



Prince William County, Virginia Internal Audit Report – Timekeeping Cycle Audit

May 31, 2017



TABLE OF CONTENTS

Transmittal Letter	1
Executive Summary	2
Background	4
Objectives and Approach	5
Observations Matrix	7
Process Map	9



TRANSMITTAL LETTER



May 31, 2017

The Audit Committee of
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Pursuant to the internal audit plan for fiscal year (“FY”) 2016-17 for Prince William County, Virginia (“County” / “PWC”), approved by the Board of County Supervisors (“BoCS”), we hereby present the timekeeping cycle audit. We will be presenting this report to the Audit Committee of Prince William County at the next scheduled meeting on June 20, 2017.

Our report is organized into the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in the timekeeping cycle audit, as well the respective risk ratings.
Background	This provides an overview of the timekeeping process as well as relevant background information.
Objectives and Approach	The cycle audit objectives are expanded upon in this section as well as a review of the various phases of our approach.
Observations Matrix	This section gives a description of the observations noted during this cycle audit and recommended actions, as well as Management’s response including responsible party, and estimated completion date.
Process Maps	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

We would like to thank the staff and all those involved in assisting our firm with this cycle audit.

Respectfully Submitted,

RSM US LLP

Internal Auditors



EXECUTIVE SUMMARY

Background

Tracking and paying the County's workforce is voluminous, complex, highly decentralized, has a significant budget impact and thus is inherently a high risk function. It should be recognized that at any given time there are at least 33 departments (117 timesheet locations) operating independently throughout the County. Multiple County departments have employees covered under a variety of different compensation structures, such as salary, hourly, and seasonal. Pay types include work time, sick time, annual time, holidays, shift differentials and the like.

The County's current process entails the use of manual timesheets and data entry into the Human Resources Information System ("HRIS") by designated timekeepers in each department. Designated approvers in each department authorize time within the HRIS system (this is an automated process). As time entry is manually intensive it increases the risk of the function with opportunities for inefficiencies in the use of workforce production, increased risk of human error or mistakes, and the potential for fraudulent reporting.

We would like to highlight that although the function is high risk we did not note any instances of fraud during our testing.

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk.

Fieldwork was performed March 2017 through May 2017

Objective and Scope

Cycle audits are narrower in scope and specific to inherently high-risk, decentralized functions and processes. The purpose of a cycle audit is to provide testing and reassurance that policies and procedures are being followed within different departments or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. The following three (3) departments were selected for sampling for this cycle audit: Fire and Rescue, Libraries and Parks and Recreation.

The primary objective of this cycle audit was to validate ongoing compliance and control effectiveness over policies and procedures. Procedures included:

- Validate controls over timekeeping at the departments include procedures and documents to assess that the data used to generate payroll disbursements are adequate.
- Assess the adequacy of user access / segregation of duties over timekeeping and reporting at the departments.
- Determine that the records and documentation for timekeeping at the departments is sufficient to establish an audit trail for all transactions involving employees' time.
- Evaluate controls to validate pay is accurately calculated, overpayment situations are identified and payroll data is accurate.

The initial internal audit over timekeeping was accepted by the BoCS on February 18, 2014.

Summary of Observation Ratings

(See page 6 for risk rating definitions)

	High	Moderate	Low
Timekeeping Cycle Audit	1	-	1

We would like to thank all County team members who assisted us throughout this cycle audit.



EXECUTIVE SUMMARY – CONTINUED

Observations Summary

There were two (2) observations that were identified during this cycle audit. Below includes a listing of the observations that were identified. Detailed observations are included in the objectives and approach section of the report.

Summary of Observations	
Observations	Rating
1. System Access and Segregation of Duties	High
2. Post Payroll Review and Reconciliation	Low



BACKGROUND

Timekeeping Overview

Timekeeping is the tracking and documentation of employment related hours for all employees at the County. The process is inherently high risk, due to the size of the County's workforce, volume of transactions and decentralization of the timekeeping process. It should be recognized that at any given time, there are at least 33 departments (117 timesheet locations) operating independently throughout the County. The County's employees are covered under a variety of work schedules and compensation structures, such as salary, hourly, full time, part time, and seasonal employees. Pay types include work time, overtime, compensatory time, sick leave time, annual leave time, holidays, shift differentials and other employment related time.

The County's current process entails the use of various time collection methods and manual data entry into the Human Resources Information System by designated timekeepers in each department. The departments are responsible for tracking and documenting employment related hours for all employees within the department. Each County employee's time and attendance record requires supervisory-level approval for each pay period. The supervisor's approval is documented either through the approval function in HRIS or on a manual timesheet.

The County's Payroll & Disbursement Division's Payroll Office within the Finance Department is responsible for processing payroll, after verifying that all departments have entered and approved time. As the timekeeping process is manually intensive, it increases the risk of inefficiencies in workforce production, increased risk of human error or mistake, and the potential for fraudulent reporting.

Financial and Statistical Data

Salary expenses and payroll related data for Calendar Years ("CY") ending December 31st are as follows:

	CY 2014	CY 2015	CY 2016	CY 2017
Salary & Fringe Expense	\$ 342,815,730	\$ 356,267,069	\$ 371,758,674	\$ 162,137,203*
Full-time Employees	3,555	3,611	3,728	3,817
Part-time Employees	371	383	443	441
Temporary Employees	833	868	884	992
TOTAL	4,759	4,862	5,055	5,250

*January 1, 2017 – May 19, 2017

Compliance

The Federal government has many laws that the County must comply with regarding timekeeping, hourly pay and labor related issues. These laws include, but are not limited to, the Fair Labor Standards Act ("FLSA") and Family & Medical Leave Act ("FMLA") of 1993.

In addition, the County also follows Personnel Policies 11, 15, and 16 that dictate requirements for timekeeping, leave, overtime and compensatory time. The County's timekeeping guidance, Bi-Weekly Time Entry Posting ("Timekeeping Manual"), includes a detailed procedure manual covering the bi-weekly time entry posting process in the HRIS system. This manual is intended for use by the Payroll Office and County department personnel responsible for entering and approving time in the HRIS system.



OBJECTIVES AND APPROACH

Objectives

The primary objective of this cycle audit was to validate ongoing compliance and control effectiveness over policies and procedures. The initial internal audit over timekeeping was first accepted by the BoCS on February 18, 2014.

Cycle audits are narrower in scope and specific to inherently high-risk, decentralized functions and processes. The purpose of a cycle audit is to provide testing and reassurance that policies and procedures are being followed within different departments or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. Three (3) departments were selected for sampling for this cycle audit.

Approach

Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

The first phase of this cycle audit consisted primarily of inquiry, in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following procedures were completed as a part of this phase:

- Reviewed relevant documented policies and procedures and any other relevant information obtained from selected departments;
- Conducted interviews with key personnel to identify process changes and those responsible for the department's timekeeping functions;
- Validated the process map depicting the current state of the process documented during the initial internal audit over timekeeping; and
- Based on the information obtained through our inquiry procedures, we developed a risk-based work plan to validate the ongoing design and operating effectiveness of processes and controls.

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to test compliance and internal controls based on our understanding of the processes obtained during the first phase. We selected three (3) departments/agencies based on agreed upon criteria, including turnover, differing pay categories, values and volume of transactions. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. We conducted the following testing, and other procedures as deemed necessary, of detailed time records for a sample of selected departments/agencies:

- Identified and assessed segregation of duties and user access controls necessary for proper monitoring and appropriateness over;
- Verified that time and attendance information (overtime, leave, compensatory time, premium pay, etc.) agreed to appropriately approved and authorized supporting documentation;
- Determined that the records and documentation for timekeeping are sufficient to establish an audit trail for transactions involving employee time;
- Determined if any payroll changes/adjustments (including changes/adjustments after time has been approved by the Supervisor) were properly supported, authorized, and verified;
- Reviewed appropriateness of time approval;
- Verified that hours paid agree to the supporting documentation (timesheets), and are mathematically accurate and reasonable;
- Reviewed the performance and adequacy of pre- and post-payroll report monitoring and verified that it is being performed by the appropriate persons; and
- Reviewed and assessed policies and procedures for timekeeping and reviewed for completeness, including whether they reflect current practices.



OBJECTIVES AND APPROACH – CONTINUED

Approach – Continued

Reporting

At the conclusion of this cycle audit, we summarized our findings into this report. We have reviewed the results with the appropriate persons in Management, and have incorporated Management's response into report.

Provided below is the observation risk rating definitions for the detailed observations starting on the following page.

Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately.



OBSERVATIONS MATRIX

Observation	1. System Access and Segregation of Duties
<p style="text-align: center;">High</p>	<p>We noted the following observations in one (1) of the three (3) departments selected for testing:</p> <ul style="list-style-type: none"> • The department is limited on who can be assigned as timekeepers, back-up timekeeper and approvers, as such one (1) employee has the ability to enter and approve their own time entries. The system does not have the functionality to prevent employees from being able to enter and approve their own time entries. This employee also performs the post-payroll review and reconciliation. • A former employee that is also no longer employed with the County is listed as active on the user access listing. <ul style="list-style-type: none"> ○ This employee was terminated on July 31, 2015 and their network access was removed March 28, 2016. The employee's last pay was for pay period ending July 31, 2015 (pay date of August 7, 2015) <p>Without the proper segregation of duties/user access, including effective detective compensating controls as noted above, surrounding the employee masterfile, time entry and payroll processing, the opportunity of the following could occur without being detected in a timely manner, if at all: 1) Human error, 2) Misappropriation of payroll funds, 3) Fraudulent time reporting, or 4) Other types of irregularities.</p>
<p style="text-align: center;">Recommendation</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • For those departments that are limited on who can be assigned as timekeepers, back-up timekeepers and approvers, the post-payroll reconciliation should be performed and reviewed by an independent person of the appropriate level. • The County is currently updating processes and controls around the out-boarding process, which includes removal of network and user access for employees who have separated from the County or changed job functions/responsibilities. We will be performing follow-up procedures on this area.
<p style="text-align: center;">Management's Action Plan</p>	<p>Response: Payroll is adding a step to the payroll processing check list to check this specific time sheet location roles before the payroll is started. If an exception is noted, the department head will be contacted to approve the batch for processing. Stargarden will be contacted to create a Dual Role Report to monitor this type of occurrence in the future. The completion date is TBD.</p> <p>Human Resources is currently updating processes and controls around the out-boarding process, which includes removal of network and user access for employees who have separated from the County or changed job functions/responsibilities.</p> <p>Finally, the County is in the process of developing technical and functional requirements for a new Human Capital Management system. One requirement the County would seek is system built –in segregation of duty controls.</p> <p>Responsible Party: Payroll & Disbursement Division Chief</p> <p>Estimated Completion Date: TBD – pending cost and availability of third party software vendor</p>

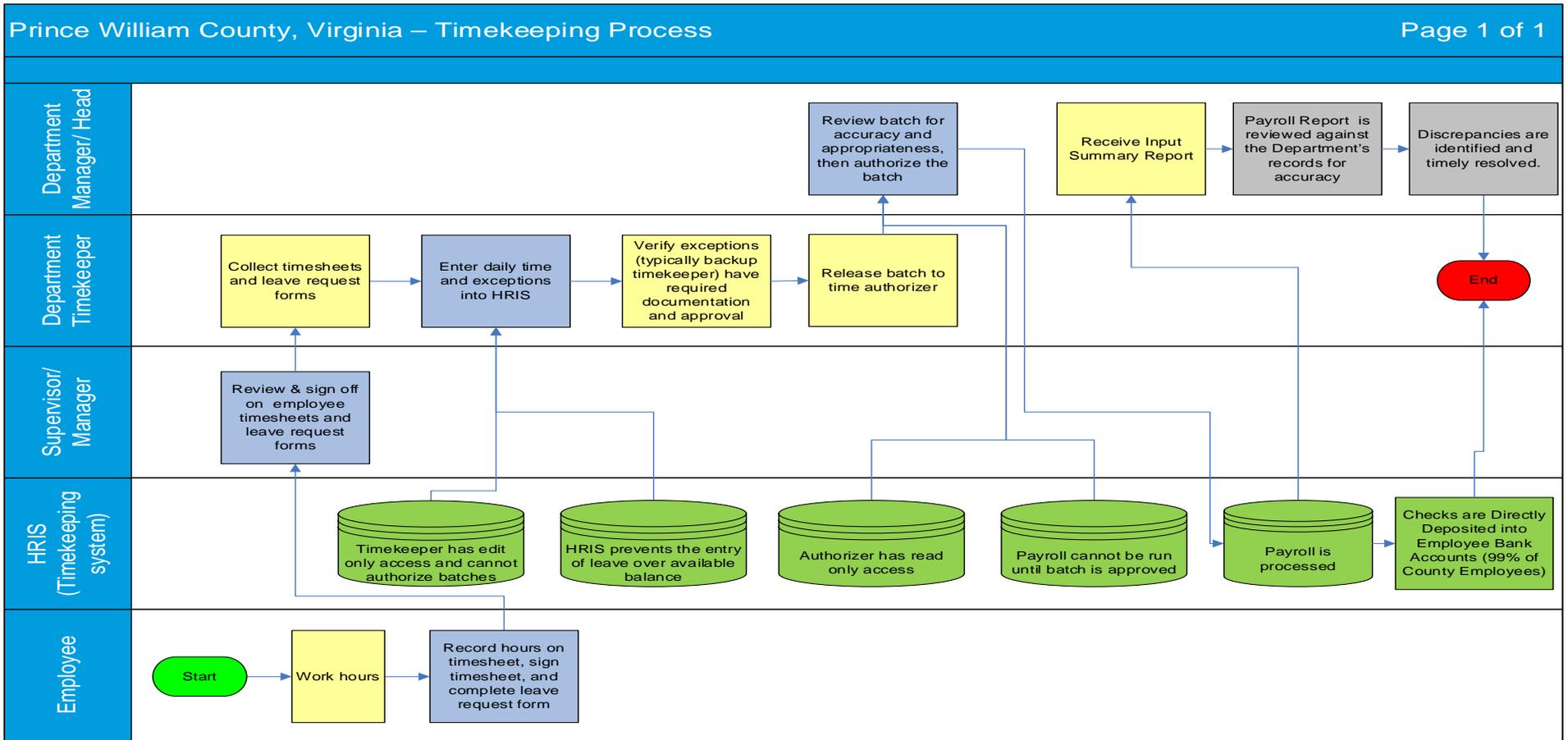


OBSERVATIONS MATRIX – CONTINUED

Observation	2. Post-Payroll Review and Reconciliation
<p style="text-align: center;">Low</p>	<p>The County's Timekeeping Manual Section 12 states "<i>After the payroll process is complete, each department must review and reconcile its time entry and payroll data.</i>" The Timekeeping Manual also provides detailed instructions on how to perform the post-payroll review and reconciliation.</p> <p>We were unable to validate that two (2) of the three (3) departments selected for testing were performing the post-payroll review and reconciliation as required by policy.</p> <p>Without a complete review process, the County's payroll records are more likely to contain errors, which may not be properly detected in a timely manner.</p>
<p>Recommendation</p>	<p>We recommend that the County require that the departments maintain documentation that this post-payroll review and reconciliation is being performed. The documentation should include sign off by the preparer and reviewer, including date of performance and review.</p>
<p>Management's Action Plan</p>	<p>Response: With the dual role monitor report (noted in the above response) created this should eliminate the possibility of monitoring for fraudulent payroll entries. The new Ascend financial system requires a new chart of accounts ("COA") coding structure. With Performance the employee's COA was requested by the department whenever an employee was hired, transferred, demoted, or promoted. It was reviewed by HR and manually entered each time by Payroll staff.</p> <p>With Ascend going live in July 2016, HR assigned all of the positions a COA. Now the code is automatically assigned based on the position and eliminates this possibility of data input error. If the department decides to change the COA in the future, the department can formally request a change from HR. HR notifies the Payroll and Disbursement Division Chief whenever a new COA is required for Payroll to set up in HRIS. Payroll verifies the new COA with the Ascend Team that Budget has authorized Ascend to set up this new COA so it will not reject during the payroll interface process.</p> <p>All the earnings and deduction (includes benefits) codes are set up by Payroll to be charged to specific earning and benefit COA. So the Payroll interface is programmed to automatically charge the department's accounts based on the employee's position COA.</p> <p>The time entry person can override the COA for special situations, such as an employee works on a special project for another department, but the approver has access to review the detail time entry.</p> <p>With the addition of the dual role report and with the new position control COA implemented by Human Resource there is no need to monitor the payroll general interface. The Office of Management and Budget assigns the budgeted payroll and benefit dollars and the department must review and report any significant payroll related budget variances.</p> <p>Responsible Party: Payroll & Disbursement Division Chief</p> <p>Estimated Completion Date: TBD – pending cost and availability of third party software vendor</p>

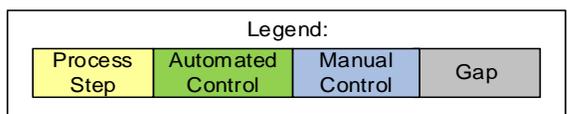


PROCESS MAP



“Exceptions” are those hours that the employee does not work (e.g. sick or annual leave) or hours over the employee’s normal schedule (e.g., over time). Since the system pre-populates the time based on the employee’s status (FT or PT) only the exceptions to the hours are entered.

“Batch” is all of the time data entered for a department





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