



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PAYROLL CONTROLS

Report Number:

2022-A-08

Report Date:

03/07/2022

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of payroll controls for the period of 07/01/2019 through 06/30/2021. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2022.

The objective of this review is to confirm that controls are sufficient and effective to ensure that payroll calculations, time entry, leave balances, benefit deductions and leave payouts are correct. The scope of this audit was limited to reviewing payroll transactions, leave use, benefit deductions, and leave payouts. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report; the response(s) provided follows the Issues and Corrective Actions.

Sincerely,

A handwritten signature in blue ink that reads "Chrystal Brooks, CPA".

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is payroll controls are generally effective, but can be improved, specifically regarding the application of employee benefit deduction rates. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment ⁱ
Ensure employee time is captured correctly for payroll processing	Effective
Ensure employees are paid completely and accurately	Effective
Ensure benefit deductions are made correctly	Generally Effective

ISSUES AND CORRECTIVE ACTIONS

2022-A-08.01 Incorrect Employee Benefit Deductions

During the audit period, Harford County Government employed 2,118 employees; 1,557 received medical, dental, and/or vision coverage as a part of their employment. The employee's cost is deducted from the first two pay checks of each month. Benefit rates vary depending upon plan sponsor, coverage (e.g., individual, family), and employment status (e.g., full-time, part-time) as well as date of hire (i.e., before or after 7/1/2010). For new hire elections and mid-year benefit changes, Human Resources updates the County's payroll system with the elections. Open enrollment elections are made by the employee through the County's intranet site, which directly updates the payroll system.

During the audit period, the County made approximately 168,000 health benefit payroll deductions. Due to the volume and variety of benefit deductions, we did not look to confirm the accuracy of individual benefit elections. Instead, we performed data analysis on all health benefit deductions for all employees during the audit period to confirm they reconciled to the relevant rate tables. From the exceptions, we selected a sample to determine if there were explanations.

After performing data analysis on all employee benefit deductions, we found benefit deduction errors for 24 employees resulting in a net under-collection of benefit premiums of \$461. Specifically:

- 21 employees were over or under charged (299 total payments) based on their hire date. This resulted in an under-collection of benefit premiums during the audit period of \$2,397. According to management, the rates were "entered by new hire who is no longer with County". We confirmed, in all cases, rates were adjusted by the start of the next plan year;
- One (1) employee, now retired, was assigned to the incorrect rate group after a mid-year change, resulting in an over-collection of \$105.
- Two (2) full-time employees paid the higher part-time rates throughout the audit period. This resulted in an over-collection of benefit premiums of \$1,831.

At the conclusion of our data analysis there were 127 employee deductions involving 111 employees with potentially incorrect amounts that we could not resolve using data analysis. We sampled 25 of those employees and found all rates appeared reasonable or correct.

We recommend adding a review of benefit selection data when it is manually entered for new employees.

Management Response: Human Resources has recently purchased a new software system "Benelogic". New employees will enter/add all their information themselves. Benefit rules with regards to rates etc., have already been set-up in the system. A report will automatically run every two weeks for Payroll and Human Resources to audit any changes that have taken place in Benelogic.

Expected Completion Date: 04/01/2022

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Payroll processing is a time-sensitive administrative function that must be performed accurately. The payroll process includes Human Resources, timekeepers in each department, and Treasury accountants working collaboratively using timekeeping and payroll systems. On a biweekly basis, employee work and leave hours must be documented, time and salary adjustments made, benefit deductions managed, accounting transactions recorded, and payments deposited to employees' bank accounts.

During the audit period, the County made approximately 88,000 payroll payments to 2,118 employees totaling \$113.1 and \$119.1 million in fiscal years 2020 and 2021, respectively. Payment is made for time worked, paid leave, overtime, shift differentials, and various other items for the County Government, the Harford County Sheriff's Office, and the State's Attorney Office. The County also manages the deductions from pay for health insurance, taxes, retirement contributions, and other reasons. The process relies on third-party systems Cyborg and Kronos to manage human resources, time entry, payroll, and accounting data.

After the audit period, but before the audit report was issued, the County's timekeeping system, Kronos, became unavailable due to a ransomware attack on the vendor. This impacted the processing of payroll such that overtime, shift differentials and leave balances will require manual adjustments. We did not confirm the accuracy of the time tracked or test the controls in place during the outage since it was after the audit period. To mitigate effects of the attack, Treasury implemented new county-wide timekeeping procedures which rely on the systems used before Kronos was implemented. We will conduct a limited scope review of the affected timekeeping data at a later date.

The audit approach focused on testing the key controls that address management's objectives. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Time Entry	
For most employees, work and leave time is tracked and approved in the Kronos timekeeping system	<ul style="list-style-type: none">• In a separate audit, we confirmed that the Kronos controls are adequate.
Where needed, manual time entries are entered into the payroll system	<ul style="list-style-type: none">• For a sample of weeks, confirm that manual entries agree to submitted timesheets

Process / Control Objective	Scope of Review
Payroll Calculations are correct	
The payroll system automatically calculates paychecks using approved pay rates and the timecard information interfaced from the timekeeping system	<ul style="list-style-type: none">• Confirm approval for a sample of payrate changes• Confirm that access to change employee data is appropriately limited• Confirm the existence of a sample of new employees• Recalculate pay totals based on time and rate details
Payroll officials review totals for reasonableness before finalizing processing	<ul style="list-style-type: none">• Review reasonableness of hours per pay period and total pay received• Review overtime and uncommon pay types for reasonableness
Benefit Deductions	
Benefit deductions are calculated based on employee elections, employment status and the relevant rate tables.	<ul style="list-style-type: none">• Perform data analysis of benefits deductions to ensure they agree to the County's rate tables.

Areas for improvement are described in the Issues and Corrective Actions section of this report. We have reviewed the issues reported in a prior audit and considered their impact on this audit; each of the issues previously identified in prior audit reports were closed before we began this project.

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). 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report Distribution:	Audit Team:
Mr. Robert Sandlass, Treasurer	Chrystal Brooks
Ms. Tiffany Stephens, Director of Human Resources	Brad DeLauder, CPA, CIA <i>Senior Auditor</i>
Ms. Jaime DeWitt, Payroll Accountant	<i>County Auditor</i>

¹ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.