City of Markham

Payroll Audit

November 12, 2018

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MARKHAM

November 12, 2018

Mayor and Members of Council,

Pursuant to MNP LLP's appointment to provide Auditor General Services, I am pleased to present the Payroll audit report ("report") of the Auditor General for the City of Markham ("the City"). To ensure the results of our audit are balanced, we have provided in this report a summary of identified strengths as well as any observations and recommendations for improvement.

The audit work was substantially completed on September 21, 2018. The report was discussed with the City's management and executive leadership team, who have reviewed the report and provided their responses within. This report is provided to you for information and approval of the City's proposed action plans.

Based on the results of our audit, the City has sufficient and effective processes and controls in place over payroll processing. Noted areas of strength include having documented and defined processes, appropriately segregated roles and responsibilities, multiple levels of review and approval over the payroll package, independent reconciliation of payroll journal entries and reperformance of automated calculations.

The audit did not identify any opportunities to significantly improve the existing internal controls within the payroll processing procedures.

The report will be posted on the City's website and made available to the public after tabling to Council.

Sincerely,

Geoff Rodrigues, CPA, CA, CIA, CRMA, ORMP

Auditor General, City of Markham

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EXECUTIVE SUMMARY

The City of Markham ("City") implemented a new Human Resources Information System ("HRIS") that went live in January 2017. This new system, called ADP Workforce Now, is a full-service system providing various modules for human capital management, including the payroll function. It replaces the previous payroll system, ADP's Premier Performance Pack.

As Auditor General for the City, MNP LLP ("MNP") conducted an audit to evaluate the processes and controls in place over payroll processing, focusing on the following sub-areas:

- Documentation of key payroll processes;
- Segregation of HR and payroll duties;
- Authorization, processing and recording of wage rates, salaries, deductions and withholdings in the payroll system;
- Updating terminated employees and employees on leave;
- Input, review and coding of pay period wage amendments;
- Tracking of time and attendance;
- Calculation, recording and reconciliation of payroll data;
- Remittance of payroll deductions;
- Payroll journal entries;
- Disbursements to fictitious and/or former employees;
- Access to the payroll system; and,
- Logging of security activities.

Based on the audit, the City has effective and sufficient processes and controls in place over payroll processing. Many of the key controls assessed have evidence to demonstrate operating effectiveness. Noted areas of strength include:

- A comprehensive set of documentation to support key payroll and related Human Resources ("HR") activities. This includes detailed step-by-step procedures that are updated on a regular basis and made readily available to all team members.

- Appropriate segregation of duties whereby individuals with access to modify employee details do not have access to key payroll functions in the system. The system profiles have been configured to prevent the provision of conflicting access that could otherwise provide an opportunity to conceal fraudulent activity.

- Multiple layers of review and approval have been implemented over the bi-weekly payroll process. Payroll undergoes numerous automated and manual checks to ensure calculations are correct, is complete, and free of errors. A strict timeline for when specific payroll tasks are to be completed and the parties involved has been defined and is adhered to, which facilitates coordination between the HR and payroll teams, and ultimately timely submission of payroll.

- An independent team (Financial Reporting) reconciles payroll journal entries with the bank statements on a monthly basis to ensure they are correct. Discrepancies are reconciled, communicated and discussed with the Payroll Supervisor.

- On an annual basis, when new rates are released prior to the first payroll of the year, the Manager, Financial Reporting & Payroll performs a manual check of the calculations in the system to ensure they have been accurately updated.

Given the system in use and individuals responsible for executing payroll processes, the audit did not identify any areas within the scope of the review where internal controls could be significantly strengthened.

This report may not disclose all our findings, as minor items that in the Auditor General's opinion do not rise to the level of reporting to Council, may have been detected and resolved directly with Management.

BACKGROUND

The City implemented a new HRIS that went live in January 2017. The HRIS, called ADP Workforce Now, is a full-service system providing various modules for human capital management, including the payroll function. This replaces the previous payroll system, ADP's Premier Performance Pack.

Further to the Auditor General conducting a HRIS Implementation Audit in March 2018, where the conversion from Premier Performance Pack to Workforce Now was reviewed, and in accordance with the four-year audit plan, the Auditor General conducted an evaluation of the processes and controls related to the payroll function at the City.

OBJECTIVE

The objective of the audit was to evaluate the processes and controls in place over payroll processing, identify strengths and/or weaknesses, and provide recommendations for improvement.

SCOPE

The scope of the audit included the payroll processes from July 1, 2017 to June 30, 2018. Specifically, the scope of the audit focused on the following:

- Key payroll processes have been documented and are being followed;
- Duties within the payroll process have been appropriately segregated;
- Additions, separations, wage rates, salaries, deductions and withholdings are properly authorized, processed, and accurately recorded in the payroll system in a timely manner;
- Terminated employees and employees on leave are accurately updated in the system;
- Pay period wage amendments are properly inputted into the payroll system, and are reviewed, approved, and accurately coded for accounting and distribution;
- Time and attendance have been accurately tracked, and payments are accurately calculated;
- Payroll data has been correctly calculated, recorded and reconciled, in a timely manner, and in the proper accounting period;
- Payroll deductions and withholdings are remitted on a timely basis;
- Payroll journal entries (including accruals) and supporting documentation are reviewed for accuracy and approved by the appropriate level of management;
- Payment disbursements are not made to fictitious or former employees;
- Access to the payroll system has not been appropriately restricted; and,
- Security activities within the payroll application are appropriately logged and monitored.

The following areas were not within the scope of this audit:

- HRIS modules that are not related to the payroll function (i.e. Recruitment); and,
- HRIS implementation and data migration activities (as these were the scope of a past Auditor General audit).
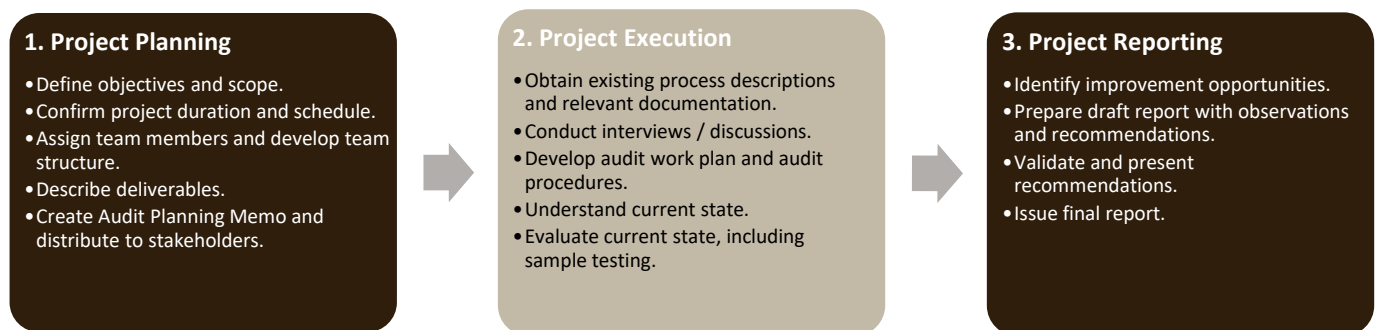
RISKS

The following inherent risks were considered during the audit, which given the scope of the audit are typical risks to have been considered:

- Amendments to payroll records are not properly authorized, processed and recorded;
- Amendments to payroll records are not prepared timely;
- Pay period wage amendments are not properly inputted into the payroll system, and are not reviewed, approved, and accurately coded for accounting and distribution;
- Payroll data has not been correctly calculated and recorded (not recorded timely or in the proper accounting period);
- Payroll deductions and withholdings are not remitted on a timely basis;
- Payroll journal entries are not properly reviewed and approved;
- Payroll disbursements are made to fictitious or former employees;
- Access to the payroll system has not been properly restricted;
- Logical access to the application has not been secured; and,
- Roles and responsibilities surrounding payroll are not properly segregated.

APPROACH

Based on MNP methodology, the high-level work plan for the audit included the following:

1. Project Planning
- Define objectives and scope.
- Confirm project duration and schedule.
- Assign team members and develop team structure.
- Describe deliverables.
- Create Audit Planning Memo and distribute to stakeholders.

2. Project Execution
- Obtain existing process descriptions and relevant documentation.
- Conduct interviews / discussions.
- Develop audit work plan and audit procedures.
- Understand current state.
- Evaluate current state, including sample testing.

3. Project Reporting
- Identify improvement opportunities.
- Prepare draft report with observations and recommendations.
- Validate and present recommendations.
- Issue final report.

Test procedures to assess the relevant control activities included:

- Interviews with key payroll and HR personnel;
- Review of relevant payroll documentation; and,
- Detailed testing of payroll processes and controls for payments, pay calculations and reporting.

AUDIT TEAM

The audit was carried out by the following MNP team:

Geoff Rodrigues, Audit Lead Partner	Provided expertise in audit methodology, directed the MNP team in all stages of the audit, and ensured that firm and professional quality assurance standards are maintained.
Phil Reisinger, Quality Assurance Partner	Performed quality assurance review over the entire audit process and provided expert knowledge on payroll processing.
Veronica Bila, Audit Manager	Managed the audit and reviewed audit results.
Kyra Li, Senior Auditor	Planned and carried out the audit procedures, involving the above resources as needed.

STRENGTHS

In conducting the audit, MNP noted several strengths with respect to the City's processes and controls in place over payroll processing. The following key strengths are described below:

Documented and defined processes

A comprehensive set of documentation to support key payroll and related HR activities exists and is kept up to date. This includes detailed step-by-step procedures that detail the specific actions, timing, responsible individuals, and tools used during payroll processing, which are made readily available to all team members.

Segregation of incompatible duties

Appropriate segregation of duties are in place, whereby individuals with access to modify employee details do not have access to key payroll functions in the system. System profiles have been configured to prevent the provision of conflicting access reducing the opportunity to conceal fraudulent activity.

Review and approval of payroll package

Multiple layers of review and approval have been implemented over the bi-weekly payroll process. Payroll undergoes numerous automated and manual checks to ensure calculations are correct, is complete and free of errors. A strict timeline for when specific payroll tasks are to be completed and the parties involved has been defined and is adhered to, which facilitates coordination between the HR and payroll teams, and ultimately timely submission of payroll.

Independent reconciliation

An independent team (Financial Reporting) reconciles the payroll journal entries with the bank statements on a monthly basis to ensure they are correct. Discrepancies are reconciled, communicated and discussed with the Payroll Supervisor.

Reperformance of automated calculations

On an annual basis, when new rates are released prior to the first payroll of the year, the Manager, Financial Reporting & Payroll performs a manual check of the calculations in the system to ensure they have been accurately updated.

SUMMARY OF OBSERVATIONS

To enable the City to set priorities in their action plans, we have reported our observations in one of three categories, "**Low**", "**Medium**" or "**High**" based on our assessment of the priority (i.e. significance, complexity, and resources required) of each observation.

Rating	Rating Description
L = Low	The observation is not critical but should be addressed in the longer term to improve internal controls or process efficiency (i.e. 6 to 12 months).
M = Medium	The observation should be addressed in the short to intermediate term to improve internal controls or process efficiency (i.e. 3 to 6 months).
H = High	The observation should be given immediate attention due to the existence of a potentially significant internal control weakness or operational improvement opportunity (i.e. 0 to 3 months).

The audit did not identify any significant observations within the in-scope payroll processing controls and procedures.

RECOMMENDATIONS

As the audit did not identify any significant observations, we do not have any recommendations to enhance the internal controls for payroll processing.

ACKNOWLEDGMENTS

We would like to express our appreciation for the cooperation and efforts made by City staff whose contributions assisted in ensuring a successful engagement. City staff provided the Auditor General with unrestricted access to all activities, records, systems, and staff necessary to conduct this audit freely and objectively.