January 20, 2015

Payroll Processing and Time Recording Audit

Background

There are approximately 10,000 City employees being compensated through the SAP payroll system, the total value of which amounted to $703 million in 2013. The Corporate Payroll Services Group, under the current payroll services delivery model, is responsible for the overall coordination of payroll services for the City and its associated Boards.

The current time entry processing set up is decentralized. Time administrators enter time in SAP for their respective department's staff and time sheets are kept in hardcopy or electronic format and are to be approved by manager prior to SAP entry. Employees are either positive time reporters, where all hours worked are recorded, or exception time reporters, where scheduled working hours are set up as a default and only absences such as vacation and sick time are recorded.

Corporate payroll is responsible for updating employee master data in SAP through the Employee Staff/Compensation Action Forms (ESAF/ECAF) processes. The Payroll team processes bi-weekly payroll, ensures deductions are calculated accurately for various taxes and employee benefits, and updates employee information in SAP, e.g. for new hires and terminated staff. Employee information updates are initiated by department managers and supervisors, reviewed by HR via an approved ESAF form sent to Payroll for processing in SAP. Pay adjustments or terminations are processed off-cycle and occur in low frequency.

A VSR Time-to-Pay (T2P) project is currently underway to look at Continuous Process Improvements (CPI) for the Payroll function. Internal Audit collaborated with the project team to avoid duplication in efforts to ensure a streamlined process.

The accurate and timely payment of wages to employees is a key business process. Weaknesses in the payroll process may result in inefficiencies, financial loss and employee dissatisfaction.

Scope

 The audit objective was to provide reasonable independent assurance that the existing internal controls and business process relating to the payroll process are adequate and effective. Work included:

- Review of payroll processes, procedures and performance management;
- Review of time entry processes and procedures;
- Analysis of time entry and payroll information;
- Review of the process to update employee data; and
- Review of access to payroll-related information in SAP

Conclusions

The Audit team found that there was potential for improved internal control and additional risk mitigation with respect to time entry and segregation of duties for SAP access. Some specific recommendations included:

- Monitoring of employee pay grade changes: Changes to employee pay grades that are made through SAP time entry are not flagged for review over and above a department's regular process for time entry review. Payroll has developed a process to review pay grade changes but due to resource constraints, monitoring has not been consistent.
- Proper segregation of duties for Payroll Clerk SAP access: To maintain segregation of duties, best practices recommend that employees should not be able to both set up an employee and add hours to pay an employee. Under the current setup, there is a risk that a Payroll Clerk can create an employee and add time to be paid on the payroll. Management is in the process of reviewing employee master file changes and time entry transactions made by Payroll Clerks.

Management has agreed to address all of the issues highlighted.