

# Louisville Metro Government

## 2015 Payroll Activity



Office of Internal Audit

# Agenda

- Audit Objective
- Audit Scope
- Commendable Areas
- Internal Control Rating
- Observations
- Recommendations
- Corrective Actions
- Conclusion

# Audit Objective

- Review of Payroll Activity, including:
  - Highest Gross Earnings
  - Earnings code Analysis
  - Worker's Compensation
  - Vacation Pay Termination
  - Compensation Authorization
  - Unemployment Insurance Verification
  - Ghost Employees
- Review of Human Resources Activity, including:
  - Additions, terminations, and special pays to verify that changes are properly authorized and accurately processed.
  - Employee pay rates to verify that that the rates are properly authorized and accurately reflected within PeopleSoft.

# Audit Scope

- Scope
  - Applicable Policies and Procedures as of May 2016
  - Payroll Activity, including documentation (e.g. PeopleSoft Data)
  - Human Resources Activity, including documentation (e.g. Approval and Authorization Forms)
  - Review Period: January 1, 2015 through December 31, 2015

# Commendable Areas

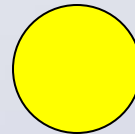
- ★ Staff associated with the payroll process were transparent and cooperative throughout the audit.
- ★ Staff identified control weaknesses and brought them to the attention of the Office of Internal Audit in the early stages of the audit.
- ★ Staff played an active role in identifying process improvements to strengthen controls surrounding the payroll process.

# Internal Control Ratings

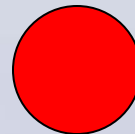
▪ Satisfactory

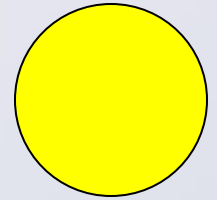


▪ Needs Improvement



▪ Inadequate





## Rating Criteria - Needs Improvement

<i>Issues</i>	Impact on operations likely contained
<i>Controls</i>	Opportunity exists to improve effectiveness
<i>Policy Compliance</i>	Non-compliance issues may be systemic
<i>Metro Image</i>	Potential for damage
<i>Corrective Action</i>	Prompt

# Observations

## General Administration

- Policies and procedures to guide personnel through processing personnel actions are unclear and lack sufficient detail.
- Inadequate policies and procedures coupled with increased employee turnover within the Human Resources department have intensified the need for training, especially for new and temporary employees.



# Recommendations

## General Administration

- ✓ Revise the policies and procedures to ensure they reflect the most current guidelines for processing personnel actions.
- ✓ Require periodic trainings, especially for new or temporary employees.

# Corrective Actions General Administration

Human Resources concurs and will implement the aforementioned recommendations.

# Observations

## Monitoring

- There is not a documented process for creating/managing earnings codes.
- There were instances in which earnings codes were not used in accordance with the Personnel Policy.
- There were instances in which an employment position was not assigned a workers' compensation code.
- Administrator or superuser activity within PeopleSoft is not monitored to detect invalid or fraudulent transactions.

# Recommendations

## Monitoring

- ✓ Create a defined process for the creation of earnings codes.
- ✓ Provide training at the employee level, departmental level, and to the timekeepers. In addition, consider the use of regular trainings for timekeepers.
- ✓ Classification and Compensation and Risk Management should collaboratively create a standard operating procedure (SOP) for the workers' compensation code assignment process.
- ✓ Monitoring of superuser activity should be performed and documented on a periodic basis in order to prevent invalid/fraudulent information from being entered into the system.

# Corrective Actions Monitoring

HR, OMB, and the DoIT concurs and will implement the aforementioned recommendations.

- OMB did not concur with the recommendation to remove earnings codes that are no longer applicable, but they did identify an alternative course of action.

# Observations

## Transaction Authorization

- There was an instance in which there was no documented analysis and approval of a pay rate adjustment.
- There were instances in which there was no evidence of approval for personnel actions, because the signature(s) of the authorized approver was not included on the required forms.

# Observations

## Transaction Authorization

- There were issues noted regarding the efficiency of the payroll and personnel action processes.
  - There is no standardized form for submitting requests for pay rate adjustments.
  - The process of obtaining the approvals for pay rate adjustments is manual and labor intensive.
  - There is no central place where data is stored and maintained.

# Recommendations

## Transaction Authorization

- ✓ Policies and procedures should be updated to include the specific documents and supporting documentation required to be maintained as evidence of analysis and approval of compensation adjustments.
- ✓ Implement a random quality review of the personnel files to ensure that the appropriate documentation is maintained for personnel data changes.
- ✓ Develop a standardized form and/or process for submission of pay rate adjustment requests.
- ✓ Evaluate options for automating the approval process.
- ✓ Personnel files should be complete and maintained in a centralized location.



# Corrective Actions Transaction Authorization

Human Resources concurs and will implement the aforementioned recommendations.

# Questions

# 2017 Annual Report of Activities



# Topics

- Overview of Internal Audit
- 2017 Annual Report of Activities
- Challenges
- Questions

# Office of Internal Audit: Purpose

Enhance and Protect organizational value.

- Support the accomplishment of Louisville Metro Government's objectives
  - Provide independent, objective assurance and consulting activities.
  - Evaluate and improve the effectiveness of risk management, control, and governance processes.

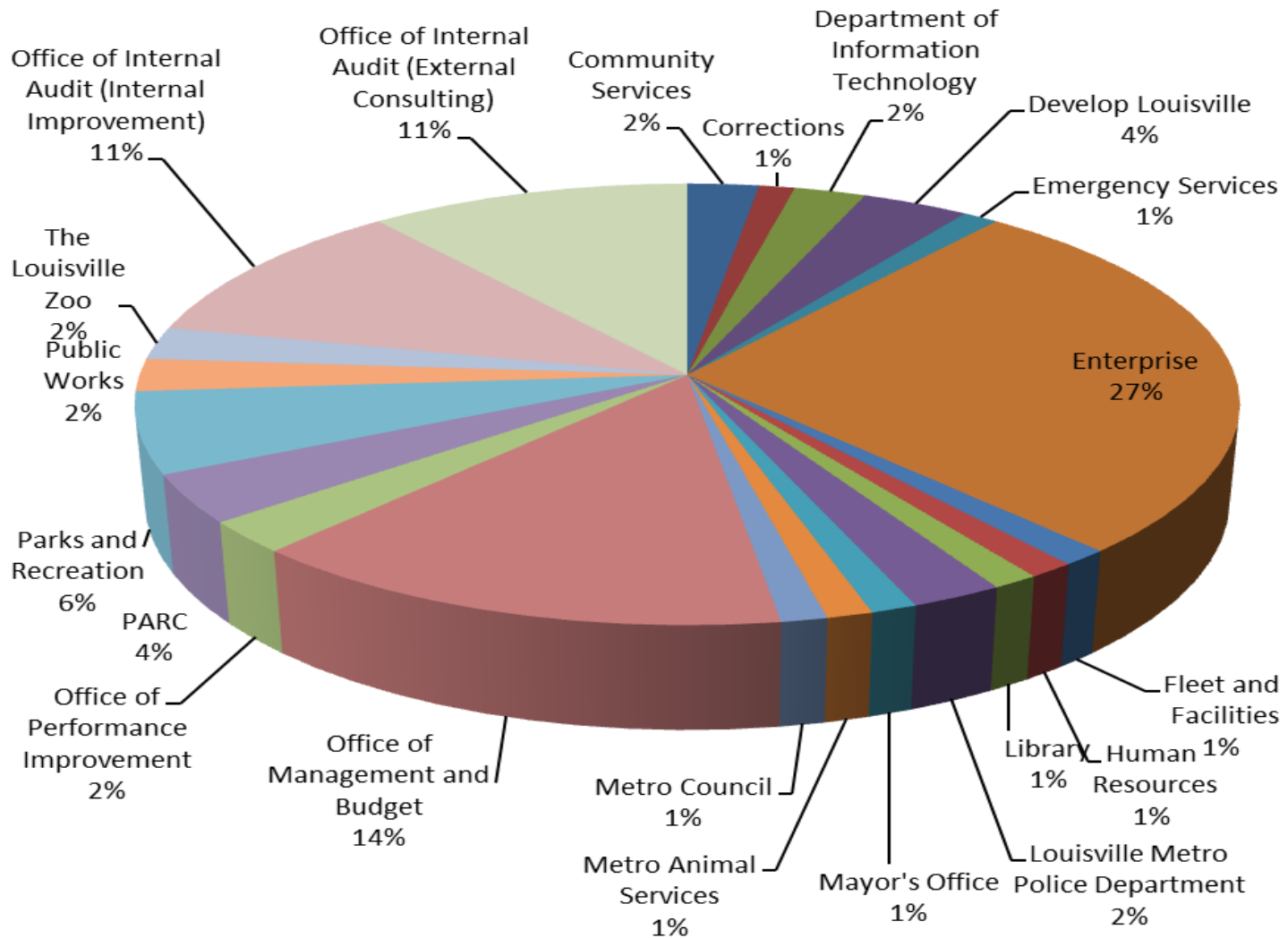
# Office of Internal Audit: Core Services

- **Assurance** - Reviewing operations, policies, and procedures to ensure that the appropriate control structure is in place and that business risks are considered.
- **Consulting** - Providing services to help address specific issues and concerns.
- **Information Technology** - Ensuring that electronic information is processed as intended, data integrity is maintained, and the control structure is assessed
- **Integrity** - Investigating allegations regarding employee misconduct and/or non-violent criminal acts involving LMG resources.

# Calendar 2016 - Core Service

<b>Table 1 – Resource Allocation by Core Service</b>			
<b>Core Service</b>	<b>Type of Project</b>	<b>Number of Projects</b>	<b>Total Hours</b>
<b>Assurance</b>		<b>35</b>	<b>9,319</b>
	Capital Projects	1	420
	Compliance	4	1,134
	Expenditures	2	2,500
	Internal Process Improvement	9	394
	Operational	11	3,434
	Revenue	2	289
	Special Request	2	664
	Assurance - Required	3	462
	Consulting	1	22
<b>Consulting</b>		<b>38</b>	<b>551</b>
	Advice and Information	33	369
	Special Request	1	150
	Committee	4	32
<b>Information Technology</b>		<b>2</b>	<b>37</b>
	IT Technical	2	37
<b>Integrity</b>		<b>9</b>	<b>487</b>
	Ethics Awareness/ Fraud Detection Best Practices	3	250
	Special Investigations	6	238
<b>Grand Total</b>		<b>84</b>	<b>10,393</b>

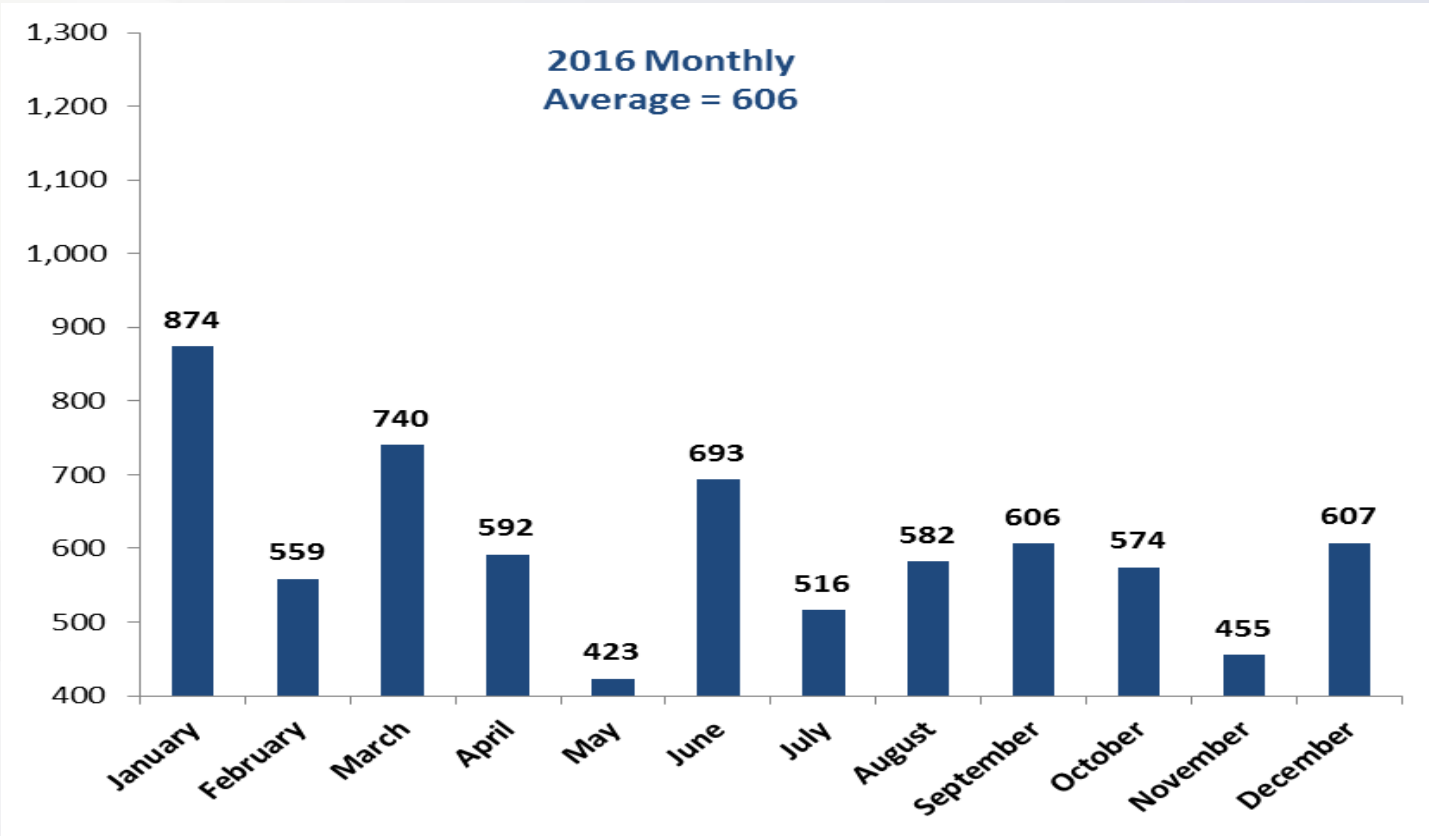
# Calendar 2016 - Metro Agency





# Transparency

- 2016 Website Hits



Site: [www.louisvilleky.gov/InternalAudit/](http://www.louisvilleky.gov/InternalAudit/)

# Professional Certifications



Certified  
Internal Auditor  
(CIA)

4



Certified Fraud  
Examiner  
(CFE)

3

# Professional Organizations



# Training

- Professional Standards Requirement
- Continuing Professional Education (CPE)
  - 80 Hours every 2 years
    - Government specific - 24 CPE every 2 years
    - Fraud specific - 10 CPE every 1 year

# Who Audits the Auditors?

- External Quality Assurance Review
  - Required by Professional Standards
  - External Party Review
  - Every 3-5 Years
  - 2014
- Results
  - Highest Ranking Available
  - Conforms to Professional Standards
  - Opportunities for Improvement

# Questions

# Ethics Tipline 2016 Annual Report



# Agenda

- Ethics Tipline
  - Statistical Summary
  - Benefits

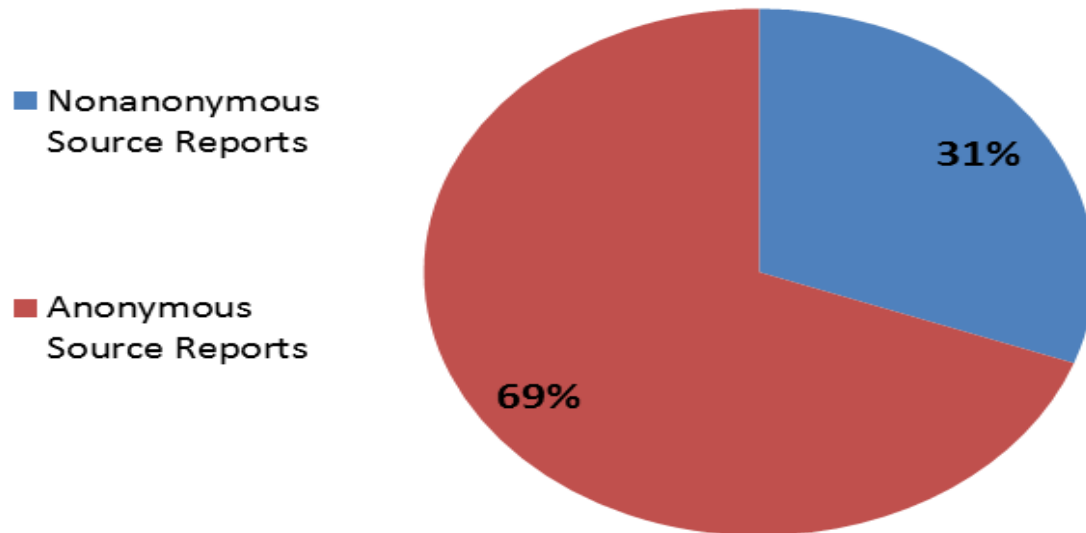


# Statistical Summary

- Call Activity
- Incident Reports Received
  - 49 Reports
- Incident Reports Closed
  - 51 Reports
    - 10 from 2015

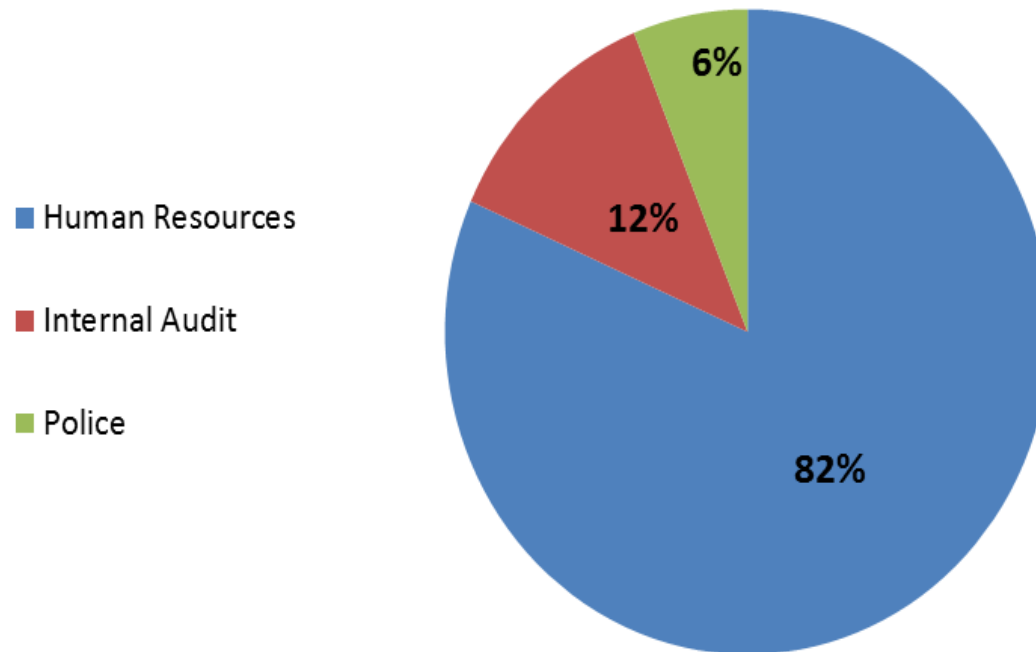
# Incident Reports Received

## Anonymous Report Activity



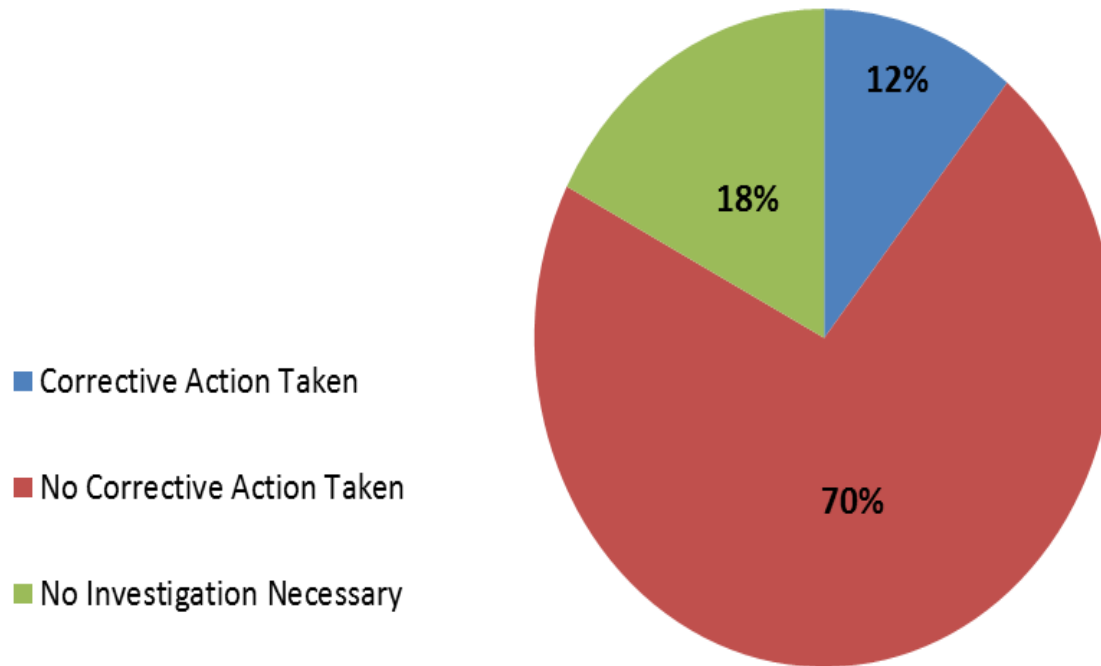
# Incident Reports Received

## Case Manager Department



# Incident Reports Closed

Investigation Outcome



# Benefits

- Direct Costs
  - \$10,500
- Value proposition
  - Consider intangible benefits

# Benefits

- Promotes ethical conduct to strengthen the culture of integrity
- Improvements in employee relations, insight into organizational behavior and accountability for use of resources
- Compliance with laws , regulations, policies and procedures
- Anonymity encourages reporting without fear of retaliation

# Benefits

- Deters misconduct by increasing the perception of being easily reported and / or detected
- Identifies areas where additional training is needed
- Opportunity to identify serious issues early, prevent unacceptable behavior, and reduce liability
- Demonstrates “tone at the top” when elected officials and senior management involved

# Conclusion

- (888) 226-2264
- [www.louisvilleky.gov/internalaudit/](http://www.louisvilleky.gov/internalaudit/)
- [www.reportlineweb.com/Louisville](http://www.reportlineweb.com/Louisville)





# Questions