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## **Internal Auditor's Report**

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 86-2016, the Office of the Internal Auditor (IA) has conducted an Audit of the Wicomico County Payroll System. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for selected payroll and human resource processes.

IA conducted the audit with due professional care, and IA planned and performed the audit to obtain reasonable assurance about whether selected current practices are in compliance with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control.

IA extends appreciation to Management and Staff in Human Resources, Department of Finance, and Information Technology for their timely assistance, cooperation, and candid assessment of selected processes.

Respectfully submitted,

*J. Stephen Roser, CPA*

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Internal Auditor

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## Audit Report

### Background

Logically, an analysis of the efficacy of internal controls should begin with a review of the documentation of controls. Wicomico County has a personnel manual last updated in 2003. IA indicated in previous unrelated audit reports that our outdated manual does not accurately reflect current practice in numerous areas. We reviewed various sections of the manual related to hiring and salary administration and determined that (especially in the area of salary administration) the current manual contains high-level concepts devoid of specific written control arrangements. Additionally, IA reviewed a narrative memorandum submitted to the County's external auditors concerning internal controls.

The County's software programs (Munis and Timekeeper) contain numerous electronic approval processes designed for internal control over various functions including the hiring process and issuance of salary increases. According to Management, the County uses these electronic processes to provide internal controls through electronic signoff and monitoring of the approval process. As internal auditors, we review the effectiveness of control processes along with the consistent application of the controls.

### Management Response

The Wicomico County Personnel Manual of Policies and Procedures (MPPP hereafter) is the foundation of all practices and procedures within the Department of Human Resources. Management agrees that portions of the MPPP needs to be revised and updated. The procedures within the departments, as far as hiring, salary administration, disciplinary actions, etc., are built upon and are in compliance with the legislatively adopted foundation of the 2003 MPPP (revised through 2010) and the County Charter.

### Audit Objectives

The objective of the audit was to determine if internal controls over selected payroll and human resource processes are appropriately designed and operating effectively to adequately safeguard County assets. Our audit addressed the following question:

*Is there adequate segregation of duties over the payroll process to ensure that payments of wages are in accordance with best practices for effective internal control?*

### Scope of the Audit

The Audit was conducted in accordance with Standards set forth by the Internal Professional Practices Framework published by the Institute of Internal Auditors. Objectives, scope, and methodology were adjusted as we gathered information. We examined internal controls over payroll and other selected human resource functions for the period January 1, 2015 to December 31, 2015. Additionally, IA held interviews with appropriate personnel and examined various documents pertaining to the following:

- Payroll records including Munis and Timekeeper metadata
- Banking records
- Journal entries
- Employee roster information

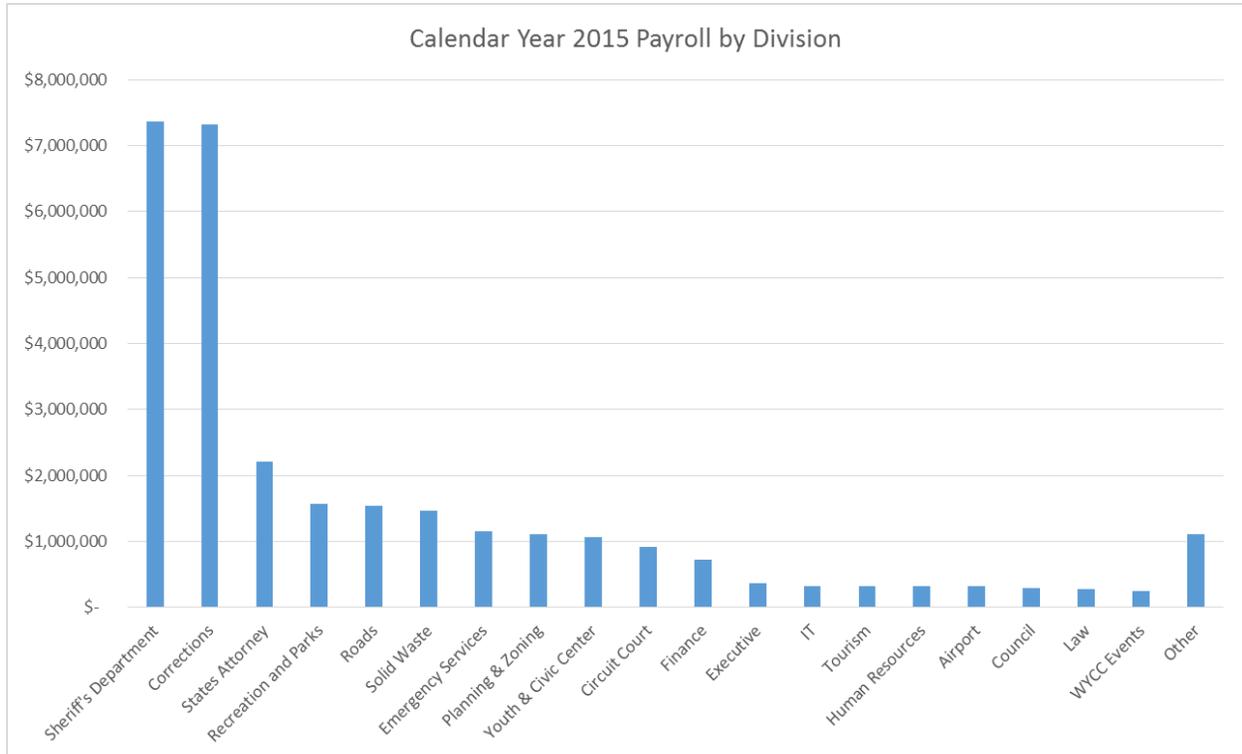
### General Statistics and Highlights

Wicomico County Human Resources manages payroll that amounted to \$30,019,835 for 1,192 full-time and part-time individuals during calendar year 2015. The County uses two electronic systems to manage human resources:

- HR Munis Module
- Timekeeper System

The Munis module coordinates HR functions among various Management positions. Timekeeper is an electronic time system that tracks work hours. Timekeeper uses biometric input or electronic input depending upon a particular employee’s position. After Management review, Timekeeper feeds data directly into Munis through a bridging process.

Graphical representation of expenditures by division is as follows:



Law Enforcement, Public Works along with Recreation and Parks consume the largest share of payroll expenditures.

### Conclusion

Based on the considerable information gathered in this process:

1. The administrative oversight procedures in place are at a satisfactory<sup>1</sup> level of internal control. Compliance for control of salary levels including pay increases is at an inadequate<sup>2</sup> level of internal control.

<sup>1</sup> For the purposes of this audit, IA uses a three-tier grading system recommended by the International Professional Practices Framework (IPPF) as expressed by the IPPF Practice Guide issued March 2009. The three tiers are Inadequate System of Internal Control, Adequate System of Internal Control, and Satisfactory System of Internal Control. Satisfactory findings indicate that overall controls are satisfactory, although some enhancements may be recommended. It is the highest rating on the scale.

<sup>2</sup>According to IPPF Practice Guide issued March 2009: Inadequate system of internal control means that “findings indicate significant control weaknesses and the need for urgent remedial action.”

2. Internal controls for the maintenance of the Timekeeper system are inconclusive.
3. Financial controls over the payroll system (with the exception of making bi-weekly deposits) are concentrated within Human Resources. We therefore rate financial internal controls at an inadequate level as it relates to best practices. That is, we recommend the County may want to consider the creation and exercise of additional financial and administrative oversight over the payroll process.

### ***Management Response***

Management disagrees with the Internal Auditor's conclusion. In accordance with the Wicomico County Charter and accounting practices, to ensure oversight and strong internal controls, the Department of Finance has a large participation in the payroll processing, strictly enforcing the required separation of duties. The Department of Finance runs the General Ledger Distribution Journal to post each payroll to the General Ledger. The payroll journal entries contain detail that includes the hours and the amount each employee is being paid. Furthermore, the Department of Finance reconciles all benefit accounts, not limited to employee withholdings, employer expenses, and the disbursements to the vendors. The Department of Finance performs all wire transfers to the bank to cover paychecks and reconciles the payroll bank accounts. The checks and balances are strong and effective. The internal control is continuous, not just bi-weekly.

The Internal Auditor gave no explanation or had any discussions with the Executive's Office or Director of Human Resources regarding the payroll processes, separation of duties, or oversight in place. The internal controls are very thorough, strong, and continuously in place. The financial controls over the payroll system are not concentrated in Human Resources.

### ***Auditor's Reply***

On June 27, 2016, pursuant to the approved Payroll Controls Audit, IA performed a walkthrough of the payroll process in the Human Resources Office in effort to gain an understanding of processes, oversight, and separation of duties. The walkthrough consisted of interviews and observation of the process. At that time, HR provided documentation of the process we included in the audit working papers. Additionally, IA reviewed a block diagram (created by the Munis software manufacturer and provided by Management) of payroll processing. According to the diagram, the entire role of the Department of Finance consists of making a journal entry and performance of an electronic transfer to the County's payroll account. We do not believe this represents the level of separation required and therefore recommend Management consideration of enhanced separation of duties to create better internal controls.

## **Schedule of Findings and Recommendations/Management Response**

### **1. Approvals**

According to Management, the process of approving pay increases is an electronic personal action notification system (PAN) contained in Munis. The electronic process contains an audit trail that (per Management) cannot be altered because reversals are disallowed. IA analyzed a sample of 114 raises granted during calendar year 2015. Thirty-three of the approved raises did not contain County Administration approval yielding a compliance rate of only 71%. Additionally, we discovered another 48 wage increases (outside the sample) that were not approved through the electronic PAN system by anyone. We recommend an immediate evaluation of the electronic PAN system compliance to correct this apparent gap in internal controls.

### ***Management Response***

Management disagrees with the Internal Auditor's conclusion. The Internal Auditor did not inquire on the Personnel Action Notice process outside the "electronic approval system" to determine if personnel were being administratively approved outside the MUNIS "electronic workflow". Personnel actions are

electronically approved through the level of the Department of Human Resources. The County Executive and Director of Administration signs the Personnel Action Notice(s), which is placed in the employee's official personnel file (Chapter 5 of the MPPP).

### *Auditor's Reply*

As mentioned in the Background section of this report, auditors measure consistency in the application of internal control. During an interview, Management informed IA that the approval (PAN) process was an irreversible electronic process. Evidence indicated that, for the test sample, 71% of pay raises received electronic Administration approval and 29% did not. Additionally, another 48 wage increases outside the sample did not receive any electronic approval on any level. It is the opinion of the auditor that these inconsistencies may reflect a serious gap in internal control.

## **2. Rounding**

IA evaluated Timekeeper (time clock) data. We calculated reductions to entered or punched time in excess of fourteen minutes (per occurrence). According to analysis, for calendar year 2015, Management adjusted aggregate time down nearly 372 hours for a large number of employees. Additionally, IA expanded the scope of this analysis and evaluated time entry for the Government Office Building only during the first six months of 2016. We found total adjustments (decrease) of 509 hours for that sample using the same criteria. We suggest that Management reevaluate the practice of rounding entered time in excess of fourteen minutes.

### *Management Response*

Management disagrees with the Internal Auditors evaluation of the data. The Internal Auditor only evaluated one component of the payroll process for time and attendance. The Internal Auditor did not account for: a) the software functionality (timeclock software and the MUNIS payroll software); b) Fair Labor Standards Act (FLSA) work-week requirements to measure overtime or compensatory time; c) employees' FLSA status, and the MPPP.

We have been implementing a time-clock system in the Government Office Building. This system has been in place and continuously developing since December 2015. During the transition period there were some inefficiencies and inconsistencies in the time clock reporting. We have been rectifying any issues as soon as possible. As the inconsistencies became known by the Executive, he took immediate action, not limited to consulting with an outside source to resolve the situation. Until such action is finished, the audit findings are incomplete.

As with all department implementations of timeclocks, the County goes through periods of trial and error until corrected and fully implemented. For example, the Government Office Building began timeclock implementation in December 2015 (less than a year). There were timeclock set up issues. The departments were advised that they must pay hours worked as outlined in the Fair Labor Standards Act (FLSA) rounding policy. Some changes to paychecks were made subsequent to the original paycheck. This information would not be reflected in the timeclock reports. It would be found on the detailed paycheck history. Apparently, the Internal Auditor did not take into account these payroll adjustments.

The data the Internal Auditor reviewed was incomplete. PKS, the external auditors, are completing an audit of time/payroll. All employees will be properly compensated.

### *Auditor's Reply*

As indicated in the finding, we tested the efficacy of Timekeeper data concerning internal controls. IA chose not to increase the scope of the audit to include a complete audit of time and attendance due to constraints of time and resources. Additionally, Management found it necessary to engage an outside auditing firm to calculate County liability (if any) resulting from adjustments to employees' time further illustrating the need to reevaluate control protocols. This office stands ready to assist in the assessment of any proposed enhanced internal control regimen.

### **3. Hourly Rate Outliers**

IA tested the calendar year 2015 data for hourly wages in excess of \$55. We discovered nine individuals showing hourly rates that ranged from \$55.00 to \$1,650.00 per hour. We suggest that Management evaluate these individuals for legitimacy.

#### *Management Response*

These are Recreation, Parks, and Tourism employees working special events (i.e., umpire), which pays one lump sum payment for the duration of the engagement/season.

### **4. Payments Issued at Times Other Than Pay Dates**

Data revealed that, during the test period, the County issued 278 checks on days other than paydays. Over 200 checks were issued in the Sheriff's Office. We recommend that Management evaluate the practice of issuing checks on non-paydays.

#### *Management Response*

The checks for the Sheriff's Department were a result of the finalization of the 2014 Collective Bargaining agreement that was settled early calendar year 2015. The payroll run was authorized as there was an official ceremony, involving the Executive's Office, where the checks were personally distributed. Separate payroll runs for the Sheriff's Department are rare, often linked to the Collective Bargaining Agreements, and fully authorized.

There are manual checks issued in-between payrolls. Manual checks may be issued because employees may forget to timely submit pay information, lose their paycheck, or bank accounts may have been closed. We are not in the business of making it a hardship for our employees in any event of a mishap. Human Resources issues over 20,000 payroll checks each calendar year. The number of manual checks is approximately less than ½ of 1 percent. The internal controls remain in place, under the same processes during these circumstances. No checks can be run, regardless of when, without some type of electronic e-mail notification to the Director of Human Resources and individuals in the Department of Finance. If not structured and administratively authorized, there would be no money in the payroll bank account to pay these checks (result: bounced checks).

### **5. Budget Analysis**

IA analyzed actual payroll expenditures to the approved budget for FY 2015. Appendix I contains the results for selected departments. The comparison is presented for informational purposes and we offer no opinion.

#### *Management Response*

The purpose of this section is not clear as the Internal Auditor offered no opinion. Any budget overages must go to County Council. Reasoning would be communicated to the County Council.

### **Auditor's Closing Remark**

The Wicomico County Office of the Internal Auditor would like to thank Management and staff from the Department of Human Resources, Information Technology, County Administration, and County Finance for their timely cooperation and assistance during the audit.

## Appendix I – FY 2015 Actual to Budget Wage Comparison

	Department	FY15 Actual <sup>3</sup>	FY15 Budget <sup>4</sup>	Over (Under) Budget
01	COUNTY COUNCIL	\$ 309,712	\$ 310,691	\$ (979)
02	CIRCUIT COURT	\$ 687,791	\$ 754,388	\$ (66,597)
03	ORPHANS COURT	\$ 31,848	\$ 29,305	\$ 2,543
04	STATES ATTORNEY	\$ 2,082,044	\$ 1,979,346	\$ 102,698
05	EXECUTIVE/ADMINISTRATI	\$ 398,853	\$ 419,411	\$ (20,558)
07	ELECTIONS	\$ 565,498	\$ 598,112	\$ (32,614)
08	FINANCE	\$ 716,598	\$ 760,931	\$ (44,333)
10	PURCHASING	\$ 135,775	\$ 135,586	\$ 189
11	LAW	\$ 329,118	\$ 302,977	\$ 26,141
12	HUMAN RESOURCES	\$ 298,867	\$ 292,828	\$ 6,039
13	PLANNING & ZONING	\$ 984,356	\$ 1,019,186	\$ (34,830)
14	GENERAL SERVICES	\$ 221,432	\$ 233,804	\$ (12,372)
15	IT	\$ 336,386	\$ 340,579	\$ (4,193)
16	LIQUOR/LICENSE BOARD	\$ 137,087	\$ 106,272	\$ 30,815
17	SHERIFF'S DEPARTMENT	\$ 6,908,933	\$ 6,824,790	\$ 84,143
21	CORRECTIONS	\$ 7,312,074	\$ 7,363,030	\$ (50,956)
22	EMERGENCY SERVICES	\$ 1,099,293	\$ 1,124,897	\$ (25,604)
27	MOSQUITO CONTROL	\$ 86,409	\$ 107,909	\$ (21,500)
50	ROADS	\$ 2,752,172	\$ 3,109,311	\$ (357,139)
51	SOLID WASTE	\$ 2,578,961	\$ 1,643,321	\$ 935,640
52	AIRPORT	\$ 417,415	\$ 326,858	\$ 90,557
53	ELECTRICAL BOARD	\$ 25,510	\$ 32,996	\$ (7,486)
60	RECREATION & PARKS	\$ 2,284,171	\$ 2,542,995	\$ (258,824)
61&64	CIVIC CENTER	\$ 1,577,908	\$ 2,151,287	\$ (573,379)
62&63	TOURISM	\$ 472,647	\$ 680,590	\$ (207,943)

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<sup>3</sup> Source: Munis data

<sup>4</sup> Source: Approved County Budget Adopted June 3, 2014 as posted on the County Website