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CITY OF CORAL GABLES, FLORIDA

Internal Audit of the Human Resources Department
and the Finance Department Payroll Division

August 2018

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Mayor and City Commissioners

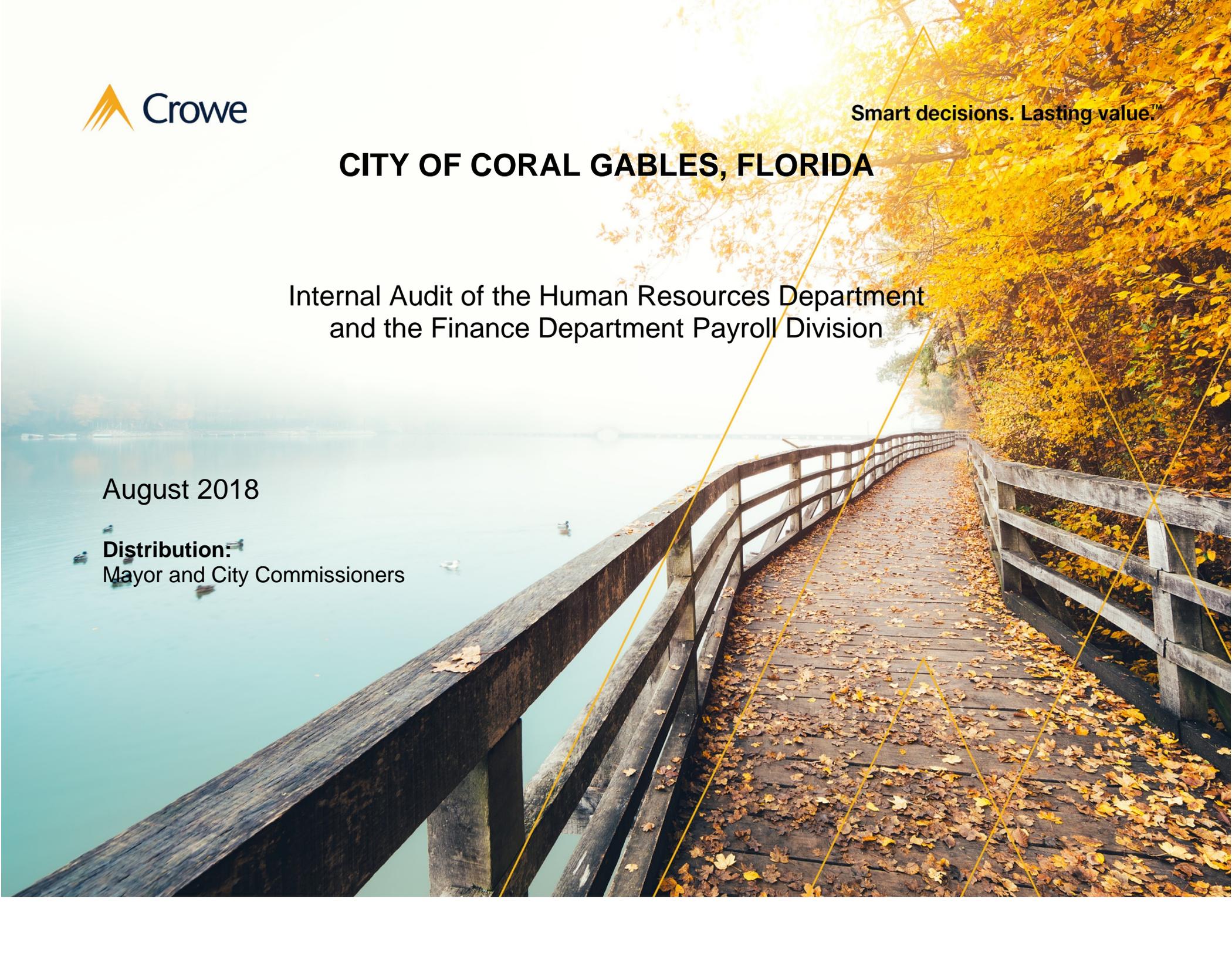


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EXECUTIVE SUMMARY

Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures related to the City of Coral Gables’ Human Resources (“HR”) Department and Finance Department Payroll Division (“Payroll”) processes. The objectives of the audit were to determine the existence and adequacy of internal controls; identify opportunities for operating efficiencies; verify compliance with established policies and procedures; and recommend improvements, where needed, based on the procedures performed.

Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating. Additional information can be found on page 8 of this report.

Opportunity for Improvement	Audit Finding	Risk Rating**
1	Timekeeping is Tracked Manually	Moderate
2	Review of Employee Additions and Modifications Entered into Eden	Moderate
3	Performance Evaluations	Low
4	Pay Rate Changes	Low
5	Missing Personal Action Forms (PAF) and Off Boarding Checklists	Low
6	Unclear Policy Regarding Annual Leave for Excluded Employees	Low
7	Lack of Integration with Current ERP System	High

**For explanation of *Risk Rating* determination, refer to page 3.

INTRODUCTION

Background

The City of Coral Gables' Human Resources ("HR") Department is responsible for recruiting, retaining, and developing City employees. The Finance Department Payroll Division ("Payroll") is responsible for the daily processes required to manage and execute employee compensation. HR provides consultation in the area of work-force planning while evaluating reasonable compensation and benefits for the City's administration and operation. HR and Payroll work toward the City's mission statement, "To *honor our history by providing exceptional services that enhance the quality of life for our community.*" Formal HR and Payroll policies can be found on the City's website and were reviewed during our audit procedures.

Scope

The scope of this audit included the following:

- Reviewing the controls over HR/Payroll, with concentration on the following:
 - General payroll processing
 - Employee hiring
 - Employee pay-rate changes
 - Employee terminations
- Selection and testing of general payroll controls including time-card procedures, paid time off ("PTO") balances/accruals, and personnel file changes
- Selection and testing of hiring, pay-rate change, and termination controls
- Selection and testing of personnel file records including accuracy and safekeeping of records
- Review of Paid Time Off (PTO) accruals, payouts, and leave pay procedures and eligibility
- Review of policies and procedures and other supporting documentation provided by HR and Payroll

INTRODUCTION

Risk Management

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:



PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>1) Gain an understanding, through communications with management and key personnel, of the internal operations and document internal controls over key procedures. Review the City Code and appropriate guidelines and applications and gain an understanding of procedures in place as they relate to the HR and Payroll.</p>	<p>Crowe performed interviews and discussions over the course of the audit with HR and Payroll. Interviews were held with key personnel within HR and Payroll.</p> <p>Our understanding of policies and procedures were reviewed and tested throughout all aspects of the audit.</p> <p>Crowe obtained the processes for new hires entering the payroll system, employee terminations, and changes to employee pay-rates and personnel records.</p> <p>We noted that an independent review process is not in place to confirm the employee's information that is entered into Eden.</p> <p>Refer to Opportunity for Improvement #2</p> <p>We noted employees did not receive timely evaluations during the most recent twelve month period.</p> <p>Refer to Opportunity for Improvement #3</p> <p>We noted that there is a lack of integration with the current ERP system (Eden).</p> <p>Refer to Opportunity for Improvement #7</p>
<p>2) Gain an understanding of the policies that involve HR and Payroll which are provided on the City of Coral Gables website.</p>	<p>We reviewed the Coral Gables website to gain an understanding of all available policies and procedures.</p> <p>We noted no exceptions.</p>
<p>3) Obtained listings of employees who were new hires, terminations, or experienced pay-rate and personnel record changes during the period October 1, 2016 through July 31, 2017.</p>	<p>Crowe obtained a listing of all employees in the categories listed within the period of review.</p> <p>We noted no exceptions.</p>

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>4) Select a sample of employees during the period of review. Obtain the supporting documentation related to each employee to ensure that the City's internal controls are properly functioning and that payroll is being processed without errors.</p>	<p>We made a sample selection of 20 employees. We tested each selection to determine that time cards were appropriately approved, Personnel Action Forms (PAF) were appropriately approved, employees were paid for the hours they worked according to their approved time card, and employees were paid the correct rate.</p> <p>Personnel records were also tested in conjunction with the aforementioned procedures.</p> <p>We noted that some Departments had manual time card procedures which presented risks.</p> <p>Refer to Opportunity for Improvement #1</p> <p>We noted that two Personal Action Forms (PAF) were not in employee files.</p> <p>Refer to Opportunity for Improvement #5</p>
<p>5) Select a sample of general employees from the period October 1, 2016 through July 31, 2017 to review PTO accrual procedures. Obtain the supporting documentation related to each sample item and verify accuracy.</p>	<p>We performed procedures over a sample selection of 20 employees. We tested each selection to determine if PTO earned was accrued at the proper rates as determined by City policy.</p> <p>We were not able to determine the rate at which excluded employees earned their accruals.</p> <p>Refer to Opportunity for Improvement #6</p>

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>6) Select a sample of new hires from October 1, 2016 to July 31, 2017 to determine that appropriate personnel record procedures are in place and information is properly entered into the Payroll system. Obtain the supporting documentation related to each sample items and verify for accuracy.</p>	<p>We selected a sample of 10 new hires.</p> <p>We performed tests to determine:</p> <ol style="list-style-type: none"> 1. Employee file contains all required forms/documents. 2. Information in employee file agrees with the information in the system. 3. Hourly rate as shown on the Personnel Action Forms agrees to the rate in the system. 4. Employee Requisition Forms are appropriately approved by the Department Director, Finance Director and City Manager. <p>We noted Personal Action Forms (PAF) were not always in employee files.</p>
<p>7) Select a sample of terminated employees from October 1, 2016 to March 31, 2017 to determine that appropriate personnel record procedures are in place and information is properly revised in the Payroll system. Obtain the supporting documentation related to each sample item and verify for accuracy.</p>	<p>We selected a sample of 12 terminated employees.</p> <p>We performed tests to determine:</p> <ol style="list-style-type: none"> 1. Employee file contains all required forms/documents to support the rate that the employee was being paid on their final payroll register and the terminated employee was not paid subsequent to their final paycheck. 2. Documents contained in the employee file have been appropriately approved. 3. Information in the employee file agrees with the information in the system. 4. Off boarding checklist was completed and signed. 5. Date of last pay check and subsequent accruals agree. <p>We noted one Personal Action Forms (PAF) and five off boarding checklists were not in employees files.</p>

Refer to Opportunity for Improvement #5

Refer to Opportunity for Improvement #5

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>8) Select a sample of employees from October 1, 2016 to March 31, 2017 who had pay-rate changes during the period of the review. Obtain the supporting documentation related to each sample items and verify for accuracy.</p>	<p>We selected a sample of 5 pay-rate changes in November and 8 pay-rate changes in February.</p> <p>We performed tests to determine:</p> <ol style="list-style-type: none">1. Employee file/pay-rate change was accurately revised in the payroll system.2. Pay-rate was appropriately approved and matches the new job description (if applicable).3. Pay-rate change/job description was updated timely.4. Payroll audit listing, payroll register, and PAFs all reflect the same pay-rate. <p>In one instance we noted a five month lag time between the effective date and the date the pay-rate change was entered into Eden.</p> <p>Refer to Opportunity for improvement #4</p>

OBSERVATION AND RECOMMENDATION

1. **OPPORTUNITY FOR IMPROVEMENT – Timekeeping is tracked manually** – MODERATE RISK

The Public Works department is recording hours worked on manual, paper time sheets. Calculating total time is a relatively simple calculation, however there is a higher risk of error than that of the automated process utilized in other Departments. Further, there is an increased chance that data can be lost as it is recorded manually.

Recommendation: The City should determine the possibility of having all automated timekeeping processes to the greatest extent possible in order to reduce errors and to maintain complete and accurate records. Further, the timekeeping system should be compatible with and automatically integrate into the City's ERP system.

Management Response / Action Plan: A Citywide tracking system will be purchased when the new ERP software is in place.

2. **OPPORTUNITY FOR IMPROVEMENT – Review of employee additions and modifications entered into Eden** – MODERATE RISK

Human Resource employees are responsible for making additions and modifications in Eden and reviewing these changes. As employee additions and modifications are entered into Eden, an independent review process is not in place to confirm the employee's information, such as an employee's rate, tax withholding and benefit elections.

Recommendation: The City should implement an independent review process to ensure that all additions and modifications are accurately set up in the system and verified against source documents.

Management Response / Action Plan: The types of internal control audits that our system provides for are somewhat restricted to only include the following changes: rate and deduction changes. Additions to employee records to cross reference are difficult to audit, due to the fact that the current ERP does not provide a comprehensive report or tracking mechanism. These types of reviews would require additional labor time given that our ERP does not provide efficient reporting. Human Resources will work with the I.T. Department to come up with a solution on creating a comprehensive audit trail report that would allow Human Resources staff to better monitor and/or reconcile employee changes.

3. **OPPORTUNITY FOR IMPROVEMENT – Performance evaluations** – LOW RISK

According to the City's Policies, all employees are to receive an annual performance evaluation. During the audit, we noted employees did not receive timely evaluations during the most recent twelve month period. From our selections of ten employees, there were two part-time employees that did not have periodic documented evaluations. One from Public Works and the other from the Police Department.

OBSERVATION AND RECOMMENDATION

Recommendation: Effectively monitor the performance evaluation process to ensure employees are receiving timely evaluations in accordance with the City's policies. Consider continued training for department supervisors to that highlights the importance of timely evaluations. In the case of part-time employees there should be a system in place to ensure that they are also being evaluated, whether it be a simple check box or an annual review.

Management Response / Action Plan: Every year in the beginning of the year, mid-year and year-end, the Human Resources Department sends out notices to all department Directors reminding them of all pending evaluations for their personnel including part-time employees. Human Resources began reviewing all pending evaluations on a monthly basis and has increased the frequency of such notifications to the departments. Additionally, this department is working with the I.T. Department to create a dashboard that will be displayed throughout all City departments listing percentages of overdue evaluations. Furthermore, the Organizational and Development Specialist is currently working with each department to coach them to improve and enhance the employee annual review process. The Organizational and Development Specialist has met with approximately 90% of the department Supervisors and process improvement in this area is expected.

4. **OPPORTUNITY FOR IMPROVEMENT – Pay rate changes** – **LOW RISK**

Authorization of employee's pay rates are documented through personnel action forms (PAF). These forms are completed by department personnel and require signature approval from the department head and other appropriate levels of management such as direct employee supervisors. These forms are then sent to Human Resources to authorize staff to make changes to employees pay rate, (e.g new hire, merit increase, etc.). During our testing of pay rate changes, we noted a significant lag (five months) between the effective date and the date the pay rate change was entered into Eden for one out of the eight selections tested. Due to the lag of the completed PAFs, pay rate changes are made retroactively which then requires a manual pay rate adjustment. Manual adjustments have an increased risk of error even with adequate review controls. Furthermore, manual adjustments to payroll are inefficient and time-consuming.

Recommendation: Implement deadlines for completion and return of PAFs for more effective tracking and efficient follow up of outstanding PAFs. Consider introducing a fully automated web based electronic system – Electronic Personnel Action Forms (ePAF) – that would allow for quicker response times and automatic notifications for updates and signature requirements.

Management Response / Action Plan: The Human Resources Department currently requires a PAF to be signed and processed for payroll action items. These include: merit increases, premium payments, special assignments, shift changes and special allowances. The Human Resources Department is currently in the process of evaluating the necessity of having a PAF form for each of these actions. Other more reliable processes have been identified (The Human Resources Department developed a Personnel Action Form Process Improvement Proposal document that will be implemented in response to this opportunity for improvement item) to not only cut down considerably on time delays, but also exponentially increase the accuracy of the employee payroll file. These processes will be fully implemented before the next audit and the department expects to achieve better results.

OBSERVATION AND RECOMMENDATION

5. **OPPORTUNITY FOR IMPROVEMENT – Missing Personal Action Forms (PAF) and Off Boarding Checklists** – **LOW RISK**

During our testing of employee files for new hires there were four instances out of ten selections that had missing PAFs. During our testing of other existing employee files there were two instances out of twenty selections that had missing PAFs. During our testing of employee files for terminated employees there was one instance out of twelve selections that had missing PAFs and there were five instances out of twelve selections that had missing off boarding checklists.

Recommendation: The City should follow their HR procedure (Employee File Document Listing) and maintain proper record retention of their employee's PAFs and termination related documentation.

Management Response / Action Plan: The Human Resources Department developed a Personnel Action Form Process Improvement Proposal document that will be implemented in response to this opportunity for improvement item.

6. **OPPORTUNITY FOR IMPROVEMENT – Unclear Policy Regarding Annual Leave Accrual for Excluded Employees** – **MODERATE RISK**

During our test of annual leave accruals, we were not able to determine the rate at which excluded employees earned their accruals. The current policy states that employees will earn 93 hours in the first year of employment increasing up to 210 hours after 25 years. The current policy does not provide concise or explicit tables that break down the accrual rates for years 2 through 24.

Recommendation: The City should consider revising the excluded employee annual leave policy and amend the policy to include a table that illustrates rates at which employees earn their annual leave or provide another mechanism that documents the rates earned by employees.

Management Response / Action Plan: This item has been addressed and the method of accruals are outlined in the City's Rules and Regulations, Rule 12.3.1 – Annual Leave Earned.

OBSERVATION AND RECOMMENDATION

7. **OPPORTUNITY FOR IMPROVEMENT – Human Resources System Integration** – HIGH RISK

During our interview and testing procedures, we noted that the Human Resources Department uses only one module of NeoGov and the system does not automatically interface with the ERP system (Eden) used by the City. Furthermore, there is no unified timekeeping system used by the City that automatically interfaces with Eden. This results in a manual intensive process for the onboarding of employees and time entry function for payroll processing.

Recommendation: The City should consider analyzing NeoGov's capabilities for automatic integration into Eden (or future ERP system) or consider a new HR and timekeeping system with this capability in order to minimize manual entry of information. Manual entry of information is time consuming, inefficient and prone to human error.

Management Response / Action Plan: A new Human Resources and Timekeeping system will be addressed when the City purchases a new ERP software.