



Internal Control & Organizational Performance

Payroll Audit: Phase 2 – Payroll Processing

Operating Unit: Regional Municipality of Niagara

Date of Audit: June – October 2018

Auditors: Mafu Ojisua, Process and Compliance Auditor
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Distributed To: Niagara Region Audit Committee
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cc: Maciej Jurczyk, Director, Internal Control and Organizational Performance

Date Issued: October 24th, 2018

EXECUTIVE SUMMARY

BACKGROUND

In accordance with the 2018 Audit Plan, Internal Control and Organizational Performance (ICOP) undertook a comprehensive review of the payroll process at the Niagara Region. The review was divided into two distinct phases; the timekeeping process (Phase 1) and accuracy of payroll (Phase 2). The audit was conducted within professional standards published by the Institute of Internal Auditors.

The purpose of the two phase audit was to provide assurance to Management and the Audit Committee that timekeeping is captured accurately and that the payroll processing, including the amounts paid to employees and remitted to the Canada Revenue Agency (CRA), are accurate and timely.

Phase 1 of the audit focused on ensuring that payable time is captured accurately, completely and approved by the appropriate Supervisor/Manager within the Kronos timekeeping system. Time exceptions including statutory holidays, overtime and vacation pay have been reviewed and captured in this portion of the audit. This report was presented to Audit Committee on September 10, 2018 as AC-C 35-2018.

Phase 2 of the audit, focused on ensuring that the amounts paid to employees are correct and remitted in a timely manner. Phase 2 included a review of corporate and employee deductions, payroll accounting, government remittances, payroll journal entries to the PeopleSoft (EFMS) as well as T4's and Records of Employment (ROE).

SCOPE

This report focused on the results of payroll testing done in Phase 2. A risk based auditing approach was used to determine the scope of the audit. The following processes, procedures and items were considered in scope for Phase 2:

- Review of employees earnings within each collective bargaining agreement with the Region;
- Process walkthroughs with key Human Resource (HR) staff;
- Detailed review of the accuracy of employee and employer withholdings and deductions including Canadian Income Tax (CIT), Canadian Pension Plan (CPP) and Employment Insurance (EI);
- Review of the timeliness and accuracy of employer remittances including Canada Pension Plan (CPP), Employment Insurance (EI), Canada Income Taxes (CIT) and Employer Health Tax (EHT) to the respective payees;
- Detailed review of the preparation of T4's and ROE's as well as ensuring their timely submission;
- Detailed review of HR division's policies and procedures related to the payroll process.

The following were not in scope:

- Accuracy of payroll processing relating to elected officials;
- Accuracy of payroll relating to Niagara Regional Police Services (NRPS) and Niagara Regional Housing (NRH).

Appendix II provides additional high-level background information on the Region's process for processing payroll.

Appendix III provides additional information regarding the Niagara Regions annual payroll expenses.

Appendix IV identifies which areas of the payroll process were reviewed in Phase 1 (Timekeeping) and what was reviewed in Phase 2 (Payroll Processing).

INTERNAL AUDIT FINDINGS

ICOP's audit testing concluded that the systems and processes in place for processing payroll in addition to calculating payroll withholdings as well as other payroll remittances such as EHT were generally adequate.

ICOP sampled over 70 employees within the Niagara Region. The sampled employees were selected strategically from among all collective agreements within the Region and included non-union employees as well. ICOP tested the accuracy of each employee's pay cheque over various pay periods. ICOP tested the employee pay codes and pay rates (including regular time, overtime, statutory holiday pay, shift premiums, vacation time and lieu time) to ensure consistency.

ICOP tested another sample of 35 employees from various collective agreements to validate the accuracy of non-routine payroll payments and deductions. These non-routine payroll payments include garnishments, maternity and parental benefit top up, and family court payments. ICOP also reviewed the Standard Operating Procedures (SOPs) created by Human Resources, and noted that SOPs were effectively updated by the HR Manager and the Associate Director on an as needed basis and the appropriate sign off on the changes were documented. All historical versions of the SOPs were also archived and filed away accordingly.

ICOP noted that audit testing for payroll data reliability and security of PeopleSoft software in areas of segregations of duties (SOD), security (firewalls, intrusion detection), patch management, data backup and restoration was performed in April 2018 and presented to Audit Committee as AC-C 29-2018. For the Phase 2 audit, ICOP relied on the report from Deloitte which noted no major exceptions in the internal controls process associated with the use of PeopleSoft software.

The following areas were deemed to be functioning effectively:

- Internal controls and processes to prevent unauthorized changes to payroll data and employee information;
- Effective staff training and supervisory processes to ensure the continuous accuracy of payroll;
- Effective measures are in place to ensure the continuous accuracy of employee earnings;
- Employees are paid at the appropriate paygrade and pay rate changes are appropriately authorized;
- Calculation of payroll remittances including CIT, CPP, and EI are accurately performed by PeopleSoft and follow the standards set by Canada Revenue Agency (CRA);
- Accurate preparation and timely remittance of employee T4's, ROE and EHT;
- Payroll transactions are posted to the respective general ledger accounts accurately;
- Accurate calculation of lump-sum payments associated with retro pay due to changes in union contracts;
- Special deductions such as court and family law garnishments were accurately deducted;
- Total bi-weekly payroll disbursement amount were reviewed and reconciled on a monthly basis. Discrepancies and irregularities were investigated and appropriate actions are taken in a timely manner;

The following is a summary of ICOP's findings for areas of improvement:

1. Locking excel spreadsheets to avoid minor errors

ICOP would like to thank the various divisions and departments within Niagara Region for their involvement in this audit in addition to the assistance and co-operation from Human Resources and Finance.

OBSERVATIONS AND RECOMMENDATIONS

The following are the detailed observation from the audit along with recommendations and Management's Action Plans to address these issues. See Appendix I for the risk ranking justification.

Observation #1 – Locking excel spreadsheets to avoid minor errors			
Risk Ranking	LOW		
During the course of the audit, ICOP noted that some calculations affecting an employee’s pay require the use of excel templates. For example, when calculating an employee’s Pregnancy/Parental leave top up amount, HR team members are required to use an excel template to generate the accurate top up amount. Locking the formulas in these templates are essential to reducing any unauthorized changes or deletions within the template.			
Implication			
Not having an excel template that is locked could create opportunities for errors to occur as cells may be overridden, formulas may be deleted etc. Errors in the spreadsheet may affect the amount of Pregnancy/Parental leave top up that the employee receives.			
Recommendation			
HR Management should enable spreadsheet controls to protect the integrity and accuracy of the payroll data. Formula cells in the excel templates should be locked, to ensure that only authorized changes to the cells are done. Locking the formula cells will mitigate the risk that an error in the spreadsheet may occur.			
Management Action Plan			
Person(s) Responsible	Linda Gigliotti, Associate Director, Employee Services Cindy Creemer, Manager, Employee Services	Completion Date	November 2018
Management is very supportive of adding locks on the excel template tools created in order to ensure that formulas are not inadvertently edited/deleted. This includes current/existing excel tools and will also incorporate as a standard for templates created in the future.			

APPENDIX I - RATING SCALE

Rating	Definition
CRITICAL	Requires immediate action by Senior Management to avert a severe/disastrous risk event in the near-term. Internal controls are deemed to be ineffective, absent or poorly designed. Management Actions Plans (MAP's) are to be implemented immediately to mitigate risk of substantial financial losses, business interruption, loss of reputation and/or environmental, public health & safety risk.
HIGH	Requires prompt action by Management to avert, reduce or transfer a major risk event. Internal controls are deemed to be ineffective, absent or poorly designed. MAP's should be implemented to mitigate the risk of financial losses, loss of reputation, address fraud issues or legal/regulatory non-compliance.
MEDIUM	Requires timely actions by Management to reduce risks to a low level. Internal controls are deemed to be ineffective or poorly designed. Management action is required, but is not immediate. Moderate financial losses, temporary/minor reputational impairment, lesser potential for fraud or regulatory non-compliance may occur without timely MAP's.
LOW	Management actions are recommended to address the weaknesses identified. Internal controls are operating effectively or partially address the control objective; however they may be poorly designed and/or operational inefficiencies exist which may result in an opportunity for improvement. Low risk events may cause operational inconvenience or minor financial losses.

APPENDIX II – ADDITIONAL BACKGROUND INFORMATION

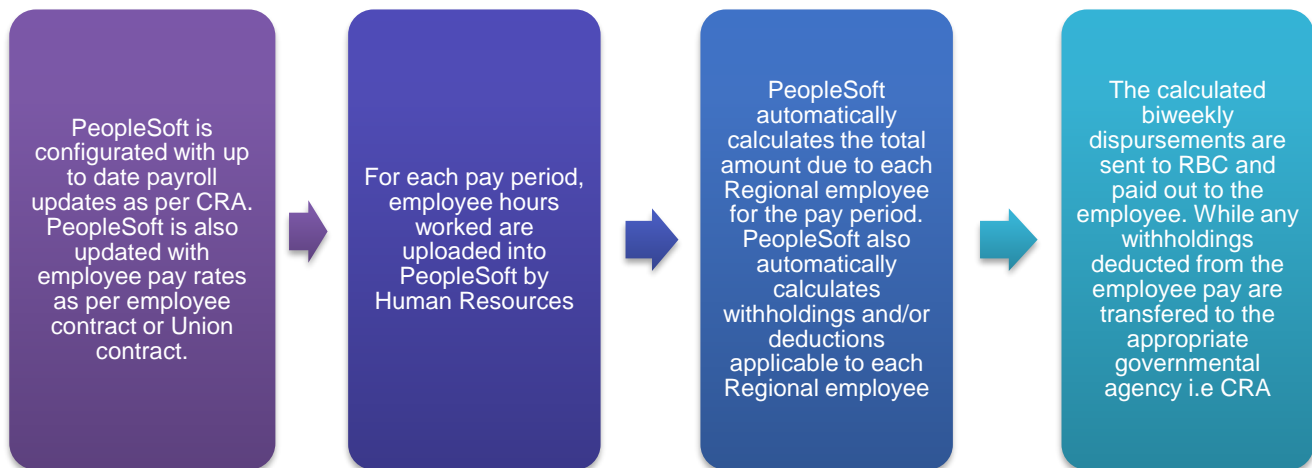
Overview of Payroll Processing at the Region

ICOP noted that the payroll process at the Region is automated and primarily completed by PeopleSoft HRIS software. To ensure an efficient payroll process the Region outsourced the management of its payroll back end services to Katalogic. Katalogic is a software company that specializes in payroll management, including managing and updating PeopleSoft software, creating pay sheets, performing various payroll uploads and running various payroll reports.

The Region's role in the biweekly payroll process is to ensure accurate hours worked by an employee is inputted into PeopleSoft for each pay period. HR also manages the updating of changes to an employee's employment status such as new hires and transfers, parental leave/maternity leave, terminations or changes to employee pay rates HR update these changes in the PeopleSoft software.

PeopleSoft is updated regularly by Katalogic with current payroll updates set by the Provincial and Federal government (CRA) as well as current rate of pay for each Regional employee. Upon entering an employee's total hours worked for the current pay period. PeopleSoft would automatically use the employee's pay rate and the preset payroll deductions to calculate the accurate amount of payroll withholdings as well as the salary to be disbursed to the Regional employee.

An illustration of the process is as follows:



APPENDIX III – ADDITIONAL BACKGROUND INFORMATION

Payroll and compensation is the single largest annual expense at Niagara Region. A summary of the actual salary expense (inclusive of salaries, wages and employee benefits) for 2016, 2017 and budgeted figures for 2018 are as follows:

	(in 1,000's of dollars)		
	Actual		Budgeted
	2016	2017	2018(*)
Niagara Region, all departments	\$380,236	\$338,540	\$401,811
Less: NRH	(4,586)	(4,831)	(4,752)
Less: NRPS	(138,904)	(141,695)	(144,587)
Less: Members of Council	(1,121)	(1,144)	(1,188)
Net	\$235,625	\$240,870	\$251,284

The net amounts can be further broken down into departments and divisions as follows:

Operating Unit(*)	(in 1,000's of dollars)		
	Actual		Budgeted
	2016	2017	2018(*)
Community Services	\$94,045	\$96,461	\$98,049
Corporate Administration	10,399	2,305	3,869
Corporate Services	nil	13,315	13,377
Court Services	1,963	1,882	2,000
Economic Development	735	930	nil
Enterprise Resource Management Services	15,912	10,735	11,781
Governance(**)	1,102	1,063	1,174
Planning and Development	3,718	3,590	5,136
Public Health and Emergency Services	70,356	72,707	75,438
Public Works	37,395	37,882	40,460
Total	\$235,625	\$240,870	\$251,284

(*) – Budgeted 2018 figures were based on original Council approval figures

(**) – Does not include Members of Council

In addition to a non-union agreement, Niagara Region currently has six collective agreements in place. They are as follows:

- CUPE 1019
- CUPE 1263
- CUPE 1287
- CUPE 1757
- ONA9 Homes
- ONA9 Public Health

APPENDIX IV – SUMMARY OF AREAS WHICH WERE REVIEWED IN PHASE 1 (TIMEKEEPING) VERSUS PHASE 2 (PAYROLL ACCURACY)

The following is a summary of which were reviewed in Phase 1 (Timekeeping) versus Phase 2 (Payroll Accuracy):

Scope Area	Phase 2: Payroll Accuracy	Phase 1: Timekeeping	To be Included in Future Audit
Segregation of duties – specific to the Kronos system	No	Yes	-
Accuracy of timekeeping records	No	Yes	-
Roles and responsibilities of Supervisors/Managers with relation to timekeeping	No	Yes	-
Testing for the existence of ghost and duplicate employees	No	Yes	
Segregation of duties – specific to the PeopleSoft system	Yes	No	-
Recalculation and verification of the amount of employee pay cheques	Yes	No	-
Payroll entries have been updated to the general ledger	Yes	No	-
T4's are accurate, complete and submitted in a timely manner	Yes	No	-
Employer portion of withholdings and other payroll taxes are accurate and remitted in a timely manner	Yes	No	-
Records of Employment (ROE) are complete, accurate and submitted on a timely basis	Yes	No	-
Processes relating to new employee on-boarding (setting up employee in the payroll system, initiating first payroll etc.)	No	No	Yes
Final pay calculations in relation to employee off-boarding	No	No	Yes