



# PAYROLL RISK REVIEW

JULY 2015





December 2, 2015

Finance and Administration Committee  
City of Springfield  
840 Boonville Ave.  
Springfield, Missouri 65802

Re: Payroll Risk Review

Dear Committee Members:

In conjunction with our overall engagement to provide internal audit services to the City of Springfield (the "City"), we have completed our risk review of the Payroll process and the associated internal controls. Our services were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA).

The accompanying report includes an Executive Summary, our Observations and Recommendations, Process Improvement Opportunities, and one supporting Appendix. Because the procedures performed in conjunction with the review are more limited than would be necessary to provide an opinion on the system of internal accounting controls taken as a whole, such an opinion is not expressed. In addition, the engagement did not include a detailed audit of transactions that would be required to discover fraud, defalcations or other irregularities.

This report is intended solely for the information and use of management and City Council and is not intended to be, and should not be, used by anyone other than the specified parties. The City of Springfield's external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,  
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# CITY OF SPRINGFIELD PAYROLL RISK REVIEW

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**CITY OF SPRINGFIELD**  
**Payroll Risk Review**  
**Executive Summary**

**Project Overview and Scope**

We completed our review of the City's Payroll process and the associated internal controls. The objectives of our review were to:

- Verify adequate internal controls are in place to reasonably ensure that employee master file data and payroll information is complete and accurate, and proper segregation of duties has been attained; and,
- Develop recommendations to improve the completeness, accuracy and efficiency of the employee master file maintenance, payroll processing and disbursement processes.

For the purposes of this risk review, we included the following:

- Procedures established and executed for new employee set-up as well as employee termination;
- Procedures established and executed for compiling approved time worked for employees of different City departments; and,
- Procedures established and executed for disbursing funds to employees for approved hours worked.

Our risk review included payroll transactions between January 1, 2015 and June 30, 2015. We completed:

- In-person interviews with Human Resources personnel responsible for the employee master file and for payroll setup to gain an understanding of:
  - Setting up new employees in Oracle and the timekeeping systems; and,
  - Inputting/updating employee rate changes into these systems.
- In-person interviews with payroll administrative staff and timekeepers to gain an understanding of:
  - Delegation of authority thresholds;
  - Segregation of duties throughout the payroll process; and,
  - Approval and disbursement controls in place over payroll payments from Oracle.
- Review of approval and disbursement of manual (off-cycle) payroll checks.
- Review for the existence of any abnormal payroll disbursements.
- Review of payroll registers to determine if:
  - Employee gross wages appear reasonable; and,
  - Fictitious employees or other 'red flags' are present.

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**Payroll Best Practices**

The Payroll process has several internal controls in place and operation. Based on our review, the following internal controls are in place and, in our opinion, represent a best practice:

- Proper review of the disbursement file is performed by both the Finance and Human Resources Departments; and,
- Proper support for all disbursements is maintained in the form of either approved timecards in the system or retirement calculations.

**Observations and Recommendations**

We determined that there are adequate internal control procedures in place over the processes noted above; however, our risk review noted the following procedures that we would consider internal control weaknesses.

- Currently, the Finance Department is responsible for approving all unapproved time recorded in the Oracle system so that payroll can be processed and disbursed timely. Although department supervisors are responsible for approving time worked for their assigned employees, some employees have their time go unapproved and therefore Finance must approve the time for these employees without having the specific knowledge to do so effectively. If the time is not approved by Finance, the employees would not be paid.
- Upon review of the employee master file, we noted 122 instances of duplicate employee addresses. Multiple employees sharing the same address can be a red flag of potentially fictitious employees.

All findings and recommendations were discussed with management. Details are noted in the report attached immediately hereafter.

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OBSERVATIONS AND RECOMMENDATIONS**

	<b>Observation and Risk</b>	<b>Recommendation</b>	<b>Management Response</b>
1	<p>The Accounting Manager approves any time not approved by an employee's supervisor, regardless of department.</p>	<p>Enforce the requirement that supervisors review their assigned employees time worked on a timely basis as they have the necessary knowledge.</p> <p>Determine an appropriate response to repeated non-compliance with existing job responsibilities.</p>	<p>Finance agrees with the recommendation and supports the premise that employees' supervisors should approve their assigned time sheets. Finance makes every effort to contact the supervisor or their delegate to get the time sheet approved. Finance will provide a list to the City Manager's office of time sheets approved by Finance without the supervisor's approval.</p>
2	<p>Upon review of the employee master file, it was found that 122 employee addresses were used more than once. The duplication of employee addresses can be a red flag for fictitious employees.</p>	<p>Maintain a periodic review of the employee master file to ensure duplicate addresses are being reviewed and confirmed to belong to unique individuals rather than potentially fictitious employees.</p>	<p>The City's Merit Rules allow three immediate family members to be employed at the City, which will result in many multiple addresses. Human Resources will commit to doing an annual audit of employees with multiple addresses during the first quarter of every calendar year. In addition, we completed the audit in November of 2015 and found no fictitious employees.</p>

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PROCESS IMPROVEMENT OPPORTUNITY**

We noted the following process improvement opportunity during our risk review. Process improvement opportunities do not represent internal control weaknesses, but rather, ways that the process could be more efficient and/or industry best practices.

	<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
1	Currently, no set timeframe is in place to inactivate employees after a certain number of days not worked. In the event employees remain active past their final date of work performed, a greater chance exists the employee is improperly paid for work not performed.	Establish a guideline for when to inactivate employees in the system based on a number of days in which no work is performed.	<p>Human Resources has requested departments terminate any temporary or seasonal employee who will not have time for 30 days or longer. There are costs involved in re-hiring an employee, such as drug screen, background checks, etc. This is in addition to the staff cost of terminating and rehiring an employee in the payroll system. HR cannot monitor this, as we do not receive reports or view timesheets.</p> <p>Finance will work on developing a report that departments can review noting all inactive employees that will be distributed twice each year.</p>

Subject:

**Appendix 1 – Payroll Data Compilation**

1. RubinBrown obtained the 2015 disbursement data for regular and overtime payments. The following data illustrates the 2015 disbursements:

	Total Payroll Disbursement		
	Total Payroll Disbursement	Overtime Paid	OT % of Total
January, 2015	\$ 6,097,282	\$136,586	2.24%
February, 2015	\$ 6,224,247	\$255,200	4.10%
March, 2015	\$ 6,349,279	\$212,183	3.34%
April, 2015	\$ 6,140,644	\$151,903	2.47%
May, 2015	\$ 6,236,591	\$186,549	2.99%
June, 2015	\$ 6,372,335	\$160,901	2.52%

2. RubinBrown obtained the overtime information over the past twelve months in order to track both the amounts paid and periods in which the payments were made. Below is the compiled overtime information:

Overtime Paid per month		
Month	Total OT Paid	% of total
July, 2014	\$ 298,338	13.1%
August, 2014	\$ 170,193	7.5%
September, 2014	\$ 143,661	6.3%
October, 2014	\$ 164,680	7.3%
November, 2014	\$ 160,625	7.1%
December, 2014	\$ 229,765	10.1%
January, 2015	\$ 136,586	6.0%
February, 2015	\$ 255,200	11.2%
March, 2015	\$ 212,183	9.3%
April, 2015	\$ 151,903	6.7%
May, 2015	\$ 186,549	8.2%
June, 2015	\$ 160,901	7.1%
<b>One Year Totals</b>	<b>\$ 2,270,584</b>	<b>100.0%</b>

*Subject:*

**Appendix 1 – Payroll Data Compilation**

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3. RubinBrown obtained the disbursement log for January 2015 – June 2015. We analyzed the data to compare total amounts disbursed as checks vs. amount disbursed via direct deposit:

Disbursement Type	Amount Paid	# of Transactions
Direct Deposit	\$ 36,151,372	36,016
Check	\$ 1,269,005	977