The City of Lynchburg
Review of Payroll

Fire Department
September 18, 2006

Prepared by the Office of Internal Audit

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Internal Audit Department
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Data for employee master files is entered to the New World Systems Payroll Module by staff in Human Resources. Payroll clerks enter employee hours worked and leave taken. Payroll is processed in the Financial Services Department.

The Office of Internal Audit conducts periodic audits of Payroll processing for individual departments across the City. These reviews include tests of controls over payroll processing and documentation.

This audit was performed as a regularly scheduled audit with the approval of the Audit Committee.

Review Objectives

The purpose of the review was to determine that:

- Payroll calculations are accurate and supported by adequate documentation;
- Personnel files in Human Resources support the departmental payroll calculation and include all legally required documents;
- Checks processed through payroll are for legitimate employees of the City;
- Access to the payroll system is adequately restricted to necessary personnel; and
- Procedures are in compliance with legal requirements, IRS regulations, and City policy and procedures as related to payroll

Scope of Work

We interviewed personnel at the Fire Department and reviewed system documentation to establish an understanding of payroll procedures. Payroll reports were tested for forty-three employees at the Fire Department and personnel files in Human Resources were reviewed to ensure that payroll deductions were authorized by employees and that files included all legally required documents. The period of review was 5/17/06 through 5/30/06 and 6/28/06 through 7/11/06.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit

Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

Opinion On Internal Controls

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are properly recorded.

Based on our review, we concluded that the system of internal controls provides reasonable assurance that assets are safeguarded and transactions were made in accordance with City policy.

Audit Conclusions

Based on the results of our review, we conclude that…

- The payroll calculations were accurate and supported by adequate documentation.
- The personnel files in Human Resources supported the departmental payroll calculation and included legal documents required for payroll except as noted in the "Observations & Suggestions" section of this report.
- The checks processed through payroll were for legitimate employees of the City;
- Access to the payroll system is adequately restricted to necessary personnel; and
- Procedures were in compliance with legal requirements, IRS regulations, and City policy and procedures as related to payroll, except as noted in the "Observations & Suggestion" section of this report.

Observations & Suggestions

I. Observations: Preparation of Timesheets

Non-exempt employees are required to prepare a "Full-Time, Non-Exempt Employees Hours Exception Form (Timesheet)" for each bi-weekly payroll period. The timesheets are supposed to be completed and signed by the employees and approved by their supervisors. During our review, we noted 31 of 43 timesheets with no employee or supervisor signatures and another 2 with only the employees' signatures. Most of the timesheets

are emailed to the payroll clerk from the fire stations because of difficulties in obtaining employee signatures due to shift work. According to administrative staff, signed timesheets are maintained in the stations. However, we found that timesheets were not signed by employees or supervisors at one station and at another the supervisor signs the employees' names before approving the timesheets.

Suggestion:

We suggest that management enforce the "Timesheet Instructions" given to all payroll clerks when preparing payroll which states timesheets should be signed and dated by both the employee and supervisor. We further recommend these timesheets be maintained at the administrative office.

We consulted Human Resources and they too felt that timesheets should be signed by both the employee and the supervisor. If timesheets need to be emailed to the payroll clerk ahead of time due to deadlines for payroll processing then a signed copy could be sent to the payroll clerk at a later date.

We discussed this with the Fire Administrative Officer who was in agreement with this suggestion. A procedure will be implemented to ensure all timesheets are properly signed and maintained in the administrative offices.

Observation: Missing Tax Forms

Personnel files for seven long-term employees did not include Federal and State withholding forms. Prior to implementation of the current payroll system, withholding forms were kept in the Finance Department and periodically moved to the attic. These forms may be difficult to locate should the city be audited by an outside agency.

Suggestion:

We recommend that Human Resources request updated W-4 and VA-4 forms from the employees.

We would like to express our appreciation to the employees at the Fire Department and in Human Resources for their assistance during this audit.

Carol J. Bibb, Internal Audit Director	Michelle B. Kuhn, Assistant Auditor

Management Response:

After review of the attached Fire and EMS Department Payroll Review Draft Report prepared by Michelle Kuhn of the Internal Audit (IA) Department on September 15, 2006, and subsequent discussion with other members of the Fire and EMS Department's Senior Staff, I am responding to inform you that we concur in all the findings of the report and intend to address IA procedural concerns in the following manner:

> We will address concerns that supervisors and/or non-exempt employees previously failed to sign "Full-Time, Non-Exempt Employees Hours Exception Forms" (Timesheets) by initially reminding all departmental supervisors that compliance with this element of City policy regarding such signatures is mandatory. This will be accomplished via a departmental Operations Staff Meeting scheduled for Tuesday, September 19th.
>
> Additionally, we intend to issue a policy within our official departmental policy system, mandating in writing the signature requirements specified by City policy (and described above), and requiring that signed copies of all non-exempt employee timesheets be forwarded to our Payroll Clerk at Administration in a" timely manner" (to be established during the preparation of this policy). Given the finding that maintenance of properly signed timesheets at departmental stations has been less than successful, we concur that maintenance of these work records at our Administrative Office is a reasonable solution to this problem, It is anticipated that this policy will be issued in time to impact the pay period ending October 10, 2006.

We greatly appreciate the professional and cooperative manner in which Michelle conducted her review, and we also appreciate the opportunity to comment on report findings.

Please let me know if I can be of any additional assistance.

Thanks,

Will

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