



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: OC Public Works' Payroll

For the Year Ended December 31, 2019

Audit No. 1916
Report Date: June 26, 2020

Number of Recommendations



**Critical Control
Weaknesses**



**Significant Control
Weaknesses**



Control Findings

OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL
SECOND DISTRICT

VICE CHAIRMAN ANDREW DO
FIRST DISTRICT

SUPERVISOR DONALD P. WAGNER
THIRD DISTRICT

SUPERVISOR DOUG CHAFFEE
FOURTH DISTRICT

SUPERVISOR LISA A. BARTLETT
FIFTH DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
OC Public Works' Payroll

June 26, 2020

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of OC Public Works' (OCPW) payroll process for the year ended December 31, 2019.
RESULTS	<ul style="list-style-type: none"> • We concluded that internal control over the payroll process is generally effective to ensure payroll (including payroll changes and premium pay) was complete, accurate, valid, timely, and in accordance with department procedures and management's authorization. • We concluded that the payroll process is generally efficient.
RISKS IDENTIFIED	Not applicable as there were no findings requiring corrective action.
NUMBER OF RECOMMENDATIONS	Our audit did not reveal any opportunities for enhancing internal control related to the business process and scope reviewed.
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
0	CONTROL FINDINGS

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 1916

June 26, 2020

To: James Treadaway, Director
OC Public Works

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Internal Control Audit: OC Public Works Payroll

We have completed an Internal Control Audit of OC Public Works' (OCPW) Payroll process for the year ended December 31, 2019. Details of our results immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCPW's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- OC Public Works Distribution
- Auditor-Controller Satellite Accounting Operations Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ The department follows Auditor-Controller (A-C) policy and procedures, as well as internal procedures for processing payroll.
- ✓ Personnel, timekeeping, and payroll processing duties are properly segregated.
- ✓ Employee timecards are certified online, approved by the supervisor, and workflowed through the automated VTI system.
- ✓ Missing Timecards reports are run in VTI to track missing timecards.
- ✓ Reminder e-mails are sent out to supervisors in case of missing timecards to meet payroll deadlines.
- ✓ Errored Timecard reports are run to account for timecard errors automatically detected by VTI.
- ✓ Timecard errors are investigated and resolved by obtaining supporting documentation or contacting the employee's supervisor and obtaining written authorization.
- ✓ Timecard Audit reports are reviewed by the payroll supervisor and manager to monitor for unauthorized changes to payroll.
- ✓ Timecards are uploaded timely on a bi-weekly basis.
- ✓ Payroll clerks monitor the use of OT/SOT pay codes and review for non-productive hours in the following pay period for non-exempt employees to ensure accurate posting. For any overpayments, Payroll obtains the employee's signature on a payback agreement.
- ✓ Payroll imports new employee profiles created by HR into VTI. In addition, weekly Employee Status Management reports from HR are used to verify new hires, terminations, merit increases and deductions.
- ✓ VTI user access review is performed by the payroll manager on a quarterly basis.

FINDINGS

No findings were identified in this audit.



INTERNAL AUDIT DEPARTMENT

AUDIT TEAM

Scott Suzuki, CPA, CIA, CISA, CFE
Michael Dean, CPA, CIA, CISA
Gianne Morgan, CIA
Alejandra Hernandez
Virginia Nguyen, CPA
Mari Elias, MA

Assistant Director
Senior Audit Manager
Audit Manager
Senior Auditor
Senior Auditor
Administrative Services Manager



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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Assess internal control over payroll processing (including payroll changes and premium pay) to ensure payroll is complete, accurate, valid, timely, and in accordance with County and department policies.2. Review the payroll process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal controls over OCPW's payroll process for the year ended December 31, 2019. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of controls over Human Resources functions or systems used to process payroll. In addition, we did not review the payroll process pertaining to withholdings, disbursements to other agencies, check printing, timekeeping, or payroll information system controls.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for OCPW with a similar scope within the last ten years.</p>
BACKGROUND	<p>OCPW payroll is performed by the Accounting Unit's Payroll team staffed by the Auditor-Controller. OCPW uses the Virtual Timecard Interface (VTI) system to process payroll on a bi-weekly basis for approximately 850 employees.</p> <p>During the audit period, total gross pay for OCPW employees was approximately \$104 million.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2019-20 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>This audit does not contain any recommendations; therefore, a follow-up audit will not be performed.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.

