures. To determine employee compliance with policies and procedures related to payroll, we reviewed 50 employee records, which included timesheets from FY 2015 through FY 2016, approved pay rate documents and other personnel records. Our sample consisted of all HRIS staff, randomly selected employees, and a sample of employees that were reported on the August 3, 2016, payroll audit report as containing errors or warnings. Our testing was designed to determine whether:

- employees were paid in accordance with payroll policies and procedures.
- the hours worked and the leave taken on the timesheet agreed to the pay statement.
- employee's supervisors properly approved the timesheet.
- the pay rate reported on the pay statement agreed with signed documents approving the rate in the employee's personnel file.

HRIS is responsible for executing payroll based on the time manager or supervisor approval of employee timesheets. Employee supervisor and managers are responsible for approving timesheets and ensuring compliance with policies and procedures. Based on our review, we found various errors and warnings resulting from employee timesheet input that included a compensatory time error and for a number of employees no timesheet data was submitted.

We found that certain payroll internal control procedures were in place to alert time approvers of these issues. Every pay period the SAP Human Capital Management module generates an error and warning audit report, which indicates the employee name, employee number, type of error or warning, exempt or non-exempt status. For example, when an employee works over 80 hours the report includes a warning message to alert the employee's supervisor or time administrator of a potential issue. Also, a warning was included for employees in which less than 80 hours for a pay period was recorded on their timesheet. Good internal controls would require time approval managers to review the audit report every payroll for errors or warnings of their employees. Had these reports been reviewed by employee supervisors and time

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administrators, payroll errors could have been identified and resolved. Further, these unattended errors and warnings delay the processing of payroll.

Our testing also uncovered a timesheet correction that was processed by a Human Resource Analyst but not approved by the employee's supervisor. The Human Resource Analyst corrected a timesheet input error and attempted to contact the employee's supervisor to inform him of the change and obtain his approval. However, the supervisor was not available and in order to keep the payroll process moving forward the Human Resource Analyst processed the corrected employee's timesheet. Further review revealed that the supervisor did not approved the timesheet. Good internal control procedures include supervisory approval of timesheets even if it is after payroll processing is complete. Corrections can be made in subsequent pay periods if needed.

### **Recommendation**

- 2. Require time approval managers to review the payroll audit report for errors or warnings related to their employees as soon as the report becomes available to promptly resolve any time input errors. Provide audit report training for time approval managers as deemed necessary.**

**Management Response:** Agree. The Human Resources Bureau will provide payroll time entry and approval guidelines to the Executive Team for discussion and approval. Once approved, the guidelines will be provided to all time approvers.

**Responsible Division:** Human Resources Bureau - Administrative Services

**Estimated Completion Date:** April 27, 2017

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## **Improvements are Needed to Eliminate Timesheet Activity Coding Errors**

When employees work on certain projects and maintenance activities, they are required to post their time to project activity codes that are generated by the project manager to account for project cost in SAP's Project Systems module. The project activity codes are used to track and accumulate internal labor and other costs related to specific project tasks. Generally, these project costs are recorded to document the District's effort related to environmental restoration and other cost-sharing projects with state and federal partners. For cost share projects with the United States Army Corps of Engineers, the District may be eligible to receive in-kind credit for labor hours incurred and land costs related to CERP activities. For field station staff performing plant maintenance activities, including equipment preventive maintenance, structure, canal and levee maintenance activities, labor hours and other costs incurred on these maintenance activities are posted to internal orders. Employee supervisors are responsible for approving time and the activity coding posted to employee timesheet.

HRIS reported that on average from 6 to 10 employees post their time to invalid activity codes every pay period, which causes the payroll process to completely stop until the input errors are corrected. These coding errors result in inefficiencies and needlessly delay completion of the payroll processing. Generally, correcting coding errors requires input from HRIS staff, Budget staff, project managers and the employee's supervisor. The SAP Software Services is currently working on the coding error problem but a solution has not yet been finalized and implemented.

### **Recommendation**

#### **3. Finalize solution to resolve invalid payroll activity coding errors.**

**Management Response:** Agree. An automated email will be sent every two weeks prior to timesheet approval time. The email will be sent from SAP Project Systems to the Project Manager's and the Fund Center Responsible person with activity id, name, work center, planned hours, actual hours, and physical percentage complete. The information provided will help to ensure that correct activity codes are entered.

**Responsible Division:** Metrics Bureau - Administrative Services,

**Estimated Completion Date:** December 31, 2017

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## **Payroll Testing for Fictitious Employees**

Our audit uncovered internal control weaknesses related to HRIS staff having the authority to originate, approve and/or change payroll records including onboard new employees, off board separating employees, process salary changes, modify time entries and set up employee garnishments. Accordingly, to mitigate this weakness we designed an audit procedure to verify that all employees included in the SAP payroll register are bono fide employees by comparing employees recorded in the SAP payroll register to those in the District's Honeywell Win-Pak standalone ID card database. The Honeywell Win-Pak is a standalone software package to control access to District facilities, which is maintained by the District's Facility and Security Unit. The District requires all employees to obtain a picture identification badge (ID badge) from the Facility and Security Unit and carry it at all times when at District facilities. Entrance to District buildings and elevators requires an ID badge.

Because the Honeywell Win-Pak is a standalone system and all employees are required to have a picture ID badge, it is an independent system separate from the SAP Human Capital Management module, which includes all components of payroll. Our comparison of employees included in the SAP payroll register to those in the District's Honeywell Win-Pak standalone ID card database revealed no fictitious employees.

## Flowchart of Payroll Time Entry and Process Approval

