INTERNAL AUDIT DEPARTMENT

HEALTH CARE AGENCY HEADQUARTERS

405 West 5th St.

**Internal Control Audit:
Health Care Agency Payroll Process**

For the Year Ended September 30, 2018

**Audit No. 1812
Report Date: June 18, 2019**

Number of Recommendations

0   **Critical Control Weaknesses**

0   **Significant Control Weaknesses**

3   **Control Findings**

OC Board of Supervisors

INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency Payroll Process

June 18, 2019

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of Health Care Agency's (HCA) payroll process for the year ended September 30, 2018.
RESULTS	• We found that HCA's internal control over the payroll process was 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 found that the payroll process was generally efficient.
RISKS IDENTIFIED	As a result of our findings, potential risks include: • Non-compliance with County Memorandums of Understanding (MOUs) and policy and procedures. • Undetected errors and over or underpayments to County employees. • Unauthorized changes to payroll and access to sensitive data.
NUMBER OF RECOMMENDATIONS	Opportunities for enhancing internal control include:

NUMBER OF RECOMMENDATIONS

0	CRITICAL CONTROL WEAKNESSES	• Update policy and procedures to reflect appropriate MOUs. • Provide additional training to payroll staff and department supervisors/managers to ensure pay codes are used appropriately. • Implement consistent follow-up review of overtime pay codes. • Perform periodic review of Virtual Timecard Interface (VTI) user access and maintain access to only authorized personnel.
0	SIGNIFICANT CONTROL WEAKNESSES	
3	CONTROL FINDINGS	

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

June 18, 2019

To: Richard Sanchez, Director
             Health Care Agency

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

Subject: Internal Control Audit:
             Health Care Agency Payroll Process

We have completed an Internal Control Audit of Health Care Agency's (HCA) payroll process for the year ended September 30, 2018. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

HCA concurred with all of our recommendations and the Internal Audit Department considers HCA's management response appropriate to the recommendations in this report.

Results of this audit will be included in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. Additionally, 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 HCA'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
  Health Care Agency Distribution
  Foreperson, Grand Jury
  Robin Stieler, Clerk of the Board of Supervisors
  Vavrinek, Trine, Day & Co., LLP, County External Auditor

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 Virtual Timecard Interface (VTI) system.

✓ Missing Timecards reports are run in VTI to track missing timecards. A final Missing Timecards report is run to ensure all timecards are submitted prior to final upload.

✓ Reminder e-mails are sent to supervisors in cases of missing timecards to meet payroll deadlines.

✓ Errored Timecards reports are run to account for timecard errors automatically detected by VTI. A final Errored Timecards report is run to ensure all errors are resolved prior to final upload to A-C Information Technology (A-C IT).

✓ 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 to monitor for unauthorized changes to payroll.

✓ An Upload Summary report is reviewed prior to the final upload that lists the count of all employees from all pay locations and type of pay codes used.

✓ Timecards are uploaded timely to A-C IT on a bi-weekly basis.

✓ A checklist is completed by Payroll Clerks to document their review of specific pay codes, catastrophic leave, and time conversion. Payroll Supervisors then complete an audit checklist to document supervisory review of payroll items, such as specific pay codes, VTI reports, and upload status.

✓ Monthly reconciliations are prepared to ensure payroll transactions are properly recorded.

FINDING NO. 1	**Payments Based on Pay Codes Used**
	Employees receive payment based on VTI pay codes posted to their timesheets. Pay code rates and their use are established based on Federal and State laws, as well as negotiated Memorandums of Understanding (MOUs). Although HCA follows County and internal policy and procedures that outline the proper use of specific pay codes, we noted incorrect payments were made in the following three instances:
	1. One Supervising Deputy Public Guardian employee erroneously received 18 hours of Call Back/Case Call (CB) pay for case calls taken at home because the employee's title code (0374SM) falls under the Supervisory Management Unit MOU (which does not have a provision for Case Call pay) and the employee did not return to work (thus making them ineligible for CB pay).
	Although HCA Payroll has desk procedures that outline the use of CB pay code for the Public Guardian Team and cites the Community Service Unit (CS) MOU as authority for Case Call pay, the procedures do not distinguish between Public Guardian employees covered by different MOUs.
	2. One employee who worked on a holiday was entitled to Holiday Comp (HC) pay, but did not receive HC pay, which resulted in an underpayment of 6 ½ HC hours.
	3. On two separate occasions, one employee posted more than 24 combined hours in a day to pay codes:
	• Regular Hours (RH)
	• On-Call (OC)
	• Straight Overtime (SOT)
	• Call Back/Case Call Pay (CB)
	• Overtime (OT)
	This resulted in overpayment of 16 OC hours (equivalent to 4 regular hours). OC pay is used by employees assigned to On-Call Duty and paid at ¼ the regular rate. Once an employee is required to return to work, the On-Call pay stops/pauses and the time after the employee begins work is coded to Straight Overtime (SOT), Overtime (OT), or Call Back (CB) depending on the situation. OC pay cannot overlap hours coded to SOT, OT, or CB pay codes. Combined hours for Regular Pay (RH), OC, SOT, CB, and OT cannot exceed 24 hours in a day.
CATEGORY	**Control Finding**
RISK	Non-compliance with County MOUs and policy and procedures could, and has, resulted in over- or under- payment to County employees.

RECOMMENDATION	HCA update their policy and procedures to distinguish between employees covered by different MOUs for certain pay codes and conduct additional training for payroll staff and department supervisors/managers to ensure pay codes are used appropriately.
MANAGEMENT RESPONSE	**Concur.** HCA Payroll and HR are coordinating training, as needed, and providing timesheet coding guidance to employees and supervisors to ensure they are aware of the proper OT and/or SOT pay codes to use when employees work overtime. The HCA Payroll intranet site is also updated routinely to provide employees and supervisors guidance on particular payroll subject matters. The Supervising Deputy Public Guardian employees using the Call Back pay code for Case Calls taking at home have been the practice that employees were directed to use. This item is currently in review with HCA HR and CEO/HRS, and they will determine if there should be more updated guidance to provide to employees and changes to the MOU, if needed.

FINDING NO. 2	**OT and SOT Follow-Up Verification** We noted that OT and SOT were incorrectly posted for one non-exempt employee in three separate instances, which resulted in net underpayment to the employee. The Auditor-Controller's *Disbursing Section FLSA Overtime Procedure* states "work ordered and performed in excess of forty (40) hours actually worked in a workweek [for FLSA non-exempt classification], or eighty (80) hours worked in pay period for employees in FLSA exempt classifications, shall be overtime." Depending on an employee's schedule, workweeks may cross pay periods, and it will not be known if the employee is entitled to OT or SOT until the employee has completed the workweek. Although HCA reviews OT and SOT during the bi-weekly payroll audit process, a consistent follow-up review of these pay codes is not conducted in the following pay period to ensure OT and SOT pay codes were properly used for non-exempt employees whose workweek cross pay periods.
CATEGORY	**Control Finding**
RISK	Not performing a consistent follow-up of OT and SOT pay codes increases the risk of undetected errors and can result in over- or under-payment to County employees and non-compliance with the County MOUs and overtime policy and procedures.

RECOMMENDATION	HCA implement consistent follow-up reviews of Overtime (OT) or Straight Overtime (SOT) pay codes to ensure compliance with County MOUs and conduct additional training for payroll staff and department supervisors/managers to ensure OT and SOT pay codes are used appropriately.
MANAGEMENT RESPONSE	**Concur.** HCA Accounting management has met with payroll staff to review the audit process of an employee's timesheet where work schedules may cross pay periods and to ensure consistency in the review process. HCA Payroll and HR are coordinating training, as needed, and providing timesheet coding guidance to employees and supervisors to ensure they are aware of the proper OT and/or SOT pay codes to use when employees work overtime. The HCA Payroll intranet site is also updated routinely to provide employees and supervisors guidance on particular payroll subject matters.

FINDING NO. 3	**VTI User Access** Two employees retained VTI "Payroll Clerk" and "Group Admin" user roles when access was no longer required. Both employees have transferred to a different department. Upon notification from Internal Audit, HCA removed "Payroll Clerk" and "Group Admin" user roles from the two employees. HCA also added an item to the Payroll Supervisor's Bi-Weekly Payroll Audit Checklist for reviewing VTI permissions to verify active access for these user roles. The review will be conducted quarterly.
CATEGORY	**Control Finding**
RISK	Not updating user roles when employees no longer require permissions increases the risk of unauthorized access to VTI, which can result in unauthorized changes to payroll and access to sensitive data, such as employee personally identifiable information.
RECOMMENDATION	HCA perform periodic reviews of VTI user access and maintain access only for authorized personnel.
MANAGEMENT RESPONSE	**Concur.** HCA Accounting has implemented a quarterly review process to ensure only appropriate HCA users are assigned the "Payroll Clerk" and "Group Admin" user roles. The HCA Payroll supervisor conducts this review quarterly, and if applicable, will inform the central VTI Administrator to remove any HCA users with the roles in error.

Audit Team	Scott Suzuki, CPA, CIA, CISA	Assistant Director
	Michael Dean, CPA, CIA, CISA	Senior Audit Manager
	Gianne Acosta, CIA	Audit Manager
	Virginia Nguyen	Senior Auditor

APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	Our audit objectives were to: 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 department procedures and management's authorization. 2. Review the payroll process for efficiency.
SCOPE & METHODOLOGY	Our audit scope was limited to internal control over HCA's payroll process for the year ended September 30, 2018. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.
EXCLUSIONS	Our audit scope did not include a review of controls over Human Resources functions or systems used to process payroll. Additionally, we did not review the payroll process pertaining to withholdings, disbursements to other agencies, check printing, timekeeping, or payroll information system controls.
PRIOR AUDIT COVERAGE	We have not issued any audit reports for HCA with a similar scope within the last ten years.
BACKGROUND	HCA's payroll is performed by the Payroll team under the HCA Accounting Unit staffed by the Auditor-Controller. HCA uses Virtual Timecard Interface (VTI) to process payroll on a bi-weekly basis for approximately 2,800 employees. During the audit period, total gross pay for HCA employees was approximately **$289 million**.

INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2018-19 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	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.
	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.
	A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.
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 controls 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.

APPENDIX B: REPORT ITEM CLASSIFICATIONS

Critical Control Weaknesses	Significant Control Weaknesses	Control Findings
These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address **Critical Control Weaknesses** brought to its attention immediately.	These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. **Significant Control Weaknesses** require prompt corrective actions.	These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. **Control Findings** are expected to be addressed within our follow-up process of six months, but no later than twelve months.

APPENDIX C: HEALTH CARE AGENCY MANAGEMENT RESPONSE

OC health CARE AGENCY · COUNTY OF ORANGE CALIFORNIA

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OFFICE OF THE DIRECTOR

May 28, 2019

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

SUBJECT: Audit No. 1812 - Audit of Health Care Agency – Payroll Process

The Health Care Agency has received the draft report of the Internal Control Audit of Health Care Agency's (HCA) payroll process for the year ended September 30, 2018. As requested, below states the three (3) findings and recommendation from Internal Audit as well as the response from HCA's management.

Finding No. 1 – Payments Based on Pay Codes Used (Control Finding)
Employees receive payment based on VTI pay codes posted to their timesheets. Pay code rates and their use are established based on federal and state laws, as well as negotiated Memorandums of Understanding (MOUs). HCA follows County and internal policy and procedures that outline the proper use of specific pay codes; however, incorrect payments were made in the following three instances:

1. *One Supervising Deputy Public Guardian employee received 18 hours of Call Back/Case Call (CB) pay for case calls taken at home. Case Call pay is a negotiated premium pay item for case calls taken at home; however, the employee's title code (0374SM) falls under the Supervisory Management Unit (SM) MOU, which does not have a provision for Case Call pay. Additionally, the general Call Back pay requires the employee to physically come back to work. In this instance, the employee did not return to work and thus did not qualify to receive CB pay. HCA Payroll has desk procedures that outline the use of CB pay code for the Public Guardian Team and cites the Community Service Unit (CS) MOU as authority for Case Call pay; however, the procedures do not distinguish between Public Guardian employees covered by different MOUs.*

2. *One employee who worked on a holiday was entitled to Holiday Comp (HC) pay, but did not receive HC pay, which resulted in an underpayment of 6 ½ HC hours.*

3. *On two separate occasions, one employee posted more than 24 combined hours in a day to pay codes:*
   - *Regular Hours (RH)*
   - *On-Call (OC)*
   - *Straight Overtime (SOT)*
   - *Call Back/Case Call Pay (CB)*
   - *Overtime (OT)*

   This resulted in overpayment of 16 OC hours (equivalent to 4 regular hours).

Aggie Alonso, CPA, CIA, CRMA, Director
Audit No. 1812 - Audit of Health Care Agency– Payroll Process
May 28, 2019
Page 2 of 4

OC pay is used by employees assigned to On-Call Duty and paid at ¼ the regular rate. Once an employee is required to return to work, the On-Call pay stops/pauses and the time after the employee begins work is coded to Straight Overtime (SOT), Overtime (OT), or Call Back (CB) depending on the situation. OC pay cannot overlap hours coded to SOT, OT, or CB pay codes. Combined hours for Regular Pay (RH), OC, SOT, CB, and OT cannot exceed 24 hours in a day.

Risk No. 1:
Non-compliance with County MOUs and policy and procedures could, and has, resulted in over or underpayments to County employees.

Recommendation No. 1:
We recommend HCA update their policy and procedures to distinguish between employees covered by different MOUs for certain pay codes. Additionally, we recommend HCA conduct additional training for payroll staff and department supervisors/managers to ensure pay codes are used appropriately.

Health Care Agency's Management Response No. 1:
Concur. HCA Payroll and HR are coordinating training, as needed, and providing timesheet coding guidance to employees and supervisors to ensure they are aware of the proper OT and/or SOT pay codes to use when employees work overtime. The HCA Payroll intranet site is also updated routinely to provide employees and supervisors guidance on particular payroll subject matters.

The Supervising Deputy Public Guardian employees using the Call Back pay code for Case Calls taking at home have been the practice that employees were directed to use. This item is currently in review with HCA HR and CEO/HRS, and they will determine if there should be more updated guidance to provide to employees and changes to the MOU, if needed.

Finding No. 2 – OT and SOT Follow-Up Verification (Control Finding)
We noted that OT and SOT were incorrectly posted for one non-exempt employee in three instances, which resulted in net underpayment to the employee.

The Auditor-Controller's Disbursing Section FLSA Overtime Procedure states "work ordered and performed in excess of forty (40) hours actually worked in a workweek [for FLSA non-exempt classification], or eighty (80) hours worked in pay period for employees in FLSA exempt classifications, shall be overtime."

Depending on an employee's schedule, workweeks may cross pay periods, and it will not be known if the employee is entitled to OT or SOT until the employee has completed the workweek. HCA reviews OT and SOT during the bi-weekly payroll audit process; however, a consistent follow-up review of these pay codes is not conducted in the following pay period to ensure OT and SOT pay codes were properly used for nonexempt employees whose workweek cross pay periods.

Risk No. 2:
Not performing a consistent follow-up of OT and SOT pay codes increases the risk of undetected errors and can result in over or underpayments to County employees and non-compliance with the County MOUs and overtime policy and procedures.

Aggie Alonso, CPA, CIA, CRMA, Director
Audit No. 1812 - Audit of Health Care Agency– Payroll Process
May 28, 2019
Page 3 of 4

Recommendation No. 2:
We recommend HCA implement consistent follow-up reviews of Overtime (OT) or Straight Overtime (SOT) pay codes to ensure compliance with County MOUs. Additionally, we recommend HCA conduct additional training for payroll staff and department supervisors/managers to ensure OT and SOT pay codes are used appropriately.

Health Care Agency's Management Response No. 2:
Concur. HCA Accounting management has met with payroll staff to review the audit process of an employee's timesheet where work schedules may cross pay periods and to ensure consistency in the review process. HCA Payroll and HR are coordinating training, as needed, and providing timesheet coding guidance to employees and supervisors to ensure they are aware of the proper OT and/or SOT pay codes to use when employees work overtime. The HCA Payroll intranet site is also updated routinely to provide employees and supervisors guidance on particular payroll subject matters.

Finding No. 3 – VTI User Access (Control Finding)
Two employees retained VTI "Payroll Clerk" and "Group Admin" user roles when access was no longer required. Both employees have transferred to a different department. Upon notification from Internal Audit, HCA removed "Payroll Clerk" and "Group Admin" user roles from the two employees. HCA also added an item to the Payroll Supervisor's Bi-Weekly Payroll Audit Checklist for reviewing VTI permissions to verify active access for these user roles. The review will be conducted quarterly.

Risk No. 3:
Not updating user roles when employees no longer require permissions increases the risk of unauthorized access to VTI, which can result in unauthorized changes to payroll and access to sensitive data, such as employee personally identifiable information.

Recommendation No. 3:
We recommend HCA perform periodic reviews of VTI user access and maintain access only for authorized personnel.

Health Care Agency's Management Response No. 3:
Concur. HCA Accounting has implemented a quarterly review process to ensure only appropriate HCA users are assigned the "Payroll Clerk" and "Group Admin" user roles. The HCA Payroll supervisor conducts this review quarterly, and if applicable, will inform the central VTI Administrator to remove any HCA users with the roles in error.

The Health Care Agency appreciates the efforts made by Internal Audit and the courtesy extended to staff involved to ensure the payroll processes have adequate internal controls and are in compliance to County policies and procedures. Should you have any further questions, please contact Cindy Wong, HCA Accounting Manager at (714) 834-5264.

Thank you.

Richard Sanchez, Director

Aggie Alonso, CPA, CIA, CRMA, Director
Audit No. 1812 - Audit of Health Care Agency– Payroll Process
May 28, 2019
Page 4 of 4

RS: cw

cc: Frank Kim, County Executive Officer
       Lilly T. Simmering, Deputy Chief Operating Officer
       Anna Peters, Director of Administrative Services
       Cindy Wong, HCA Accounting Manager