



WASHOE COUNTY

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CM/ACM
Finance A.H.
DA N/A
Risk Mgt. N/A
HR N/A
Other N/A

STAFF REPORT BOARD MEETING DATE: February 23, 2010

DATE: January 29, 2010
TO: Board of County Commissioners
FROM: Bill Mikawa, Manager Internal Audit *Bill Mikawa*
(775) 328-3639, bmikawa@washoecounty.us
THROUGH: Katy Simon, County Manager
SUBJECT: Acknowledge Receipt of Washoe County Payroll Audit Report from the Internal Audit Division (All Commission Districts)

SUMMARY

Payroll costs comprise the largest operating expenditure of the County. These costs include base salaries and the related employee benefit costs such as retirement, group health insurance, taxes, Medicare, workmans' compensation, and unemployment compensation. It also includes longevity pay, overtime, standby time, shift differential, hazardous duty pay, special duty pay, etc. and allowances for uniforms, clothing, and safety equipment. Deductions are also administered for 401(a) and 457 deferred compensation plans, United Way, flex spending accounts, levies, credit union deposits, etc.

Federal and state laws and agreements with eight employee bargaining groups require the Payroll department to comply with numerous statutes and obligations. The purpose of this review was to determine if the internal controls over payroll were sufficient to assure compliance with these statutes and obligations. In addition, we were concerned whether the processing of the large volume of payroll data could continue to be sustained accurately in the short window that was currently allotted between the time timecard records were submitted and when payroll information was required at financial institutions for direct deposit to employee accounts.

We did not find any indications of payroll fraud or malfeasance in our review. Our calculations of different types of pay coincided with actual payments except for the calculation of overtime for Sheriff Deputies. However, Payroll was aware of these miscalculations and had corrected the problem therefore we had no recommendations regarding this issue.

The Payroll staff was doing an excellent job ensuring County employees were paid accurately and on time despite the loss of one staff member during the budget reductions in FY 2009-10 and the number of individual pay plans they were required to administer.

We confirmed that a potential liability existed because the amount of time Payroll had to actually process bi-weekly payrolls was reduced to 46 hours due to the cut-off time for timecard submission and the time banks required direct deposit information. Any delays

AGENDA ITEM # 6F

caused by hardware or software malfunctions could cause Payroll to miss the direct deposit deadline. The Finance Department and, in particular, the Comptroller's Office made a concerted effort to change the pay date for employees in order to increase the payroll processing window but was unsuccessful. Our recommendation is to negotiate a change to the bargaining agreements that currently prevent Payroll from expanding their processing window. Meanwhile, Payroll should document their contingency plan in detail in the event of a system failure.

County Priority supported by this item: Government Efficiency and Financial Stability.

PREVIOUS ACTION

No previous action has been taken on this Board item.

BACKGROUND

Payroll issued over 77,000 checks in FY 2008-09 with three staff members during 26 bi-weekly pay periods. In FY 2009-10, the position for one of these staff members was cut leaving the two remaining staff members to process this large volume of payroll. In FY 2009-10, the Comptroller made an effort to increase the 46 hour window between the time timecards submittals were cut off at noon on Monday and the time payroll information was required at the banks and credit unions for direct deposit to employee accounts by 10:00 am on Wednesday by extending the pay date to employees from the regular Friday pay day to the following Wednesday (and every other Wednesday thereafter). Resistance to this change was encountered with bargaining agreements that required payrolls to be made on every other Friday.

We were concerned that the reduction of staff in Payroll without concession for a longer window to process payroll data could make internal controls vulnerable to breakdown. We found strong internal controls were established in payroll to preclude potential fraud. Payroll fraud typically include fictitious employees added to the payroll, overstatement of hours worked, overstatement of rates of pay, employees being paid after termination, and multiple payments to employees. The automation of the payroll system in SAP provides internal controls by requiring Human Resources to control the input of employees on the payroll system as well as removal upon termination. Hours worked by employees are controlled at the department level in their review and approval of employee timecards.

Payroll processing can be compromised, however, resulting in a delay in issuing paychecks if there is a prolonged system failure during the crucial 46 hour processing period between the time timecards are submitted and when payroll information is due to the financial institutions for employee direct deposit. One of the common delays was the late submittal of timecards by those who did not meet the noon Monday cutoff. This required Payroll staff to call individual departments to obtain these delinquent timecards. Hardware and software failures can also potentially cause delays. Payroll staff members were further hampered this past year when they were required to administer multiple individual pay plans for employees who took voluntary pay reductions and other forms of cost savings for the County. In addition, the number of pay-offs to employees leaving the County this past year required intensive manual calculations and checking. Payroll also

does manual reports for the Sierra Fire Protection District even though they are paid through a contractor.

In conclusion, the Payroll staff is understaffed and overworked. The extreme time pressure to process the bi-weekly payroll, manual processing of individual pay plans, and the added burden of other manual operations could eventually take its toll and result in errors and mistakes in a process that needs to be error-free.

FISCAL IMPACT

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

RECOMMENDATION

It is recommended that the Board of County Commissioners acknowledge receipt of this audit report on the County payroll system.

POSSIBLE MOTION

Should the Board of County Commissioners acknowledge receipt of this audit report, a possible motion would be:

Move to acknowledge receipt of Washoe County payroll audit report from the Internal Audit Division.

bm

Attachment

Washoe County Payroll

Internal Audit Report

January 29, 2010

Executive Summary

Best Practices

1. Critical functions such as adding or deleting employees from the payroll were segregated between Human Resources and Payroll.
2. All employee deductions had to be properly authorized and approved in writing by the employee.
3. Employee Self Service (ESS) on SAP allows employees to enter their timecard, add or change their direct deposit, update their W-4 information, and modify their personal information online.

Observations

1. Any delays caused by hardware or software malfunctions could cause Payroll to miss direct deposit deadlines.

Observations and Recommendations

In FY 2009-10, the Comptroller made an effort to increase the 46 hour window between the time timecards submittals were cut off at noon on Monday and the time payroll information was required at the banks and credit unions for direct deposit to employee accounts by 10:00 am on Wednesday by extending the pay date to employees from the regular Friday pay day to the following Wednesday (and every other Wednesday thereafter). Resistance to this change was encountered with bargaining units that require payrolls to be made on every other Friday.

Payroll processing is often delayed by the late submittal of timecards by those who do not meet the noon Monday cutoff. This requires payroll staff to call individual departments to obtain these delinquent timecards. Payroll staff members were further hampered this past year when they were required to administer a high number of individual pay plans for employees who took voluntary pay reductions and other forms of cost savings for the County. In addition, the number of pay-offs to employees leaving the County this past year required intensive manual calculations and checking.

Hardware and software failures can also cause delays and since there is such a small window to process payrolls, recovery time becomes highly critical. A missed payroll can have a large impact on many people even for a day or two. Some employees have automatic deductions for rent or mortgage payments taken from their bank or credit union accounts on a regular basis that often coincide with the established payday. Many employees live paycheck-to-paycheck and rely on their paycheck being deposited in their accounts on the designated date to meet their obligations.

Other alternatives, such as requiring a Friday noon cutoff for timecards rather than Monday noon was also considered, however this would result in Payroll making adjustments each pay period for those employees who were required to work on the following Saturday and/or Sunday. Currently, biweekly salaries are computed through the immediately preceding Sunday of the pay week (Monday through Sunday). Changing the pay period to end on Friday (Saturday to Friday) to allow the Friday noon cutoff for timecards was considered, however, the same bargaining agreements that required paychecks every other Friday also required salaries to be computed through the immediately preceding Sunday of the pay week.

Payroll does have a contingency plan, in the event there is a prolonged delay in processing payroll, to re-run the prior pay period's payroll for the current period to prevent any potential liabilities. Payroll staff would have to make correcting adjustments in the subsequent payroll period, however, these adjustments could be easily identified through the assistance of WINnet staff by writing a program to compare what was actually paid to what was due. In addition, in the event of an extreme emergency, Payroll maintains microfiche that can be used to create paper paychecks if needed.

Recommendation: The County should negotiate a change to the bargaining agreements that would allow more time for processing payrolls. The Comptroller's Office should document in detail the contingency plan they would put into place should a prolonged

delay in processing payroll develop in the future which would jeopardize meeting the direct deposit deadline with banks and credit unions or require manual check writing.