

Martin Matson
Comptroller

John M. Egan, CPA
Deputy Comptroller



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Special Deputy Comptroller

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Office of the Comptroller

June 4, 2013

Martin Matson
Comptroller
City of Milwaukee
200 East Wells Street
Milwaukee, WI 53202

Dear Mr. Matson:

The Audit Division performed a review of the payroll processes carried out by the Payroll Administration Division of the Office of City Comptroller. This letter describes the Audit Division's procedures, findings, and recommendations.

This project constitutes a review and not an audit. A review is substantially less in scope than an audit. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. The review evaluated the controls executed by the Payroll Administration Division in the processing of biweekly payroll.

The conceptual framework in Government Auditing Standards (GAS), 2011 Edition, determined that divisions organizationally located in the same department are related entities (GAS 3.10). Consequently, the Audit Division of the Office of City Comptroller is a related entity to the Comptroller's General Accounting, Revenue & Cost, Financial Systems Support, Payroll Administration, and Financial Advisory Divisions. The Audit Division does not have the appearance of independence in regard to the review of the Office of City Comptroller's Payroll Administration Division payroll processes due to the fact that both Divisions are organizationally located in the same department and therefore considered related entities.

Scope and Objectives

The review examined procedures and controls over the processing of payroll in the Payroll Administration Division.

The scope of this review excludes pay rates, tax rate tables, employee W-4 information for payroll taxes, employee status (new, inactive, terminated), data entered and approved at the department level in CityTime or other timekeeping software systems, accuracy or validity of reimbursements special pays or adjustment information sent to the Payroll Administration Division by other City departments, or accuracy/validity of employee benefit information. Payroll records not included in the review scope are the responsibility of the employing department, the Department of Employee Relations, or PeopleSoft downloads (e.g. payroll tax rates); not the Comptroller's Payroll Administration Division. The work



performed by departments and divisions other than the Comptroller's Payroll Administration Division staff is outside the scope of this review.

Procedures for this report were conducted for the time frame of June through December 2012. The review utilized reports and documents from the City's Human Resources Management System (HRMS).

The auditor tested payroll controls by performing tests of details. The auditor also re-performed the reconciliation of payroll. From the 2012 Master Payroll Checklist used by the Payroll Administration Division to process payroll each pay period, the auditor translated the checklist into process flow charts. The process flow charts were used to identify the controls in the Payroll Process. The process flow charts are attached to this letter.

The objectives of the review were to:

- Evaluate the adequacy of control procedures for processing and monitoring payroll transactions.
- Evaluate the adequacy of controls for software programs used to process payroll.

Organizational and Fiscal Impact

The Payroll Administration Division of the Office of Comptroller's Office ensures that all City of Milwaukee employees' paychecks are accurate based on union agreements, Federal income tax laws, Wisconsin income tax laws, and City policy every two weeks, and issuing W-2's.

The Payroll Administration Division uses two software programs to process payroll – CityTime, the City's time recording program is a software program that was developed internally by DPW, and the City's Human Resource Management System, which is a PeopleSoft program (HRMS). The Department of Employee Relations sets up new employees, enters pay rates, and makes changes to employee status in HRMS. The Payroll Administration Division also uses HRMS to process payroll and create paychecks. The Payroll Administration Division verifies the accuracy and validity of payroll records.

Conclusions and Recommendations

Payroll controls provide management with assurance that paychecks are accurate, and that transactions are processed and recorded properly. Appropriate controls ensure that payroll is processed accurately and completely.

The Payroll Administration Division has many controls in place to ensure accuracy of the processing of paychecks. A detailed flowchart of the process and controls are included with this letter. The review found that there are minor improvements that can be made in the design and implementation of controls throughout payroll processing. This review makes two recommendations to improve controls.

At each step in processing payroll, reports are run by payroll staff and reviewed by management. The loading of special pay files (sub process A) is the first process in payroll processing and is only performed once. During this process, the Daily Time Edit is run and reviewed for errors. The error correction process (sub process B) is performed many times and at different intervals during payroll processing. During this process, the Error Message and Payroll Summary Reports are run and reviewed for errors. The FLSA (Fair Labor Standards Act) process (sub process C) calculates overtime. During

this process, the Time Edit, Error Message, and FLSA Edit Reports are run and reviewed for errors. The pension process (sub process D) calculates the pension contribution and deduction for pensionable time. During this process, the query to find employees with data but no pension contribution, the Error Message and Payroll Summary Reports are run and reviewed. The review of these reports noted that the Payroll Manager reviews the reports prepared by the staff, however, there is no evidence of the Payroll Manager's review.

Recommendation 1: Evidence of secondary management review

After reports have been reviewed, the manager should initial or sign, and date the reports reviewed. The addition of the signature and date will provide sufficient evidence of secondary management review.

Currently, an informal reconciliation of the payroll for each pay period is being performed. The payroll summary report is reconciled to the detailed payroll reports. The auditor re-performed this reconciliation. No exceptions were found during testing of the reconciliations. However, it was noted that there is no documentation of the reconciliation being performed.

Recommendation 2: Reconciliation performed should be documented

A formal reconciliation of the payroll for each pay period should be performed. The reconciliation should include the date prepared and individual that prepared the reconciliation. The reconciliation should be reviewed by management which should be evidenced by the manager's signature and date reviewed.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Payroll Administration Division.

Sincerely,

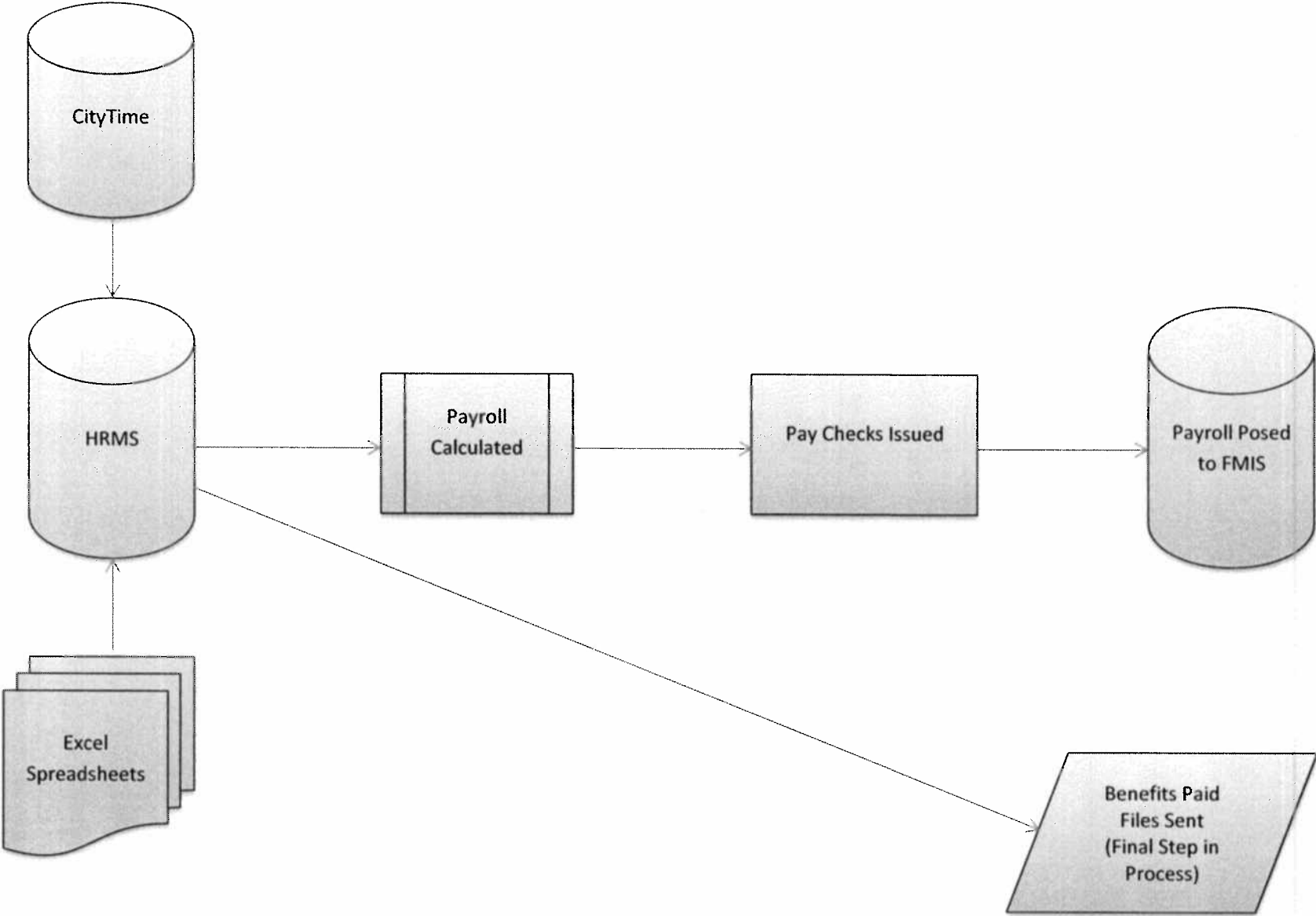


AYCHA SIRVANCI, CPA
Audit Manager

AS:pad
Attachment

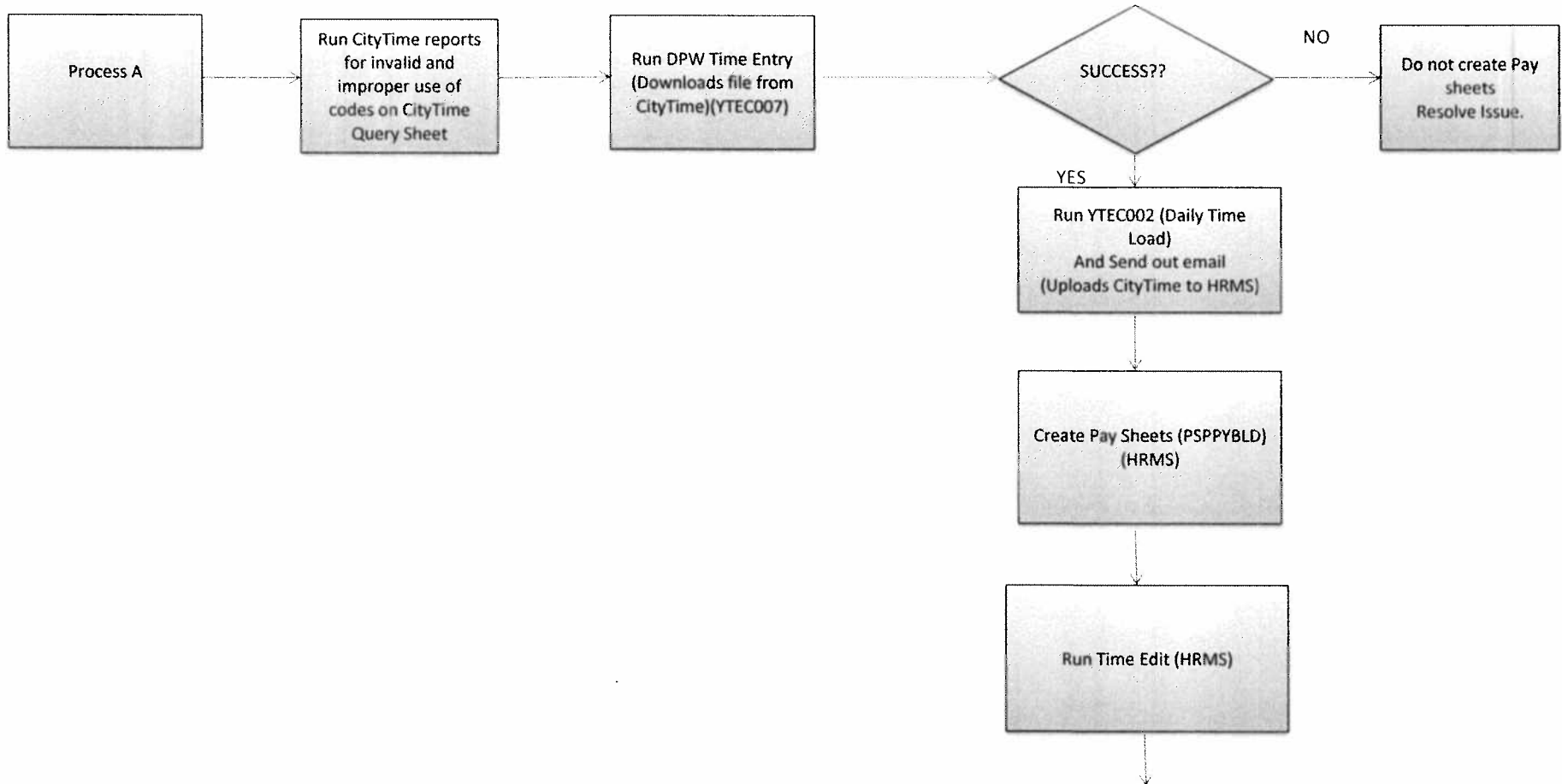
cc: JoAnn Nelson, Payroll Manager
Joann Bielinski, Assistant Payroll Manager
John Egan, Deputy Comptroller

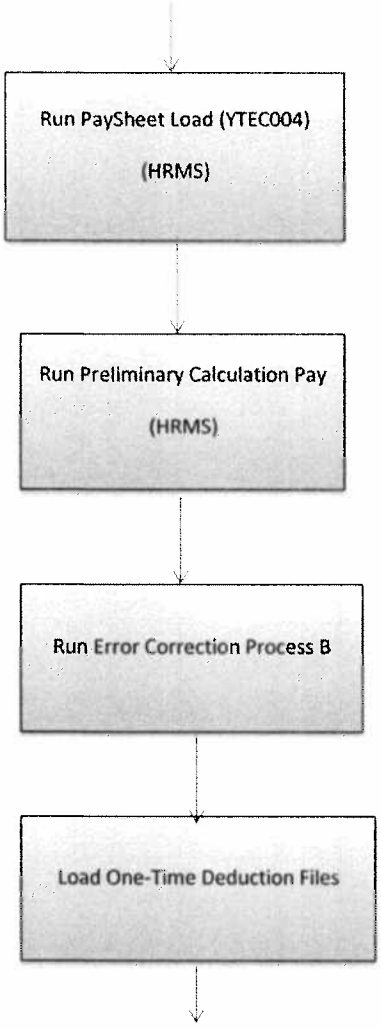
Overview of Payroll Process

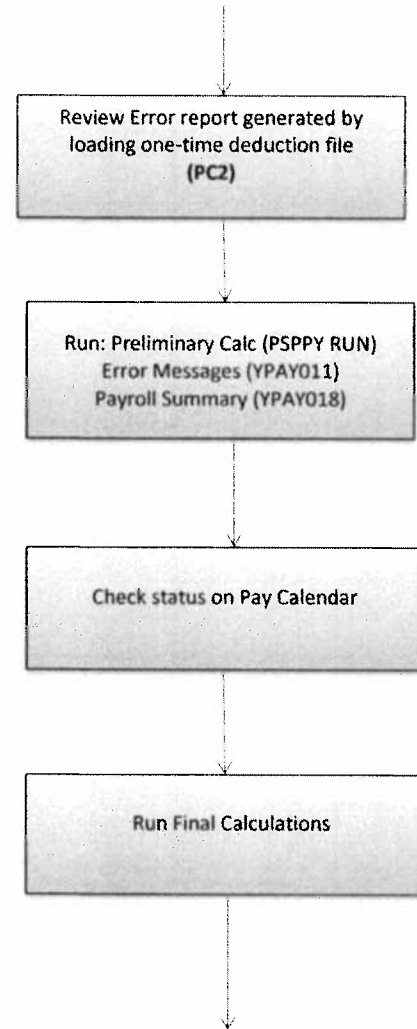


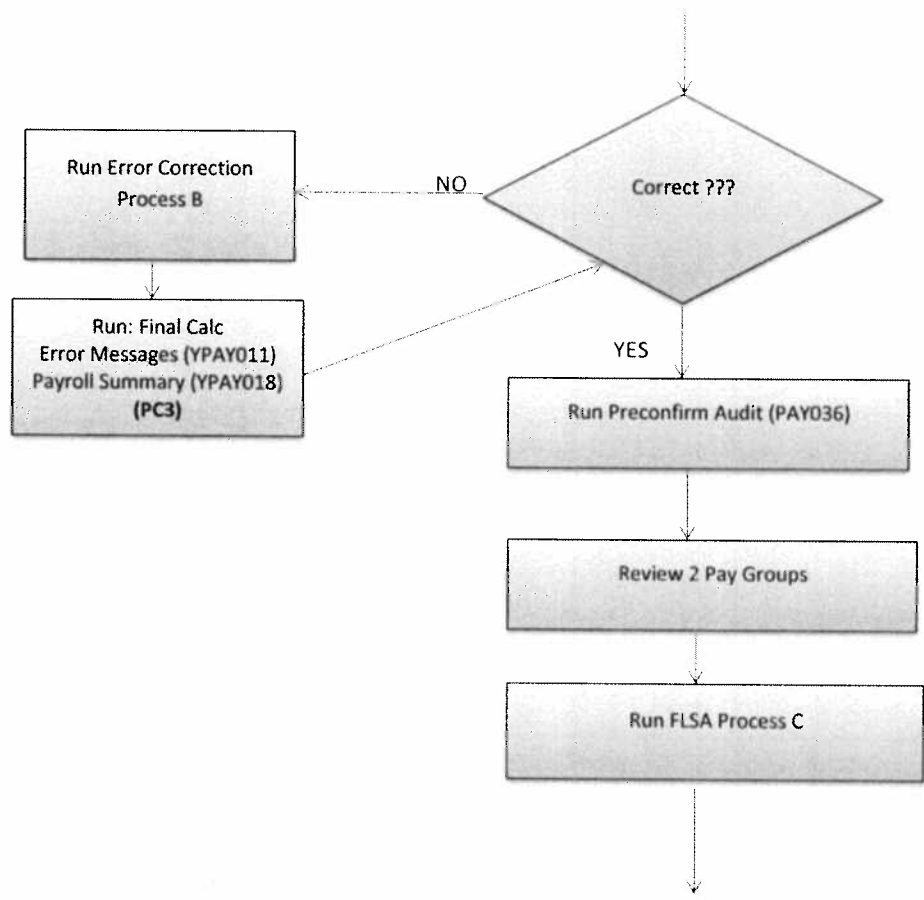
PAYROLL PROCESS

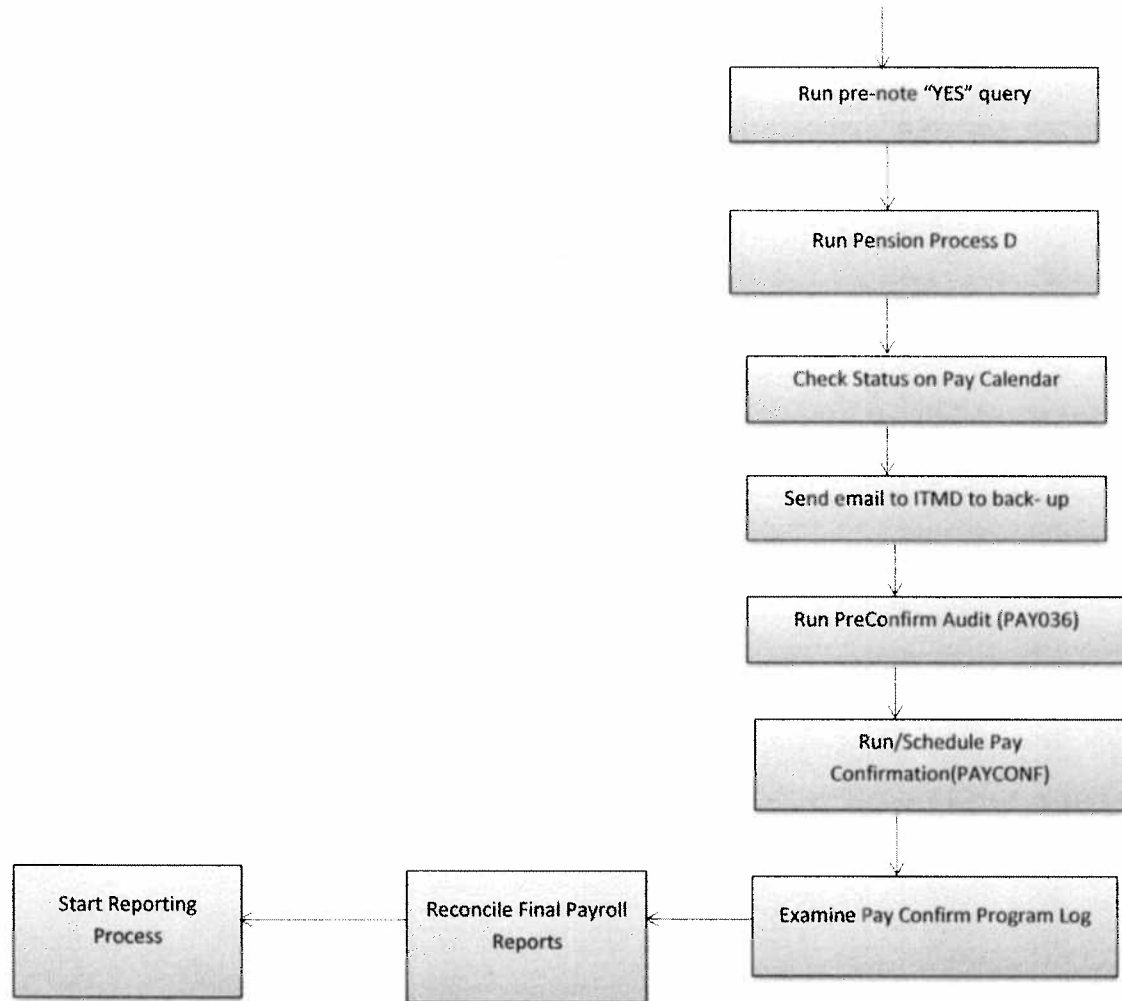
This is the whole payroll process for the City of Milwaukee.





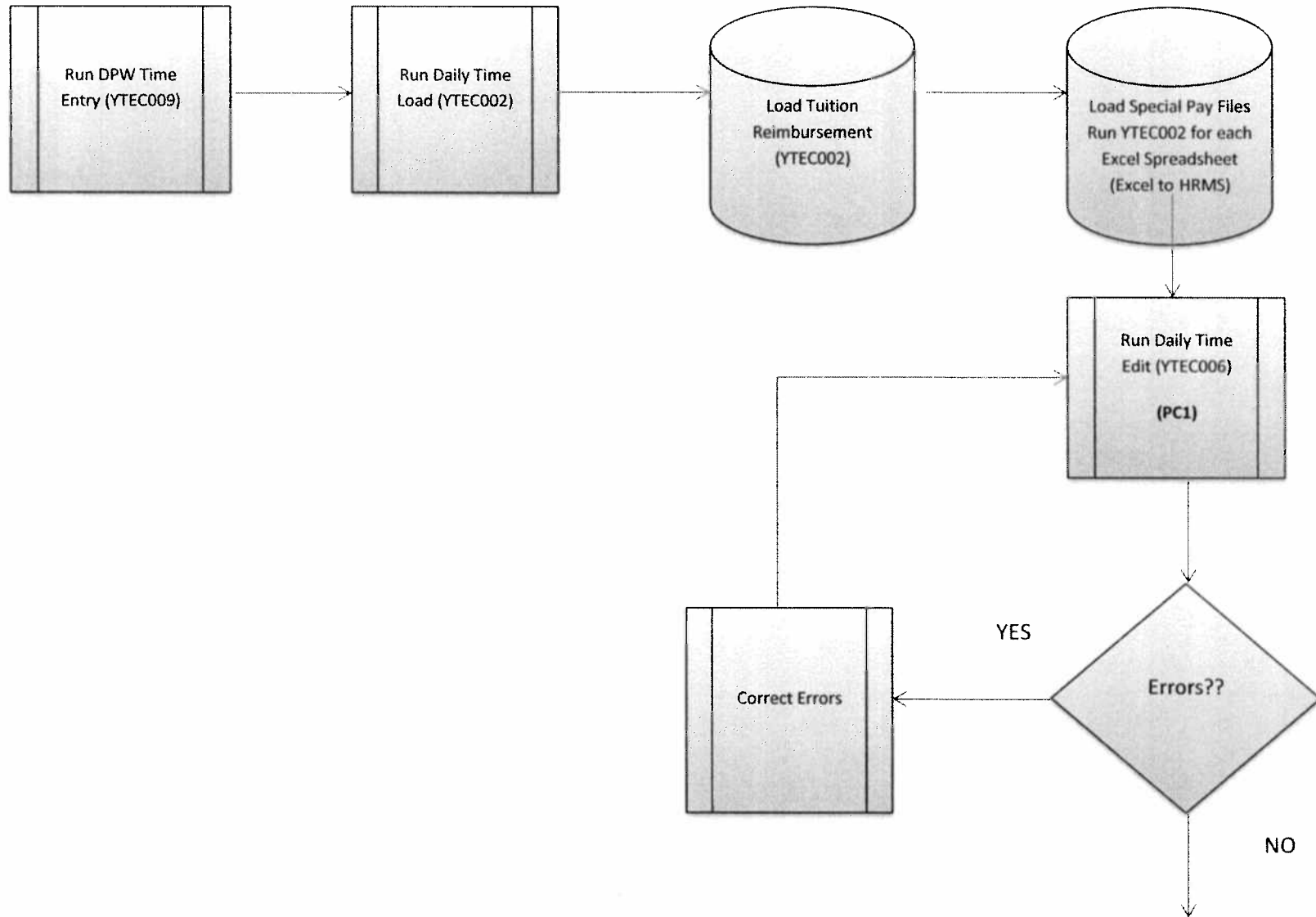






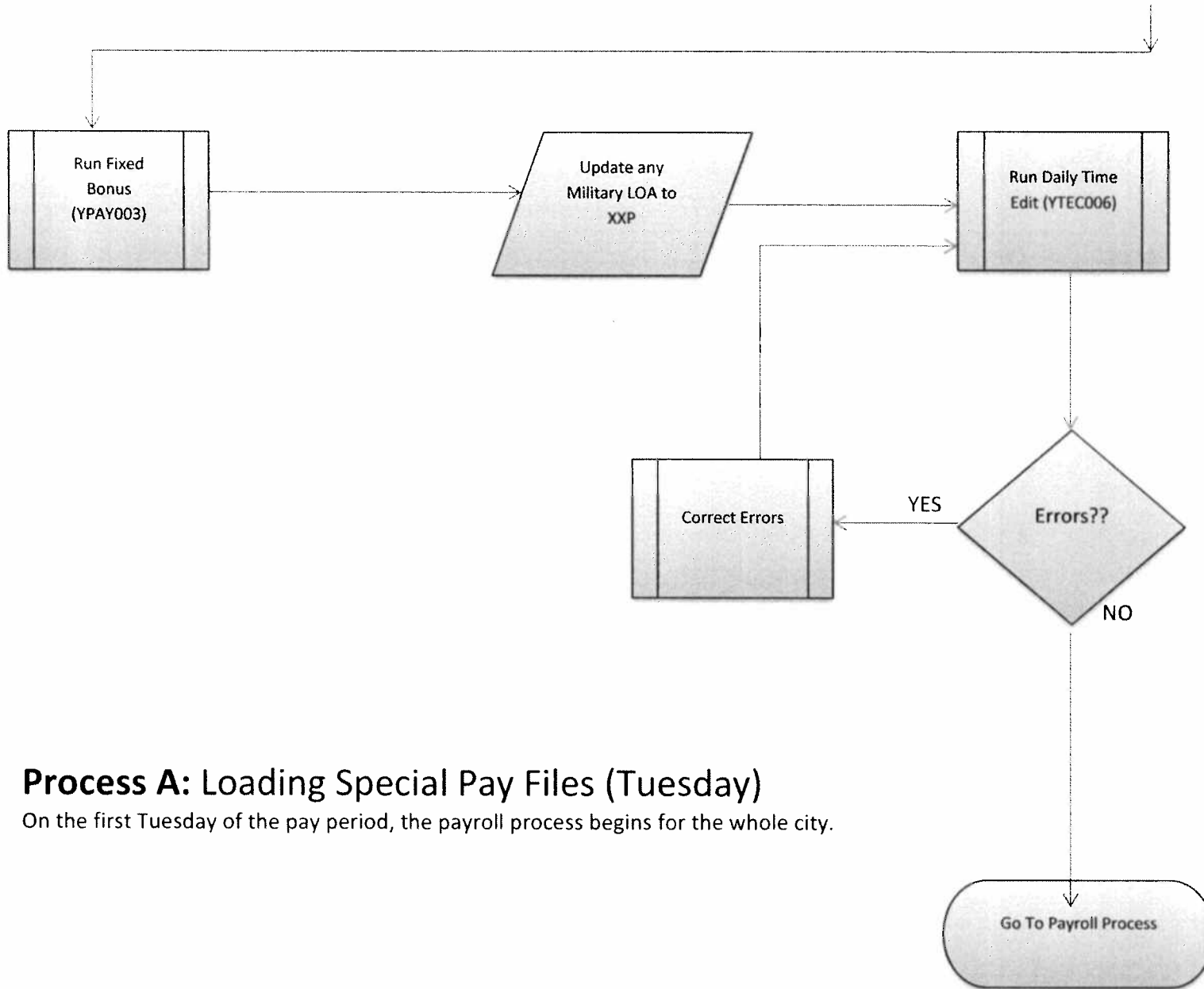
Process A: Loading Special Pay Files (Friday)

The special pay files for Tuition Reimbursement and other special payments are received in the form of Excel spreadsheets that are loaded into HRMS on the last Friday of the pay period.



Process A: Loading Special Pay Files (Monday)

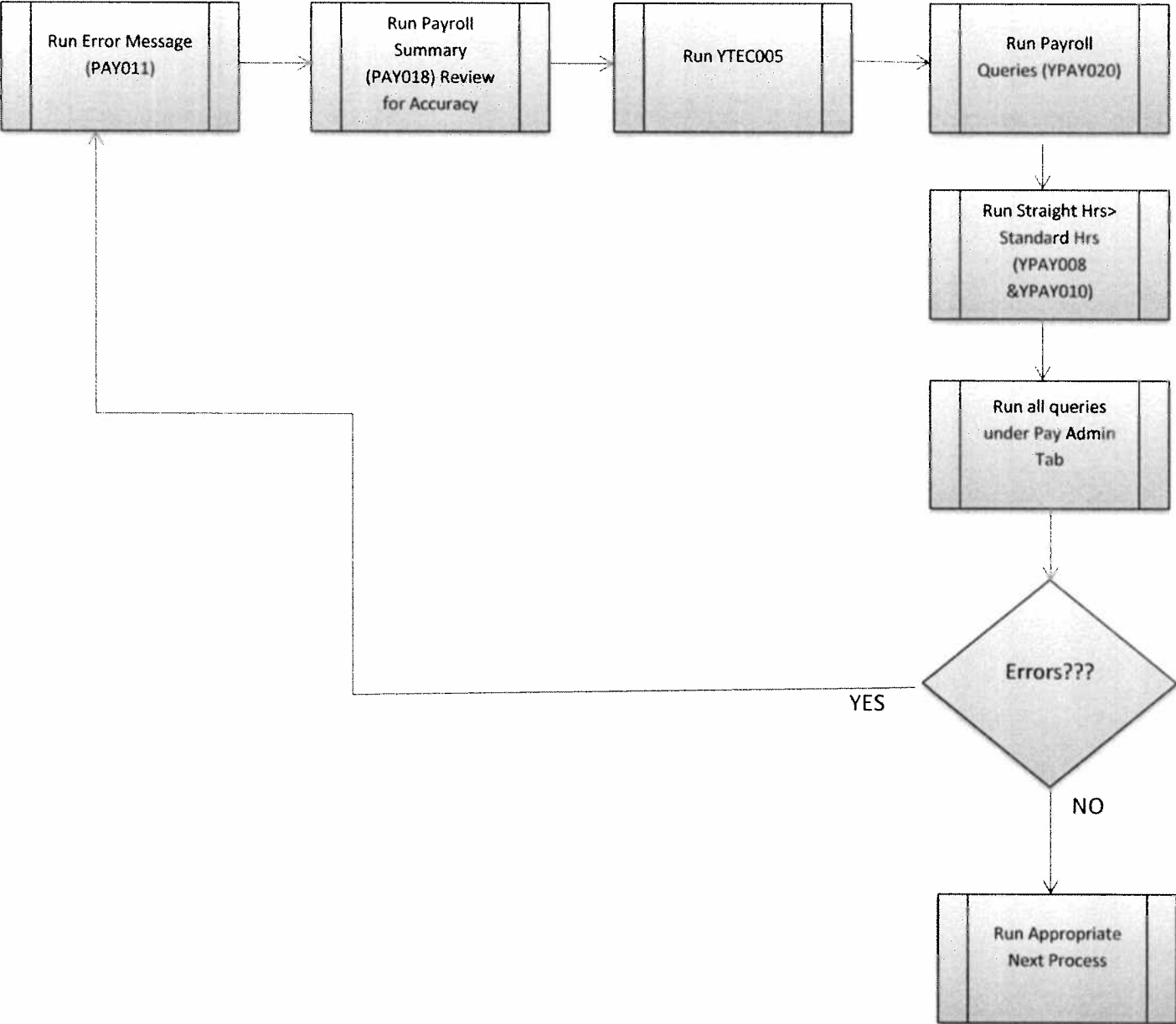
On the first Monday of the pay period the fixed bonus is run and Military LOA's are updated to XXP and loaded into HRMS.



Process A: Loading Special Pay Files (Tuesday)

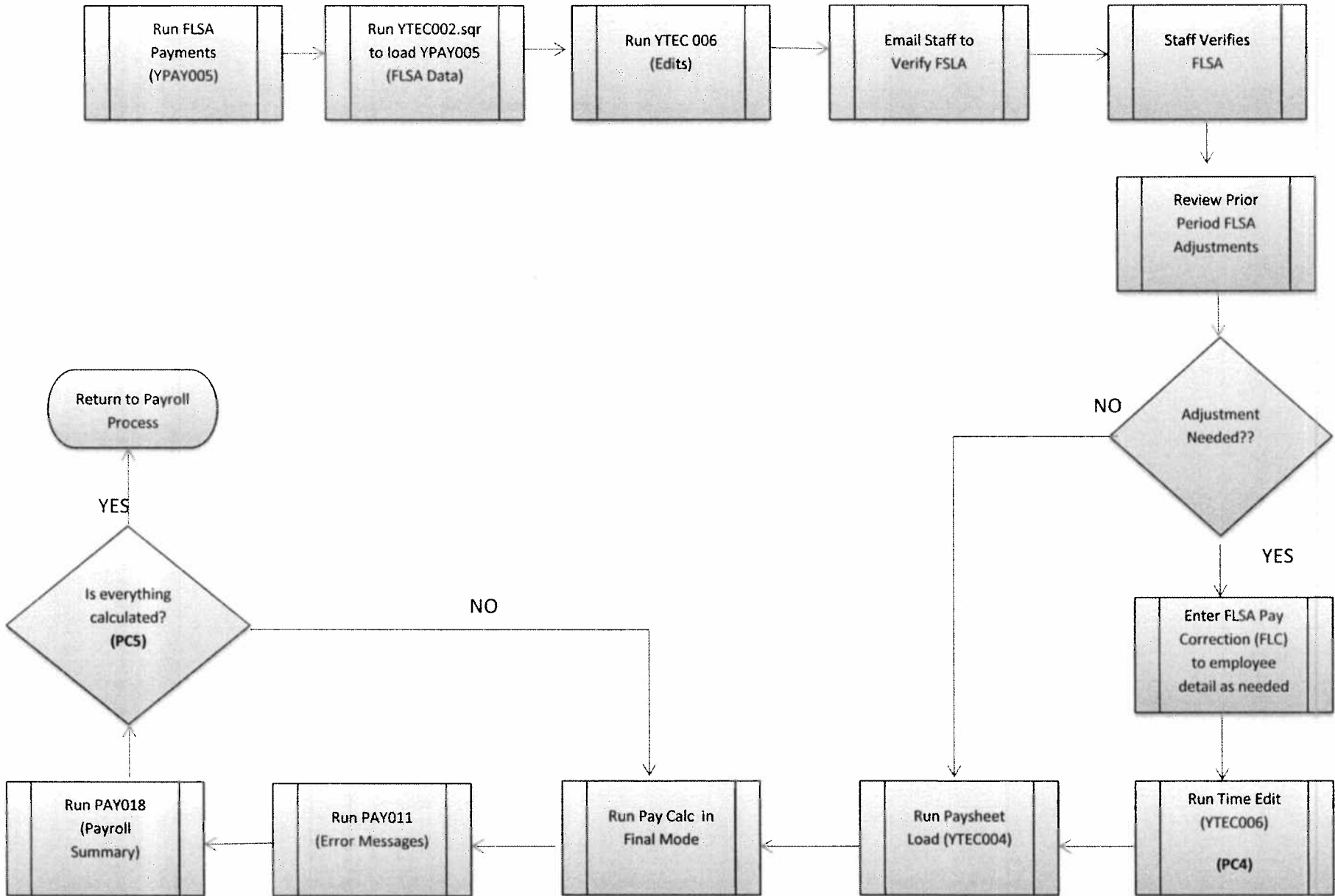
On the first Tuesday of the pay period, the payroll process begins for the whole city.

Process B: Error Correction



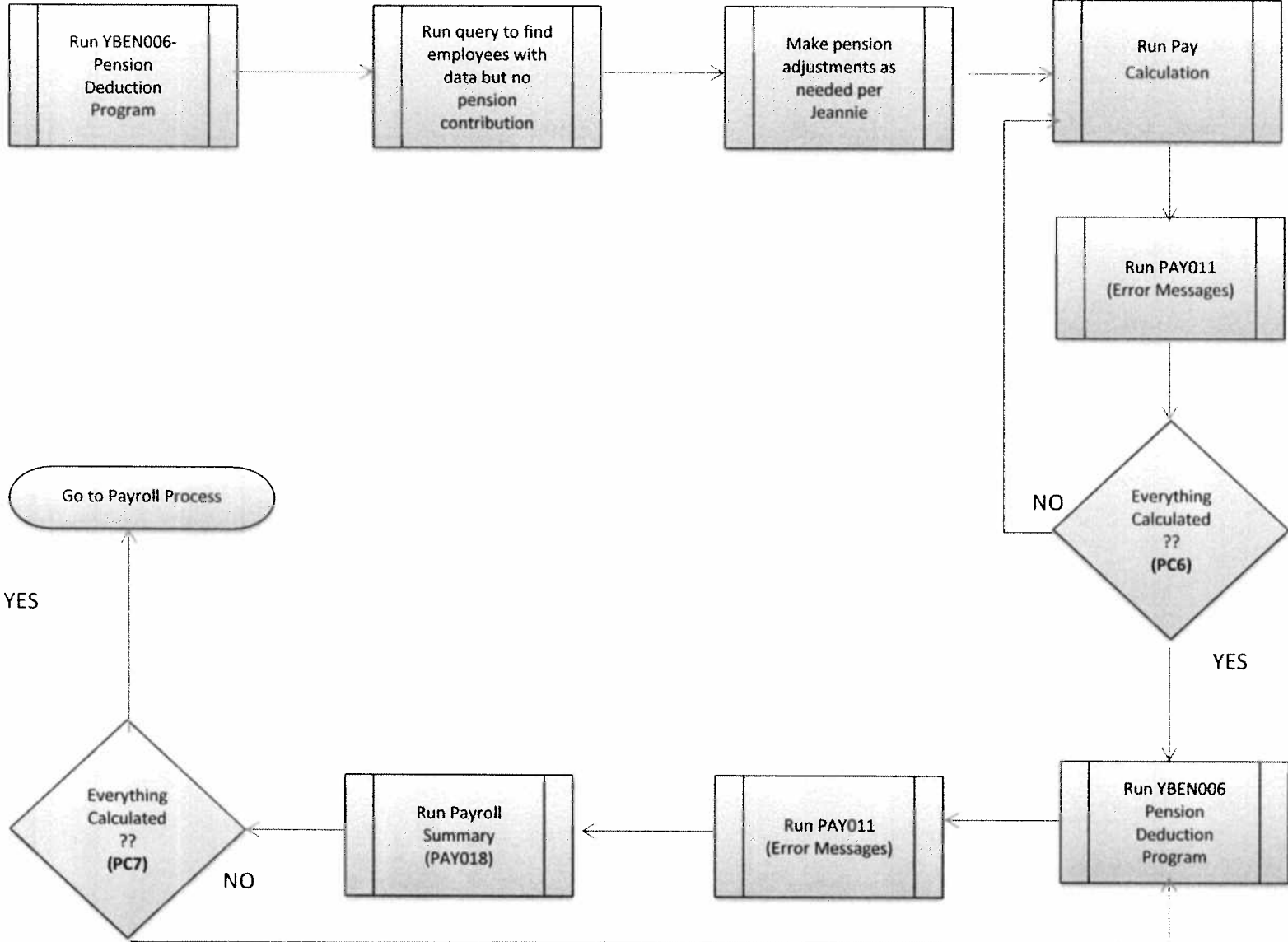
Process C: FLSA (Fair Labor Standards Act) – Adds to Payroll

This process calculates overtime. Payroll Division Staff review the calculated payments and make adjustments as needed.



Process D: Pension Process

This process calculates the deduction for all pensionable time.
This flowchart was developed based on the Payroll Process Checklist that can be found at F-6a.



Martin Matson
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June 4, 2013

Ref: Pay Admin

Acha Sirvanci, CPA
Audit Manager
Office of the Comptroller
City of Milwaukee

Dear Ms. Sirvanci:

Re: Review of the Payroll Processes carried out by the
Payroll Administration Division of the Office of the Comptroller

The Payroll Administration Division of the Office of the Comptroller appreciates the auditor's recommendations for improving our processes. The following is the response to each of the recommendations offered in the review.

Recommendation 1: Evidence of secondary management review

We agree with this recommendation and have implemented it. We have added to the master listings an indication that a secondary management review has occurred.

Recommendation 2: Reconciliation performed should be documented

We agree with this recommendation and have implemented it. We have added to our "Run to Run" control listings an indication that a secondary management review of the balancing has occurred.

Thank you again for the assistance of your staff in reviewing our payroll processes.

Sincerely,

A handwritten signature in cursive script that reads "Martin Matson".

Martin Matson
Comptroller

MM:JN
Audit Review