



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit Report – Timekeeping Cycle Audit

August 31, 2018



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TRANSMITTAL LETTER



August 31, 2018

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Pursuant to the internal audit plan for calendar year (“CY”) 2018 for Prince William County, Virginia (“County” / “PWC”), approved by the Board of County Supervisors (“BOCS”), we hereby present the timekeeping cycle audit. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on September 18, 2018.

Our report is organized into the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in the timekeeping cycle audit, as well the respective risk ratings.
Background	This provides an overview of the timekeeping process as well as relevant background information.
Objectives and Approach	The objectives of this cycle audit are expanded upon in this section, as well as the various phases of our approach.
Observations Matrix	This section gives a description of the observations noted during this cycle audit and recommended actions, as well as Management’s response including responsible party, and estimated completion date.
Process Map	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

We would like to thank the staff and all those involved in assisting our firm with this cycle audit.

Respectfully Submitted,

RSM US LLP

Internal Auditors



EXECUTIVE SUMMARY

Background

Tracking and paying the County’s workforce is voluminous, complex, highly decentralized, has a significant budget impact and thus is inherently a high risk function. It should be recognized that at any given time there are at least 35 departments (114 timesheet locations) operating independently throughout the County. These County departments have employees covered under a variety of different compensation structures, such as salary, hourly, full-time, part-time and seasonal. Pay types include work time, compensatory time, sick leave time, annual leave time, holidays, shift differentials and other employment related time.

The County’s current timekeeping process entails the use of manual timesheets and data entry into the Human Resources Information System (“HRIS”) by designated timekeepers in each department. Designated approvers in each department authorize time within the HRIS (this is an automated process). Because time entry is manually intensive, it increases the risk of the function with opportunities for inefficiencies in workforce production, increased risk of human error or mistakes, and the potential for fraudulent reporting.

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or ‘brand’ risk.

Fieldwork was performed July 2018 through August 2018.

Objective and Scope

The purpose of a cycle audit is to provide testing and reassurance that policies and procedures are being followed within different departments or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. The following three (3) departments/divisions were selected for sampling for this cycle audit: Office of Executive Management/Communications Office, Public Works/Neighborhood Services and the Department of Social Services.

The primary objective of this cycle audit was to validate ongoing compliance and control effectiveness over policies and procedures. Procedures included:

- Validate internal controls over timekeeping within the departments is appropriately designed and operating effectively.
- Assess the adequacy of the departments’ user access / segregation of duties over timekeeping, time entry approval and reporting.
- Determine that the departments’ records and documentation for timekeeping is sufficient to establish an audit trail for all transactions involving employees’ time.
- Evaluate the departments’ controls to validate pay is accurately calculated, overpayment situations are identified and payroll data is accurate.

The initial internal audit over timekeeping was accepted by the BOCS on February 18, 2014. Based on those results, follow-up was subsequently performed. A cycle audit was accepted by the BOCS on June 30, 2017; follow-up has been included in this scope.

Summary of Observation Ratings

(See page 6 for risk rating definitions)

	High	Moderate	Low
Timekeeping Cycle Audit	-	2	-

We would like to thank all County team members who assisted us throughout this cycle audit.



EXECUTIVE SUMMARY – CONTINUED

Observations Summary

Below is a summary listing of the observations that were identified for each department/division included in the scope of this cycle audit. Detailed observations are included in the observations matrix section of the report.

Summary of Observations	
	Rating
Communications Office <ul style="list-style-type: none"> • Timesheet review and approval • Pre-approval of exception hours • Employee sign-off on timesheet • Post payroll review 	Moderate
Neighborhood Services <ul style="list-style-type: none"> • N/A – no exceptions noted 	N/A
Social Services <ul style="list-style-type: none"> • Segregation of duties/user access • Pre-approval of exception hours • Post payroll review 	Moderate



BACKGROUND

Timekeeping Overview

Timekeeping is the tracking and documentation of employment related hours for all employees of the County. The timekeeping process is inherently high risk, due to the size of the County’s workforce, volume of transactions, limitations of the HRIS, manual data entry and procedures and decentralization. It should be recognized that at any given time, there are at least 35 departments (114 timesheet locations) operating independently throughout the County. The County’s employees are covered under a variety of work schedules and compensation structures, such as salary, hourly, full time, part time, and seasonal. Pay types include work time, overtime, compensatory time, sick leave time, annual leave time, holidays, shift differentials and other employment related time.

The County’s current process entails the use of various time collection methods and manual data entry into the Human Resources Information System by designated timekeepers in each department. The departments are responsible for tracking and documenting employment related hours for all employees within the department. Each County employee’s time and attendance record requires supervisory-level approval for each pay period. The supervisor’s approval is documented on a manual timesheet, with additional approval through HRIS by the department Director or designee.

In addition, the County’s timekeeping practices entail the projection of hours worked and leave taken due to the early cut-off of time reporting in order to meet payroll deadlines each pay period. This practice is inherently risky as it results in a large number of subsequent pay period adjustments and timecards that do not reflect actual hours worked in a pay period.

The County’s Payroll & Disbursement Division’s Payroll Office within the Finance Department is responsible for processing payroll, after verifying that all departments have entered and approved time. As the timekeeping process is manually intensive, it increases the risk of inefficiencies in workforce production, increased risk of human error or mistake, and the potential for fraudulent reporting.

Financial and Statistical Data

Salary expenses and payroll related data for Calendar Years (“CY”) ending December 31st are as follows:

	CY 2015	CY 2016	CY 2017	CY 2018
Salary & Fringe Expense	\$ 356,267,069	\$ 371,758,674	\$ 391,689,533	\$ 262,620,445*
Full-time Employees	3,611	3,728	3,817	4,118
Part-time Employees	383	443	441	1,042
Temporary Employees	868	884	992	1,109
TOTAL	4,862	5,055	5,250	6,269

*January 1, 2018 – August 14, 2018

Compliance

The County must comply with many Federal government laws regarding timekeeping, hourly pay and labor related issues. These laws include, but are not limited to, the Fair Labor Standards Act (“FLSA”) and the Family & Medical Leave Act (“FMLA”) of 1993.

In addition, the County follows Personnel Policies 11, 15, and 16 that dictate requirements for timekeeping, leave, overtime and compensatory time. The County’s timekeeping guidance, Bi-Weekly Time Entry Posting (“Timekeeping Manual”), includes a detailed procedure manual covering the bi-weekly time entry posting process in the HRIS. This manual is intended for use by the Payroll Office and County department personnel responsible for entering and approving time in the HRIS.



OBJECTIVES AND APPROACH

Objectives

The primary objective of this cycle audit was to validate ongoing compliance and control effectiveness over policies and procedures. The initial internal audit over timekeeping was first accepted by the BOCS on February 18, 2014. Based on those results, follow-up was subsequently performed. A cycle audit was accepted by the BOCS on June 30, 2017; follow-up has been included in this scope

Cycle audits are narrower in scope and specific to inherently high-risk, manual, decentralized functions and processes. The purpose of a cycle audit is to provide testing and reassurance that policies and procedures are being followed within different departments or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. Three (3) departments/divisions were selected for sampling for this cycle audit.

Approach

Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

The first phase of this cycle audit consisted primarily of inquiry, in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following procedures were completed as a part of this phase:

- Reviewed relevant documented policies and procedures and any other relevant information obtained from selected departments;
- Conducted interviews with key personnel to identify process changes and those responsible for the department's timekeeping functions;
- Validated the process map depicting the current state of the process documented during the initial internal audit over timekeeping; and
- Based on the information obtained through our inquiry procedures, developed a risk-based work plan to validate the ongoing design and operating effectiveness of processes and controls.

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to test compliance and internal controls based on our understanding of the processes obtained during the first phase. We selected three (3) departments/divisions based on agreed-upon criteria, including turnover, differing pay categories, values and volume of transactions. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. We conducted the following testing, and other procedures as deemed necessary, of detailed time records for a sample of selected departments/divisions:

- Identified and assessed segregation of duties and user access controls necessary for proper monitoring and appropriateness;
- Verified that time and attendance information (overtime, leave, compensatory time, premium pay, etc.) agreed to appropriately approved and authorized supporting documentation;
- Determined that the records and documentation for timekeeping are sufficient to establish an audit trail for transactions involving employee time;
- Determined if any payroll changes/adjustments (including changes/adjustments after time has been approved by the Supervisor) were properly supported, authorized, and verified;
- Reviewed appropriateness of time approval;
- Verified that hours paid agree to the supporting documentation (timesheets), and are mathematically accurate and reasonable;
- Reviewed the performance and adequacy of pre- and post-payroll report monitoring and verified that it is being performed by the appropriate persons; and
- Reviewed and assessed policies and procedures for timekeeping and reviewed for completeness, including whether reflective of current practices.



OBJECTIVES AND APPROACH – CONTINUED

Approach – Continued

Reporting

At the conclusion of this cycle audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel, and have incorporated Management's response into this report.

Provided below is the observation risk rating definitions for the detailed observations reported beginning on the following page.

Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately.



OBSERVATIONS MATRIX

Observation	Communications Office
<p>Moderate</p>	<p><u>Segregation of Duties:</u> No exceptions noted</p> <p><u>Timekeeping/Approval User Access:</u> No exceptions noted</p> <p><u>Timesheet Accuracy, Verification and Authorization:</u></p> <p><i>Accuracy of employee timesheets:</i> No exceptions noted</p> <p><i>Timesheet review and approval:</i></p> <ul style="list-style-type: none"> • Supervisor approval was not dated in two (2) instances for one (1) employee. We are unable to confirm timeliness of review without an appropriate date. • Supervisor approval was dated after the end of the pay period in one (1) instance. <p><i>Pre-approval of exception hours:</i> Supervisor approval of leave requests was not dated in three (3) instances for one (1) employee. We are unable to confirm timeliness of approval without an appropriate date.</p> <p><i>Employee sign-off timesheet and leave request:</i> Timesheet and associated leave request sign-off was not dated by employee in one (1) instance. We are unable to confirm timeliness of submission.</p> <p>Effective documented supervisory review and approval of time is an important control that will help detect and minimize payroll errors, whether intentional or not. Documented sign off by Supervisors and employees certifies hours worked, increases accountability and reduces the risk of fraudulent time reporting.</p> <p><u>Post Payroll Review and Reconciliation:</u> We were unable to validate that a post-payroll review and reconciliation is performed as required by policy.</p> <p>Without the proper post payroll review process, by an independent person and at the appropriate level, the County's payroll records could inadvertently contain errors, which may not be properly detected in a timely manner.</p>
<p>Recommendation</p>	<p>We recommend that the department/division follow the established timekeeping policies and procedures without exception.</p>



OBSERVATIONS MATRIX – CONTINUED

Observation	Communications - Continued
Management's Action Plan	<p>Response: Timesheet review and approval: Management concurs with this finding. An automated timesheet approval process utilizing the electronic signature feature of Adobe has been implemented to more efficiently obtain a signature and date stamp on the time sheet.</p> <p>Pre-approval of exception hours: Management concurs with this finding. An automated leave request approval process utilizing the electronic signature feature of Adobe has been implemented to more efficiently obtain a signature and date stamp on the leave request.</p> <p>Employee sign-off on timesheet: Management concurs with this finding and believes this may be an isolated incident. Management will continue to review and make certain dates are placed on all timesheets. On August 31, 2018, management notified all staff that time sheets and leave slips must be signed and dated at the time they are submitted by the employee. However, due to the manual nature of the timesheet and review processes, management recognizes there remains the possibility for a date to be omitted on a timesheet.</p> <p>Post Payroll Review and Reconciliation: Management concurs with the finding. Consistent with the internal auditor's recommendation, management created a document for the reviewer to sign and maintain in a file so written documentation of the reviews exists in the future.</p> <p>The Communications Office conducts a post-payroll review and reconciliation every pay period in alignment with "Section 12: Post-Payroll Review and Reconciliation." A designated employee receives the "Input Summary Report," "General Ledger Detail Transaction Report," and "General Ledger Summary Payroll Transaction Report." These reports are used "to identify required time-entry adjustments, correct any errors or discrepancies, and facilitate sound internal control processes" as intended by this policy. These documents are maintained in accordance with the policy, and are available for review. The one exception in the Communication Office's post-payroll review and reconciliation process from the practice outlined in the Policy is that the Communication Office does not generate the "Ascend Account Analysis Report" and compare it to the "General Ledger Summary Payroll Transaction Report." This additional step in the Post-Payroll review and reconciliation process has been implemented and will be conducted in all future post-payroll and review and reconciliations.</p> <p>Responsible Party: Communications Management</p> <p>Estimated Completion Date: Immediately</p>



OBSERVATIONS MATRIX – CONTINUED

Observation	Social Services
Moderate	<p><u>Segregation of Duties:</u> No exceptions noted</p> <p><u>Timekeeping/Approval User Access:</u> Per the user access report provided by the Department of Information Technology, there are two (2) users with time entry access that should not maintain this access. These two users either have transferred from the department (one (1) employee as of 5/22/2017) or do not maintain responsibilities related to timekeeping.</p> <p>Without the proper segregation of duties/user access, including effective detective compensating controls as noted above, surrounding the employee masterfile, time entry and payroll processing, the opportunity of the following could occur without being detected in a timely manner, if at all: 1) Human error, 2) Misappropriation of payroll funds, 3) Fraudulent time reporting, or 4) Other types of irregularities.</p> <p><u>Timesheet Accuracy, Verification and Authorization:</u></p> <p><i>Accuracy of employee timesheets:</i> No exceptions noted</p> <p><i>Timesheet review and approval:</i> No exceptions noted</p> <p><i>Pre-approval of exception hours:</i> Supervisor approval of overtime hours was provided after the overtime hours were worked in two (2) pay periods for two (2) employees sampled.</p> <p>Effective documented supervisory review and approval of time is an important control that will help detect and minimize payroll errors, whether intentional or not. Documented sign off by Supervisors and employees certifies hours worked, increases accountability and reduces the risk of fraudulent time reporting.</p> <p><i>Employee sign-off on timesheet and leave request:</i> No exceptions noted</p> <p><u>Post Payroll Review and Reconciliation:</u> Although a post-payroll review is performed; however, these reviews are currently performed by employees with time entry access within HRIS.</p> <p>Effective documented supervisory review and approval of time is an important control that will help detect and minimize payroll errors, whether intentional or not. Documented sign off by Supervisors and employees certifies hours worked, increases accountability and reduces the risk of fraudulent time reporting.</p>
Recommendation	We recommend that the department/division follow the established timekeeping policies and procedures without exception.

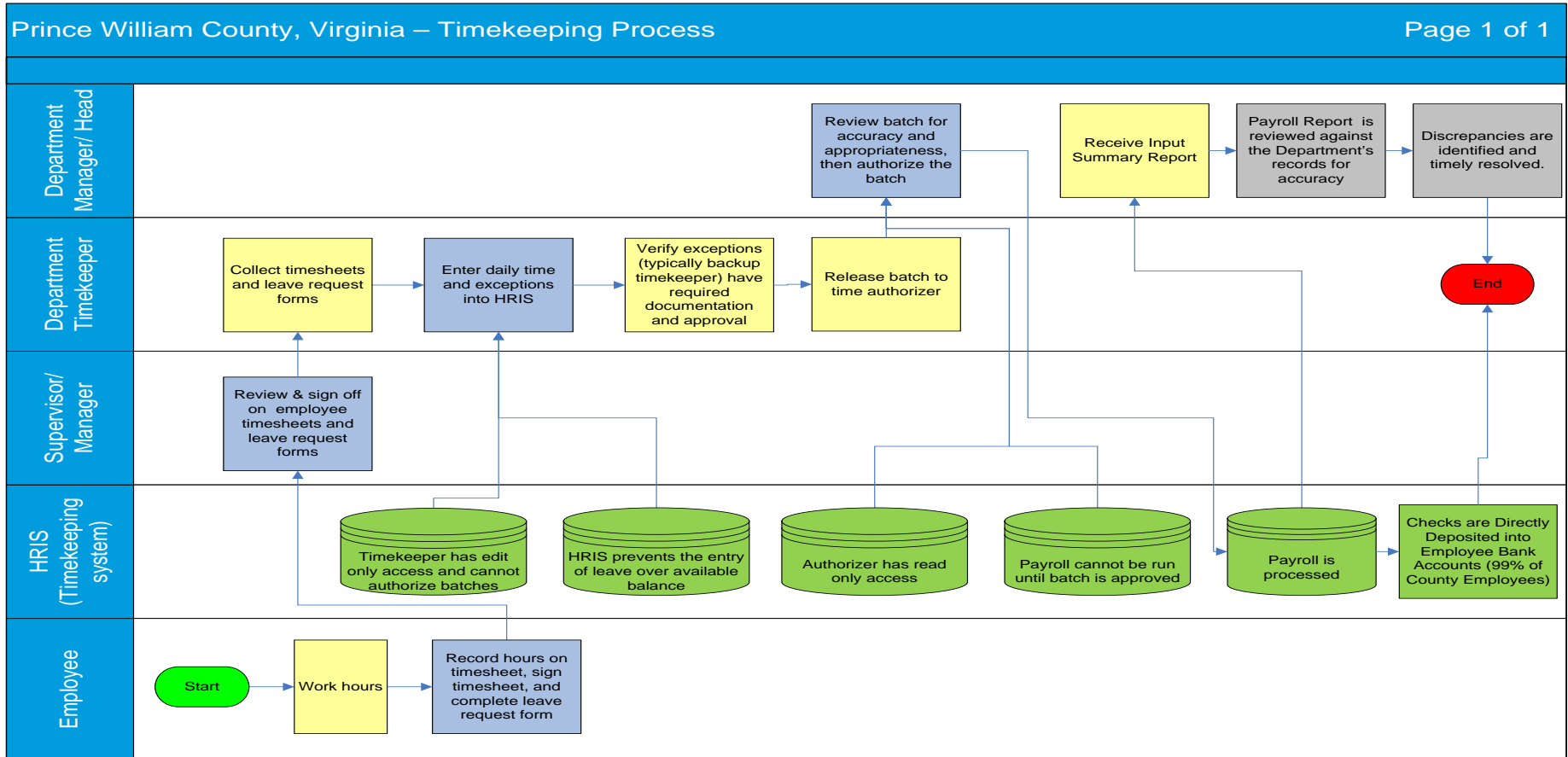


OBSERVATIONS MATRIX – CONTINUED

Observation	Social Services - Continued
Management's Action Plan	<p>Response: The Department of Social Services (“DSS”) DSS concurs with the finding regarding the need to remove user access to payroll systems when no longer needed. The two users identified in the audit who still have access to the payroll system will be removed immediately (by close of business on Friday, September 14, 2018). Going forward, when users who have access to the payroll system leave the DSS payroll team but remain employed with the County, the Administrative Division Chief will immediately initiate the process for removing the user’s ability to access the payroll system on behalf of DSS.</p> <p>DSS concurs with the finding regarding the need for a Supervisor’s pre-approval of overtime prior to staff working overtime hours. The following corrective actions will be implemented (immediately) to address this finding: 1) all supervisors and staff will be reminded of the requirement for supervisors to pre-authorize (in writing) all overtime prior to the actual hours being worked, and 2) effective immediately, no overtime will be processed in the payroll system if pre-authorization by the supervisor is not provided in writing (i.e. email or timesheet) prior to the actual overtime hours being worked.</p> <p>DSS concurs with the finding regarding the need for payroll staff who did not enter payroll in a specific pay period to complete a post-payroll review and reconciliation. DSS will follow the established timekeeping policies and procedures, and has identified an internal process whereby staff who did not enter payroll in specific pay period will be completing the post-payroll review and reconciliation. The identified process ensures the appropriate segregation of duties for all timekeeping procedures and reconciliations will occur.</p> <p>Responsible Party: DSS Management</p> <p>Estimated Completion Date: Immediately</p>

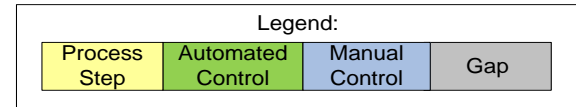


PROCESS MAP



"Exceptions" are those hours that the employee does not work (e.g. sick or annual leave) or hours over the employee's normal schedule (e.g., over time). Since the system pre-populates the time based on the employee's status (FT or PT) only the exceptions to the hours are entered.

"Batch" is all of the time data entered for a department





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