



# INTERNAL AUDIT REPORT

PAYROLL SYSTEM

JANUARY 1, 2013 – AUGUST 31, 2015

ISSUE DATE: DECEMBER 1, 2015  
REPORT NO. 2015-12

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether management controls over the Payroll System are adequate to ensure:

1. Accuracy and timeliness of payroll disbursements.
2. Compliance with applicable legal requirements.

We reviewed information for the period January 1, 2013 - August 31, 2015. Details of our audit's scope and methodology are on page 3.

### BACKGROUND

The Port uses the PeopleSoft Human Capital Management (HCM) module to manage all human resource and payroll processing activities. This module is used from hiring to resignation. All employee and payroll-related information resides in this module. The Port uses this module to administer over \$215 million annually in pay, benefits and taxes for Port employees.

For purposes of this audit, only the processes related to producing bi-weekly and weekly payrolls are within scope.

The Port has used the HCM module since 1997, and has undergone five upgrades since that time. The most recent upgrade was in October 2015. This upgrade ensures continued technical support and ongoing software updates and security patches from the software vendor.

The Port employs approximately 1,800 FTEs. It processes the majority of payroll bi-weekly. It issues a weekly payroll for about 50 employees.

### AUDIT RESULT

Management controls over the Payroll System are adequate to ensure (1) accuracy and timeliness of payroll disbursements and (2) compliance with applicable legal requirements.

## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	i
I.    TRANSMITTAL LETTER.....	1
II.   BACKGROUND.....	2
III.  FINANCIAL HIGHLIGHTS .....	2
IV.  HIGHLIGHTS AND ACCOMPLISHMENTS .....	3
V.   AUDIT SCOPE AND METHODOLOGY.....	3
VI.  CONCLUSION.....	4

## TRANSMITTAL LETTER

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the management controls over and transaction processing in the Payroll System. We reviewed information relating to the Payroll System from January 1, 2013 - August 31, 2015.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to management and staff of the Accounting and Financial Reporting Department for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Ruth Riddle, Senior Auditor	Duane Hill, Senior Manager, Disbursements, AFR
Jack Hutchinson, Audit Manager	Rudy Caluza, Director, AFR

## BACKGROUND

The Port uses the PeopleSoft Human Capital Management (HCM) module to manage all human resource and payroll processing activities. This module is used from hiring to resignation. All employee and payroll-related information resides in this module. The Port uses the system to administer over \$215 million annually in pay, benefits and taxes for Port employees.

For purposes of this audit, only the processes related to producing bi-weekly and weekly payrolls are within scope.

The Port has used the HCM module since 1997, and has undergone five upgrades since that time. The Port upgraded to Version 9.1 in 2013 and Version 9.2 in October 2015. The most recent upgrade ensures continued technical support and ongoing software updates and security patches from the software vendor.

The Payroll Work Group consists of five staff. They are responsible for processing bi-weekly payroll for approximately 1800 FTEs, plus a weekly payroll for about 50 of total FTEs. Pay periods end on Saturday. Time reports must be submitted to the Payroll Work Group no later than 2 p.m., on the following Monday. Between Monday and Wednesday, the Payroll Work Group conducts a rigorous process of verifying the submitted time, addressing all system-flagged exceptions, and producing a final confirmed payroll register. Bank uploads for direct deposits and hard copy checks typically occur by close-of-business Wednesday. Direct deposits are available in employees' personal bank accounts on Friday morning.

## FINANCIAL HIGHLIGHTS

AVERAGE BI-WEEKLY PAYROLL						Total Annual Salaries and Wages Expense
YEAR	Average Payroll	Average % of Staff Represented	Average % of Non-Staff Represented	Average Number Checks Processed		
2013	\$ 5,854,078	39	61	1780	\$151,718,831	
2014	\$ 6,082,446	41	59	1817	\$ 153,495,732	
Data Source: PeopleSoft Financials						

## HIGHLIGHTS AND ACCOMPLISHMENTS

- Management continues to reduce hard copy payroll checks. As of August 2015, the majority (96%) of the Port's approximately 1,800 staff receives salary and wage payments by direct deposit to personal bank accounts or pay cards. This accomplishment provides multiple benefits:
  - Eliminates printing and mailing of paper checks.
  - Reduces fraud risk of stolen or altered checks.
  - Eliminates employees' trips to the bank.
  - Facilitates payments to employees during emergencies and natural disasters.
- Management, in concert with the Port's Continuous Process Improvement team, Human Resources and Development, and Labor Relations, has revisited various payroll processes, to decrease processing steps, increase efficiencies, and reduce risk of errors.
- The Payroll Work Group completes its rigorous process from receipt of timesheet submission to production of final payroll register within 2.5 days for approximately 1,800 FTEs.
- In keeping with the Port of Seattle's Go Green Initiative, management implemented electronic W-2s, in lieu of paper, which has reduced printing and mailing costs.

## AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2013 - August 31, 2015. We utilized a risk-based approach from planning to testing. We gathered information through research, interviews, observations, and analytical review, in order to obtain a complete understanding of management controls over and transaction processing in the payroll system. We evaluated risk and tested the mitigating controls, to determine whether they were operating as intended.

The key management controls we tested and the detailed tests we performed are as follows:

1. To determine whether management controls are adequate to ensure:
  - a. Payroll is accurate:
    - i. We evaluated the process for assigning and authorizing access to the payroll system.
    - ii. We determined whether there was adequate management oversight of user accounts to ensure users are current and valid.

- iii. We tested authorizations of user accounts for 1<sup>st</sup> quarter 2013, 3<sup>rd</sup> quarter 2014, and 2<sup>nd</sup> quarter 2015.
- iv. We determined whether conflictive responsibilities were segregated:
  - o Data entry.
  - o Approval of changes.
  - o Reconciliation of data entry.
  - o Transmission of withholding.
  - o Custody of hard copy checks.
- v. For the pay period ended 8-22-15, we reconciled payroll issued to underlying time submissions.
- vi. For the period ended 8-22-15, we reconciled payroll withholding to subsequent payments for:
  - o Federal withholding.
  - o Retirement.
  - o Charitable contributions.
- vii. For the period 5-1-15 to 9-21-15, we traced positive pay exceptions to supporting documents.

b. Payroll is timely:

- i. We reviewed payroll processing from submission of staff's time to issuance of payroll.
- ii. We reviewed the timeline for entering adjustments/corrections in the system
- iii. For the pay period ended 8-22-15, we identified the date by which payroll staff:
  - o Completed payroll processing.
  - o Produced the final payroll register.
  - o Uploaded positive pay advice to the payroll bank account and produced hard copy checks.

VII. To determine whether management controls are adequate to ensure payroll is in compliance with applicable legal requirements, we reviewed the processes and conducted detailed tests as follows:

- c. Submission of federal withholding.
- d. Submission of retirement deductions.
- e. Remittance of charitable deductions.
- f. We determined whether the following withholding and deductions were remitted to the appropriate recipients
  - i. Federal withholding (pay period ended 8-22-15).
  - ii. Retirement deductions (pay period ended 8-22-15).
  - iii. Charitable deductions (2<sup>nd</sup> quarter 2015).

## CONCLUSION

Management controls over the Payroll System are adequate to ensure (1) accuracy and timeliness of payroll disbursements and (2) compliance with applicable legal requirements.