



Date: May 7, 2019
To: Mark Schott, Assistant City Manager
CC: Lisa Angelini, Human Resources Director
From: Carol Holley, Senior Internal Auditor; Alison Matthees, Internal Auditor
RE: Payroll Error – Human Resources Department

Background

On April 23rd, 2019, Internal Audit noted a payroll error on the Internal Auditor’s personal paycheck. The employee’s hourly pay rate had been doubled effective as of her sixth paycheck (March 15th) resulting in an overpayment of over \$5,000 before the error was identified by the employee and brought to the attention of the Human Resources (HR) Department. Once identified by the employee, the Payroll Supervisor established a repayment plan by reducing the employee’s future paychecks as detailed in the City of Surprise *Employee Policy Manual Section 4.11 – Compensation Errors / Corrections* (EPM). Internal Audit met with the Payroll Supervisor and HR Information Systems (HRIS) Specialist to identify the root cause and performed limited testing of other pay rate changes within Munis over the last fiscal year to identify other unusual instances.

Procedures Performed

Inquiry and communication with Human Resources management

Internal Audit discussed the error with the Payroll Supervisor and HRIS Specialist on April 24th, 2019 along with numerous email communications over the next three weeks. Utilizing an archived test environment from before the change was made, the HRIS Specialist was able to recreate the unusual scenario that caused the error. See the “Root Cause” section below for details.

Munis review of payroll change audit records

Internal Audit reviewed the Munis Audit Log for FY2019 to identify manual changes to hourly pay rates. Internal Audit identified approximately 327 adjustments made to part-time employee’s hourly rates in FY2019 (July 1st, 2018 – April 24th, 2019), and performed the following procedures:

- 312 part-time employee rate changes were related to the state-mandated minimum wage update effective December 30th, 2018 and were updated via import on January 7th, 2019. Internal Audit obtained descriptive process steps and emails for the change.

- Internal Audit reviewed 100% of the remaining 15 changes for reasonableness and accuracy and noted no additional errors. The changes noted included:
 - o 11 changes made by HR personnel through the Munis change process where changes are made in a pending environment and approved using pre-determined workflows before being made live.
 - o 3 manual non-workflow changes made related to the under filling of the Internal Audit position – one upon hire of the employee, one which incidentally caused the error, then the final error correction
 - o 1 additional manual adjustment made via a Munis import. This change was made to a terminated employee, though no employee pay was impacted. Supporting documentation and approval for the change were not retained. Refer to Recommendation B below for suggested action.

Root Cause

In March 2019, HR identified an error in the number of hours per week recorded in Munis for approximately 10 part-time employees. This error was not in the hours the employees recorded but in back-end Munis calculation hours which should be recorded as 40 hours per period for part-time employees instead of 80. This error did not impact employee pay, but was corrected for reporting purposes. With email authorization from the HR Manager, the HRIS Specialist modified the hours from 80 per pay period to 40 per pay period manually within the salary history portion of Munis without incident for 9 of the 10 part-time employees.

For the Internal Auditor position, the actual position is coded (Munis Calc Code) as a full-time position, though the position was, at the time, being under-filled by a part-time employee. Under filling a full-time position with a part-time employee is a very infrequent occurrence, so typically the employee and job coding would match. In this rare instance, though the employee was coded as part-time, the position was not, so when the hours were halved, the Calc Code for the position automatically doubled the hourly rate in Munis to maintain the expected (full-time) salary per pay period. This doubled hourly rate was then used to calculate pay when the employee submitted timecards resulting in doubled payment to the employee.

This change was not identified by HR for two reasons:

- 1) The hours change was made outside the Munis Pending / Workflow process and was not reviewed by another individual independent of the process after being entered into the system.
- 2) There is not currently a step in the payroll process to detect significant, material, or unusual changes between pay periods.

Recommendations

HR Management should:

- A. Implement a review of pay rates during each biweekly payroll to identify any erroneous changes impacting employee pay until a permanent payroll changes report review is implemented. For more details on the implementation of a payroll changes report, refer to the forthcoming Benefits and Enrollment Audit Report.
- B. Define and document procedures for making changes to the employee salary records in Munis which are currently made on an ad hoc basis outside of Munis workflows. The HR Department should determine which of the following procedures is most efficient and document the processes to be utilized:
 - a. For appropriate change management related to payroll, the process for making changes outside of Munis workflow authorization should include, at a minimum, the following steps:
 - i. Documentation of authorization to make change
 - ii. Review of changes after being made in Munis for accuracy, agreement to supporting documentation, and reasonableness of impact on payroll by an individual independent of the process
 - iii. Retention of appropriate supporting documentation
 - b. Alternatively, make any changes to the employee salary record utilizing the Munis workflow approval process; meaning changes are made in a pending environment and then approved by appropriate personnel before being made active. Appropriate authorization and segregation of duties between the change-maker and review should be in place and controlled through systematic access limitations.
- C. Consider the feasibility of utilizing the employee notification program within Munis to send an automated message to an employee if a change was made to key fields, like pay rate, in their employee record. The notification text should align with the EPM which states that if an employee believes the change was made in error, they should report to their supervisor or HR.

Conclusion

Based in inquiry and testing performed, the payroll error appears to be an isolated incident. The HR Department should implement mitigating preventative and detective controls to reduce the risk of future recurrence and verify any pay rate changes are thoroughly reviewed. In FY2020, Internal Audit will work to develop an automated continuous review of payroll to identify changes to gross pay and pay rates outside designated thresholds.

Management Response

- A. Concur. The Payroll Supervisor has identified a process to review all employee pay rates in the payroll and compare those pay rates to the prior payroll. If there is a change to an employee's pay rate, the Payroll Supervisor is able to do further research in Munis to determine why the rate has changed. This allows the Payroll Supervisor an additional opportunity to audit pay rates and changes to ensure they are correct. This comparison process is done prior to the completion of the payroll so any errors can be corrected before payroll is processed and before employee pay is affected. Regarding a payroll changes report, we will continue to collaborate with the rest of the HR team and the IT team to determine how we can accomplish this in Munis. Estimated completion date for payroll changes report is contingent on the review of the Benefits and Enrollment Audit Report, but we will estimate September 31, 2019.
- B. Concur. We recognize that making changes in Munis outside of the workflow process is not ideal, but it can be a business necessity given the timing of a change, the impact, etc. While it is impossible to predict all of the scenarios in which we may make changes outside of workflow, we will create an SOP to outline a prudent process when these changes occur. The SOP will include guidance on appropriate documentation and authorization to make the change, independent review of the change, and retention of supporting documentation. Estimated completion of SOP is June 14, 2019.
- C. Concur. The HRIS Analyst and Payroll Supervisor will conduct research and testing on the Munis notification feature to determine if and/or how this can add value to our data entry processes. Estimated completion is September 31, 2019.