



City of Delray Beach Internal Audit Presentation

**City Commission Meeting
May 17, 2022**

Payroll Processing (Paid Time Off) Audit



Internal Audit completed a performance audit of the City of Delray Beach payroll processing (specifically paid time off) for the period of October 1, 2020, and through September 30, 2021. The audit was requested by the majority of the City Commission.

Audit Objective:

To evaluate internal controls governing payroll processing, and specifically paid time off (PTO), to ensure accuracy of payroll calculations and compliance with City policies and procedures.

Conclusion:

It was concluded that the majority of the City's payroll transactions are processed accurately. However, a number of findings identified, and observations made, point to certain weaknesses within the internal controls over payroll, and paid leave processing.

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Findings:

1. An overpayment of 240 hours of sick pay at separation/retirement.
2. Inconsistent accruals practice of PTO and other fringe benefits while on 'Leave Without Pay':
 - Three instances, one resulting in a substantial overpayment.
3. An overpayment of \$2,537.60 of regular-pay past separation (the employee passed-away).
4. Inconsistent use of Employee Leave forms process.
5. Underreporting of PTO hours:
 - Three instances.
6. Missing provision for repayment of taxable moving expenses upon early resignation.

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General Observations and Recommendations

Systems

1. Consider implementation of an alternative payroll system based on the needs of automation and most importantly, proper audit trail.
2. Consider implementation of a time and attendance system to eliminate the manual timesheets currently in place. If Telestaff remains for use by Police and Fire, integration with proper interface with any new payroll system should be ensured.

Internal Controls

1. The Finance Dept. should retrain payroll processing staff and revisit the following:
 - payout of accruals at separation/retirement, removal of accruals added by the system for 'Leave Without Pay' status, employee status changes (from active to terminated).

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General Observations and Recommendations

Internal Controls

2. Other City Departments:

- Annual review of employees with very low PTO hours taken (potential underreporting)
- Encourage employees in key positions to take time-off for at least a number of consecutive days.
- Annual review of employees with high PTO hours being lost.
- Ensure mechanisms are in place to maintain security of the storage of manual timesheets and Employee Leave forms that are to be retained after payroll is processed.
- Consider automating the Holiday Options hours tracking (Police Dept.) as a separate pay code in Tyler New World system.

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General Observations and Recommendations

Documentation of Policies and Procedures:

1. Formulate a robust policies and procedure manual for payroll processing.
2. Establish a policy or guidelines regarding recovery of funds paid-out in error and adjustment of incorrect accruals. Include a provision for revisiting internal controls once a root-cause-analysis has been conducted on errors identified.
3. Revisit the following policies: Section 7.6 *Leave of Absence Without Pay* (Military Leave), and Section 4.7 *Overtime Work*.
4. Establish a policy for taxable moving expenses (including guidelines and limits for the amount of the benefit).
5. Review and document the differences in payroll entry process in Police and Fire, with documented annual review of Telestaff configuration of the various types of hours codes.

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General Observations and Recommendations

Training

1. Periodic training (at least annually) of the payroll counterparts (Administrative Assistants) at the respective departments on the policies and procedures for payroll processing and any applicable forms or manual processes currently in place.
2. Consider implementing an employee training for reiteration of accountability and responsibility for public funds. Staff should be encouraged and empowered to question past practice that may be inconsistent with documented policies and procedures.

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Thank you!
Questions?