

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

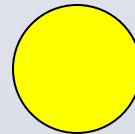
- ★ Staff associated with the payroll process were transparent and cooperative throughout the audit.
- ★ Staff identified control weaknesses and brought them to the attention of the Office of Internal Audit in the early stages of the audit.
- ★ Staff played an active role in identifying process improvements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

Internal Control Ratings

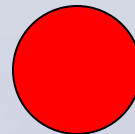
▪ Satisfactory

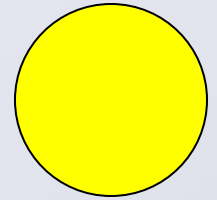


▪ Needs Improvement



▪ 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.

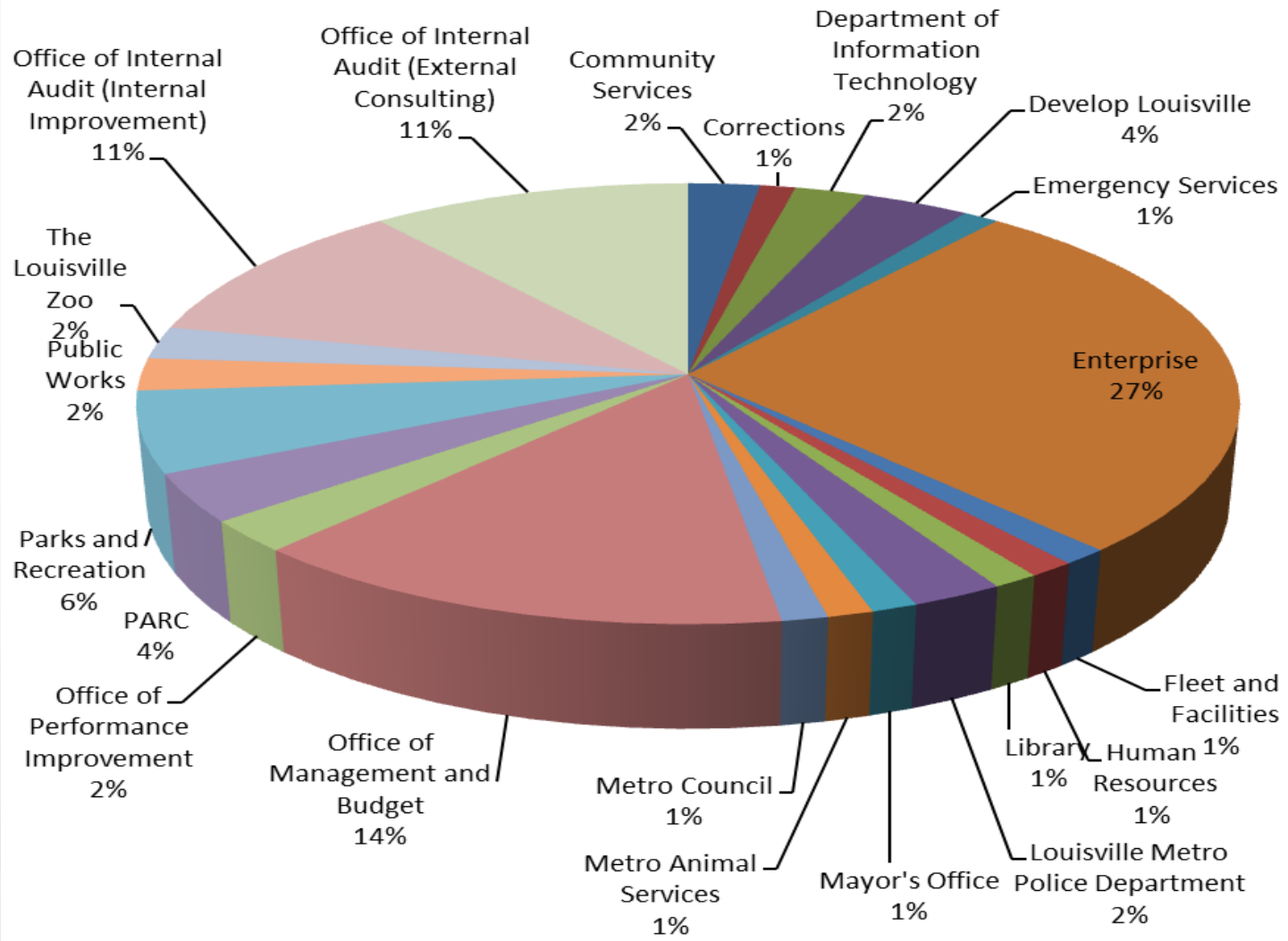
Office of Internal Audit: Core Services

- **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

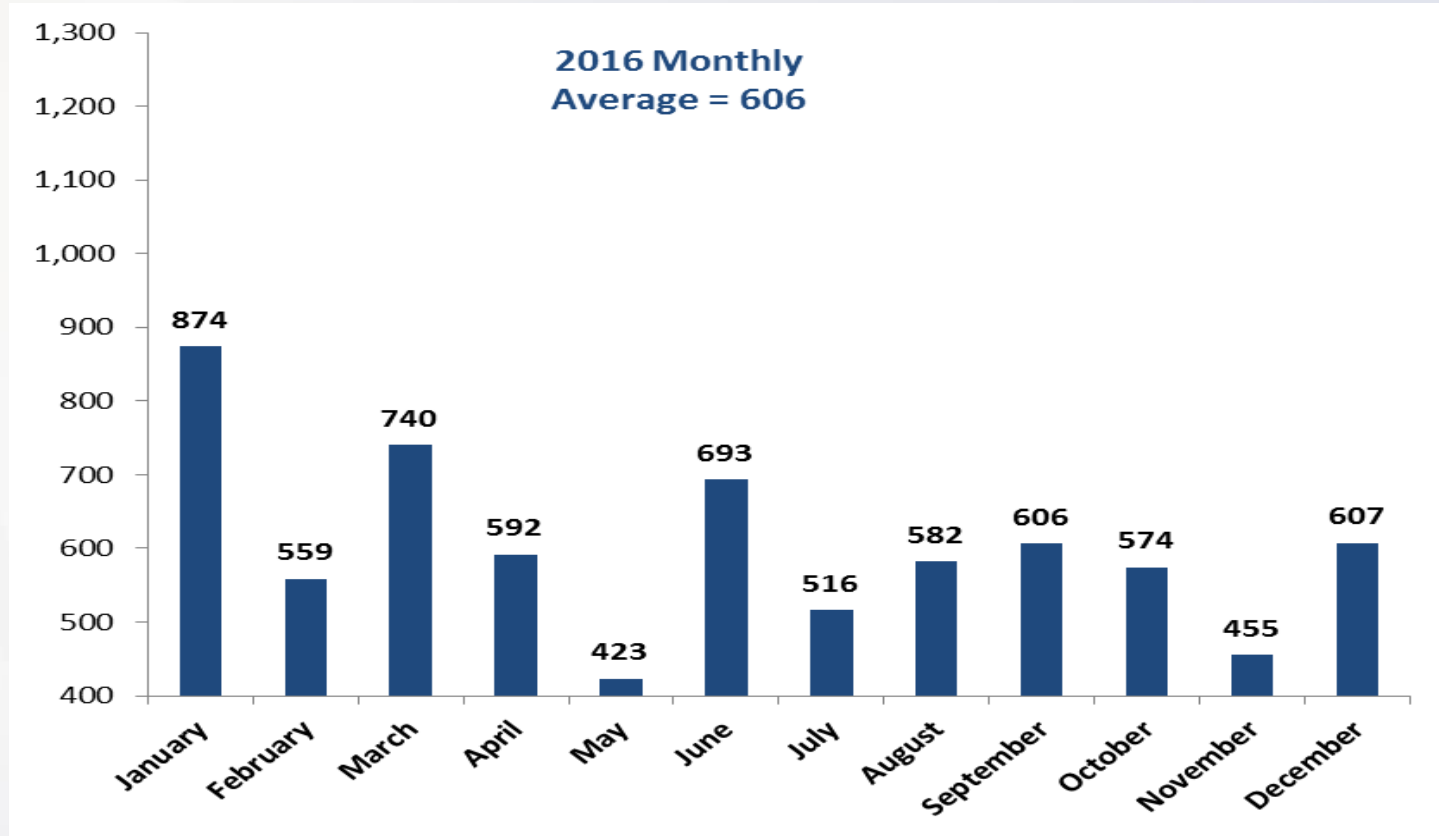
Table 1 – Resource Allocation by Core Service			
Core Service	Type of Project	Number of Projects	Total Hours
Assurance		35	9,319
	Capital Projects	1	420
	Compliance	4	1,134
	Expenditures	2	2,500
	Internal Process Improvement	9	394
	Operational	11	3,434
	Revenue	2	289
	Special Request	2	664
	Assurance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

Calendar 2016 - Metro Agency



Transparency

- 2016 Website Hits



Site: 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

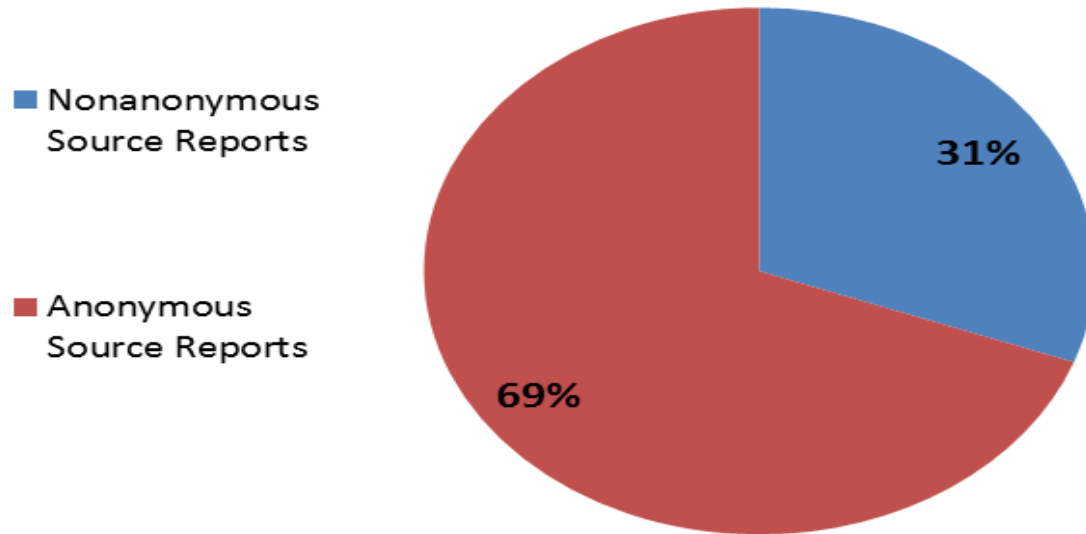
- Ethics Tipline
 - Statistical Summary
 - Benefits

Statistical Summary

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

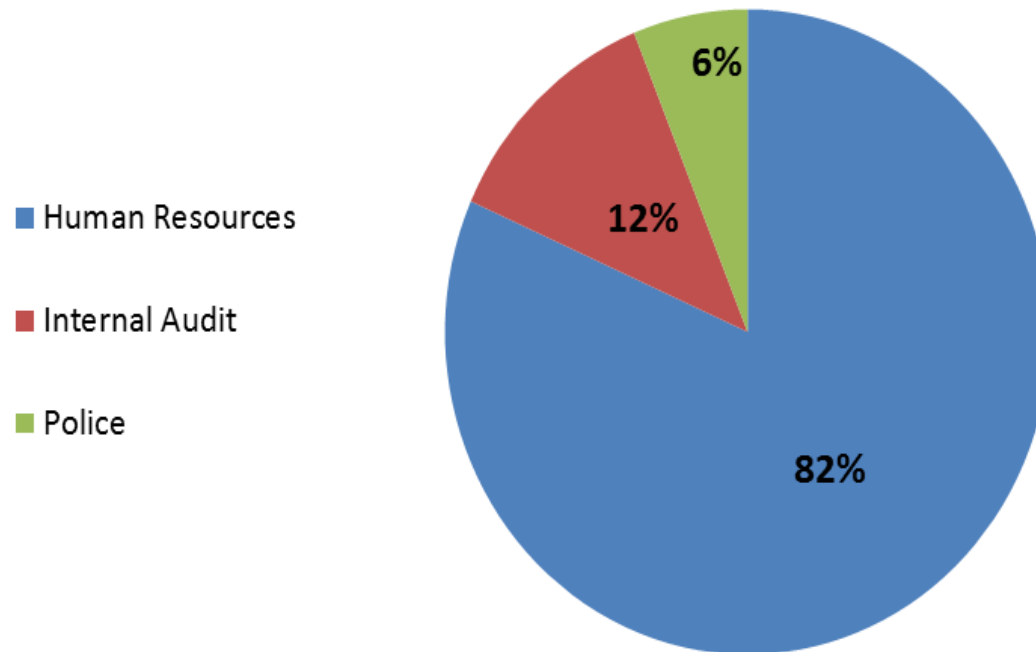
Incident Reports Received

Anonymous Report Activity



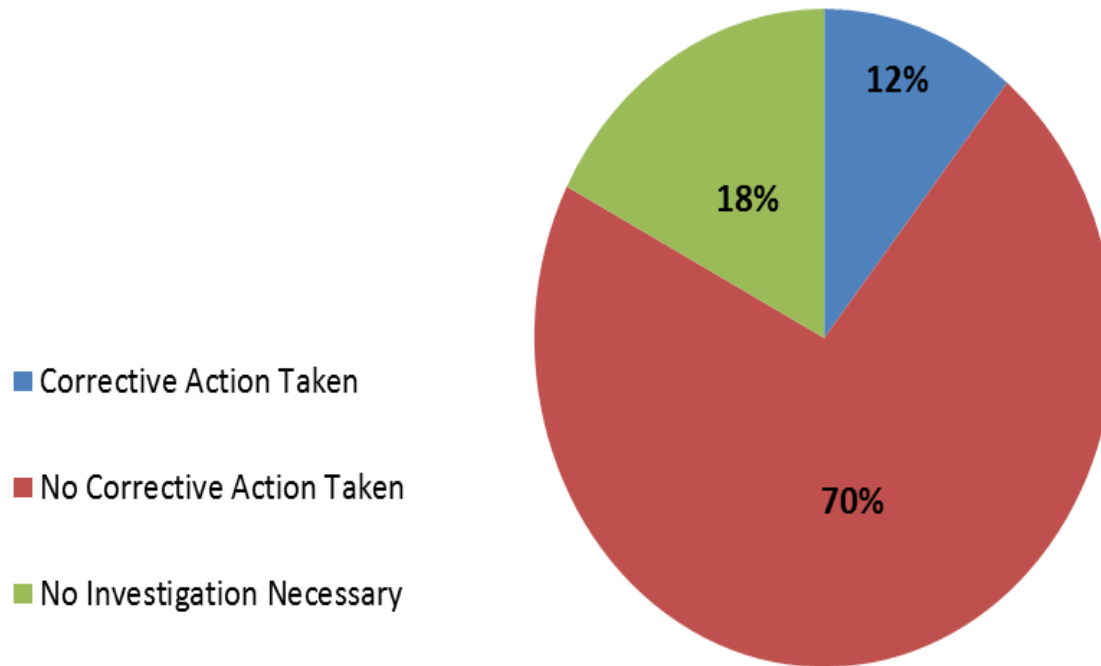
Incident Reports Received

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/
- www.reportlineweb.com/Louisville



Questions