



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of
The Payroll Function**

**Prepared By:
Internal Auditors**



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Transmittal Letter

March 25, 2022

The Audit Committee of
 Brevard County, Florida
 2700 Judge Fran Jamieson Way
 Viera, Florida 32940-6699

Pursuant to the approved 2021/2022 internal audit plan, we hereby submit our internal audit of the Payroll function. We will be presenting this report to the Audit Committee at the next scheduled meeting on April 20, 2022.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations and testing results related to our internal audit of the Payroll function.
Background	This provides an overview of the Payroll function.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section provides the results of our internal audit procedures, including our recommended actions and management's responses.

We would like to thank all those involved in assisting the Internal Auditors in connection with the internal audit of the Payroll function.

Respectfully Submitted,

Carr, Riggs & Ingram, L.L.C.
INTERNAL AUDITORS

Executive Summary

Overview

Payroll administration is a recurring process with high financial impact. As a direct result of the payroll process, a significant portion of the County’s budget is comprised of payroll costs and the related taxes and benefits.

Objective

The primary scope and objective of this audit was to assess the design and effectiveness of internal controls in place over the Payroll function and related processes, and to assess the County’s compliance with certain laws, rules and applicable County policies and procedures.

Observations

Observation ratings are a subjective evaluation of the severity of the concern and the potential impact on the operations. An observation rating of “High” represents an issue of immediate concern and could cause significant operational issues if not addressed soon. A “Moderate” rating is an issue that may also cause operational issues and does not require immediate attention but should be addressed as soon as possible. Observations given a “Low” rating could escalate into operational issues but can be addressed through the normal course of conducting business.

The following is a summary of observations noted.

Observation	Risk Rating
<p>1. Termination/Separation Payout - For 11 out of 40 terminated/separated employees tested, no screen shot of the balance in SAP was retained as support for the amount used to calculate the leave payout amount. For 1 out of 40 terminated/separated employees tested, there was no evidence that the payout calculation was reviewed by someone other than the preparer.</p>	<p>Moderate</p>
<p>2. Benefit Deductions - During our testing of payroll, we noted that for 4 out of 40 employees selected, the supporting forms were not provided and/or included in the employee personnel file as authorization for deductions from the respective employee’s payroll check.</p>	<p>Moderate</p>
<p>3. Pay Rate Changes – During our review of the November 2021 (FY2022) “Valbasis” (Other Pay) report, we observed that there was an error related to hazard pay for Facilities. Hazard pay is an additional \$1.00/hr. and only applies to Facilities personnel; however, we observed that for one Facilities employee the hazard pay was \$8.00/hr.</p>	<p>Moderate</p>
<p>4. Personnel Records - Based on inquiry and observation, we noted that personnel files are stored securely in a vault in the Records section of the Office of Human Resources (HR). Further, the room has a self-closing door which locks each time it closes. Besides the Records Supervisor, the Records Supervisor indicated that other HR office staff in both Records and Personnel sections have keys as well. However, there is no sign out log for the keys and no list of employees that currently have custody of the keys.</p>	<p>Low</p>

Background

Overview

A formal risk assessment was performed by the Internal Auditors to assist in the determination of the scope of the audit. It was noted that the payroll function was subject to 3 major risk factors – financial, compliance, and public reputation.

Payroll administration is a recurring process with high financial impact. As a direct result of the payroll process, a significant portion of the County’s budget is comprised of payroll costs and the related taxes and benefits. Inherent risks to the payroll administration process may include: Payroll may not be processed completely, accurately, timely, or in accordance with department/agency procedures and management’s authorization. Changes to payroll may not be appropriately approved and supported. Premium pay may not be properly supported, approved, and accurately calculated. Terminations may not be processed accurately and timely or in accordance with department/agency procedures and management’s authorization.

The following processes/areas were identified during the risk assessment and our initial interviews as key areas related to the payroll function:

- Processing of payroll and related taxes and benefits
- Maintenance of personnel files, including the security of such files
- Premium pay authorization and accuracy
- Compensatory time authorization and tracking
- Changes to payroll data and personnel files (Personnel Action System – PAS)
- Processing of terminated employees
- General Compliance – with County policies, Statutes, local ordinances, administrative orders, etc.

Staffing

Key personnel from the Office of Human Resources (HR) and County Finance that were involved in our internal audit of the payroll function include:

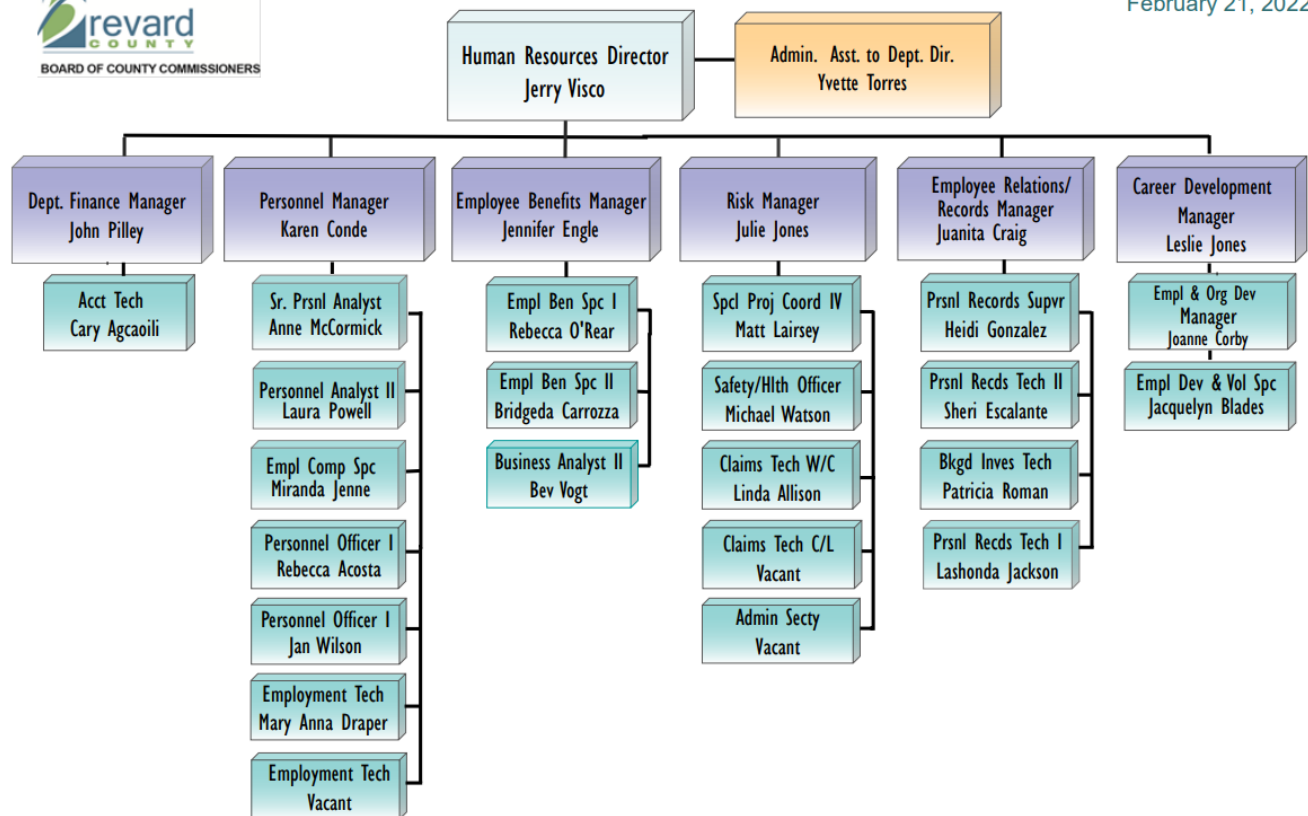
Office of Human Resources
Title
Director
Personnel Manager
Records Supervisor
Employee Benefits Manager
Employee Benefits Specialists I and II

County Finance
Title
Finance Director
Payroll Supervisor

Background - continued

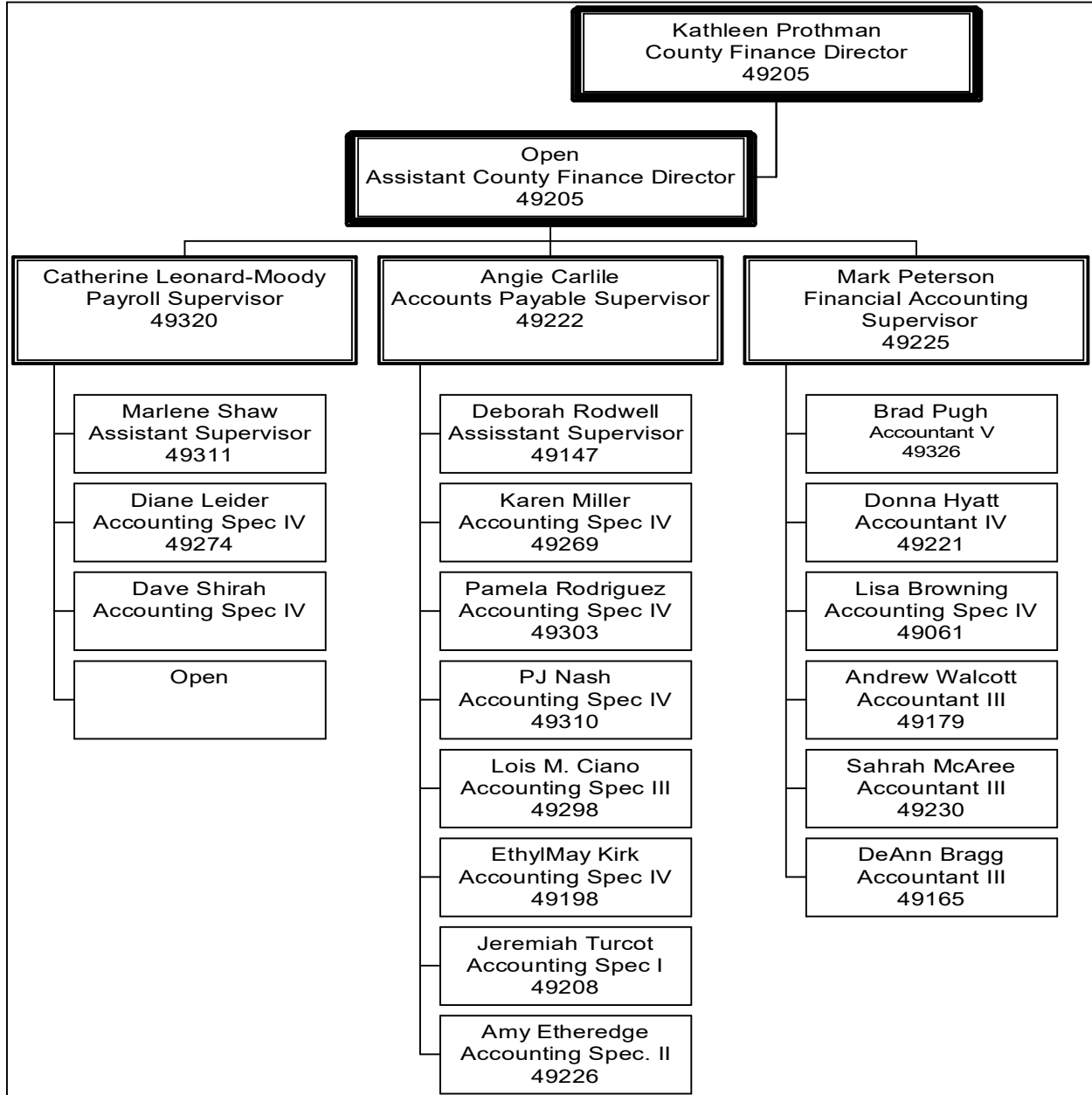


Human Resources
February 21, 2022



Background - continued

County Finance



Background - continued

The Office of Human Resources effectively carries out its programs and services in four primary areas:

- Personnel Technical Services – Recruitment and referral of applications; processing and orientation of new employees; compiling, updating, archiving, retrieving personnel records; job class / pay review and administration of pay and class plans; configuration and maintenance of the SAP HR/Admin Module and the SAP Timekeeping Module; and collective bargaining/labor agreement administration.
- Employee Relations – Process/adjudicate employee grievances and appeals; conflict intervention; employee development, supervisor, customer service and continuous improvement training; assure equal employment opportunities afforded to all; and match volunteers / interns to service needs.
- Employee Benefits – Administer insurance benefits; health & wellness; coordinate employee retirements (separations) from employment; provide appropriate HIPPA and COBRA notices.
- Risk Management - Administration of workers' compensation, auto liability, auto physical damage, general liability, property, and loss control/safety plans; and contract review.

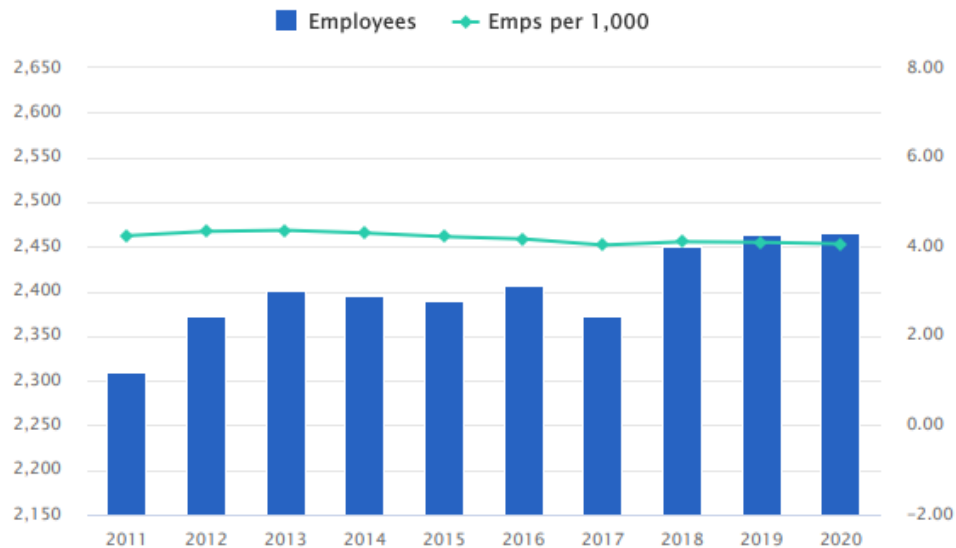
The Finance Department (County Finance) reporting structure, roles and responsibilities are described below:

- As the Chief Financial Officer of the Board of County Commissioners, the Clerk of the Circuit Court is the custodian of County funds and is responsible for the collection, safe depositing, investing, expenditure and distribution of these funds in accordance with law and administrative regulation. As an independently elected official, the Clerk's office audits each requested Board payment to ensure all tax dollars are used for a public purpose.
- The Finance Department (County Finance) provides budgetary, accounting and financial reporting services for the Board of County Commissioners and the Office of the Clerk. The Department's duties include: processing payroll; disbursing payments on contracts and purchases made within budgetary guidelines; investing surplus County funds; and overseeing the preparation and presentation of the Annual Financial Report of Brevard County, the Financial Statements of the Board of County Commissioners and the Clerk of the Circuit Court and various other state reports.

Background - continued – Select Statistics

Budget and Financial Policies

Employees per 1,000 population



Employees	2,309.00	2,373.00	2,401.75	2,396.00	2,389.50	2,407.00	2,372.25	2,451.00	2,464.50	2,465.50
Emps per 1,000	4.24	4.34	4.36	4.30	4.22	4.17	4.03	4.11	4.09	4.06

Description:

Personnel costs are a major portion of the County's operating budget. Tracking the changes in the number of Brevard County Board of County Commissioners employees to population is a good way to track changes in expenditures. An increase in Employees per capita might indicate that expenditures are rising faster than revenues, that the County is becoming more labor intensive or that productivity is declining.

Warning Trend:

Increasing number of Brevard County Board of County Commissioner employees per capita

Formula:

Number of County employees as of October 1/Population

Source:

Brevard County Adopted Budget
United States Census Bureau

Analysis:

Since 2010 operational efficiencies have been implemented, employee productivity has increased, and number of positions have been reduced. Furthermore, the number of Brevard County Board of County Commissioners employees per capita has decreased by 4.24% since 2010 despite increasing population.

Source: BREVARD COUNTY | Annual Operating and Capital Budget Adopted FY 2021-2022

Background - continued – Select Statistics

Top County Employers		Top County Taxpayers	
Employer	# of Employees	Taxpayer	Taxes
Brevard County School Board	9,520	Florida Power & Light	\$23,798,689
Health First	7,800	Harris Corporation	\$3,880,300
Harris Corporation	5,890	Walmart Stores, Inc.	\$3,179,999
Board of County Commissioners	2,380	City of Melbourne Airport Authority	\$2,682,802
US Department of Defense	2,170	Oleander Power Project, Ltd.	\$1,918,702
NASA	2,067	Steward LLC	\$1,867,789
Eastern Florida State College	1,590	Health First Physicians Real & Estate LLC	\$1,844,076
Rockwell Collins, Inc.	1,410	BrightHouse Networks LLC	\$1,375,231
Northrop Grumman Corporation	1,345	AT&T Florida	\$1,334,882
Florida Institute of Technology	1,280	Publix Super Markets, Inc.	\$1,276,664

Source: Florida Metro Economic Forecast UCF Institute for Economic Forecasting July 2020 & Brevard County Comprehensive Annual Financial Report 2020

Source: Annual Operating and Capital Budget – Adopted FY 2021-2022

Terminations – October 1, 2020 – September 30, 2021

Part-Time	75
Full-Time	303
Temp	113
Total	491

Active employees as of September 30, 2021:

Part-Time	263
Full-Time	1,988
Temp	90
Total	2,341

Source: Office of Human Resources

Objectives and Approach

Objectives

- Assess the effectiveness of internal controls and compliance with policies and procedures in the processing of payroll and related taxes and benefits including proper segregation of duties.
- Evaluate the accuracy of adjustments to employee records and to payroll data. Assess the controls related to this process and whether such adjustments were authorized and accurately recorded.
- Evaluate the effectiveness of controls related to the proper authorization and tracking of compensatory time/pay.
- Determine that employees are being paid in accordance with pay rates authorized by management and supported by documentation included in the employees' personnel files and/or COLA tables.
- Assess whether access to employee personnel files is adequately restricted, e.g. physical files were secured and incompatible duties (add, delete, modify) were appropriately segregated.

Approach

Our internal audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with key personnel involved with the payroll function to discuss the scope and objectives of the internal audit work, obtain preliminary data, and establish working arrangements. We reviewed Florida Statutes, administrative orders, County policies/procedures and other relevant resources. We gained an understanding and documented the overall payroll function and related processes. We conducted interviews with management and staff and documented their respective roles in the processes. We updated our understanding of the processes and relevant controls.

Detailed Testing

Our detailed procedures included inquiry, walkthrough and testing of individual transactions for the significant areas listed below (period tested: October 1, 2020 – September 30, 2021).

- Processing of payroll and related taxes and benefits
- Maintenance of personnel files, including the security of such files
- Premium pay authorization and accuracy
- Compensatory time authorization and tracking
- Changes to payroll data and personnel file (Personnel Action System – PAS)
- Processing of terminated/separated employees
- General Compliance – with County policies, Statutes, local ordinances, administrative orders

Reporting

At the conclusion of our procedures, we documented our understanding of the payroll function and summarized our observations related to this function. We conducted an exit conference with management and have incorporated management's responses into our report. We prepared our report and related observations and provided copies to appropriate County personnel.

Rating	Observation	Recommended Action	Management Response
Moderate	<p>1. Termination/Separation Payout</p>		
	<p>We noted the following related to our testing of 40 employee terminations/separations payout calculations:</p> <ul style="list-style-type: none"> The Payroll Supervisor indicated that the payroll staff are to utilize the leave payout balance in SAP as of the termination/separation date to calculate the leave payout amount. However, the Payroll Supervisor also indicated that screen shots of the leave balance were not consistently retained as support for the leave payout calculation. <p>For 11 out of 40 employees, no screen shot of the balance in SAP was retained as support for the amount used to calculate the leave payout amount. As such, we were not able to determine whether or not the leave balance used to calculate the payout amount agreed to the balance in SAP as of the date of the employee's termination/separation.</p> <p>Further, based on discussions with the Payroll Supervisor, the "Absence Quotas" (pay-period leave) reports were recently discovered to be inaccurate such that not all leave types were included periodically throughout the FY2021 testing period. These reports are retained to provide the transactional data for "entitlement", "used" and "total remaining" for each employee.</p> <p>If a terminated/separated employee disputed the transactional data that supports the original leave entitlement, leave used, or the total remaining balance that was paid out, there would be no documented historical data to respond to the dispute.</p> <ul style="list-style-type: none"> For 1 out of 40 employees, there was no evidence that the payout calculation was reviewed by someone other than the preparer. 	<p>We recommend County Finance management perform the following:</p> <ol style="list-style-type: none"> Require payroll staff to print and retain a screen shot of the leave balance in SAP as of the termination / separation date as support for the leave amount paid to the terminated /separated employee. Correct the "Absence Quota" report to include all leave types. Provide guidance / additional training to payroll staff to help ensure that evidence of review is provided via the reviewer's name or initials and date reviewed. 	<p>Response:</p> <ol style="list-style-type: none"> County Finance Payroll procedures have been updated to require staff to print and retain SAP screen shots of the leave balances as support for the leave amount paid to terminated/separated employees. The "Absence Quota" report has been corrected to include all leave types and the variant has been locked to ensure that inadvertent changes are not made to the report in the future. County payroll staff have been provided guidance and additional training to ensure that evidence of review is provided via the reviewer's name or initials and date reviewed. <p>Responsible party:</p> <p>Finance Director and Payroll Supervisor, County Finance</p> <p>Estimated completion date:</p> <p>March 2022</p>

Rating	Observation	Recommended Action	Management Response
Moderate	2. Benefit Deductions		
	<p>During our testing of payroll, we noted that for 4 out of 40 employees selected, the supporting forms were not provided and/or included in the employee personnel file as authorization for deductions from the respective employee's payroll check.</p>	<p>We recommend that management obtain and retain the applicable supporting forms in the personnel files as evidence of employee authorized deductions to reduce the risk of inaccurate/unauthorized deductions.</p>	<p>Response: There is a program in place for placement of these deduction forms in the applicable files.</p> <p>A request has been made to the vendor to pull these forms from Archives for placement in the applicable personnel files.</p> <p>Responsible party: Benefits Manager, Office of Human Resources</p> <p>Estimated completion date: May 2022</p>

Observations Matrix - continued

Internal Audit Report

Rating	Observation	Recommended Action	Management Response
Moderate	3. Pay Rate Changes		
	<p>During our payroll testing of 40 employees, no exceptions were noted related to pay rate changes.</p> <p>During our discussions with the County Finance Director and the County Payroll Supervisor, the County Payroll Supervisor produced the “Valbasis” (Other Pay) report exported from SAP for November 2021 (FY2022). This report includes hazard pay, out of class, and Fire Rescue rate changes.</p> <p>We observed that there was one error related to hazard pay for Facilities personnel for the current fiscal period (FY2022). Hazard pay is an additional \$1.00/hr. and only applies to Facilities personnel; however, we observed that for one Facilities employee the hazard pay was \$8.00/hr.</p> <p>Based on further discussions with the County Finance Director and the County Finance Payroll Supervisor, they indicated that although this report was produced on a biweekly basis, it was not being reviewed by County Finance Payroll.</p> <p>Consequently, we performed additional procedures related to hazard pay. We obtained the “Valbasis” report for the period of testing (10/1/20 – 9/30/21) noting any hazard pay identified for Facilities employees was \$1.00/hr. No exceptions were noted.</p>	<p>We recommend that County Finance Payroll review the “Valbasis” report biweekly for reasonableness to reduce the risk of inaccurate pay rate changes going undetected. Evidence of the review should be documented via signature/initials and date performed.</p>	<p>Response:</p> <p>County Finance Payroll procedures have been updated to require staff to review the “Valbasis” report biweekly for reasonableness, verify entries with appropriate County management and document this review with initials and date performed. Payroll staff began reviewing this report beginning with the first payroll after it was brought to their attention during the audit.</p> <p>Responsible party:</p> <p>Finance Director and Payroll Supervisor, County Finance</p> <p>Estimated completion date:</p> <p>March 2022</p>

Rating	Observation	Recommended Action	Management Response
Low	<p>4. Personnel Records</p>		
	<p>Based on inquiry and observation, we noted that personnel files are stored securely in a vault in the Records section of the Office of Human Resources (HR). Further, the room has a self-closing door which locks each time it closes. Based on discussions with the Records Supervisor, Record’s staff closely monitor anyone who accesses the file area since their desks are located next to the access point. We observed that access to the general workplace area is monitored by the two employees located at the desk in the lobby area which is accessed by the main door from the building common area.</p> <p>Besides the Records Supervisor, the Records Supervisor indicated that other HR office staff in both Records and Personnel sections have keys as well. However, there is no sign out log for the keys and no list of employees that currently have custody of the keys.</p>	<p>We recommend that management perform the following:</p> <ul style="list-style-type: none"> a. Account for the keys issued or change the locks and issue new keys to those authorized by the Office of Human Resources who require regular access to the personnel files. b. Create and maintain a sign-out log for those who have custody of keys. 	<p>Response:</p> <ul style="list-style-type: none"> a. Human Resources has accounted for all the keys capable of opening the room where the personnel files are stored. b. Human Resources will create and maintain a sign-out log for those who have custody of keys. <p>Responsible party: Employee Relations Manager/Records Supervisor Office of Human Resources</p> <p>Estimated completion date: April 2022</p>