Payroll Processing Assessment

January 2025

CARSON CITY

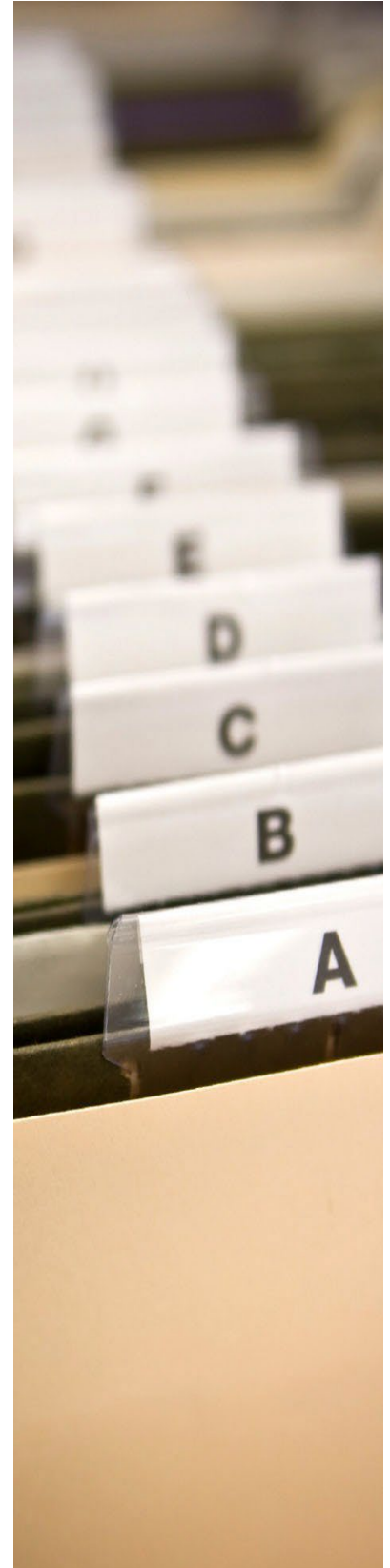**Submitted By:**

Eide Bailly LLP

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Executive Summary

Eide Bailly LLP (referred to as "we," "our," or "us") performed a comprehensive review of Carson City's ("City") Payroll Process to evaluate associated processes and controls. This engagement was identified as a potential internal audit risk area given that we aim to perform routine reviews of payroll activities every three to five years. The last Payroll Processing review was conducted in 2021.

Overall, this engagement confirmed that the City's internal controls over payroll processing, as identified in the 2021 review, are functioning effectively to ensure that payroll is processed accurately, timely, and in compliance with applicable laws, and policies and procedures. The assessment also identified a few opportunities for improvement. Two (2) findings were noted, each accompanied by actionable recommendations to enhance the City's existing payroll process. Addressing these findings is important for maintaining operational efficiency and ensuring that the City's employees are compensated accurately, timely, and appropriately.

We extend our gratitude to the Chief Financial Officer, the Payroll Accounting Manager, and the Payroll Administrator for their valuable contributions throughout this assessment. Their insights significantly enhanced our understanding of the City's payroll process and provided a foundation for the recommendations designed to strengthen operational controls.

Background Information

Carson City maintains a decentralized timekeeping process across its departments to manage time records for its workforce of approximately 1,000 full-time and part-time employees, including the City's elected officials. Timekeeping in the various departments is managed through two systems:

- ExecuTime timekeeping system, used by all departments except for the Sheriff's Office and the Fire Department.

- Telestaff timekeeping system, used by the Sheriff's Office and the Fire Department.

While timekeeping is managed at the department level, the payroll process is centralized within the Finance Department. All wages for the City's workforce are processed through the City's ERP System, Munis, by Payroll Administration which is a division of the Finance Department. Additionally, the Human Resources (HR) Department and the Treasurer's Office play key roles in supporting ad overseeing various aspects of the payroll process, ensuring accuracy, compliance, and timely disbursement of employee wages.

The City processes payroll on a biweekly basis through a structured and collaborative workflow to ensure accuracy and compliance. Employees enter and electronically approve their timesheets using ExecuTime (or Telestaff for the Sheriff's Office and Fire Department). Timesheets are reviewed and approved by employee supervisors. Once all timesheets are approved and submitted, the Payroll Administrator verifies the data, ensures accurate deductions and calculations, and imports all information into Munis. Employee changes, including new hires, terminations, and benefit adjustments, are entered by the HR Department and processed through a defined approval workflow in Munis. Before payroll is finalized, the Accounting Manager reviews the processed data for accuracy. Payroll checks are printed, and direct deposit files are securely uploaded to the bank by the Treasurer's Office. This comprehensive process includes multiple layers of review and approval to ensure the City's payroll is accurate, compliant, and timely.

In fiscal year 2024, the City reported approximately $95 million in total salaries and benefits, reflecting a $4.6 million increase compared to FY23. This growth is primarily driven by annual cost of living adjustments and merit-based salary increases.[1]

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[1] Data obtained from the City's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024.

Objective & Scope

The **Objective** of the Payroll Processing Assessment was to confirm the accuracy and completeness of inputs used in payroll processing. Additionally, to assess the effectiveness of internal controls and procedures in place to prevent errors, fraud, and unauthorized access.

The **Scope** of the engagement was from January 1, 2024, to December 5, 2024.

This engagement was performed in accordance with Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA).

Methodology

In alignment with the objective, the assessment involved several key activities:

1. Obtained and reviewed relevant payroll policies and procedures, payroll processing manuals, the previous internal audit report from 2021, and any existing performance metrics related to payroll accuracy and timeliness.

2. Gained an understanding of the overall payroll process by conducting process walkthroughs, reviewing documentation, gathering data and information, and discussions with the Chief Financial Officer, Accounting Manager, Payroll Administrator, and Department Business Managers from various departments.

3. Obtained and reviewed the payroll transaction data for the past year, which included unique identifiers employee names and employee IDs, employee classifications (full-time, part-time, exempt, non-exempt, contractors), hire dates, separation dates, payroll transaction dates, hours worked including overtime hours, and departmental information.

4. Selected a representative sample of payroll transactions from different departments and payroll cycles, ensuring adequate coverage across various employee classifications, including full-time, part-time, new hires, and separations.

5. Obtained and reviewed the selected payroll transaction data to validate the accuracy and completeness of inputs, by confirming that:
   a. Time records, salary adjustments, and deductions are accurately documented.
   b. Proper authorization and documentation are in place for any changes made to payroll inputs.

6. Obtained a list of user accounts within the payroll system, detailing their roles and permissions. Assessed whether access levels are appropriate in relation to each individual's job responsibilities.

7. Evaluated whether there are clear segregation of duties within the system to ensure that no single user has excessive control over payroll processes, such as creating or making changes to payroll, approving payroll, and processing payments.

8. Obtained an understanding of fraud detection controls in place, such as transaction monitoring and independent reviews of payroll adjustments. Evaluated the effectiveness of these controls in mitigating fraud risks.

Results of the Payroll Processing Assessment

Our assessment revealed that the internal controls implemented for payroll processing are operating effectively to ensure both the accuracy and completeness of payroll data. These controls are essential in mitigating the risks of errors and fraud while also safeguarding against unauthorized access. Based on our procedures, no exceptions were identified regarding the accuracy of employee earnings and deductions, payroll related reconciliations, or processes to ensure only active employees are on the payroll. Additionally, no incorrect

payments were noted during our review. Overall, the City demonstrates a strong ability to process payroll accurately and within the required timeframe.

Our assessment also identified opportunities for improvement within the payroll process. Specifically, two (2) findings were noted, each accompanied by actionable recommendations that highlight opportunities for further enhancement. Addressing these findings will strengthen operational efficiency, promote greater accountability, and ensure consistency across departments, ultimately contributing to a more streamlined and effective payroll process, and strengthen the City's overall control environment.

FINDING #1 – Policies and Procedures (P&Ps)

The City's payroll policies and procedures currently provide only a high-level overview of payroll processing steps, lacking detailed guidance on critical tasks, roles, and responsibilities. The existing document was created in 2021 and had not been updated since its initial publication. Additionally, while the City follows an established payroll processing timeline, this timeline is not formalized in a documented format that is readily accessible to employees involved in payroll processing.

Organizations should maintain comprehensive, formalized, and easily accessible payroll policies and procedures to ensure process standardization, compliance, and operational efficiency. The lack of detailed payroll policies and a formalized timeline increases the risk of:

1. **Inconsistent payroll practices**: Employees may interpret and apply procedures differently, leading to processing errors or missed deadlines.

2. **Reduced Accountability**: Unclear guidance can make it difficult to assign or enforce responsibilities for key tasks.

3. **Operational inefficiency**: Employees may face delays or uncertainty when seeking information about payroll timelines or processes.

4. **Non-compliance**: The City may be more vulnerable to non-compliance with labor laws, union agreements, and internal control requirements.

5. **Dependency on key individuals**: Reliance on institutional knowledge leaves the City at risk of disruptions if experienced staff leave or are unavailable.

Recommendation

We recommend that the City implement the following corrective actions:

1. Expand the City's current policies and procedures to include detailed guidance for payroll processing tasks, such as timekeeping, approvals, reconciliations, and fraud prevention. The P&Ps should clearly define roles and responsibilities for all staff involved in payroll processing.

2. Formalize the payroll timeline by creating a documented and accessible payroll timeline that outlines critical deadlines for timesheet submission, approvals, payroll reviews, and processing, including the processing of Personnel Action Forms (PAF) for new hires, terminations, and position changes.

3. Revise the existing payroll checklist to incorporate the newly formalized timelines and ensure it aligns with updated policies and procedures.

4. Implement a process for regularly reviewing and updating the P&Ps to account for process changes, new regulatory requirements, or system updates.

5. Publish the formalized policies and deadlines on Policy Tech for easy access by all relevant staff. Detailed P&Ps and timelines will remain internal to the Finance Department.

By implementing these actions, the City can ensure that payroll processes are standardized, efficient, and transparent, while minimizing risks related to errors, non-compliance, and reliance on informal practices.

Management Response
Finance agrees and will update our Policies and procedures. Finance should be able to complete this by June 30, 2025.

FINDING #2 – Pay Code Utilization
The City currently lacks formalized guidelines or documentation outlining the appropriate use of pay codes for payroll processing. This includes an absence of detailed instructions on when and how various pay codes should be applied, approved, or reviewed.

The lack of formalized pay code guidelines can result in several risks including inconsistent application of codes, and increased errors including incorrect employee payments, miscalculated benefits, or improper tax reporting. Additionally, without clear documentation, it becomes difficult to hold employees accountable for improper or inconsistent pay code usage.

Recommendation
We recommend that the City implement the following corrective actions:

1. Create a general guideline outlining all pay codes used by the City, their definitions, and specific use cases. This should include instructions on how to apply, approve, and review each pay code, and note any unique or special pay codes that may require additional documentation.

2. Conduct periodic reviews of pay code guidelines to ensure they remain aligned with any changes in policies, union agreements, or regulatory requirements.

The City should also consider configuring Munis to restrict inappropriate pay code usage and flag unusual entries for further review.

Formalizing pay code utilization guidelines will improve consistency, accuracy, and compliance in payroll processing. By addressing this gap, the City can mitigate risks of errors, enhance operational efficiency, and ensure employees are compensated in accordance with applicable laws and policies.

Management Response
Agreed, Finance will create a general overview of the Pay codes and request training sessions with any new department personnel to ensure specific department needs are addressed. Finance should be able to complete this by April 30, 2025.