



***Payroll Audit (Phase 1) – Corporate
Shared Financial Services
Finance Department***

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1.0 Management Summary

Audit Services has completed an audit of Payroll within the Corporate Shared Financial Services of the Finance Department. This audit was phase one of a multi-phase review of payroll processes. This review focused on the governance structure around the information flow between People, Equity, and Culture (PEC), and Finance, including a review of roles, responsibilities, and accountabilities.

The audit was conducted in accordance with the *Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing*.

The objective of this engagement was to assess the adequacy of controls in place to govern the information flow between Finance and PEC in processing payroll to minimize related risks and exposures.

The audit scope for phase one included a detailed review of select payroll transactions, processes, and documents created and/or used during the period January 1, 2022 to December 31, 2022; interviews with Payroll and PEC management and staff; and a detailed review of related policies and procedures.

Based on the audit work performed, internal controls governing the flow and management of payroll information are adequate and working as designed. Key control strengths identified during the audit include knowledgeable staff with a solid understanding of their roles and responsibilities, regular reviews and updates of policies, and the engagement of a consultant to help improve the retroactive payment process.

Opportunities for internal control and process improvements have been identified and discussed with management. These improvements are detailed in the body of the report under section 4.0 and relate to specific policy and procedure updates, strengthening of access security to change pay rate data, and the continued review of the retroactive payment process. Observation 4.5 is reported in private as Attachment 1 pursuant to Section 239(2)(d) of the *Municipal Act, 2001* as it concerns Labour Relations.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank Region Finance and PEC staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

As part of our Audit Committee and Council Approved Audit Plan for 2022/2023, the Audit Services Branch has performed an audit of Payroll. The Audit Plan, approved by the Audit Committee, is developed by the Audit Services Department using a risk assessment methodology that helps to define the different risks associated with the various processes at the Region. It is one of the tools that Audit Services uses in assessing where best to allocate audit resources.

The Payroll unit's objective is to provide reliable, responsive and timely service in support of the Region's compensation and benefits services. The administration of the payroll process is governed by the Corporate Shared Financial Services branch with shared responsibilities and a flow of critical information between Payroll and the Human Resource Management System (HRMS), which is managed by People, Equity and Culture (PEC).

Payroll is processed bi-weekly in the payroll system using timesheet data pulled from the Time and Labor module and hourly rate information from the HRMS. Seven different payroll groups are processed on an alternating bi-weekly schedule. In addition, Payroll staff regularly process ad hoc corrections and adjustments to payroll data when requested by departments.

3.0 Objectives, Scope, and Methodology

AUDIT OBJECTIVES

The main objectives of this engagement were:

- To ensure controls are in place to properly govern the information flow between the various departments that impact the payroll process.
- To ensure that sufficient policies and procedures exist to adequately govern the administration of the payroll process.
- To ensure roles, responsibilities, and accountabilities are clearly defined, communicated, and understood.

AUDIT SCOPE

The audit focused on the governance structure over the Payroll process and included a review of select payroll transactions, processes, and documents created and/or used during the period January 1, 2022 to December 31, 2022. Processes included (but were not limited to) new employee set-ups, terminations, interaction between various information systems, changes to payroll information, roles and responsibilities, and management oversight.

METHODOLOGY

The audit objectives were accomplished through:

1. Review of relevant policies, processes, and procedures
2. Interviews with appropriate personnel, including (but not limited to) People, Equity, and Culture and Finance staff
3. Sample testing within processes identified in the audit scope
4. Review of other related documentation

4.0 Detailed Observations

4.1 Access Security – Payroll Rate Data

Staff have unnecessary access to change payroll rate data

The following concerns were noted regarding change access to pay rate data in HRMS and the payroll system:

- Some Payroll staff have access to change rate data even though their job responsibilities do not require this level of access. Without proper segregation of duties there is an increased risk of error and potentially fraudulent activity. Based on discussions with the Manager Payroll, the access roles are predefined system groupings assigned to Payroll staff and will be reviewed and updated accordingly.
- Some compensation and benefits staff have access to change payroll rate data in the HRMS. Based on discussions with the Manager HRMS, compensation and benefits staff do not require change access to perform their duties, and this access will be reviewed and updated accordingly.

Recommendations

4.1.1 Management should ensure change access to payroll rate data and other sensitive information is regularly reviewed and updated in the payroll system and the HRMS to ensure proper segregation of duties exists and to limit access where required for staff to perform regular duties. Where restrictions exist that limit the department's ability to fully segregate opposing duties, compensating oversight and approval controls should be implemented to help minimize the risk.

Management Response

Management Action Plan:

4.1.1 Management agrees with the recommendation to review and update security access for changing pay rates. Management agrees with regular review of security access rights and will develop an annual review process.

Security access is managed by PEC staff. Updates will be submitted and completed by Q4 2023.

Owner: PEC

Expected Completion Date: Q4 2023

4.2 Payroll Changes

Adjustments to payroll run data occur without a formal approval process in place

The Payroll unit is regularly requested to process adjustments to payroll data for several reasons including (but not limited to) acting pay adjustments, garnishment of wages, errors in coding, missed time and labor entries, and vacation bank changes.

Based on discussions with Payroll staff, the high volume of these requests puts additional constraints on staff's time and is not an efficient use of the department's resources.

In addition, there is not a formal process in place that governs the approval required for these change requests. Our review of a random sample of these change requests found that the level of approval varies by department and that adjustments are typically processed without question if someone other than the employee is approving.

Recommendations

4.2.1 Management should develop a formal process for permitted adjustments to payroll data, including the required approval level.

4.2.2 Management should consider developing and implementing a standard template adjustment request form to be used for all requested changes to payroll data.

Management Response

Management Action Plan:

4.2.1 Management agrees with development of a process for receiving permitted payroll adjustments, including required approval levels as supported by the Collective Agreements, Signing Authority policy, the Salary Administration policy and Legislative requirements.

4.2.2 Finance will work with IT Services to request the development of a service request form, to capture requests and implement workflow for approvals, including management and PEC approvals as required. Business requirements will also be provided to the ERP Replacement project team to incorporate in the upcoming solution. Given the allocation of resources to the new ERP solution, this initiative may need to wait and be included in the new ERP tool. Requirements in the ERP RFP include configurable workflow, which could be applied to this scenario. In the meantime, Finance will continue to file all change requests in a designated electronic folder for easy reference to management approved change requests and create a form to receive approved requests in a consistent manner.

Owner: Finance

Expected Completion Date:

4.2.1 Q3 2024

4.2.2 to be determined in consultation with ITS

4.3 *Salary Administration Policy*

The Salary Administration Policy does not accurately reflect the requirements for acting pay entitlement

The Salary Administration Policy was updated in 2022 to reflect changes in processes and to consolidate related policies.

During our review of the policy, we noted that the policy does not include the requirements for non-union acting pay entitlement. There is a risk of inconsistent application of the policy without clearly defined pay entitlement requirements potentially resulting in under/over payment. Based on discussions with staff, this was an oversight and the policy will be updated accordingly.

In addition, the HRMS guidelines document does not include the process for acting pay for non-union staff for periods greater than three weeks.

Recommendations

4.3.1 Management should ensure the Salary Administration Policy is updated to include the requirements for acting pay entitlement.

4.3.2 Total Rewards management should update the guidelines document to include the “greater than three weeks” acting pay process for non-union staff.

Management Response

Management Action Plan:

Total Rewards management to review the language in the Salary Administration Policy as it pertains to acting pay for vacation coverage and provide a recommendation to the Executive Director, PEC for approval.

When changes to the existing process are approved, a communication plan will be developed and the policy and implementation guidelines will be updated accordingly.

Owner: PEC

Expected Completion Date: Q2 2024

4.4 Employee Bank Account Changes

Additional controls over changes to employee bank account information should be implemented

Based on discussions with management, access to make changes to employee bank account information for payroll direct deposit can be made by all Payroll staff and some PEC staff. Limiting access to make changes of this nature may reduce the risk of errors and intentional unauthorized changes.

Recommendations

4.4.1 Management should restrict access to change bank account information to only those Payroll and PEC employees who are responsible for executing these types of requests.

4.4.2 Management should consider developing and implementing additional management oversight measures over changes to employee bank account information.

Management Response

Management Action Plan:

4.4.1 Management agrees with restricting access to change employee bank account information to only those Payroll and PEC employees who are responsible for executing these types of requests. Security access rights will be reviewed, and changes implemented immediately.

4.4.2 Process for entering direct deposit details will be reviewed by PEC management.

Owner: PEC

Expected Completion Date:

4.4.1 Q4 2023

4.4.2 Q2 2024

4.5 *Retroactive Payments*

See private Attachment 1

End of Observations

Management has received a copy of this report and included a response.

Original signed

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