



Internal Audit – Payroll Processing

July 31, 2022



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Mayor- City of Brookhaven, Georgia
Brookhaven, Georgia

We have performed certain operational evaluation procedures, which were agreed to by the City of Brookhaven Georgia (the "City") (specified party). The procedures were performed in compliance with the American Institute of Certified Public Accountant's Consulting Standards and Rule 101 of the Code of Professional Conduct. These procedures were performed solely to assist you in evaluating certain payroll processing activities of the City. The City is responsible for maintaining an adequate control environment and risk management program, the fair presentation of general ledger balances, and for compliance with applicable City accounting practices. Our responsibility was to test the operation of certain payroll processing internal controls of the City. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures performed for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the City's financial statements or specified elements, accounts, or items thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified party listed above, and is not intended to and should not be used by anyone other than such specified party.

Nichols, Cauley + Associates, LLC

Fayetteville, Georgia
July 31, 2022

Executive Summary

Executive Summary

The procedures performed along with the results of the procedures, and any findings or observations noted are presented in this report.

The specific procedures performed were based on the concept of selective testing. Had additional or expanded procedures been performed, other matters might have come to our attention that would have been reported to you.

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that City activities are performed in accordance with the intentions of City management. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal controls. In the performance of most internal control procedures, errors can result, and controls can be circumvented intentionally by management. Further, controls may become ineffective due to newly identified business or technology exposures. The projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

We would like to thank management and staff for their assistance and courtesy extended to us during the course of our review.

The general scope of the payroll processing internal control evaluation procedures, as detailed in this report, included:

- Payroll Processing – Organizational Structure and Systems Utilized
- Systems Utilized – User Accounts and Administrative Access
- Personnel Compensation – Consistent with established and approved City Compensation Wage Grade and Scale
- New Hire Personnel – Authorized Activity – Authorized Compensation
- Personnel Position Change – Authorized Activity – Authorized Compensation
- Personnel Termination – Documented Activity
- Compensation Adjustments – Consistent with established and approved City Compensation Wage Grade and Scale
- Periodic Review of System Activity Reports

Exceptions Identified/Observations

Exceptions Identified

No exceptions identified from the procedures.

Observations

We noted the following observations – recommendations for the City. While not matters of exceptions or errors, consideration of such matters may provide enhanced internal control activities or documentation for the City.

New Hire Personnel – Authorized Activity – Authorized Compensation

Recommendation for consideration – Following the initial set up of a new hire personnel, many organizations provide for a secondary independent review of the initial information to ensure the set up has been completed accurately. Initial set up information can be quite extensive and input errors may occur. Providing for an input verification process would provide for a secondary review of the input information.

Recommendation for consideration – New hire activities, and other personnel actions such as personnel position changes, and personnel employment terminations are documented through a number of City established forms such as the Request to Hire Form and the Personnel Action Form. For certain such actions it may be the expectation of the City that City executive management authorize certain such actions. The Request to Hire Form or Personnel Action Form may be an effective form to document such authorization.

Compensation Adjustments – Consistent with established and approved City Compensation Wage Grade and Scale

Recommendation for consideration – To document compensation adjustments, City payroll management prepares a merit spreadsheet which provides for compensation documentation. The merit spreadsheet is reviewed and approved by City executive management, however such review and approval is not formally documented. The City may want to consider a manner in which the review and approval of executive management is documented.

Recommendation for consideration – The merit spreadsheet and related compensation adjustment process is utilized by City personnel to evaluate individual compensation levels to ensure an individual does not exceed the established applicable compensation maximum for the related position. Should a compensation adjustment occur through some other manner, such as a Personnel Action Form, consideration would be given to the applicable compensation maximum at that time also. The City may want to consider if the computerized payroll management system can provide for additional mechanism to manage compensation maximum amounts by establishing pay grade compensation parameters within the system. The system may or may not provide such functionality.

Exceptions Identified/Observations

Periodic Review of System Activity Reports

Recommendation for consideration – the City utilizes a computerized payroll documentation, management and processing system. The system provides for significant management reporting and monitoring capabilities. Payroll management personnel periodically obtain a personnel account maintenance report generated by the system and review the report for matters that may indicate further consideration. The report is also provided to a City finance representative for review. Both personnel have administrative rights in the system.

The City may want to consider assigning such review to a person independent of the process, that does not have payroll management system administrative rights. The City would want to ensure that such review is performed regularly and includes a review of all administrative and maintenance activities, to include:

- New user set-up
- User deactivation – termination
- Address changes
- Compensation changes
- Direct deposit changes

Detailed Procedures

Detailed Procedures

Payroll Processing – Organizational Structure and Systems Utilized

Procedures:

Reviewed with City human resources and payroll processing personnel the:

- Payroll processing and documentation activities
- Payroll processing personnel positions and activities
- Payroll processing systems utilized

Results:

Payroll processing and documentation activities are established and assigned within the personnel structure. The City utilizes a computerized payroll documentation, management, and processing system.

Systems Utilized – User Accounts and Administrative Access

Procedures:

Reviewed with City personnel the system activities, documentation, system user accounts, and system administrative access rights associated with the following system processes:

- System new hire personnel set up
- System personnel termination
- System personnel position change
- System personnel user access assignment
- System personnel attribute changes

Obtained a report of all active payroll management system users with associated user access level. All City personnel have a payroll management system user account.

- Compared select employees to/from the payroll management system user access report to/from a payroll register, testing for consistency.
- Reviewed the payroll management system user access report for user accounts with assigned administrative access rights.

Detailed Procedures

Results:

Payroll processing system activities, documentation, user accounts and administrative access rights are established with system activities established for each identified area.

From comparison of select personnel from the payroll management system user access report to a payroll register, all selected personnel (testing both directions) were included on both reports.

From the review of the payroll management system user access report, identifying those users with administrative access, all users with administrative access were designated human resources or payroll management personnel.

Personnel Compensation – Consistent with established and approved City Compensation Wage Grade and Scale

Procedures:

Reviewed with City payroll management personnel the City's process for establishing and documenting personnel compensation for personnel positions and class ranges. The City establishes a Compensation Wage Grade and Scale annually to provide compensation ranges for each personnel class title and grade.

Selected five City Personnel from a recent payroll register and compared the annualized compensation for each person to the compensation range established for such class title and grade, evaluating for annualized compensation not exceeding the range maximum.

Results:

The City prepares an annual Compensation Wage Grade and Scale document that provides compensation ranges for each personnel class title and grade. We were provided this document by City payroll management personnel.

For each City personnel selected for review, the annualized compensation for each person did not exceed the established range maximum for the applicable class title and grade.

New Hire Personnel – Authorized Activity – Authorized Compensation

Procedures:

Reviewed with City payroll management personnel the City's process for personnel new hire authorization and compensation documentation.

Detailed Procedures

Selected 5 personnel hired within the past twelve months and reviewed documentation for:

- Completed and authorized City Request to Hire form
- Completed I-9 form
- Completed E-verify authorization
- Offer letter provided to candidate
- Offer letter compensation consistent with recent payroll register compensation
- Offer letter compensation does not exceed the maximum compensation for the position established through the Compensation Wage Grade and Scale.

Results:

City payroll management has established processes and documentation for new hire authorization and compensation documentation. This process includes the completion of government required identification processes, communication with the applicant, and the City established Request to Hire Form which is authorized by the department head seeking to process a new hire position.

For each personnel selected for testing, each listed item of documentation was present and completed, the payroll register compensation was consistent with the offer letter compensation, and each compensation level did not exceed the maximum established for each position.

Personnel Position Changes – Authorized Activity – Authorized Compensation

Procedures:

Reviewed with city payroll management personnel the City's process for personnel position change authorization and compensation documentation.

Selected 1 personnel having a documented position change within the past twelve months and reviewed documentation for:

- Completed and authorized Personnel Action Form (PAF)
- PAF adjusted compensation consistent with recent payroll register compensation
- PAF adjusted compensation does not exceed range maximum established for position

Results:

City payroll management has established processes and documentation for personnel position change authorization and compensation documentation. The position change activity is authorized and documented through the City Personnel Action Form.

Detailed Procedures

For the personnel selected for testing, the PAF was completed and authorized, PAF compensation was consistent with the payroll register, and did not exceed range maximum for the position.

Personnel Termination – Documented Activity

Procedures:

Reviewed with City payroll management personnel the City's process for personnel employment termination system documentation.

Selected 2 personnel having an involuntary documented personnel employment termination within the past twelve months and reviewed documentation for:

- Completed and authorized PAF
- Completed separation notice
- Exclusion of personnel from payroll management system active user list and from recent payroll register

Results:

City payroll management has established processes and documentation for personnel employment termination. The personnel termination is documented through the City PAF.

For the personnel selected for testing, the PAF was completed and authorized, and such personnel were not present on the active user list or payroll register.

Compensation Adjustments – Consistent with established and approved City Compensation Wage Grade and Scale

Procedures:

Reviewed with City payroll management personnel the City's process for periodic personnel compensation adjustments.

Obtained the payroll register for the pay period in which City-wide compensation adjustments were processed. Selected 5 personnel and compared the adjusted annualized compensation for each person to the compensation range established for each applicable class title and range, evaluating for annualized compensation not exceeding the range maximum.

Detailed Procedures

Results:

The City prepares a merit spreadsheet to document compensation adjustments. The merit spreadsheet is authorized by City executive management.

For each City personnel selected for review, the annualized compensation for each person did not exceed the established range maximum for the applicable class title and grade.

Periodic Review of System Activity Reports

Procedures:

Reviewed with City payroll management personnel the City's process for periodically reviewing payroll management system activity reports.

Results:

The City utilizes a computerized payroll documentation, management and processing system. Payroll management personnel periodically obtain a personnel account maintenance report and review the report for matters that may indicate further consideration. The report is also provided to a City finance representative for review.