2012

Time and Attendance Reporting Internal Control Review

INTERNAL AUDIT REPORT

April 11, 2012

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Office of The Financial/Accounting Controls Analyst

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Internal Audit Report
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Executive Summary

Audit Objectives

- To determine if the Time and Attendance system is operating efficiently and effectively.
- To ensure proper internal controls have been implemented and are being followed.
- To determine if time and attendance records are properly completed, reviewed, approved, and processed in a timely manner.
- To determine if an adequate separation of duties, security controls, and monitoring procedures are in place over the time recording and reporting process.

Audit Scope

Control and Risk
Management
Ratings

- Satisfactory
- Needs Improvement
- Needs Significant Improvement
- Unsatisfactory

The purpose of this audit is to identify internal controls, evaluate systems, and monitoring practices that relate to the timekeeping and reporting of the town's payroll. Evaluate the effectiveness of said controls and systems in detecting errors, fraud, waste and abuse on a timely basis.

The audit analyzed six weeks of time and attendance records and traced the transactions into the MUNIS payroll/personnel system. I also interviewed appropriate personnel to gain an understanding of the time and attendance system.

Opinion

Rating: Unsatisfactory

The ability to prepare timesheets accurately and with the proper authorization are critical procedures that have to be completed on a timely basis. The internal audit review reveals an ongoing problem in both accuracy and timeliness.

Every employee and supervisor has the responsibility to ensure that all hours worked are accurately reported and that the payroll is correctly calculated and paid. Good internal controls are important to assure that payroll is being properly administered.

Time and attendance approvals as well as accuracy have to be the responsibility of the supervisor who should be held accountable for the employees' time worked and absences. This control will help ensure that accurate time and attendance information is recorded and reported. The primary responsibility for authorizing and approving time and attendance transactions lies with the supervisor of the employee. The approving official acknowledges responsibility when approving the time and attendance sheet with his or her signature.

The manual tracking of employee attendance is inefficient and a highly labor intensive process that is error prone. A well-defined time and attendance organizational structure is needed that states clearly written policies and procedures that set forth the responsibilities of employees and supervisors regarding the examining and approving of time and attendance transactions.

An effective application of available automated technology and concepts should be implemented to achieve an efficient time and attendance system structure. The major problem with handwritten time sheets is that the data from them has to be manually entered into the MUNIS system. The lack of automation to accomplish this process causes many data entry errors. The absence of an automated time and attendance system also causes lack of productivity. The present system is open to errors that can invite overpayment of employees due to the number of manual operations required.

The primary benefit of having an automated time and attendance system are improved productivity, reduced payroll error, and the reduction of paper costs. The elimination of manual processes will help department supervisors become more productive. An automated system will help supervisors to more rapidly view, approve, and submit time and attendance information. The manual collection, checking and transmitting of data from time sheets to the MUNIS system will be eliminated. The automated system will interface with the MUNIS payroll module. The automated system will allow employees to more rapidly report their time and attendance information in a variety of ways, over the web, at their own PC, or at electronic time clock stations.

Simplifying time and attendance workflows and eliminating paper timecards and timesheets will mean that data is transferred less frequently. This will reduce the amount of data entry error that can increase payroll costs. The change in workflow will increase accuracy, reduce rework, and reduce payroll overpayments. Industry standards indicate that the average payroll error rate is 1.2% percent of total annual payroll. The more time and attendance data is manually exchanged the greater the chance for error.

Background

The town's source document for time entry is the employee's manual time and attendance record timesheet. The time and attendance record form is completed each week by the employee to record his or her daily hours worked. Every pay period the completed time and attendance sheets are signed by the employees and authorized by their supervisor's signature. The Town utilizes an exception based payroll system. Only exceptions to the normal work week need to be inputted into the MUNIS system. The Human Resources Department must be done with its audit of timesheets and be ready for submission to payroll by Tuesday at 12:00PM. All departments have a deadline to get the completed time and attendance records to the Human Resource Department by 2:00 PM each Monday.

MANUAL PAYROLL SYSTEM FUNCTIONS

Present Manual	Description of Function
Data Collection Error Risk Factor: **Very High**	Employee either records a punch on a wall clock or fills out a manual time sheet. This information can include any of the following: - Start and end time or total time worked - Department or job worked - Day off hours - Holiday worked hours.
Time Sheet Collection Error Risk Factor: **Medium**	The time sheet is handed in or delivered to the person who approves and calculates the hours recorded on the time sheet.
Calculation Error Risk Factor: **Very High**	The following calculations are typically made based on the data recorded on the time sheet: - Regular hours worked - Overtime hours worked - Double-time hours worked - Holiday Hours worked/not worked if any - Paid Time Off (vacation, sick, compensatory etc.) - Evening and night shift differential hours if any - Total hours worked for the week
Time Sheet Approval Error Risk Factor: **Low**	The supervisor signs the timesheet as their approval authorization of hours worked by the employee.
Time Sheet Submission Error Risk Factor: **Medium**	The time sheets are sent to the payroll/HR department for compensation and long term archival of time sheet record.
Data Entry Error Risk Factor: **Very High**	The information and totals from the time sheet are keyed into the MUNIS payroll system for compensation.

AUTOMATED PAYROLL SYSTEM FUNCTIONS

Proposed Automated	Description of Function
Data Collection Error Risk Factor: **Low**	Employee records time data at an electronic time clock or records information online. This information can include any of the following: - Start and end time or total time worked - Department or job worked - Day off hours - Holiday worked hours. Since data is entered from the source and in real-time, you have good data entered from the very beginning of the process.
Time Sheet Collection Error Risk Factor: **None**	Since all data is stored digitally in a central location, there is no need to collect data. Supervisors can review punches in real-time and inform employees as needed to record any missing punches. Data is then made available to all involved on demand and in real-time.

Proposed Automated	Description of Function
Calculation Error Risk Factor: **None**	Calculations are performed automatically as they are entered. The following information is typically computed: - Regular hours - Overtime hours - Double-time hours - Holiday Hours worked/not worked if any - Paid Time Off (vacation, sick, compensatory etc.) - Evening and night shift differential hours if any - Total hours for the week - Gross pay of employee Since data is calculated automatically, you remove any human error factor from the function.
Time Sheet Approval Error Risk Factor: **None**	The supervisor approves the time sheet data by electronically signing it. No need to manually pass time sheets around from one employee to the department supervisor for approvals.

Time Sheet Submission Error Risk Factor: **None**	The time sheet data is automatically and instantaneously made available to the payroll/HR department. No need to wait for time sheets to arrive from another department.
Data Entry Error Risk Factor: **None**	No data entry is necessary since the information has already been entered and calculated. Time sheet information is then stored permanently and securely for long term storage on either and on-site server or off-site.

Observation One:

Residual Risk Rating: Unsatisfactory

The time and attendance timesheets are not properly completed and approved in a timely manner. When time and attendance sheets are not adequately reviewed and authorized by department supervisors erroneous data can be input into the payroll and accounting systems of the Town.

The Human Resources Department receives all time and attendance sheets and performs a review for completeness and data entry errors. A tabulation sheet of time and attendance errors is generated on a weekly basis for documentation of problems. During the course of the audit I found that many of the errors are of a recurring nature. Time sheets were not always signed by the employee and/or approved by the supervisor. Addition errors, timekeeping errors and missing signatures are a frequent occurrence. The number of errors averaged anywhere from eight to fifteen per week.

Recommendations

1) The department supervisor should ensure that all time and attendance sheets are reviewed for completeness and error checked before input into the payroll system. The individual inputting timesheet information from the source document should have his/ or her work reviewed by a designated back up reviewer in the department. Implementing quality control measures such as periodic training and developing written procedures for supervisors and employees so that they better understand their roles in the time and attendance function. Emphasize what problems occur when supervisor and employee do not check and fill out timesheets correctly.

2) Proper and timely reviews should be performed by supervisors of time and attendance sheets for signature approvals and error checks. Designated backup reviewers in each department should review input for correctness and compare to original source document (time and attendance sheet).

Action Plan:

Develop town procedures that formally address town-wide timekeeping and labor charging. Include training that provides for refresher courses when needed covering the following:

- Programs for new hires emphasizing the employee's responsibility to record his or her hours worked accurately.
- Programs stressing management's responsibility to provide for the accurate recording of hours worked.
- Periodic refresher programs on proper timekeeping and labor charging practices especially for employees who are found not to be complying with town procedures.

Management Response:

A workshop has been held to review how to properly record hours worked into the MUNIS payroll module. A training session was also held on very aspects of the MUNIS payroll system for members of the Human Resource Department and Payroll Department.

Newly hired employees upon the start of employment will be instructed on how to correctly fill out their timesheets for submission to payroll.

Management will develop a written policy regarding the proper timekeeping and labor charging practices of the town.

Observation Two:

Residual Risk Rating: Unsatisfactory

The adequate separation of duties, system security controls, and monitoring procedures over the time recording and reporting process are not followed by all supervisors. The proper separation of duties is achieved when one employee does not handle all aspects of a transaction, i.e. preparing, approving, recording and reconciling the information.

Recommendation

1) Internal controls should be changed to have all payroll data keypunchers to first run an edit report. Timesheets should then be reconciled to the edit report by a reviewer and not by the employee who input the payroll information into the MUNIS payroll module.

Action Plan:

Management should review payroll procedures and change the reconciliation process to include the signature of the reviewer on the edit report that they have reconciled the input. The signature of the employee who input the data should also be included on the copy of the edit reconciliation report with the reviewers. The reconciliation report should then to be sent to payroll as verification of the completion of the review process. Supervisors are now made accountable during the review process.

Management Response:

The reconciliation step will be made a part of the payroll processing and reporting procedure. The signature of the data keypuncher as well as the supervisor of the department will be required on the edit report.

Observation Three:

Residual Risk Rating: Needs Improvement

The proper discretionary access controls are not in place to restrict payroll file information. I found that some employees had full permission access to the MUNIS payroll module. Access control lists were not reset properly with restricted permissions after a MUNIS software upgrade.

Recommendation

1) An overall review of permissions needs to be completed to correct and update MUNIS payroll access controls. The system should support discretionary access controls which will determine whether a user can read data or write data.

Action Plan:

The access control lists must be updated to give users and groups only specific restricted permissions to MUNIS payroll information and data.

Management Response:

The access control lists will be updated to give users and groups the proper permission authorities in the MUNIS payroll data module. Access controls will be monitored on a periodic basis to insure that proper authorities are in place and functioning as required.

Observation Four:

Residual Risk Rating: Needs Improvement

The supervisors of some departments are allowing employees to hand in pre-printed timesheets as official timesheets. As a supervisor their signature signifies the entries made by the employee to the best of their knowledge are a true representation of hours worked.

Recommendation

1) The employee cannot be allowed to have timesheets pre-printed with hours already filled in before time is actually worked. Timesheets signed off on by supervisors that are pre-printed should not be accepted in the future.

Action Plan:

Management under no circumstance should continue to accept pre-printed timesheets from employees authorized by a supervisor signature. A policy should be written restricting supervisors from signing pre-printed timesheets as official time records.

<u>Management Response:</u>

A time and attendance policy will be developed that will address this issue. The policy will be distributed to supervisors at the department level for implementation. The supervisor will be required to sign an acknowledgement of receipt that they have read and understand the policy. A copy of the signed acknowledgement will be put into their personnel file.

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Auditing Standards

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

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