



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PAYROLL CONTROLS

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2017.

What We Found

Due to scope limitations, we have not expressed an opinion on several aspects of the subject matter. For the processes we could review, controls appear adequate.

Report Number: 2017-A-10

Date Issued: 08/18/2017

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Payroll Controls. The objective was to confirm that controls are adequately designed and effective to ensure that payroll calculations, time entry, leave balances, benefit deductions and leave payouts are correct. The results of that audit and our findings are detailed in the attached report. We would like to thank the participating members of management for their cooperation during the audit.

Our responsibility was to express an opinion on the above subject matter in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform audits to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. However, due to the issues described in the following Basis for Modified Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a reasonable basis for an audit opinion on all aspects of Payroll Controls.

Basis for Modified Opinion

We designed our audit procedures to determine that the existing Payroll Controls are adequate and requested the documentation that would provide sufficient appropriate audit evidence to complete the procedures. Some documentation, although periodically requested throughout our audit, was not provided or otherwise made available to us. Specifically, we did not receive documentation to support pay rate changes, employee benefit selections, employee separations and Payroll system access reports. Accordingly, we were unable to confirm that pay raises were approved, employees are paying for the benefits they selected and leave payouts were correct or to confirm that records could not be changed inappropriately.

Modified Opinion

Except for the possible effects of the matters described in the basis for qualified opinion paragraph, the controls in place appear adequate to ensure that paychecks are calculated correctly and paid leave is accrued correctly.

To address the matters excepted from this opinion, we will be initiating a limited review of pay rate changes later in the year; Employee Benefit selections will be reconsidered in a separate audit, as well. The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,



Chrystal Brooks
County Auditor

cc: Mr. Robbie Sandlass, Treasurer
Mr. James Richardson, Director of Human Resources
Mr. Billy Boniface, Director of Administration
Ms. Melissa Lambert, County Attorney



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REVIEW RESULTS

We have audited Payroll Controls for the period of 7/1/2014 through 12/31/2016. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Fictitious employees are paid	<ul style="list-style-type: none">• All county employees can be accounted for either through email or in person	Satisfactory
Employees can alter critical data such as salary information	<ul style="list-style-type: none">• Only authorized personnel have access to such data and support documentation is retained to explain any adjustments made• Employee benefit deductions are based upon benefit selections made by each employee electronically	Scope Limitation Scope Limitation
Employee termination dates are not entered correctly, resulting in overpayment	<ul style="list-style-type: none">• TERM forms are completed timely for separated employees• Employees receive their final pay no more than 30 days from date of separation	Scope Limitation Satisfactory
Leave payouts are incorrectly calculated	<ul style="list-style-type: none">• Cyborg is used to track leave balances and leave payouts are manually calculated by Human Resources	Satisfactory
Leave use is accrued and used properly	<ul style="list-style-type: none">• Employees are not allowed to accrue leave amounts in excess of County code or policy	Satisfactory

No new issues have been identified for inclusion in this report. Management has been provided an opportunity to respond to this report; however, no response was provided.

STATUS OF PRIOR AUDIT FINDINGS

We have reviewed the issues reported in a prior audit. Current conclusions for the findings included in Audit Report 2012-A-04 are noted below.

Previously we noted, "There is no reconciliation between the time entry and payroll systems to ensure that data is transferred completely and accurately." This finding was closed in 2013 based upon management's corrective actions. In the current audit, we confirmed that timesheet totals agreed to hours uploaded to the payroll system. *This issue has been addressed.*

Previously we noted, "Critical changes made to Payroll and Human Resources data are not subject to an independent review to ensure the changes were authorized and proper." The conclusion was based upon an error that occurred but was identified and corrected by management prior to our review. The finding was closed in 2013 because management disagreed that additional confirmations were necessary. In the current audit, documentation was not provided to confirm that payroll changes were authorized. *The current status of this issue is unknown. We will review this issue in a new audit.*

Previously we noted, "There is no County policy in place requiring employee or supervisor certification of employee time worked" and "The time entry system can be improved to prevent data entry errors." Both of these issues are being addressed by a new time entry system that is currently being implemented. The implementation has begun, but will not be complete for another year. We will review the controls of the new system at a later date. *These issues have been addressed.*

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

The payroll process is a collaborative effort involving Human Resources, timekeepers in each department, and accountants in the Treasurer's office. Each pay period, employee work and leave hours must be recorded, time and salary adjustments made as necessary, benefit deductions managed, accounting transactions recorded, and payments deposited to employees' bank accounts.

Payroll processing is a key administrative function that employees should expect to be performed correctly and timely. Further, the payroll process and related controls are critical components of various other County functions, including use of grant funds, budget projections of salary, benefit and retirement costs, future pension costs, and current pension administration.

Harford County relies heavily on computer systems to manage human resources, time entry, payroll, and accounting data and to perform most of the payroll related calculations. The County uses an internally developed time entry system and a purchased human resources information system known as Cyborg to process payroll and manage employee records. The time entry system interfaces with Cyborg to create the bi-weekly payroll files. The payroll files, including benefit deductions, taxes and paycheck information, are uploaded to Cyborg and transactions are created to update the County's accounting system.

Harford County Government pays approximately \$85 million each year to employees who work for the County Government, the Harford County Sheriff's Office, and the State's Attorney's Office. Employees are paid for their time worked, paid leave (time off), overtime, shift differentials, and various other items. The County also manages the deductions from pay for health insurance, taxes, retirement contributions, and other reasons. Payroll is responsible for ensuring approximately 1,600 people are paid every two weeks.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to confirm that controls are adequately designed and effective to ensure that payroll calculations, time entry, leave balances, benefit deductions and leave payouts are correct. The audit focused on activity during the period of 7/1/2014 through 12/31/2016. The audit did not include a complete evaluation of internal control, but instead, relied on substantive testing to support conclusions.

The scope of this audit included reviewing the payroll process from processing of time entry through benefit deduction, paycheck calculations, payments and tax remittance. The scope included consideration of proper leave use and accrual, payout for separated employees and changes to employee payrates.

Our audit procedures included interviewing personnel, observation, and testing. Specifically, we performed data analysis to determine paychecks were calculated correctly, leave was accrued properly, and benefit deduction amounts appeared reasonable. We met with a sample of employees to confirm their existence. We also compared employee separation dates with final regular pay dates to confirm payroll ceased for those individuals and recalculated a sample of leave payments to ensure the calculations were correct. In addition, we reviewed the tax withholdings to ensure the amounts were correct and forwarded to the proper parties in a timely manner.

We also planned to confirm that pay rate increases were properly approved and confirm that employee benefit deductions agreed to employees' benefit selections. We planned to confirm that employees were removed from payroll records in a timely fashion and that leave payouts were calculated correctly. Further, we planned to confirm that access to view and update employee records was appropriately restricted. However, for each of these planned procedures, management did not provide the documentation required to complete

the testing. This circumstance created a scope limitation that impacted our ability to issue a complete audit opinion on the County's Payroll Controls.

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS), except for specific applicable requirements that were not followed. Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. As noted above, we were unable to obtain some evidence because of management's restrictions on access to records. We believe that the evidence obtained provides a reasonable basis for our qualified conclusions based on our audit objectives.

Audit Team:

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Sarah Self
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