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**Audit of the  
City-wide Payroll Approval  
Processes**

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July 2014

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**Office of the Comptroller**  
July 30, 2014

Honorable Tom Barrett, Mayor  
The Members of the Common Council  
City of Milwaukee  
Milwaukee, WI 53202

Dear Mayor Barrett and Council Members:

The attached report summarizes the results of our Audit of the City-wide Payroll Approval Processes. The scope of the audit included CityTime timesheets, transactions and adjustments in CityTime for biweekly paychecks for the period beginning July 1, 2013 through March 31, 2014. The objectives of the audit were to evaluate the adequacy of control procedures for approving payroll transactions in departments; to evaluate the adequacy of appropriate access rights to the CityTime application used to approve payroll transactions; to evaluate the timeliness of approvals of payroll transactions in CityTime and other applications, and to evaluate adequacy of the policy and procedure over payroll transactions.

The audit concluded that the internal controls in place over the City-wide payroll approval processes are adequately designed and operating effectively. However, the audit determined that there are opportunities for improvement in the maintenance and development of the City-wide and department policies and procedures over CityTime payroll transactions and payroll approvals, respectively. This report identifies two recommendations to strengthen these City-wide policies and department procedures.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by management's response. Appreciation is expressed for the cooperation extended to the auditors by the management and staff of all City departments that were involved in the audit.

Sincerely,

A handwritten signature in black ink that reads "Aycha Sirvanci".

Aycha Sirvanci, CPA  
Audit Manager

AS: pad

## I. Audit Scope and Objectives

The scope of the audit included an examination of the controls surrounding the timely approval of payroll transactions for biweekly paychecks, in the CityTime online payroll time entry system, for the period July 1, 2013 through March 31, 2014 for all City departments. The audit could not include an evaluation of the timeliness of the payroll transactions due to testing limitations. The audit excluded: the Peoplesoft application; information input into the Human Resource Management System (HRMS) and the calculations performed by HRMS to produce a paycheck; and the preparation of the tuition assistance spreadsheet by the Department of Employee Relations. Additionally, the audit did not determine the appropriateness of the specific time or hours worked by individual City employees.

The audit's scope was developed utilizing a risk-based methodology which included developing an understanding of the specific processes and controls over the CityTime timesheets, transactions and adjustments. Audit procedures were developed to evaluate the processes and controls to meet the audit objectives that included walk-throughs, inspection of relevant control documentation and detailed testing of controls. The audit procedures included:

- The selection of a department stratified, random sample prioritized by the departments with the greatest number of active City employees from a HRMS generated list of the total number of active City employees, to test the payroll transaction approvals, that included the following departments: Election Commission; Police; Public Works; Fire; Water Works; Library; Neighborhood Services; Health; etc. (this list is not all-inclusive).
- Interviews of personnel responsible for processing bi-weekly payroll in the Payroll Administration Division - Comptroller's Office, and personnel responsible for approving payroll transactions in the: Police Department, Fire Department, Election Commission, Water Works, and Department of Public Works.
- An evaluation of the adequacy and application of relevant City of Milwaukee Charter Ordinances, policies, procedures and training materials;
- Testing to determine the adequacy of bi-weekly timecard, transaction and adjustment approvals; and

- An assessment of the appropriateness of employee CityTime system-access per job description.

The objectives of the audit were to:

- Evaluate the adequacy of control procedures for approving payroll transactions in departments;
- Evaluate the adequacy of appropriate access rights to the CityTime application used to approve payroll transactions;
- Evaluate the timeliness of approvals of payroll transactions in CityTime and other applications and;
- Evaluate adequacy of the policy and procedure over payroll transactions.

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

## **II. Organization and Fiscal Impact**

The audit's examination included the controls surrounding the approval of payroll transactions for biweekly paychecks, in the CityTime online payroll time entry system. The City of Milwaukee's CityTime payroll application is an "in-house" or custom built electronic time recording system that requires no reliance on external software licensing or maintenance. This application is utilized to record, process, and temporarily store City employee timesheet data (work, vacation, holiday hours, etc.) prior to its upload into the PeopleSoft system for external payroll processing and subsequent bi-weekly paycheck creation. The City departments utilize CityTime for the review, adjustment (if necessary) and approval of employee electronic timesheets. The system-based maintenance of CityTime is the responsibility of the Information Technology and Maintenance Division (ITMD) of the Department of Administration and the day

to day administration of CityTime is the responsibility of the Department of Public Works. The noted bi-weekly processing of all payroll transactions resulting in the creation of paychecks is centralized in the Payroll Administration Division of the Office of the Comptroller.

Payroll is one of the larger expenditures incurred by the City of Milwaukee. Salaries and wages were \$344,802,153 for 2013 and \$358,333,924 for 2014, and the City had 8,373 and 8,336 authorized positions in the 2013 and 2014 budgets<sup>1</sup>, respectively.

The specific approval of employee payroll transactions is decentralized throughout the City as it is located within each individual department. The exact process for accounting for and recording employees' time worked varies amongst City departments. Although intradepartmental timekeeping processes may differ, the use of CityTime is consistent across all City departments.

### **III. Audit Conclusions and Recommendations**

In accordance with generally accepted government auditing standards (GAGAS), internal control encompasses an agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals and objectives. Internal control includes the processes for planning, organizing, directing and controlling program operations.

The internal controls over the approval of payroll transactions in the City's departments are designed to provide reasonable assurance that employees' submitted time has been approved prior to payment and that one individual cannot record, review and approve payroll transactions.

The audit concluded that the internal controls in place over the City-wide payroll approval processes are adequately designed and operating effectively. However, the audit determined that there are opportunities for improvement in the maintenance and development of the City-wide and department policies and procedures over CityTime payroll transactions and approvals, respectively. The audit found that though there are written City-wide, web-based, CityTime

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<sup>1</sup> The City of Milwaukee, 2014 Plan and Budget Summary

payroll approval policies and procedures, they are not being updated timely, on a regular schedule, and are not always centrally located to enhance City-wide accessibility. In addition, the audit determined that many of the City departments have not yet documented their internal policies and procedures over payroll processing. Additionally, there were no exceptions noted regarding appropriate separation of duties and adequate application access controls. The testing of timely payroll approval was restricted due to CityTime application limitations. This report identifies the following two recommendations to strengthen the City-wide payroll policies and department procedures:

1. The Payroll Administration Division should establish a control-based process to ensure the regular review and timely update of the City-wide, web-based, CityTime payroll approval policies and procedures.
2. All City departments should document their control-based, intradepartmental, payroll approval procedures and revise them on a regular schedule and as it is necessary.

Additional information regarding the recommendations for improvement are provided in the following sections of this report.

### **A. Policies and Procedures**

Standard internal controls recommend the development of a formal written policy and procedure manual. A written policy and procedure manual provides guidance to employees to account for and record employees' time worked consistently and in conformance with City policies.

Per this standard practice, policies are the business rules developed to ensure consistency and compliance with the organization's strategic direction and convey the business rules under which an organization, division, or department will operate. Policies contain the business rules and broad guidelines from which procedures must be developed.

A procedure documents a business transaction. As such, it lists the specific steps required to complete a transaction, or describe a business operation, and is useful for enforcing a high degree of uniformity in how those steps are completed. Procedures typically include one or more controls (which have typically been designed to mitigate the various risks of loss, error and compliance). As such, procedures have three main purposes:

- Encourage and guide uniformity and efficiency in the completion of business transactions and department operations;
- To enforce the use of risk mitigating controls and compliance;
- To train personnel and support contingency planning.

Not utilizing a well-developed system of control-related policies and procedures increases the risk of consistent completion of management's goals, objectives, and required operations.

The audit found that though there are written City-wide, web-based, CityTime payroll approval policies and procedures, they are not being updated timely, and on a regular schedule, and are not always centrally located to enhance City-wide accessibility.

**Recommendation 1: The Payroll Administration Division should establish a control-based process to ensure the regular review and timely update of the City-wide, web-based, CityTime payroll approval policies and procedures.**

The Payroll Administration Division, working in conjunction with ITMD where it is applicable, should:

- Comprehensively update, and/or develop where it is necessary, the City-wide, CityTime payroll policies and procedures;
- Develop a controlled process to ensure the timely review and updates to these policies and procedures;

- Enhance the established web-based location(s) of the CityTime policies and procedures to ensure that they are readily accessible City-wide, and to specific departments, where it is applicable.

The audit determined that many of the City departments have not yet documented their internal policies and procedures over payroll processing. As the internal department processing of payroll transactions is decentralized throughout the City, and the exact processes and controls used to account for and record employees' time worked can vary significantly, it is important that each department document their policies and procedures for payroll processing.

**Recommendation 2: All City departments should document their control-based, intradepartmental, payroll approval procedures and revise them on a regular schedule and as it is necessary.**

As a result of this finding, Internal Audit has distributed a survey to each department inquiring whether or not they have documented policies and procedures for approving payroll. Details of this City-wide survey included the following:

1. Does your department or office have a documented payroll process policies and procedures manual (Yes/No)?;
2. If your answer to #1 is **Yes**:
  - a. When was the last time this manual was updated?;
  - b. Please provide a copy of the department's payroll processing policies and procedures manual (in electronic format, i.e.: Word or PDF).
3. If your answer to #1 is **No**:
  - a. Who will be the person responsible for writing the manual?; and
  - b. Please include the date the manual will be completed.

In accordance with best practice, policy and procedure documentation should clearly describe:

- Who has the responsibility for various aspects of the process (including supervisory roles, controls, and monitoring considerations);
- When and how policies and procedures are to be executed; and
- When and how policies and procedures will be review and updated.

Specific department follow-up to this recommendation will be managed, tracked and reported by Internal Audit.

## **B. Separation of Duties**

A fundamental element of internal control is the utilization of documented separation of duties practices. The basic idea underlying separation of duties is that traditional systems of internal control rely on assigning certain responsibilities to different individuals or separating incompatible functions to minimize risk. Each department (or division) is responsible for maintaining the internal controls over the payroll approval process for its employees. The following procedures highlight the various approval processes and controls:

- Payroll Clerks ensure that employee time and attendance is submitted by the payroll reporting deadline;
- Payroll Clerks may enter an employee's hours worked into CityTime (via manually created timesheets which have been approved by the employee's direct supervisor);
- Division or section managers, or appropriate designee, approve employee timesheets (via CityTime); and
- An approving manager's timesheet is approved by a member of management who maintains a position senior to the employee being approved.

Therefore, it was concluded during the audit that appropriate separation of duties has been established, application access controls are effective and the City-wide payroll approval controls over CityTime are adequate.

**Martin Matson**  
Comptroller

**John M. Egan, CPA**  
Deputy Comptroller



**Glenn Steinbrecher, CPA**  
Special Deputy Comptroller

**Toni Biscobing**  
Special Deputy Comptroller

Office of the Comptroller

July 28, 2014

Ref: Pay Admin

Ms. Aycha Sirvanci, Audit Manager  
Office of the City Comptroller  
City Hall, Room 404

Dear Ms. Sirvanci:

Re: Response to Audit of the City-wide Payroll Approval Processes

Thank you for your audit of the City-wide Payroll Approval Processes. We appreciate the efforts of your Audit staff. We have reviewed this audit and offer the following responses to its recommendations.

**Recommendation 1: The Payroll Administration Division should establish a control-based process to ensure the regular review and timely update of the City-wide, web-based, CityTime payroll approval policies and procedures.**

Personnel from the Payroll Administration Division will coordinate with ITMD staff to update the policies and procedures relating to CityTime. A centralized location will be utilized so they are readily accessible City-wide.

Implementation Date: On or before January 1, 2015.

**Recommendation 2: All City departments should document their control-based, intradepartmental, payroll approval procedures and revise them on a regular schedule and as it is necessary.**

Personnel from the Payroll Administration Division are available to any City department that is in need of assistance in developing internal policies and procedures. The Fire Department staff has graciously offered to share the policies and procedures documentation they developed.

Implementation Date: As stated in the audit report, specific department follow-up to this recommendation will be managed, tracked, and reported by Internal Audit.

Sincerely,

Martin Matson  
Comptroller

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