PAYROLL

Follow-up Audit to the Internal Audit Report: 2018 Controller-Treasurer Internal Controls over Payroll Overpayments dated April 15, 2019

DATE: JUNE 16, 2023

Assignment #: 10348-A

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County of Santa Clara - Office of the County Executive

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Executive Summary

Background

The Institute of Internal Auditors (IIA) professional standards require Internal Audit Division (IAD) to follow-up on recommendations made to management. As such, this follow-up audit was performed to meet this requirement.

Objective

The objective of the audit was evaluating corrective actions taken by management to implement recommendations noted in the Internal Audit Report: *2018 Controller-Treasurer (CTD) Internal Controls over Payroll Overpayments* issued on April 15, 2019.

Scope

The scope included all 27 recommendations made in the initial audit report. During a follow-up audit, IAD does not change the initial findings, recommendations or priority levels assigned.

Methodology

The methodology for the audit included:

- Interviewing personnel within CTD and Office of the Assessor.

- Determining implementation status of recommendations by obtaining and reviewing supporting documentation.

Conclusion

This is a follow-up audit to the *Internal Audit Report: 2018 Controller-Treasurer (CTD) Internal Controls over Payroll Overpayments* issued on April 15, 2019. The initial audit included 27 recommended actions. Below is a summary of the progress made by CTD management as of June 2023.

Recommendation Status Summary			
Implemented	**Partially Implemented**	**Not Implemented**	**Total**
10	11	6	27

See **Appendix A** for description of each recommendation's implementation status.

Notable accomplishments to date include:

- Creating a tracking log to track and analyze overpayments,
- Transferring long-term uncollectible balances to Department of Tax and Collections (DTAC),
- Developing or enhancing exception reports/queries,
- Enhancing method to validate sick leave payoffs,
- Creating a Timekeeping Section within CTD-Payroll Unit,
- Providing overpayment information to departmental management,
- Restructuring extra-duty pay codes for extra-help UAPD doctors, and
- Providing pay practice clarification to Countywide timekeepers.

Areas remaining to be addressed include:

- Developing formalized policies and procedures for collecting, tracking, transferring delinquent balances to DTAC, and writing off overpayments,
- Creating a comprehensive procedural manual for employee timekeeping, attendance practices, and payroll adjustment process,
- Implementing a countywide timekeeping training program,
- Evaluating responsibilities for processing employee benefit payments and garnishment orders, and
- Creating formalized policies and procedures for entity payments.

Executive Summary

The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. In accordance with those standards, IAD intends to perform a second follow-up audit on the recommendations identified as partially implemented or not implemented. There were seven 'Other Observations' noted on pages 18-20 of the original report considered low priority and not evaluated herein. As such, implementation status for these observations may be evaluated during the subsequent follow-up audit.

The draft audit report was discussed with CTD management prior to final issuance. Attached herein is their formal response. It is anticipated this report will be submitted to the Finance and Government Operations Committee in August 2023.

This report is intended solely for the County and its stakeholders. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the management and staff of CTD for their time, cooperation, and assistance provided during this engagement.

Robyn Rose, CPA, CICA
Internal Audit Manager
June 16, 2023

Attachments:
Appendix A: Status of Recommendations as of June 2023
Management Response
Internal Audit Report: 2018 Controller-Treasurer Internal Controls over Payroll Overpayments

APPENDIX A
Status of Recommendations
As of June 2023

This Appendix summarizes the status of all 27 recommendations made in the *Internal Audit Report: 2018 CTD Internal Controls over Payroll Overpayments* issued on April 15, 2019.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
Overpayments to Employees				
1.1	1	CTD to annually study and analyze the number and cause of overpayments made and implement process improvements to reduce the risk of future overpayments.	Partially Implemented	CTD created a log and assigned staff to track all incoming overpayment emails and adjustments, which will be used to analyze causes of overpayments, assist with trainings, and prevent future occurrences. CTD also maintains a log for system and pay practice changes to track process improvements. The recommendation is partially implemented since CTD continues to improve its internal processes by partnering with Employee Services Agency (ESA) Service Centers, Countywide Timekeepers, and Workers' Compensation to address business/functional flow issues that result in overpayments.
1.2	2	CTD should consider collaborating with ESA on developing a Countywide policy for collecting overpayments that is uniform to all employees.	Not Implemented	Since overpayment language varies by union, CTD will develop an all-in-one policy once the wording is standardized on all Memorandum of Understanding (MOU)/ Memorandum of Agreement (MOA)s, as it would be difficult catering to the varying union provisions. ESA-Labor Relations would be the driver in communicating the proposed standardized language change to each union during the labor negotiation process. As such, this recommendation is not implemented.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1.3	3	CTD to consider tracking overpayment amounts in PeopleSoft or utilize a software package. If not possible, CTD to make the current tracking spreadsheet less manual and more efficient and effective.	Implemented	Current HR/Payroll System does not have functionality to track overpayments. Prior to 2023, Payroll Unit tracked all overpayments which had a repayment plan, which were included with Payroll's bi-weekly process. However, overpayments without a repayment plan were not fully tracked due to other priorities. As of February 2023, CTD further enhanced and implemented a detailed overpayment tracking process regardless of whether a repayment plan was confirmed or not. As such, this recommendation is implemented.
1.4	2	CTD to transfer longer-term uncollectable balances to Department of Tax and Collection (DTAC).	Partially Implemented	As of our review, two long-term uncollectible balances (approximately $34,000) were transferred to DTAC. The recommendation is partially implemented since CTD is in the process of transferring additional uncollectible balances. CTD plans on developing joint desk procedures for transferring delinquent balances to DTAC and subsequent tracking requirements.
1.5	3	CTD to develop a formalized comprehensive policy for the processes of collecting, tracking, transferring delinquent balances to DTAC and writing off overpayments.	Not Implemented	Since Overpayment language varies by union, CTD will develop an all-in-one policy once the wording is standardized on all MOU/MOAs, as it would be difficult catering to the varying union provisions. ESA-Labor Relations would be the driver in communicating the proposed standardized language change to each union during the labor negotiation process. As such, this recommendation is not implemented.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1.6	3	As the data and technology becomes available, CTD should develop tools for departmental timekeepers, KRONOS Team and the Payroll Unit, such as hyperfinds or reports, to address possible overpayment of: · Hourly/extra-help sick leave · Hourly/extra-help regular hours · Dollar amount compensations for an appropriate threshold below $10,000, including WOOC/TARD compensation and extra-duty pay for doctors · Allowances, including auto and uniform · Pay code errors	Implemented	CTD and TSS-Kronos Support Team developed new hyperfinds (e.g., RNPA nurses and Rehired Retirees with differentials). Once developed, the timekeeper training program will help identify the need for additional hyperfind reports. As of February 2023, Payroll Unit further enhanced the overpayment tracking log to look for the root cause. Payroll Unit staff continually review audit tools to either enhance or create new reports for timekeepers and partners with ESA to identify overpayments upfront. As such, this recommendation is implemented.
1.7	3	CTD to develop a process to review system calculated sick leave payoffs prior to paycheck distribution.	Partially Implemented	ESA-Benefits Administration Division and CTD-Payroll Unit are working with TSS-HaRP Support Team on reviewing and enhancing the sick leave payoff process in Peoplesoft, such as requesting HaRP to program payroll validation formulas in the system based on the Z_PAY710 report. The recommendation is partially implemented as CTD, ESA and TSS develop additional reports to identify extra-help sick leave hours.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1.8	3	CTD to formally document the review process of mismatched hours scenarios and resolution of the root cause, such as additional training for timekeepers, developing additional exception reports, or improving system edits.	Implemented	CTD-Central Timekeeping Section (CTD-CTS) team runs the exception report in Kronos system for both off-cycle and on-cycle, notifies departmental timekeepers/approvers to make corrections, conducts trainings as needed and documents the details of error and corrections made by departments. The exception report is a compensating control given the high volume of transactions during the year. The recommendation is implemented as a comprehensive process is in place to detect mismatched hours scenarios.
1.9	3	On a regular basis, CTD to perform and document the testing of exception reports and modify as needed.	Implemented	CTD-Payroll Unit worked with TSS personnel to test and enhance exception reports and maintains the functional specification for system changes; therefore, the recommendation is implemented.
1.10	2	CTD to monitor and follow-up with departmental timekeepers to ensure they perform the required hyperfinds prior to submission of payroll.	Implemented	TSS-Kronos Support Team works with departmental timekeepers and CTD-Payroll Unit to monitor, follow-up and fix issues noted on hyperfinds. Additionally, as of May 2023, CTD posted a message on the Kronos log-in page reminding departmental timekeepers to perform required hyperfinds before submitting close of pay. As such, the recommendation is implemented.
1.11	2	CTD to perform regular training with departmental timekeepers on utilizing hyperfinds to identify and correct errors, possibly by prioritizing the departments with the most timekeeping errors.	Partially Implemented	CTD-CTS team is proactively reaching out to departments during close-of-pay activities/tasks and educates or provides training as needed to mitigate errors. The recommendation is partially implemented since CTD plans on conducting ongoing timekeeping trainings in the near future.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1.12	3	CTD to implement a mandatory timekeeper certification program.	Partially Implemented	As of July 2021, CTD-CTS team collaborated with TSS-Kronos Support to develop training materials for timekeepers and approvers. At this point, an extensive library of job aids, tips sheets/guides, and training materials are posted on the Training Materials section in SharePoint. CTD-CTS team is also currently developing a countywide timekeeping training program. The recommendation is partially implemented as the certification program is in progress.
1.13	1	CTD should consider forming a timekeeping unit to provide oversight assistance, and training on a countywide basis to personnel performing timekeeping functions.	Implemented	CTD formed a timekeeping unit in FY 2019-20 to provide guidance and training to countywide personnel performing timekeeping functions. There are currently two positions supporting this section. As such, this recommendation is implemented.
1.14	2	CTD to formally document all the Payroll Unit's policies and procedures, including those related to employee overpayments (for example: collecting, tracking, transferring delinquent balances to DTAC and writing off overpayments).	Not Implemented	CTD has not formally documented all Payroll Unit's policies and procedures including those related to employee overpayments due to limited staff resources and other priorities. As noted in Recommendation 1.2 above, CTD will develop an all-in-one policy after wording in all MOU/MOAs is standardized. As such, this recommendation is not implemented.
1.15	2	CTD to implement the Board's Management Audit Division's recommendation to develop a comprehensive procedural manual that addresses employee timekeeping and attendance practices and process for completing payroll correction forms.	Not Implemented	Recommendation 1.12 above provides a status of CTD's effort in developing guidance and various tools for timekeepers. However, a comprehensive procedural manual addressing employee timekeeping, attendance practices, and process for completing payroll correction forms has not been developed due to a shortage of staffing resources and other priorities such as the COVID-19 pandemic. As such, this recommendation is not implemented.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1.16	3	CTD to provide overpayment information to departmental management.	Implemented	CTD notifies ESA-Labor Relations and respective departments about overpayment issues per MOU language. As such, this recommendation is implemented.
1.17	3	CTD should establish a process to ensure the Payroll Summary report (PAY018) is provided to ESA bi-weekly for their use in identifying, correcting, and possibly mitigating errors.	Implemented	CTD provides ESA with the Payroll Summary report biweekly to identify, correct, and mitigate errors. CTD also notifies them when questionable benefit changes in the payroll summary comparison are noted. As such, this recommendation is implemented.
1.18	2	CTD to work with ESA to clarify and limit the quantity of dollar amount payments for applicable earning types (for example: WOOC and extra-duty pay for doctors) through possible system and pay practice changes.	Partially Implemented	CTD worked with ESA to restructure extra-duty pay for extra-help doctors who belong to Union of American Physicians and Dentists (UAPD) to allow straightforward timekeeping entry and accurate sick leave accruals. Additionally, when CTD-Payroll Unit receives an inquiry from CalPERS regarding lump sum WOOC payments, they request ESA to provide verification and confirmation on the amount. The recommendation is partially implemented until the MOU language is updated by ESA to reflect updated pay practice changes for WOOC, extra-duty pay for doctors, and other applicable earning types.
1.19	2	CTD to work with the ESA to consider clarifying pay practices for personal leave and birthday holiday.	Partially Implemented	CTD worked with the ESA to clarify pay practices for personal leave. In July 2019, ESA Director sent a memo to Director of Finance Agency and Chief Information Officer communicating the change in administration of compensatory time and personal leave. CTD has requested ESA-Labor Relations to include clarifying language about current birthday holiday pay practices. The recommendation is partially implemented until the MOU language is updated by ESA.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
1.20	1	CTD to work with operating departments to determine the existence and validity of bi-weekly differential payments made as a result of a labor contract side letter and adjust pay practices accordingly.	Not Implemented	CTD-Payroll Unit plans on working with TSS to create a differential pay report and distributing to departments and Service Centers for their review and validation of the payment in Datawatch, which is a web-based application that interfaces with many other County systems. As such, this recommendation is not implemented.
1.21	1	Office of the Assessor to work with ESA to clarify wording within the labor contract side letter prepared in November 2015 and adjust pay practices accordingly.	Implemented	Office of the Assessor worked with ESA to clarify wording on the Board of Equalization Assessment Analyst Certificate differentials and updated in the new Service Employees International Union (SEIU) contract dated March 9, 2020, through June 25, 2023, Appendix E, pg-307. As such, this recommendation is implemented.
1.22	3	After payroll has been completed, the Payroll Unit management to review work performed and decisions made by staff during payroll processing.	Implemented	CTD-Payroll Unit management has a process in place to review work performed and decisions made by staff for reoccurring and unusual adjustments requiring further investigation during payroll processing (e.g., peer review or escalation to management). Approvals are typically done verbally or via email due to volume of transactions and time constraints during bi-weekly payroll processing. Beginning May 2023, a Payroll Unit Supervisor will select a random sample of five payline edits on Wednesdays of pay week and review the work performed and decisions made by staff. As such, this recommendation is implemented.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
		Overpayment to Entities		
2.1	2	CTD should conduct a study and coordinate with the ESA to evaluate responsibilities for processing employee benefit payment, including: · deferred compensation · medical intern/resident long-term care · retirement contributions · union dues	Partially Implemented	CTD reached out to ESA about evaluating responsibilities for processing employee benefit payments. At the time, ESA was not able to take over responsibilities for recommended benefit changes until a director-level position was created to oversee the various benefit types. The recruitment is underway for a Director of Financial and Business Operations who will assume responsibility of Countywide benefit types. As such, this recommendation is partially implemented since the position has not been filled nor responsibilities transferred.
2.2	3	If a decision is made to change responsibility for processing employee benefit payments outside of the Payroll Unit, CTD should remove the Payroll Unit staff member's editing access within PeopleSoft.	Partially Implemented	The recommendation is partially implemented since CTD-Payroll unit staff continues to process certain aspects of the benefit tables in PeopleSoft due to resource and system constraints. Currently, limited Payroll Unit staff only update retirement contribution and union due rate tables. CTD will continue to partner with ESA on a long-term solution for removing Payroll Unit staff's editing access within PeopleSoft.
2.3	2	CTD should conduct a study and coordinate with ESA about transferring the responsibility for garnishment orders to them.	Partially Implemented	In-lieu of conducting a study, CTD implemented regular check-in meetings with ESA to discuss transferring responsibilities of the garnishment order process to them. The recommendation is partially implemented since an agreement was not made for a long-term solution.

Finding/ Recommendation Number	Priority	Recommendation	Implementation Status	Comments
2.4	3	If garnishments are continued to be processed by CTD, CTD to assign a supervisor to review garnishment data entries prior to finalizing payroll.	Partially Implemented	CTD continues to process garnishments because of resource and system constraints. The recommendation is partially implemented since the review of garnishment data is currently done by a Payroll Unit staff and not a supervisor. CTD is also looking into changing the garnishment review process and will partner with ESA for a long-term solution for transferring responsibilities by end of FY 2023-24.
2.5	3	CTD to document the Payroll Unit policies and procedures related to entity payments.	Not Implemented	CTD currently has desk procedures in place for entity payments such as union dues, deferred compensation, garnishment, and charitable donation payments. The department will consider developing formal policies and procedures for entity payments in the future. As such, the recommendation is not implemented.

County of Santa Clara

Finance Agency
Controller-Treasurer

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June 16, 2023

TO: Robyn Rose, Internal Audit Manager

FROM: Maria Öberg, Controller-Treasurer

SUBJECT: **Response to the Follow-up Audit to the Internal Audit Report: 2018 Controller-Treasurer Internal Controls over Payroll Overpayments dated April 15, 2019**

Thank you for the opportunity to review and respond to the Internal Audit Division's follow-up audit of 2018 Controller-Treasurer Internal Controls over Payroll Overpayment originally dated April 15, 2019. The initial audit included 27 recommended actions for the Controller-Treasurer Department. As of June 2023, we implemented 10, partially implemented 11, and have 6 remaining recommendations to be implemented. We agree with the recommendations, implementation status, and comments stated in Appendix A in the Follow-Up Audit report. We are working on implementing the remaining recommended actions that are not fully implemented.

We appreciate the efforts and good work of the Internal Audit Division on this project and believe they assisted payroll operations by improving internal control procedures.

Board of Supervisors: Sylvia Arenas, Cindy Chavez, Otto Lee, Susan Ellenberg, S. Joseph Simitian
County Executive: James R. Williams

COUNTY OF SANTA CLARA

INTERNAL AUDIT REPORT

2018 Controller-Treasurer Internal Controls over Payroll Overpayments

Assignment 10348
April 15, 2019

Conclusion

Numerous internal controls, including many exception and analysis reports, are currently deployed by the Controller-Treasurer Department (CTD) to prevent, detect and correct payroll overpayments[1]. CTD staff work very hard within severe time constraints to reliably pay over 20,000 County employees. To further strengthen internal controls, the Internal Audit Division (IAD) identified some improvements in the areas summarized below and detailed in the 27 recommendations and seven observations within this report.

This audit covered internal controls over the CTD's processing of two payroll payment types: employee payments and payroll-related "entity" payments. CTD relies heavily on information from the Employee Services Agency (ESA) and 20+ operating departments to process payroll payments. See Appendix B for a flowchart depicting these relationships. The scope of this audit was narrowly defined to include only processes within CTD and excludes activities processed in other departments. See pages 2-3 for a detail of the audit scope and list of suggested future audit topics.

It is anticipated that this report will be submitted to the Finance and Government Operations Committee in Summer 2019.

Areas of Improvement for Employee Payments

Finding one discusses improvements related to payments to employees, including:
- Reoccurring Overpayments (Recommendation 1.1)
- Overpayment Practices (Recommendation 1.2)
- Overpayment Tracking and Collection Process (Recommendations 1.3-1.5)
- Exception Reports (Recommendations 1.6-1.8)
- Testing of Exception Reports (Recommendation 1.9)
- Departmental Timekeeper Practices (Recommendations 1.10-1.13)
- Documented Policies and Procedures (Recommendation 1.14-1.15)
- Departmental Management (Recommendation 1.16)
- ESA Trend Analysis (Recommendation 1.17)
- Pay Practice Changes (Recommendations 1.18-1.21)
- Additional Supervisory Review (Recommendation 1.22)

Areas of Improvement for Entity Payments

Finding two discusses improvements related to payments to entities, including:
- Potential change of responsibilities for employee benefit payments and garnishments (Recommendations 2.1-2.4)
- Documented policies and procedures (Recommendation 2.5)

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[1] Overpayments are payments made to an employee or entity that exceeds the amounts owed.

Other Observations   Seven other observations are described in Appendix A. These other observations are matters noticed during the audit that are not significant enough to be classified as an audit recommendation, but would be advantageous for the CTD Payroll Unit to address.

Management Audit   The Board of Supervisor's Management Audit Division also issued an audit report recommending improvements related to preventing payroll overpayments. The recommendations were part of an audit of CTD issued on October 21, 2015. The applicable recommendations are listed in Appendix E and referenced in this report.

Future audit suggestions   During this audit, we identified the following suggestions for future audits that could be performed by IAD:
- Payroll adjustments processed by operating departments and ESA Service Centers
- Operating department timekeeping practices
- ESA Service Center operations
- Leave Integration timekeeping (for example: leave of absences)
- PeopleSoft and KRONOS application controls, system edits, user roles and data entry)
- Dollar amount entries
- Technology Services and Solutions (TSS) departmental controls regarding payroll processing
- ESA entity payments (for example: medical insurance)

Audit Background   This audit was requested by the Controller-Treasurer and focused on the internal controls residing within the CTD's Payroll Unit and Fiscal Services Division's KRONOS Unit to prevent, detect and correct payroll overpayments. A brief description of the payroll process is included in Appendix D.

Objective   The audit objective was to evaluate the effectiveness of internal control practices at CTD in ensuring overpayments to employees or payroll-related entities are minimized.

Scope   Since payroll processing at the County is significantly decentralized, the audit scope was limited to processes within the CTD Payroll Unit and KRONOS Team. Below is information on items included and excluded from the scope of this audit.

Included
- analyzing reports generated and analysis performed by Payroll Unit,
- analyzing hyperfind[2] reports generated and analyzed by KRONOS Unit,

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[2]   A hyperfind is custom designed report generated by the County's timekeeping system, KRONOS, that lists records of interest to a particular inquirer.

- sampling Calendar Year 2017 payroll records and
- reviewing PeopleSoft data entered by the CTD Payroll Unit, mainly garnishments

Excluded
- processes within the County's operating departments including timekeeping and HR liaison activities,
- processes within ESA Service Centers, which are responsible for deductions set-up and changes,
- overpayments caused by integration of time (for example when leave of absence or workers' compensation is involved)
- reviewing garnishment orders received for proper set-up and accuracy
- data integrity testing of key reports and hyperfinds used by the Payroll Unit and KRONOS Teams and
- ensuring accuracy of data entered in the PeopleSoft system managed by ESA, which is where most of the employee data comes from to process payroll. Data entered includes:
  - pay rates
  - union dues
  - salary anniversary dates/days of service
  - employee benefits
  - employee tax withholdings (state, federal and local)

Methodology   The methodology used to complete this audit included:
- obtaining an understanding of internal control practices within CTD,
- analyzing the effectiveness of internal controls in ensuring overpayments to employees or payroll-related entities are minimized,
- reviewing applicable laws and regulations such as *The Payroll Source* issued by the American Payroll Association and the County's *Internal Control Policy,*
- analyzing the potential mitigation of business risks against internal controls in place and
- reviewing a sample of payroll records.

Due to the lack of information technology auditors within IAD, data integrity testing of key reports and hyperfinds used by the Payroll Unit and KRONOS Team were not performed.

This audit was included as part of IAD's approved Annual Work Plan and fieldwork was concluded in April 2018. We conducted the audit in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Many of issues in this report were shared with CTD management. A draft copy of the report was also discussed with pertinent CTD management prior to issuance of the final report. CTD's formal responses are attached to this report.

This report contains 27 recommendations of which four are Priority One,[3] 10 are Priority Two[4] and 13 are Priority Three [5]. This report also includes seven Other Observations for CTD management's consideration. In accordance with professional standards, IAD intends to perform a follow-up audit on the recommendations once implemented.

Due to CTD Payroll Unit's operational pressures and numerous deadlines, scheduling audit inquiries and testing procedures was challenging. We appreciate the time provided and positive attitudes exhibited by the CTD staff, given their time constraints. Their cooperation was instrumental in the success of this project.

DocuSigned by:

Robyn Rose

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Robyn Rose
Acting Internal Audit Manager
April 15, 2019

Attachments:
Appendix A: Other Observations
Appendix B: Payroll System Organizational Flowchart
Appendix C: Employee Repayment Plan Policies
Appendix D: Program Background
Appendix E: Management Audit Division Recommendations
Management's Responses

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[3]   Priority One recommendations would be the highest priority level. Priority 1 recommendations would address issues of noncompliance with federal, State and local laws, regulations, ordinances and County Charter. In addition, this priority level would also include recommendations that would or could result in significant ($250,000 or more) increases in revenue or decreases in expenditures. This will include significant weaknesses in internal controls. Lastly, recommendations to make significant changes in Federal, State, or local policy through amendments to existing laws, regulations and policies would also be included.

[4]   Priority Two recommendations would be the intermediate priority level. Recommendations include in this level would include recommendations that would result in moderate ($50,000 to $250,000) increases in revenue or decreases in expenditures. Also included would be recommendations to make changes in local policy through amendments to existing County ordinances and policies and procedures. In addition, Priority 2 recommendations would include recommendations to revise existing departmental or program policies and procedures that would result in improved service delivery, increased operations efficiency, greater program effectiveness, improved control over the safeguarding of assets or the accuracy and completeness of financial data.

[5]   Priority Three recommendations would be the lowest priority level. Recommendations included in this level would address program related policies and procedures that would not have a significant impact on revenues or expenditures, but would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

FINDINGS AND RECOMMENDATIONS

Finding 1: Overpayments to Employees

Reoccurring Overpayments

Overpayments are made to and repaid by County employees on a reoccurring, bi-weekly basis. Although the source of these overpayments mainly originates from inaccurate employee data and timekeeping, the CTD Payroll Unit attempts to prevent, detect and correct for the overpayments. Considerable time and resources are spent researching, tracking and collecting employee overpayments.

Overpayments are recuperated through:
1. a one-time payment or manual payroll adjustment ("MSJ") recovered in a subsequent pay period (short-term) and/or
2. a repayment program administered by the Payroll Unit with employee consensus (long-term). This scenario typically involves larger dollar amounts and thus greatly impacts an employee's financial situation.

To determine the possible extent of overpayments, IAD performed the following tasks:

Short-Term Repayments

a. Reviewed CTD's one-time study performed of Fiscal Year 2017 MSJ's submitted by operating departments. The study indicated that 419 of 8,147 adjustments (~5%), were made to correct for overpayments to employees in a previous pay period. CTD's study did not determine the source, amount or reason for the adjustments.

b. Analyzed MSJ's for one pay period in Fiscal Year 2017 that were submitted by operating departments and processed by the CTD Payroll Unit. Our analysis indicated there were 21 overpayment corrections processed totaling approximately $9,000. Although not verified, we considered the corrections to be overpayments since the submissions were for a reduction to payroll amounts.

Long-Term Repayments

c. Performed statistical analysis on long-term repayment balances, maintained by the CTD Payroll Unit, as of December 22, 2017. Our analysis indicated there were 75 individuals owing a total remaining net balance of $146,851, representing 55% of original overpayments totaling $265,307. The list includes active, terminated, retired and deceased employees.

The specific cause of overpayments varies and has not been cumulatively identified by CTD.

Recommendation 1.1 The Controller-Treasurer Department to annually study and analyze the number and cause of overpayments made and implement process improvements to reduce the risk of future overpayments. (Priority 1) [Expected 12/31/19]

Overpayment Practices

Federal and California laws differ when determining an employer's authority to collect overpayments from an employee. For example, Federal law permits employers to recoup overpayments from an employee without their permission; however, California Labor Code Section 221 states, *It shall be unlawful for any employer to collect or receive from an employee any part of wages…paid by said employer to said employee.*

The California Division of Labor Standards Enforcement stated that, in general, an employer may lawfully recover a wage overpayment through deductions from an employee's wages provided that:

1. the deductions are specifically and voluntarily authorized by the employee in a signed writing,
2. no such deductions are made from an employee's final paycheck and
3. any such deduction does not cause the employee to earn less than the minimum wage.

If the employee does not agree to the deductions to recover a wage overpayment, an employer with operations in California should avoid such deductions. Due to California labor laws, terminated employees with remaining amounts owed are most at risk of non-payment.

The practice of the CTD Payroll Unit and operating departments is to notify the employee of a discovered overpayment and inform them of the repayment term options. This practice acknowledges the repayment options included in certain labor union contracts (See Appendix C for union provisions). The repayment options vary by labor contract, but most are silent on this issue.

It would be more efficient and equitable for the County to establish a uniform repayment policy addressing:

- repayment requirements,
- payment options,
- collection practices,
- applicability to all parties owning monies (employees, retirees, departed employees)
- payment agreement form.

Recommendation 1.2   The Controller-Treasurer Department should consider collaborating with the Employee Services Agency on developing a Countywide policy for collecting overpayments that is uniform to all employees. (Priority 2) [Expected 12/31/19]

Overpayment Tracking and Collection Process

The CTD Payroll Unit tracks repayment program overpayments using a manually-prepared spreadsheet separate from the County's human resource system, PeopleSoft. Maintaining a spreadsheet outside of PeopleSoft is less efficient, increases the chance for errors and limits a comprehensive view of an employee's payroll status.

As of December 22, 2017, the spreadsheet includes outstanding balances from 42 terminated, retired and deceased employees totaling $88,573. For three former employees, the last payment received occurred in 2004. Former County employees with remaining amounts owed are most at risk of non-payment. The County's Department of Tax and Collections (DTAC) has staff, software, applications and collection tools dedicated to collecting past due amounts. Payroll Unit staff operate under strict time constraints to process bi-weekly payroll and meet other mandated deadlines and could greatly benefit from using DTAC for collection efforts.

Additionally, the County requires operating departments to submit amounts deemed uncollectible for Relief of Accountability (i.e. write-off). The County cannot cease collection efforts until Relief of Accountability is approved by the Finance Agency Director, as required per California Government Code Section 25257(a). Currently, the Payroll Unit does not submit uncollectable amounts for Relief of Accountability, although collection efforts cease. The requirement to submit Relief of Accountability can be accomplished by the Payroll Unit submitting accounts directly, or preferably by transferring amounts to DTAC for both collection and submission, when appropriate.

Recommendation 1.3	The Controller-Treasurer Department to consider tracking overpayment amounts in PeopleSoft or utilize a software package. If not possible, the Controller-Treasurer Department to make the current tracking spreadsheet less manual and more efficient and effective. (Priority 3) [Expected 12/31/19]
Recommendation 1.4	The Controller-Treasurer Department to transfer longer-term uncollectable balances to the Department of Tax and Collection. (Priority 2) [Expected 12/31/19]
Recommendation 1.5	The Controller-Treasurer Department to develop a formalized comprehensive policy for the processes of collecting, tracking, transferring delinquent balances to Department of Tax and Collection and writing off overpayments. (Priority 3) [Expected 12/31/19]

Exception Reports

The Payroll Source issued by the American Payroll Association, indicates *"The proper edits or alerts in an employer's computerized payroll system can make sure any unusual situations are brought to the payroll manager's attention… A system edit is a warning or alert built into the system that checks for errors and either corrects the error or notifies the operator that something may be wrong. System edits generally check for inputs or outputs outside of accepted ranges."* The CTD relies heavily on exception and error reports to prevent, detect and correct anomalies, including overpayments. Although over 20 reports are utilized, there are several error types for which exception reports do not exist. Therefore, these errors are more likely to go undetected. These scenarios include:

    a. Hourly/extra-help sick leave: Our analysis revealed two extra-help employees with excess sick leave hours taken in calendar year 2017 (more than 24 maximum hours allowed). We also identified that existing reports and processes did not identify the excess sick leave situations.

    b. Hourly/extra-help regular hours: We identified at least one situation where an hourly, extra-help employee was paid for more hours than worked in one day (16 hours vs. 8 hours). For these employees, the number of expected hours worked each day is not entered in KRONOS as the hours can vary each pay period. As such, a report or hyperfind does not exist in KRONOS to compare actual hours to the expected hours worked. This analysis is manually performed by the employee's supervisor outside of the system, increasing the risk of errors being undetected.

    c. Dollar amount compensations: Due to pay practices and system requirements, some compensation information is input into KRONOS as dollar amounts instead of hours, such as work- out-of-class (WOOC) and extra-duty pay for doctors. There is an existing hyperfind that identifies possible excess payments of amounts greater than $10,000. However, there is no report for possible excess payments below $10,000. IAD sampled three pay periods in fiscal year 2017 and found the largest dollar amount compensation for one employee was $3,229 representing overtime and WOOC. For one of the pay periods sampled, the average payments made to 500 employees was $220, which is significantly below the $10,000 threshold currently used to detect possible errors.

    d. Allowances: There are no specific reports to detect overpayments due to erroneous allowances, such as vehicle and uniform.

    e. Pay codes[6]: The PeopleSoft system produces a report for the Payroll Unit to research earning (pay) codes not allowed to an employee based on their job classification; however, this report is reviewed after timekeeping is finalized. Furthermore, in the same report's functional specification, the Payroll Unit intended to develop a hyperfind to help departmental timekeepers detect and correct pay

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[6] A pay code is an identifier assigned to an earnings type e.g. regular pay, sick leave, differentials, etc.

code entry errors prior to approval; however, the report has not been developed. Erroneous pay code entries, if not detected prior to finalizing payroll, could result in overpayments.

f. Payoffs of sick leave: There is a report that includes personal and vacation leave payoffs when an employee departs, which is reviewed by the Payroll Unit staff. However, the report excludes sick leave payoffs calculated by the PeopleSoft system based on system rules. The system generated payoffs, which may exceed a total of $1.1 million in a pay period, are not reviewed for computation accuracy.

g. Unexplained Hours[7]: Although there is no report designed explicitly to detect erroneous timekeeping entries that could result in possible fictitious payroll payments, the KRONOS Team developed a bi-weekly exception report that lists mismatched hours between the KRONOS and PeopleSoft systems to help identify unexplained hours. When these situations occur, the KRONOS Team and Payroll Unit staff research and correct the specific error prior to finalizing payroll; however, documentation of the review process and possible corrective actions taken were not retained. Mismatched hours can be an indicator of possible fictitious payroll payments; therefore, formally documenting and retaining the analysis performed and resolving the root cause of these instances reduces the risk of future erroneous timekeeping entries going undetected prior to finalizing payroll.

Recommendation 1.6   As the data and technology becomes available, the Controller-Treasurer Department should develop tools for departmental timekeepers, KRONOS Team and the Payroll Unit, such as hyperfinds or reports, to address possible overpayment of:
  - Hourly/extra-help sick leave
  - Hourly/extra-help regular hours
  - Dollar amount compensations for an appropriate threshold below $10,000, including WOOC/TARD compensation and extra-duty pay for doctors
  - Allowances, including auto and uniform
  - Pay code errors
  (Priority 3) [Expected 12/31/19]

Recommendation 1.7   The Controller-Treasurer Department to develop a process to review system calculated sick leave payoffs prior to paycheck distribution.
  (Priority 3) [Expected 12/31/19]

Recommendation 1.8   The Controller-Treasurer Department to formally document the review process of mismatched hours scenarios and resolution of the root cause, such as additional training for timekeepers, developing additional exception reports, or improving system edits.
  (Priority 3) [Expected 12/31/19]

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[7] Unexplained hours are hours charged in KRONOS, but not matched to an employee in PeopleSoft system.

Testing of Exception Reports

The American Payroll Association indicates "_Periodic reviews of the system should be undertaken to identify problems and prioritize their resolution_." Additionally, the County's "Internal Control Policy" requires Information and Communication, including "_county management at all levels should obtain, or generate, and use relevant and quality information … to support the functioning of other components of internal control._" Although not documented, testing exception reports is performed by CTD when reports are developed and modified. However, the reports are not tested on an ongoing basis as changes are made to the system. As such, there is no assurance that the reports continue to operate as expected. Since many of the reports provide information only on exceptions and unusual situations, it is difficult to ensure that all such scenarios are reported.

Recommendation 1.9   On a regular basis, the Controller-Treasurer Department to perform and document the testing of exception reports and modify as needed.
(Priority 3) [Expected 6/30/19]

Timekeeper hyperfind usage and training

The calculation of payroll is greatly dependent on the accuracy of hours and other information submitted by departmental timekeepers. Departmental timekeepers do not identify all issues and errors in timekeeping thus requiring the CTD Payroll Unit to follow-up and correct the issues within a narrow timeframe. Hyperfinds were developed by the KRONOS Team to assist timekeepers identify and correct errors prior to approving employees' timesheets. Additional hyperfinds customized to departmental timekeepers task could also help reduce the risk of errors and possible overpayments (see Recommendation 1.5 above).

Historically, timekeepers were not mandated to use the hyperfinds and did not always use them; however, in April 2018 during the audit period, the CTD took initiative and sent a memo to departments stating departmental timekeepers must run hyperfind queries.

The County "Internal Control Policy" includes monitoring as one of five components of an effective internal control structure. The policy states, "_Monitoring involves evaluating the effectiveness of County controls on an on-going basis and taking remedial actions when necessary._" As the County's central payroll function, CTD does not monitor to identify departments that do not complete the hyperfinds nor follows up with remedial action.

Timekeeping is only one part of a timekeepers job duties and requires specialized knowledge. As such, providing specialized training to departmental timekeepers, including a possible certification program, may be appropriate. Such certification could be a requirement prior to issuing timekeeper roles in KRONOS. The Board's Management Audit Division's audit of CTD also recommended additional training by CTD, which has not yet been implemented (see Appendix E).

Recommendation 1.10   The Controller-Treasurer Department to monitor and follow-up with departmental timekeepers to ensure they perform the required hyperfinds prior to submission of payroll.
(Priority 2) [Expected 12/31/19]

Recommendation 1.11   The Controller-Treasurer Department to perform regular training with departmental timekeepers on utilizing hyperfinds to identify and correct errors, possibly by prioritizing the departments with the most timekeeping errors.
(Priority 2) [Expected 12/31/19]

Recommendation 1.12   The Controller-Treasurer Department to implement a mandatory timekeeper certification program.
(Priority 3) [Expected 12/31/19]

Recommendation 1.13   The Controller-Treasurer Department should consider forming a timekeeping unit to provide oversight assistance, and training on a countywide basis to personnel performing timekeeping functions.
(Priority 1) [Expected 12/31/19]

Policies and Procedures

The Payroll Source, issued by The American Payroll Association, indicates _"One of the easiest ways for a company to lose control over its entire payroll system is to rely on verbal communication of policies and procedures. Documentation is a very important part of a company's overall control mechanism. The documentation should be simple and complete enough to allow an employee to perform functions described in the documentation with little or no other assistance. Proper documentation is one of the best ways to ensure uniformity, simplify training, and provide a reference tool for new employees."_

The Payroll Unit does not have formally documented policies and procedures that address their internal processes. Such policies and procedures should comprehensively address all Payroll Unit responsibilities. Related to this audit, the policies and procedures should include, at least, collection of overpayments for employees and former employees.

The County could also benefit from comprehensive guidance related to timekeeping. The lack of centralized guidance for departmental timekeepers is a long-standing issue which has been discussed by CTD management in the past. Although the KRONOS Team and the Payroll Unit are helpful, timekeeping practices is not their core competency.

Additionally, the Board's Management Audit Division identified the need for a central timekeeping procedure manual to address employee timekeeping and attendance practices and process for completing payroll correction forms (see Appendix E).

Recommendation 1.14   The Controller-Treasurer Department to formally document all the Payroll Unit's policies and procedures, including those related to employee overpayments (for example: collecting, tracking, transferring delinquent balances to Department of Tax and Collection and writing off overpayments).
(Priority 2) [Expected 12/31/19]

Recommendation 1.15   The Controller-Treasurer Department to implement the Board's Management Audit Division's recommendation to develop a comprehensive procedural manual that addresses employee timekeeping and attendance practices and process for completing payroll correction forms.
(Priority 2) [Expected 12/31/19]

Departmental management

Operating departmental managers may not be aware of their departments' overpayments as the CTD does not provide overpayment data to them. The CTD communicates with the timekeepers and service centers but is unsure how much information is shared with department managers. Reporting overpayment data to department managers may make them aware of payroll problems affecting their employees. It may also encourage departments to make improvements in the departmental timekeeping practices. Per the County's "Internal Control Policy", communication and risk assessment are key aspects of an integrated system of controls. By receiving this information, the departmental manager may become aware of the risks and could initiate corrective action.

Recommendation 1.16   The Controller-Treasurer Department to provide overpayment information to departmental management.
(Priority 3) [Expected 12/31/19]

ESA Benefits Trend Analysis

Per the County's "Internal Control Policy", communication and risk assessment are key aspects of an integrated system of controls. ESA managers may not be aware of unusual payroll trends, including potential overpayment of benefits. Currently, payroll trend analysis is reported on the Payroll Summary report (PAY018) generated by the CTD Payroll Unit. During our audit, we noted this report was not provided to ESA. However, since our audit, the CTD provided the report.   ESA may be able to identify, correct and mitigate errors by reviewing the Payroll Summary report.

Recommendation 1.17   The Controller-Treasurer Department should establish a process to ensure the Payroll Summary report (PAY018) is provided to the Employee Services Agency bi-weekly for their use in identifying, correcting, and possibly mitigating errors.
(Priority 3) [Expected 7/1/19]

Pay Practice Changes

The following overpayment scenarios could be mitigated by clarifying pay practices in various labor agreements:

1. One example is overpayment caused by inputting dollar amounts instead of hours into KRONOS for certain earnings types such as WOOC and extra-duty pay for doctors. This stems from pay practices and system requirements requiring usage of dollar amount payments. Although possible overpayments can be identified through existing reports and hyperfinds, detecting excessive dollar entries would require establishing additional reports and hyperfinds (see Recommendation 1.6 above for detail). Amounts calculated outside of the KRONOS and PeopleSoft systems are susceptible to calculation errors and require a secondary source to verify accuracy.

2. A second example relates to payments for personal leave and birthday holiday payoffs. These payments are allowed pursuant to a labor contract; however, wording in the contract is complex and allows for inconsistent treatment with determining the eligibility, accrual and payoff amounts. Unclear guidance can lead to different interpretations which can result in overpayments.

3. In a third instance, pay practices allow possible unauthorized bi-weekly differential payments for employees working in certain job classifications. For example, a labor contract side letter prepared in November 2015 to Assessor's Office employees justified a differential payment for Exemption Investigators and Property Transfer Examiners. This differential payment is granted to all employees in the two classifications instead of determining on a case-by-case basis. The side letter wording is restrictive and unclear. Thus, it is possible some employees should not receive this differential. Additionally, since there is no current monitoring or validation of all bi-weekly differential payments, it is possible that other operating departments have similar side letters authorizing such payments.

Recommendation 1.18	The Controller-Treasurer Department to work with the Employee Services Agency to clarify and limit the quantity of dollar amount payments for applicable earning types (for example: WOOC and extra-duty pay for doctors) through possible system and pay practice changes. (Priority 2) [Expected 12/31/19]
Recommendation 1.19	The Controller-Treasurer Department to work with the Employee Services Agency to consider clarifying pay practices for personal leave and birthday holiday. (Priority 2) [Expected 12/31/19]
Recommendation 1.20	The Controller-Treasurer Department to work with operating departments to determine the existence and validity of bi-weekly differential payments made as a result of a labor contract side letter and adjust pay practices accordingly. (Priority 1) [Expected 12/31/19]

Recommendation 1.21   The Office of the Assessor to work with the Employee Services Agency to clarify wording within the labor contract side letter prepared in November 2015 and adjust pay practices accordingly. (Priority 1) [Expected 12/31/19]

Additional Supervisory Review

During bi-weekly payroll processing, there is insufficient time to thoroughly review work performed by Payroll Unit staff to finalize payroll. One example is the allowance or rejection of differentials coded to employees not eligible to receive the differential earnings (i.e. a mismatch). Acceptance of a mismatched differential code may result in an overpayment.

The _Payroll Source_, issued by The American Payroll Association, indicates that reviews are important so that one person is not responsible for an entire process. Additionally, the County's "Internal Control Policy" indicates that "_on-going monitoring activities should be built into the normal recurring activities of County entities, including regular management and supervisory activities._" Since many decisions are made during the tight timeframe of processing payroll, supervisory review of Payroll Unit staff's discretionary decisions, possibly after payroll is processed, could enhance internal controls and may reduce the risk of overpayments.

Recommendation 1.22   After payroll has been completed, the Payroll Unit management to review work performed and decisions made by staff during payroll processing.
(Priority 3) [Expected 12/31/19]

Finding 2: Overpayment to Entities

Responsibility for Employee Benefit Payments

The CTD Payroll Unit processes payments for several employee benefits, including:

- deferred compensation
- medical intern/resident long-term care
- retirement contributions
- union dues

CTD's tasks mainly consist of obtaining reports from PeopleSoft and submitting the request for payment. For retirement contribution payments, the tasks are more extensive and include coordination with the California Public Employee's Retirement System (CalPERS).

Excluding CalPERS, enrollment and reporting for these and other employee benefit programs originate within ESA. Segregation of duties exist within ESA whereby Service Center staff enter employees' enrollment information in PeopleSoft for various benefit programs and payroll deductions while Fiscal Unit staff processes payments for other benefit types, including insurance and health savings accounts.

The Payroll Source, issue by The American Payroll Association and the County's "Internal Control Policy" requires proper segregation of duties. There is a natural and typical segregation of duties between the payroll function and the human resources function. The human resources function generally processes initial data entry during employee enrollment; whereas, the payroll function performs calculations based on this data and makes remittance to employees. Current practice of the Payroll Unit processing payments for certain employee benefits is inconsistent with this concept.

Although PeopleSoft data is the responsibility of ESA, one Payroll Unit staff member has access to edit information related to retirement contributions. The access is needed to pay bi-weekly retirement contributions within a tight deadline. Other Payroll Unit staff also have limited access in PeopleSoft to review employee contribution information and monitor for abnormalities. There are mitigating controls, however, to prevent possible errors. For example, when an employee files for retirement, CalPERS staff may request employee contribution payment information and thoroughly review cumulative payments for compliance.

Recommendation 2.1   The Controller-Treasurer Department should conduct a study and coordinate with the Employee Services Agency to evaluate responsibilities for processing employee benefit payment, including:
- deferred compensation
- medical intern/resident long-term care
- retirement contributions
- union dues

(Priority 2) [Expected 12/31/19]

Recommendation 2.2 If a decision is made to change responsibility for processing employee benefit payments outside of the Payroll Unit, the Controller-Treasurer Department should remove the Payroll Unit staff member's editing access within PeopleSoft.
(Priority 3) [Expected 12/31/19]

Responsibility Over Garnishments

The CTD Payroll Unit receives employee wage garnishment orders, enters the garnishment amount into PeopleSoft and processes the payments to individuals and various entities. Most garnishment payments are made to other government entities, such as the State Department of Child Support Services, Internal Revenue Service, Franchise Tax Board and Superior Court. In three Fiscal Year 2017 pay periods sampled, an average of 600 garnishments deductions were made.

Since the ownership and responsibility of enrolling and reporting for employee benefits and payroll deductions resides within ESA, it seems appropriate that the responsibilities over garnishments should also be placed within ESA (see Recommendation 2.1 above for detail). *The Payroll Source*, issue by The American Payroll Association and the County's "Internal Control Policy" requires proper segregation of duties. Segregation of duties can be achieved by ESA Service Center staff entering garnishment data in PeopleSoft and the Fiscal Unit staff process related payments.

The *Payroll Source*, issued by The American Payroll Association, indicates that reviews are important so that one person is not responsible for an entire process. We are aware that moving the organizational placement for garnishments to ESA would require possible additional staffing and other logistical considerations; as such, if processing garnishments remains within CTD, management should implement a formalized process for supervisory review of employee deduction amounts and remittances to individuals/entities prior to finalizing payroll.

Recommendation 2.3 The Controller-Treasurer Department should conduct a study and coordinate with the Employee Services Agency about transferring the responsibility for garnishment orders to them.
(Priority 2) [Expected 12/31/19]

Recommendation 2.4 If garnishments are continued to be processed by the Controller-Treasurer Department, the Controller-Treasurer Department to assign a supervisor to review garnishment data entries prior to finalizing payroll.
(Priority 3) [Expected 12/31/19]

Policies and Procedures

The *Payroll Source*, issued by The American Payroll Association, indicates *"One of the easiest ways for a company to lose control over its entire payroll system is to rely on verbal communication of policies and procedures. Documentation is a very important part of a company's overall control mechanism. The documentation should be simple and complete enough to allow an employee to perform functions described in the documentation with little or no other assistance…Proper documentation is one of the best ways to ensure uniformity, simplify training, and provide a reference tool for new employees."* Similar to process of employee overpayments, the CTD Payroll Unit does not have formally and comprehensively documented policies and procedures for processing entity-related payments.

Recommendation 2.5   The Controller-Treasurer Department to document the Payroll Unit policies and procedures related to entity payments.
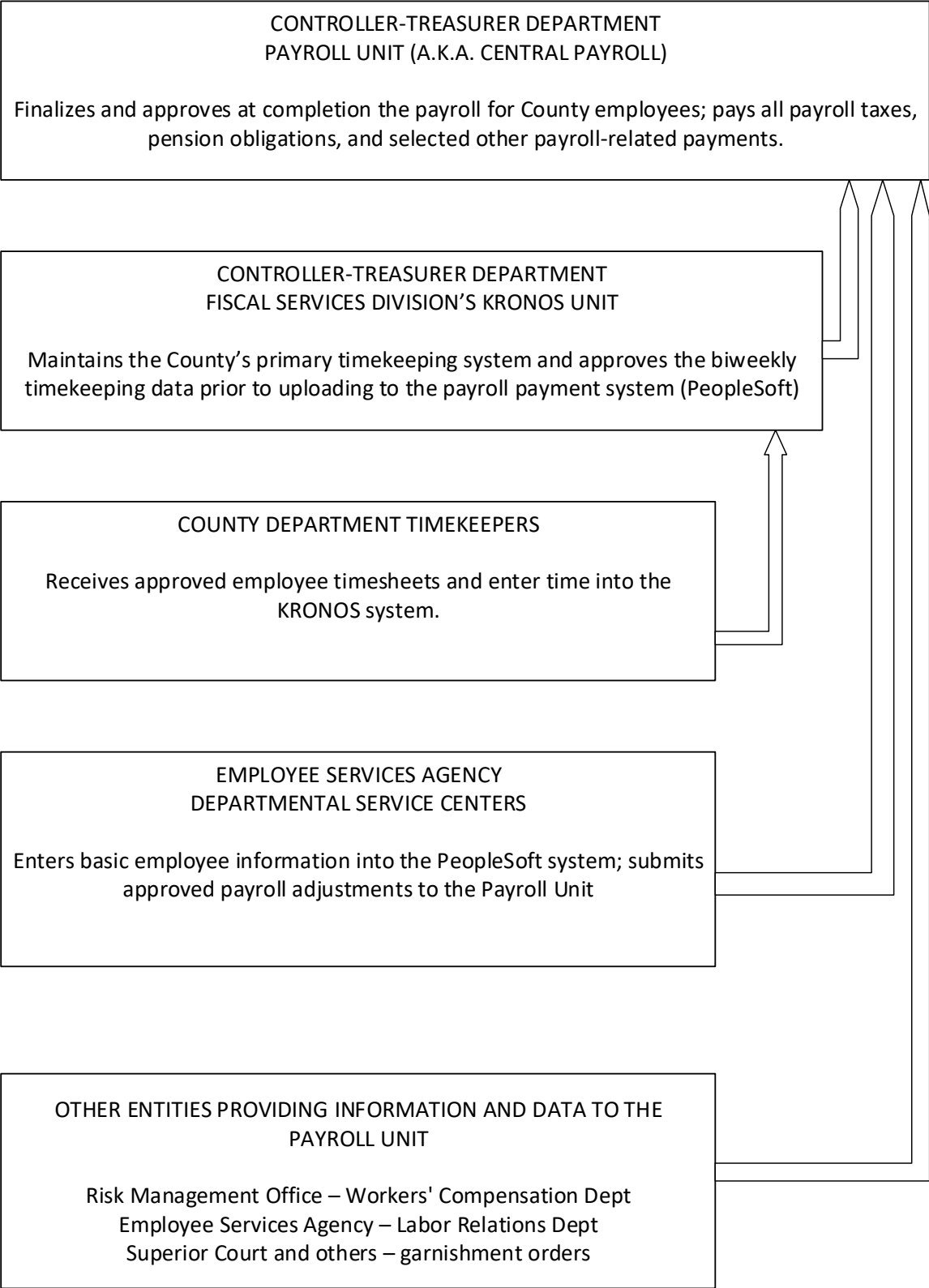(Priority 3) [Expected 12/31/19]

APPENDIX A
OTHER OBSERVATIONS

Observation	Recommendation
OO1 System roles were not updated upon departure of Payroll Unit employees. Former Payroll Unit employees have PeopleSoft and DataWatch (payroll-related electronic system) access rights. Once an employee leaves the Payroll Unit, access rights should be terminated. We noted that roles within the systems were not reviewed annually to determine if adjustments are needed.	OO1.1 The Controller-Treasurer Department to terminate access rights upon departure of employees from a payroll role. OO1.2 The Controller-Treasurer Department to review employee system role assignments annually.
OO2 The Controller-Treasurer Department performs a routine background check of felony and misdemeanor convictions based upon the applicant's resident state. Payroll is a sensitive area, so it is appropriate to require a more extensive background check, for example a nationwide search.	OO2.1 The Controller-Treasurer Department should provide for enhanced background checks for payroll employees.
OO3 For payments to *employees*, there is no formal risk assessment conducted. Formalized risk assessments may help identify potential risks and develop controls to mitigate the risks. The County's "Internal Control Policy" also encourages departments prepare risk assessments relevant to their business processes. When IAD performed a formal risk assessment of employee payments, we identified potential 27 risks and 84 controls currently in place. Had a risk assessment been performed by the Payroll Unit, the risks and controls may have been self-identified and corrective action taken for process improvements.	OO3.1 The Controller-Treasurer Department to perform a risk assessment annually to evaluate risks and controls over payments to employees and other relevant business processes.

Observation	Recommendation
OO4 For payments to *entities*, there is no formal risk assessment conducted, which may help reduce future risks from occurring. The County's "Internal Control Policy" also encourages departments prepare risk assessments relevant to their business processes. The Payroll Unit has an informal risk assessment process occurring upon staff reassignments or when errors are found that may address risks. Also, most of the entities are aware of amounts owed to them so the need to engage in a formal entity payment risk assessment is reduced. However, when IAD performed a formal risk assessment on entity payments, eight potential risks and 20 controls in place were identified. Had the Payroll Unit performed such a risk assessment, these may have been self-identified and corrective action taken for process improvements.	OO4.1 The Controller-Treasurer Department to perform a formal risk assessment annually to evaluate risks and controls over payments to entities and other relevant business processes.
OO5 The Payroll Unit verbally notifies the TSS's Enterprise Data Center Operations of approval to run the biweekly payroll, such as paper warrants, creating reports for employees and various entities. To prevent inadvertent and/or unauthorized running of the payroll, providing instruction to run the payroll should be made in writing.	OO5.1 The Controller-Treasurer Department to use written authorization to authorize the running of payroll.
OO6 Various entities receiving biweekly garnishment withholdings and three unions receiving biweekly dues withholdings are paid by paper warrant, not electronic payments. To reduce processing costs and business risk, the Payroll Unit should encourage them to accept electronic payment.	OO6.1 The Controller-Treasurer Department to contact these entities to urge them to accept electronic payments.

Observation	Recommendation
OO7 Hyperfinds are intended to report only exception identified based on specified criteria for timekeepers to use when evaluating possible errors to correct. IAD noted that the Work-out-of-Class (WOOC) hyperfind includes all records rather than only exceptions. Reporting all records is an inefficient use of a reviewer's time as exceptions and non-exceptions need to be evaluated, increasing the risk of inaccurate payments going undetected.	OO7.1 The Controller-Treasurer Department to develop an exception only report for the WOOC hyperfind.

APPENDIX B
COUNTY OF SANTA CLARA – PAYROLL SYSTEM - INFORMATION AND DATA FLOW

CONTROLLER-TREASURER DEPARTMENT
PAYROLL UNIT (A.K.A. CENTRAL PAYROLL)

Finalizes and approves at completion the payroll for County employees; pays all payroll taxes, pension obligations, and selected other payroll-related payments.

CONTROLLER-TREASURER DEPARTMENT
FISCAL SERVICES DIVISION'S KRONOS UNIT

Maintains the County's primary timekeeping system and approves the biweekly timekeeping data prior to uploading to the payroll payment system (PeopleSoft)

COUNTY DEPARTMENT TIMEKEEPERS

Receives approved employee timesheets and enter time into the KRONOS system.

EMPLOYEE SERVICES AGENCY
DEPARTMENTAL SERVICE CENTERS

Enters basic employee information into the PeopleSoft system; submits approved payroll adjustments to the Payroll Unit

OTHER ENTITIES PROVIDING INFORMATION AND DATA TO THE PAYROLL UNIT

Risk Management Office – Workers' Compensation Dept
Employee Services Agency – Labor Relations Dept
Superior Court and others – garnishment orders

APPENDIX C
EMPLOYEE REPAYMENT PLAN UNION CONTRACT EXCERPTS

District Attorney Investigators Association 9/1/14 – 8/25/19 Section 12.10 b

When a net one hundred dollars ($100.00) or more is to be repaid, it will be done in the same amount and within the same number of pay periods in which the error occurred. Arrangements may be made for a payment plan if needed.

Probation Peace Officers Union 11/10/14 – 10/20/19 Section 7.6

When a net one hundred dollars ($100.00) or more overpayment(s) error occurs, the employee will repay the overpayment in the same amount and within the same number of pay periods in which the error occurred. In cases that necessitate pay back of overpayments totaling more than $200.00, the pay back schedule shall be subject to the meet and confer process.

Registered Nurses Professional Association 11/10/14 – 10/20/19 Section 7.6 c

When a net twenty-five dollar ($25.00) or more overpayment error occurs, the nurse shall repay the overpayment in the same amount and within the same number of pay periods in which the error occurred. In cases that necessitate pay back of overpayments totaling more than $200.00, the County shall notify the Association prior to implementing repayment action.

Valley Physicians Group 11/28/11 – 11/20/13 extended to 5/6/21 Section 7.4 b

When a net twenty-five dollar ($25.00) or more overpayment error occurs, the employee shall repay the overpayment in the same amount and within the same number of pay periods in which the error occurred. In cases that necessitate pay back of overpayments totaling more than $200.00, the County shall notify the VPG prior to implementing repayment action.

Service Employees International Union 6/22/15 – 6/16/19 Section 7.6 c

When a net one hundred dollars ($100.00) or more to be repaid in the same amount and within the same number of pay periods in which the error occurred. (copied verbatim)

Note: No other union contract contains overpayment error conditions.

Source: County of Santa Clara ESA Labor Relations website as of August 2018

APPENDIX D
PROGRAM BACKGROUND

For the Fiscal Year 2017-2018, the County budgeted 8,354 positions to fill at a cost of over $3 billion. The CTD Payroll Unit is primarily responsible for paying these employees and various payroll-related entities (e.g. taxing authorities, CalPERS, garnishment recipients). Payments made to employee benefit-related entities and insurance companies are made by ESA.

The County's payroll business cycle is decentralized and relies upon other County staff who perform various functions. Their key responsibilities include:
- ESA Service Centers
  - employee job data - hiring, departing, job codes, pay rates, differentials
  - employee deductions - tax withholdings, benefit program choices
- ESA Benefits Department
  - employee benefits administration and reporting
- Departmental timekeepers
  - approval and data entry of time worked, differentials earned, allowances and/or reimbursements entitled
- CTD KRONOS Team
  - time entry systems maintenance and update, generate hyperfinds, interact with department timekeepers and calculation of pay

The Payroll Unit's objective is "to pay the employees accurately, on time, the first time." The Payroll Unit's functional responsibilities are to:
- Issue payroll to employees on a bi-weekly basis via direct deposit (most) and warrants (few).
- Establish policies, procedures, and guidelines related to payroll processing such as the interface of timekeeping entries, collection and subsequent remittance of payroll taxes and deductions (e.g. garnishments, deferred compensation, union dues, dependent health benefits and retirement contributions).
- File all payroll tax returns and retirement information in accordance with Federal and State law.
- Provide training and guidance to County departments on payroll processing practices.
- Ensure the proper and timely posting of labor distribution and general ledger liabilities.
- Issue year-end W-2's and tax statements to employees.
- Monitor payment irregularities, such as duplicate payments and incorrect use of County Salary Ordinance and develop or perform necessary corrective actions in compliance with the law.
- Perform regular analysis and review of pay practices to ensure prudent expenditure of public funds.

The County recently initiated a project known as the "Roadmap" to improve various employee-related processes, including prevention of overpayments. ESA and CTD have joined this effort to implement process improvements.

APPENDIX E
MANAGEMENT AUDIT DIVISION RECOMMENDATIONS

Several recommendations made in this audit were also identified during the Board of Supervisor's Management Audit Division's *Audit of the County of Santa Clara Controller-Treasurer Department issued October 21, 2015*. The relevant audit recommendations included:

✓ Recommendation 2.1: Direct the Controller-Treasurer to establish a central timekeeping and payroll procedural manual to address… employee timekeeping and attendance practices and … correction forms.

✓ Recommendation 2.2: Direct the Controller-Treasurer to establish a centralized training program in order to streamline training for timekeepers/approvers and employee timekeeping and attendance practices reflective of changes adopted in the central manual.

✓ Recommendation 2.3: Direct the Controller-Treasurer to conduct a Countywide timekeeping and payroll management assessment with all departments to determine the root causes for payroll errors and to identify the most efficient operational adjustments to mitigate the volume of payroll corrections.

County of Santa Clara

Finance Agency
Controller-Treasurer

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San Jose, California 95110-1705
(408) 299-5206 FAX 287-7629

Date: April 15, 2019

TO: Robyn Rose

Acting Internal Audit Manager

DocuSigned by:

Alan Minato

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FROM: Alan Minato, Finance Director

SUBJECT: RESPONSE TO THE INTERNAL AUDIT REPORT – 2018 CONTROLLER-TREASURER INTERNAL CONTROLS OVER PAYROLL OVERPAYMENTS

The Controller-Treasurer Department has reviewed the Internal Audit Report - 2018 Controller-Treasurer Internal Controls over Payroll Overpayments) and agrees with the 26 recommendations to the department.

The Controller-Treasurer Department appreciates the opportunity to review and respond to the report and values Internal Audit's efforts to provide process improvements and efficiencies recommendations to strengthen internal controls.

The following are the Controller-Treasurer Department's responses to each recommendation.

RECOMMENDATIONS AND RESPONSES

Recommendation 1.1

The Controller-Treasurer Department to annually study and analyze the number and cause of overpayments made and implement process improvements to reduce the risk of future overpayments.
(Priority 1) [Expected 12/31/19]

Response:

The Department agrees with this recommendation.

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Susan Ellenberg, S. Joseph Simitian
County Executive: Jeffrey V. Smith

Recommendation 1.2   The Controller-Treasurer Department should consider collaborating with the Employee Services Agency on developing a Countywide policy for collecting overpayments that is uniform to all employees.
(Priority 2) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.3   The Controller-Treasurer Department to consider tracking overpayment amounts in PeopleSoft or utilize a software package. If not possible, the Controller-Treasurer Department to make the current tracking spreadsheet less manual and more efficient and effective.
(Priority 3) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.4   The Controller-Treasurer Department to transfer longer-term uncollectable balances to the Department of Tax and Collection.
(Priority 2) [Expected 12/31/19]

Response: The Department agrees with this recommendation and has engaged the Department of Tax and Collections to establish payroll overpayment collections process.

Recommendation 1.5   The Controller-Treasurer Department to develop a formalized comprehensive policy for the processes of collecting, tracking, transferring delinquent balances to Department of Tax and Collection and writing off overpayments.
(Priority 3) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.6   As the data and technology becomes available, the Controller-Treasurer Department should develop tools for departmental timekeepers, KRONOS Team and the Payroll Unit, such as hyperfinds or reports, to address possible overpayment of:
- Hourly/extra-help sick leave
- Hourly/extra-help regular hours

- Dollar amount compensations for an appropriate threshold below $10,000, including WOOC/TARD compensation and extra-duty pay for doctors
- Allowances, including auto and uniform
- Pay code errors

(Priority 3) [Expected 12/31/19]

Response:	The Department agrees with this recommendation.
Recommendation 1.7	The Controller-Treasurer Department to develop a process to review system calculated sick leave payoffs prior to paycheck distribution. (Priority 3) [Expected 12/31/19]
Response:	The Department agrees with this recommendation.
Recommendation 1.8	The Controller-Treasurer Department to formally document the review process of mismatched hours scenarios and resolution of the root cause, such as additional training for timekeepers, developing additional exception reports, or improving system edits. (Priority 3) [Expected 12/31/19]
Response:	The Department agrees with this recommendation.
Recommendation 1.9	On a regular basis, the Controller-Treasurer Department to perform and document the testing of exception reports and modify as needed. (Priority 3) [Expected 6/30/19]
Response:	The Department agrees with this recommendation.
Recommendation 1.10	The Controller-Treasurer Department to monitor and follow-up with departmental timekeepers to ensure they perform the required hyperfinds prior to submission of payroll. (Priority 2) [Expected 12/31/19]
Response:	The Department agrees with this recommendation.

Recommendation 1.11

The Controller-Treasurer Department to perform regular training with departmental timekeepers on utilizing hyperfinds to identify and correct errors, possibly by prioritizing the departments with the most timekeeping errors.
(Priority 2) [Expected 12/31/19]

Response:

The Department agrees with this recommendation.

Recommendation 1.12

The Controller-Treasurer Department to implement a mandatory timekeeper certification program.
(Priority 3) [Expected 12/31/19]

Response:

The Department agrees with this recommendation.

Recommendation 1.13

The Controller-Treasurer Department should consider forming a timekeeping unit to provide oversight assistance, and training on a countywide basis to personnel performing timekeeping functions.
(Priority 1) [Expected 12/31/19]

Response:

The Department agrees with this recommendation and has requested three positions in the 2020 County Budget to establish a Centralized Timekeeping Support Unit. If approved, the new unit will provide comprehensive centralized guidance, support and policies and procedures related to timekeeping, maximize countywide timekeeping efficiencies and reduce payroll errors and adjustments.

Recommendation 1.14

The Controller-Treasurer Department to formally document all the Payroll Unit's policies and procedures, including those related to employee overpayments (for example: collecting, tracking, transferring delinquent balances to Department of Tax and Collection and writing off overpayments).
(Priority 2) [Expected 12/31/19]

Response:

The Department agrees with this recommendation.

Recommendation 1.15   The Controller-Treasurer Department to implement the Board's Management Audit Division's recommendation to recommendation to develop a comprehensive procedural manual that addresses employee timekeeping and attendance practices and process for completing payroll correction forms.
(Priority 2) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.16   The Controller-Treasurer Department to provide overpayment information to departmental management.
(Priority 3) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.17   The Controller-Treasurer Department should establish a process to ensure the Payroll Summary report (PAY018) is provided to the Employee Services Agency bi-weekly for their use in identifying, correcting, and possibly mitigating errors.
(Priority 3) [Expected 7/1/19]

Response: The Department agrees with this recommendation.

Recommendation 1.18   The Controller-Treasurer Department to work with the Employee Services Agency to clarify and limit the quantity of dollar amount payments for applicable earning types (for example: WOOC and extra-duty pay for doctors) through possible system and pay practice changes.
(Priority 2) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.19   The Controller-Treasurer Department to work with the Employee Services Agency to consider clarifying pay practices for personal leave and birthday holiday.
(Priority 2) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.20   The Controller-Treasurer Department to work with operating departments to determine the existence and

validity of bi-weekly differential payments made as a result of a labor contract side letter and adjust pay practices accordingly.
(Priority 1) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 1.22 After payroll has been completed, the Payroll Unit management to review work performed and decisions made by staff during payroll processing.
(Priority 3) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 2.1 The Controller-Treasurer Department should conduct a study and coordinate with the Employee Services Agency to evaluate responsibilities for processing employee benefit payment, including:
- deferred compensation
- medical intern/resident long-term care
- retirement contributions
- union dues

(Priority 2) [Expected 12/31/19)

Response: The Department agrees with this recommendation.

Recommendation 2.2 If a decision is made to change responsibility for processing employee benefit payments outside of the Payroll Unit, the Controller-Treasurer Department should remove the Payroll Unit staff member's editing access within PeopleSoft.
(Priority 3) [Expected 12/31/19)

Response: The Department agrees with this recommendation.

Recommendation 2.3 The Controller-Treasurer Department should conduct a study and coordinate with the Employee Services Agency about transferring the responsibility for garnishment orders to them.
(Priority 2) [Expected 12/31/19]

Response: The Department agrees with this recommendation.

Recommendation 2.4	If garnishments are continued to be processed by the Controller-Treasurer Department, the Controller-Treasurer Department to assign a supervisor to review garnishment data entries prior to finalizing payroll. (Priority 3) [Expected 12/31/19]
Response:	The Department agrees with this recommendation.
Recommendation 2.5	The Controller-Treasurer Department to document the Payroll Unit policies and procedures related to entity payments. (Priority 3) [Expected 12/31/19]
Response:	The Department agrees with this recommendation.

MEMORANDUM

TO:	**Robyn Rose, Internal Audit Manager**
FROM:	**Greg Monteverde, Assistant Assessor**
DATE:	**April 15, 2019**
RE:	**Item 1.21 Response – 2018 Controller-Treasurer Internal Controls over Payroll Overpayments**

Thank you for raising item 1.21 in your draft *2018 Controller Treasurer Internal Controls over Payroll Overpayments* report recommending that the Assessor's Office confer with the Employee Services Agency's Labor Relations Department regarding the SEIU Memorandum of Understanding's 20 November 2015 assessment certification's side letter's wording.

I agree that the Payroll Unit allows a biweekly differential payment to all employees within two job specifications, Exemptions Investigator, and Property Transfer Examiner as justified by the historical interpretation of the side letter. In practice, it also applies to the Exemption Manager as well as the Property Transfer Supervisor positions.   The side letter is restrictive and unclear and could be interpreted so as not to allow all employees within the classifications the differential, without advanced assessment analyst certification.

The Office of the Assessor will confer with the Labor Relations Department regarding the proper implementation of the side letter with the intent to resolve the issue by December 31, 2019.