



# **City of Minneapolis Audit Committee**

## **Payroll Review #2013-04**

**November 13, 2013  
Regular Meeting**

# Payroll Review

## #2013-04



## Background

Through the Payroll process, the city makes payments owed to employees for salaries and wages, including payments of overtime, paid vacation, Worker's Compensation, Family Medical Leave Act (FMLA), etc. and withholdings, deductions, and contributions is referred to as Payroll Processing. Data pertaining to the City's Payroll Processing function for 2012 and 2013 (through September 30) is referred to in the table below:

City of Minneapolis Payroll Processing						
Year	Average Number of Employees	Amount of Payments Processed (for City Employees only)				
		Q1	Q2	Q3	Q4	Total
2012	4,232	\$59,481,126	\$68,596,701	\$60,805,077	\$70,233,166	\$259,116,070
2013 (through September 30)	4,585	\$59,223,365	\$68,410,985	\$61,632,529	-	\$189,266,879

# Payroll Review

#2013-04



## Objective

- Document the end-to-end Payroll process with agreed upon key controls;
- Perform a review to identify key financial and operational risks within the Payroll process;
- Assess whether controls are designed appropriately to mitigate key risks;
- Assess whether key controls are operating effectively through sample testing;
- Provide control recommendations, as appropriate.

# Payroll Review

#2013-04



## Scope

City of Minneapolis Payroll from January 01, 2012 to September 30, 2013. This review did not include expense reimbursement, overtime reporting for the Minneapolis Police Department or IT security / system access, (these processes were covered under separate reviews within the last two audit cycles).

## Approach

- Identified key internal controls
- Tested key controls for design and operating effectiveness through observation, inquiry, review of current policies and procedures, and sample testing of payroll controls
- Performed targeted data analysis for high risk areas, reviewed exceptions and discussed results with management.

# Payroll Review

#2013-04



## Recommendations:

### 1. New hire approval process

- Identify positions that are exceptions to the standard approval process
- Improve consistency in following the process for approving new hires
- Consider updating the New Hire form to include printed approver name and position

### 2. Employee job record maintenance

- Communicate with departmental HR representatives in order to improve timeliness and consistency of employee job record updates
- Formalize existing process in place by the Payroll Department to identify and track employees who are terminated, go on leave, or have other job changes impacting payroll and/or benefits.

# Payroll Review

#2013-04



## Recommendations:

3. Implement an independent review of payroll manual adjustments and overrides
4. Reconciliation of physical checks
  - Develop a reconciliation process for total number of physical checks printed during the payroll cycle to total number of checks authorized
5. Year-end reconciliation of payroll accrual
  - Implement a review process for all system generated payroll journal entries
  - Implement a reconciliation of payroll general ledger accruals at year-end

# Payroll Review

#2013-04

## Projected Cost of Implementation



Projected Cost of Implementation (contents provided by Finance)		
Audit Finding		Total Estimated Cost
1	New Hire Approval Process	Cannot be determined
2	Employee Job Record Maintenance	Cannot be determined
3	Independent Review of Payroll Manual Adjustments and Overrides	Cannot be determined
4	Reconciliation of Physical Checks Printed During Payroll Cycle	Cannot be determined
5	Year-End Reconciliation of Payroll Accrual	Cannot be determined
<b>Totals</b>		\$

# Payroll Review

#2013-04



## Conclusion

- Based on our review, the Payroll process appears to be well-designed, well-controlled and functioning effectively overall, with some opportunities for improvement to address risk areas identified in this report.
- IA would like to extend our appreciation to the Payroll, HR, and Finance personnel who assisted and cooperated with us during this review.