



Internal Audit Consulting Report

Payroll – Segregation of Duties

March 30, 2021

City of Springfield, Missouri

BKD
CPAs & Advisors

bkd.com

Table of Contents

City of Springfield, Missouri

Internal Audit Consulting Report of Payroll/Segregation of Duties

March 30, 2021

I. Report Letter	1
II. Executive Summary	2
III. Definitions of Ratings.....	3
IV. Findings, Recommendations & Observations	4
V. Scope of Services	7

Report Letter

Mr. David Holtmann, Director of Finance
City of Springfield
218 E. Central
Springfield, MO 65802

We are pleased to provide our report on the *Payroll – Segregation of Duties* internal audit procedures performed by **BKD, LLP** (BKD). We want to thank City of Springfield’s (the City) management and staff members who contributed positively to our efforts.

We have performed the procedures enumerated in the Executive Summary of this report, which were agreed to by you pursuant to our scope of work dated November 12, 2020 (and updated January 14, 2021), to perform an assessment of the City’s payroll function focused on segregation of duties. This engagement was not an audit and was not designed to provide assurance over the prevention or discovery of errors, misrepresentations, fraud, or illegal acts. Inherent limitations in any internal control structure are that errors, fraud, illegal acts, or instances of noncompliance may occur and not be detected. Controls may become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls or management may override the system.

We were not engaged to provide an opinion with respect to the effectiveness of your controls or degree of compliance with your policies and procedures or applicable laws and/or regulations. Accordingly, we do not express such an opinion. Our procedures were performed on an interview and limited testing basis only and cannot be relied upon to detect all errors or violations of laws, regulations, or City policy. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Our report is intended for use only by management of the City, solely for reporting findings with respect to the procedures performed by us.

This report is not intended to be, and should not be, used by anyone other than the specified parties.

BKD, LLP

BKD, LLP

March 30, 2021

II. Executive Summary

We are pleased to provide our report on *Payroll – Segregation of Duties* performed by **BKD, LLP** (BKD) for City of Springfield (the City) commencing November 17, 2020 and ending March 2, 2021. The overall objective of this engagement is to assist the City with completing an internal audit plan for the year.

The procedures we developed, management approved and we performed are included in Section V. The results of our procedures were discussed with management at the conclusion of our engagement and are included in Section IV.

The City employs approximately 2,300 people. The workforce of the City includes a combination of full-time, part-time, salaried (exempt) and hourly (nonexempt) employees. Payroll is processed on a biweekly basis; one pay cycle is used for all payees. There are three additional small, special-purpose payrolls that are processed either once a month or on an as-needed basis. Almost all employees are paid through direct deposit to a bank account or bank card. A few employees are paid by check.

Findings & Observations

A finding is defined as a matter having a direct negative impact on internal control or indicates noncompliance with internal policy, procedure or applicable law or regulation. An observation is an opportunity to enhance efficiencies of operations and may be considered a best practice within the industry.

The risk ratings applied to findings in this report are based on our experiences performing similar procedures at other companies within this industry. These ratings are intended to assist management with prioritizing the importance of taking action on the findings identified. We believe all findings, regardless of the risk ratings assigned, if not addressed, could lead to significant issues. We recommend management track the resolution of findings identified, and any follow-up actions should be reported to the Finance and Administration Committee.

Findings	Risk Rating
▲ Finding #1: Employee master file administration access and payroll processing access are not segregated in Oracle.	High
▲ Finding #2: Lack of control to prevent or detect unauthorized changes to the payroll master file.	Medium

Observations	
▲ Observation #1: Lack of documentation for employee acknowledgement of changes to payroll master file.	Low

Management's responses were not subjected to the procedures we applied and, accordingly, we express no opinion on the responses.

III. Definitions of Ratings

Ratings of Internal Audit Findings

- ▲ **High** - Indicates a significant matter requiring immediate attention by senior management. Action plan as determined by management should be started within 30 days of receipt of the draft report and completed within three months of receipt of the draft report, depending on complexity of implementation of action plan.
- ▲ **Medium** - Indicates a matter to be given priority by management and, if not immediately addressed, may significantly impair the control structure or operating effectiveness of the internal control systems. Action plan as determined by management should be started within 75 days of receipt of the draft report and completed within six months of receipt of the draft report, depending on complexity of implementation of action plan.
- ▲ **Low** - Indicates a matter to be addressed in the normal course of business, which may be of sufficient importance to be brought to management's attention. Action plan as determined by management should be explored and implemented within the agreed-upon time frame, depending on complexity of implementation of action plan.

IV. Findings, Recommendations & Observations

Finding #1: Employee master file administration access is not segregated from payroll processing access within Oracle.

As part of our procedures, BKD observed that duties are not adequately segregated between the employee master file administration and payroll processing functions, risking inappropriate additions or changes to payroll data entered, processed, and reported without detection. Individuals should not have job responsibilities or system access to edit employee master data (pay rate, job level, etc.) and process or approve payments. Based on the fieldwork performed, we identified individuals that have Oracle system access to edit the Payroll master file as well as process payroll. In these instances, it is possible for an employee with inappropriate system access to make changes to employee pay rates and initiate payment based on these rates. Specifically, we noted 12 instances when a user had Oracle payroll authority (as a Payroll Professional and/or US Payroll Manager) as well as Oracle HRMS authority (as a US HRMS Manager and/or US Super HRMS Manager).

Recommendation:

To improve segregation of duties between the employee master file administration and payroll processing, BKD recommends the City limit master file administrative access and duties to two or three employees that do not have any payroll processing functions or system access. Individuals who have access to change master file data should not have the ability to process or approve payments being made.

From our discussion with finance department personnel, we understand that Oracle may not allow complete separation of master file maintenance and payroll processing within the system. BKD is working with finance to identify a solution that can be implemented to solve the risk associated with this segregation issue.

Management Response:

The Finance Department has been aware of the potential conflict of duties and made BKD aware of the conflict that exists during the audit planning process. Oracle does not currently have inquiry only options for all the payroll responsibilities and only those employees who need access to the payroll information have access. We will continue to work with Information Systems to develop inquiry only options that include the reporting and information capabilities needed, and we will continue to work with BKD to identify potential solutions that can be implemented.

IV. Findings, Recommendations & Observations

Finding #2: Lack of control to prevent or detect unauthorized changes to the employee master file.

There is currently not a process in place to detect unauthorized changes to the employee master file. Changes to the employee master file, whether made intentionally or in error, can directly impact the amounts employees are paid. Master file changes can also include adding an employee to payroll.

Recommendation:

Management should create a process to detect unauthorized changes from being made to the payroll master file. One way of doing this is to create a custom system report that displays all changes to the payroll master file for the period. The designated control owner would review this report, follow up on any changes not authorized, and sign off and date the report to evidence review and approval.

We understand that Oracle doesn't have an easy to use report that provides changes to the employee master file. BKD can provide finance department personnel with a tool that will compare two versions of the employee master file and flag changes.

Management Response:

The Finance Department will work with BKD and the tool they provide to review changes to the payroll master file. The review will be documented with a signature and date.

IV. Findings, Recommendations & Observations

Observation #1: Lack of documentation for employee acknowledgement of changes to employee master file.

All changes in employee master file have a completed employee change form that describes the nature of the change and is signed by the employee, supervisor, and department head and is dated. During our testing, we noted instances when the employee did not sign off on the documentation evidencing their acknowledgement that changes were being made to the employee master file.

Recommendation:

We recommend that the employee sign off on all changes to the master employee records to confirm agreement with changes to the master file that directly affect the pay or demographic information of the employee.

Management Response:

Although the employee signs most change forms, Human Resources does accept change forms without employee signatures as long as the department director or acting director signs the form. With an increasing number of employees working remotely due to the pandemic, accepting forms without the employee signature allows changes to be processed promptly when an employee is not available to sign the document. In addition, there are other changes to an employee record that may include costing or other routine changes that do not require an employee's signature. However, employees are aware of all changes to their records and can view the same by accessing their pay statement or their personnel file maintained by Human Resources.

V. Scope of Services

The objective of our procedures was to assist City of Springfield with an assessment of the payroll process with a focus on segregation of duties in order to ascertain whether the design and effectiveness of controls were in place and operating in a manner necessary to meet organizational policies and other required guidelines.

The dates utilized for our testing were July 2019 through June 2020, unless otherwise noted.

Internal Audit Scope for Payroll – Segregation of Duties

Mr. David Holtmann, Director of Finance
City of Springfield
218 E. Central
Springfield, MO 65802

Re: Modified Internal Audit Scope for Payroll – Segregation of Duties

The purpose of this document is to provide a detailed scope for the internal audit related to Payroll – Segregation of Duties, which will be the third of four internal audits that BKD will perform for 2020. The scope of procedures, as outlined below, shall be limited to the period of July 1, 2019 through June 30, 2020 (scope period) and controls as they exist at the time of our walkthroughs, unless otherwise noted.

The purpose of this internal audit is to assess the design and effectiveness of the HR-Payroll and Finance Payroll controls, with an emphasis on segregation of duties. Our procedures will include, but may not necessarily be limited to the following:

1. Conduct interviews with payroll, human resources and finance personnel involved in the payroll process to walk through processes and controls related to the following.
 - a. Payroll master file (PMF) administration, change management, and monitoring around employee wage additions, modifications and terminations
 - b. Employee access to the PMF, human resource and payroll functions for adequate segregation of duties
 - c. Timekeeping recording and approvals
 - d. Payroll processing, exception handling and disbursement
 - e. Balancing and verification controls
 - f. Posting and reconciling to the general ledger
2. Obtain and analyze any written policies or procedures that govern onboarding, terminations and payroll processing.
3. Select a sample of five new hires, pay changes and terminations to test operational effectiveness of controls.

V. Scope of Services

4. Select five employees from two payroll periods to perform a walkthrough of the payroll process documentation to test the operational effectiveness of controls related to payroll processing.
5. Evaluate the design of controls and document gaps or opportunities for improvement noted during walkthroughs, with emphasis on segregation of duties.
6. Provide management with a written report, which will include, but may not necessarily be limited to:
 - a. Results of our procedures
 - b. Observations and recommendations resulting from our work
 - c. Management responses