

<b>TO:</b>	<b>CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON JANUARY 31, 2013</b>
<b>FROM:</b>	<b>PwC INTERNAL AUDITORS</b>
<b>SUBJECT:</b>	<b>Quarterly Report on Internal Audit Results a) Corporate Services/Finance - Payroll Administration</b>

**RECOMMENDATION**

That on the recommendation of PwC, this report **BE RECEIVED** for information and the action plans identified in Appendices A and B **BE RECOMMENDED** for approval.

**PREVIOUS REPORTS PERTINENT TO THIS MATTER**

Risk Assessment and 3-Year Risk-Based Audit Plan from PricewaterhouseCoopers – Audit Committee March 31, 2011.

**BACKGROUND**

This report has been prepared in line with the reporting process defined within the Risk Assessment and 3-Year Risk-Based Audit Plan provided to the Audit Committee on March 31, 2011.

The purpose of this report is to communicate the results of internal audit projects completed to date, which include the following project:

- Corporate Services/Finance - Payroll Administration

PwC requests Audit Committee approval of the action plans developed in collaboration between PwC and City management. Please also refer to the formal presentation document attached in Appendix B.

<b>RECOMMENDED BY:</b>
<b>PwC INTERNAL AUDITORS</b>

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APPENDIX A – Corporate Services/Finance - Payroll Administration

**Summary of Risks & Scope**

**Corporate Services/Finance - Payroll Administration**

**Scope**

- Timecard submission and processing for Agencies 1 - 6, 8, 9
- Payroll Adjustment Forms (PAFs) for Agencies 1 - 6, 8, 9
- Inquire regarding underutilized Kronos functionality
- Administration of payroll manual cheques
- Processing of manual adjustments for Agencies 1 - 6, 8, 9
- The scope focused on the current state of payroll and its systems and may need to be reconsidered when systems becomes more automated

**Risks**

- Payroll may not be processed on time due to late receipt of information
- Payroll agencies may adopt different internal processes for reporting payroll data which may result in inefficiencies
- Exception based payroll reporting may result in errors
- PAFs may be entered incorrectly or late
- Payroll process may be interrupted due to Kronos technical difficulties
- Manual cheques may result in inefficiencies or be calculated incorrectly
- Some individuals may not submit original copies of documentation

**Controls Operating Effectively**

- The Payroll division follows up with Agency employees who have not submitted their information on time in an attempt to receive information as soon as possible and minimize delays.
- Payroll assistants cross check payroll inputs and historical adjustments to mitigate the risk of errors. Payroll supervisors review payroll register through 'Pre-Pay' process and run reports to identify potential errors.
- The payroll system is up-to-date and regular system upgrades are performed, and the system is monitored on a regular basis.
- Sufficient segregation of duties exists throughout the manual cheque administration process.

**Value-for-Money Considerations**

- No significant value-for-money opportunities were identified relating to the observations in this report.

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**Observations & Action Plans**

**#1: Late receipt of timesheets**

**Observation:**

Some business units submit timecard information after payroll deadlines. This activity may be the result of a business unit timekeeper being absent. Some business units are repeatedly late when submitting timecards.

**Business Impact:**

Inefficiencies including efforts to track down late information and process 'historical adjustments' are preventable. Delay in timecard submission reduces the effectiveness of management oversight especially for an exception-based payroll reporting model where timecard submission is necessary to ensure accurate draws on employee vacation and sick banks.

**Action Plan:**

Payroll management should re-communicate payroll deadlines to all business units and work with repeatedly late business units to identify a strategy for timely submission.

A back-up timekeeper should be identified for all business units.

**Action Plan Lead:**

Manager, Payroll Operations

**Timing:**

March 31, 2013

**#2: Incomplete and erroneous payroll information is submitted**

**Observation:**

Employee timekeepers sometimes code time to employee banks which are insufficient. The Manager of Payroll Operations follows up with business unit managers when an incomplete PAF is submitted for processing.

**Business Impact:**

Inefficiencies including Payroll assistant correspondence for erroneous time recording and Payroll manager correspondence regarding incomplete PAFs are preventable.

**Action Plan:**

Payroll management should identify areas of concern for employee time coding and address the issue with the business unit manager to ensure time has been accurately and appropriately coded. Payroll management should work with business unit managers for areas where there are completion issues to ensure effective completion of PAFs.

**Action Plan Lead:**

Manager, Payroll Operations

**Timing:**

June 30, 2013

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**#3: Insufficient oversight of “Over 40” adjustments**

**Observation:**

“Over 40” adjustments that are keyed by the Agency 1 Payroll Assistant are not reviewed. “Over 40” adjustments are required when employees work more than 40 hours in a seven-day period.

**Business Impact:**

Without effective oversight an opportunity for fraud exists and the risk of error increases when calculating overtime pay.

**Action Plan:**

Management should investigate modifying the current “Over 40” keying process to require a review of these adjustments prior to finalizing the payroll.

**Action Plan Lead:**

Manager, Payroll Operations

**Timing:**

June 30, 2013

**#4: See Confidential Appendix to the Report**

**#5: See Confidential Appendix to the Report**

**#6: Payroll requires original documentation**

**Observation:**

The Payroll division currently requires original documentation with appropriate authorization for timesheet and PAF processing for casual employees. All information sent by email (Globescan) or fax is vouched to original documentation once it is received.

**Business Impact:**

An opportunity exists to enhance the timeliness of information sharing where the Payroll division can accept electronic documents or direct data collection for casual employees.

**Action Plan:**

Management should investigate a policy allowing business unit managers to submit timecard and PAF documentation for casual employees using Globescan. Emailed or faxed submissions of time sheets and PAFs should include a control cover page which indicates the quantity of time sheets/PAFs submitted (to ensure the completeness of the submission) and be authorized by only allowing a business unit manager with payroll authorization rights to submit timecards or PAFs for processing. Payroll should investigate the creation of a central payroll division email address which Payroll assistants can access to obtain time sheet/PAF submissions. A standardized subject line indicating the agency and check code should be required for ease of data retrieval.

**Action Plan Lead:**

Manager, Payroll Operations

**Timing:**

March 31, 2013

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**#7: Manual cheque inefficiencies**

**Observation:**

In some instances, where timecards are received after the payroll deadline, an employee may request a manual cheque. Payroll is responsible for processing this cheque. In order to provide a manual cheque Payroll must halt their typical payrolls and any automated processes underway to print a manual cheque.

**Business Impact:**

This action is inefficient and results in delays and an ineffective use of staff time.

**Action Plan:**

Management should investigate developing a manual cheque policy that would include deadlines for paperwork and categorize and define instances where late paperwork will result in a historical adjustment on a subsequent payroll run, rather than a manual cheque.

**Action Plan Lead:**

Manager, Payroll Operations  
Manager, HR Systems

**Timing:**

December 31, 2013

**#8: 'Upcoming Lateral' reports are shared with business units monthly**

**Observation:**

'Upcoming Lateral' reports identify all employees who are eligible for pay-grade changes, which requires the submission of a PAF. Payroll sends an 'Upcoming Lateral' report to each business unit each month.

**Business Impact:**

Frequent reporting of 'Upcoming Lateral' reports requires staff resources. This monthly communication as a preventative measure may not be the most effective use of staff time.

**Action Plan:**

Payroll management should investigate modifying the existing 'Upcoming Lateral' report process to ensure efficient use of staff time.

**Action Plan Lead:**

Manager, Payroll Operations

**Timing:**

June 30, 2013

Appendix B - Quarterly Report on Internal Audit Results

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# *The Corporation of the City of London*

## Quarterly Report on Internal Audit Results

-Payroll Administration

January 31, 2013

**pwc**

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# *Agenda*

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## ***Rating Scale – Opportunities for Improvement***

- **Satisfactory**

Controls are present to mitigate process/business risk, however an opportunity exists for improvement.

Satisfactory



- **Needs Improvement**

Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

Needs  
Improvement



- **Unsatisfactory**

Control weaknesses are significant and the overall exposure to risk is unacceptable. Immediate attention and oversight from management is required.

Unsatisfactory



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# ***Corporate Services/Finance – Payroll Administration***

## **Summary of Risks & Scope**

### **Corporate Services/Finance – Payroll Administration**

#### **Scope**

- Timecard submission and processing for Agencies 1 - 6, 8, 9
- Payroll Adjustment Forms (PAFs) for Agencies 1 - 6, 8, 9
- Inquire regarding underutilized Kronos functionality
- Administration of payroll manual cheques
- Processing of manual adjustments for Agencies 1 - 6, 8, 9
- The scope focused on the current state of payroll and its systems and may need to be reconsidered when systems becomes more automated

#### **Risks**

- Payroll may not be processed on time due to late receipt of information
- Payroll agencies may adopt different internal processes for reporting payroll data which may result in inefficiencies
- Exception based payroll reporting may result in errors
- PAFs may be entered incorrectly or late
- Payroll process may be interrupted due to Kronos technical difficulties
- Manual cheques may result in inefficiencies or be calculated incorrectly
- Some individuals may not submit original copies of documentation

#### **Controls Operating Effectively**

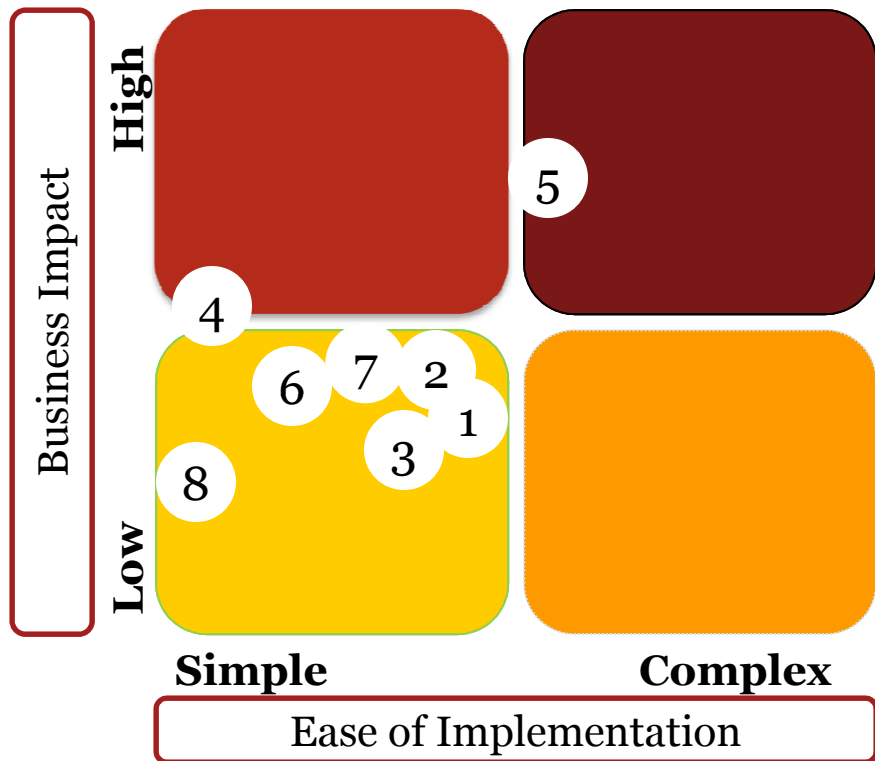
- The Payroll division follows up with Agency employees who have not submitted their information on time in an attempt to receive information as soon as possible and minimize delays.
- Payroll assistants cross check payroll inputs and historical adjustments to mitigate the risk of errors . Payroll supervisors review payroll register through 'Pre-Pay' process and run reports to identify potential errors.
- The payroll system is up-to-date and regular system upgrades are performed, and the system is monitored on a regular basis.
- Sufficient segregation of duties exists throughout the manual cheque administration process.

#### **Value-for-Money Considerations**

- No significant value-for-money opportunities were identified relating to the observations in this report.

# Action Plan Summary

## Corporate Services/Finance – Payroll Administration



- High Business Impact, Easy to Implement
- High Business Impact, Difficult to Implement
- Low Business Impact, Easy to Implement
- Low Business Impact, Difficult to Implement

Observations	Timing
#1: Late receipt of timesheets	March 31, 2013
#2: Incomplete and erroneous payroll information is submitted	June 30, 2013
#3: Insufficient oversight of “Over 40” adjustments	June 30, 2013
#4: See Confidential Appendix to the Report	
#5: See Confidential Appendix to the Report	
#6: Payroll requires original documentation	March 31, 2013
#7: Manual cheque inefficiencies	December 31, 2013
#8: ‘Upcoming Lateral’ reports are shared with business units monthly	June 30, 2013

**Action Plan Lead**

Manager, Payroll Operations

# ***Observations & Action Plans -#1***

## ***Corporate Services/Finance – Payroll Administration***

Needs Improvement 

### **Observation**

#### **Late receipt of timesheets**

Some business units submit timecard information after payroll deadlines. This activity may be the result of a business unit timekeeper being absent. Some business units are repeatedly late when submitting timecards.

### **Business Impact**

Inefficiencies including efforts to track down late information and process 'historical adjustments' are preventable. Delay in timecard submission reduces the effectiveness of management oversight especially for an exception-based payroll reporting model where timecard submission is necessary to ensure accurate draws on employee vacation and sick banks.

### **Action Plan**

Payroll management should re-communicate payroll deadlines to all business units and work with repeatedly late business units to identify a strategy for timely submission. A back-up timekeeper should be identified for all business units.

### **Action Plan Lead**

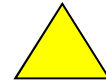
Manager, Payroll Operations

### **Timing**

March 31, 2013

## **Observations & Action Plans -#2** **Corporate Services/Finance – Payroll Administration**

Needs  
Improvement



### **Observation**

#### **Incomplete and erroneous payroll information is submitted**

Employee timekeepers sometimes code time to employee banks which are insufficient. The Manager of Payroll Operations follows up with business unit managers when an incomplete PAF is submitted for processing.

### **Business Impact**

Inefficiencies including Payroll assistant correspondence for erroneous time recording and Payroll manager correspondence regarding incomplete PAFs are preventable.

### **Action Plan**

Payroll management should identify areas of concern for employee time coding and address the issue with the business unit manager to ensure time has been accurately and appropriately coded. Payroll management should work with business unit managers for areas where there are completion issues to ensure effective completion of PAFs.

### **Action Plan Lead**

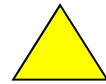
Manager, Payroll Operations

### **Timing**

June 30, 2013

## **Observations & Action Plans -#3** **Corporate Services/Finance – Payroll Administration**

Needs  
Improvement



### **Observation**

**Insufficient oversight of “Over 40” adjustments**  
“Over 40” adjustments that are keyed by the Agency 1 Payroll Assistant are not reviewed. “Over 40” adjustments are required when employees work more than 40 hours in a seven-day period.

### **Business Impact**

Without effective oversight an opportunity for fraud exists and the risk of error increases when calculating overtime pay.

### **Action Plan**

Management should investigate modifying the current “Over 40” keying process to require a review of these adjustments prior to finalizing the payroll.

### **Action Plan Lead**

Manager, Payroll Operations

### **Timing**

June 30, 2013

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***Observations & Action Plans -#4***  
***Corporate Services/Finance – Payroll Administration***

***See Confidential Appendix to the Report***



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***Observations & Action Plans -#5***  
***Corporate Services/Finance – Payroll Administration***

***See Confidential Appendix to the Report***

## ***Observations & Action Plans -#6***

**Satisfactory**



### ***Corporate Services/Finance – Payroll Administration***

#### **Observation**

##### **Payroll requires original documentation**

The Payroll division currently requires original documentation with appropriate authorization for timesheet and PAF processing for casual employees. All information sent by email (Globescan) or fax is vouched to original documentation once it is received.

#### **Business Impact**

An opportunity exists to enhance the timeliness of information sharing where the Payroll division can accept electronic documents or direct data collection for casual employees.

#### **Action Plan**

Management should investigate a policy allowing business unit managers to submit timecard and PAF documentation for casual employees using Globescan. Emailed or faxed submissions of time sheets and PAFs should include a control cover page which indicates the quantity of time sheets/PAFs submitted (to ensure the completeness of the submission) and be authorized by only allowing a business unit manager with payroll authorization rights to submit timecards or PAFs for processing. Payroll should investigate the creation of a central payroll division email address which Payroll assistants can access to obtain time sheet/PAF submissions. A standardized subject line indicating the agency and check code should be required for ease of data retrieval.

#### **Action Plan Lead**

Manager, Payroll Operations

#### **Timing**

March 31, 2013

## ***Observations & Action Plans -#7***

### ***Corporate Services/Finance – Payroll Administration***

**Satisfactory**



#### **Observation**

##### **Manual cheque inefficiencies**

In some instances, where timecards are received after the payroll deadline an employee may request a manual cheque. Payroll is responsible for processing this cheque. In order to provide a manual cheque Payroll must halt their typical payrolls and any automated processes underway to print a manual cheque.

#### **Business Impact**

This action is inefficient and results in delays and an ineffective use of staff time.

#### **Action Plan**

Management should investigate developing a manual cheque policy that would include deadlines for paperwork and categorize and define instances where late paperwork will result in a historical adjustment on a subsequent payroll run, rather than a manual cheque.

#### **Action Plan Lead**

Manager, Payroll Operations  
Manager, HR Systems

#### **Timing**

December 31, 2013

## ***Observations & Action Plans -#8***

**Satisfactory**



### ***Corporate Services/Finance – Payroll Administration***

#### **Observation**

**‘Upcoming Lateral’ reports are shared with business units monthly**  
‘Upcoming Lateral’ reports identify all employees who are eligible for pay-grade changes, which requires the submission of a PAF. Payroll sends an ‘Upcoming Lateral’ report to each business unit each month.

#### **Business Impact**

Frequent reporting of ‘Upcoming Lateral’ reports requires staff resources. This monthly communication as a preventative measure may not be the most effective use of staff time.

#### **Action Plan**

Payroll management should investigate modifying the existing ‘Upcoming Lateral’ report process to ensure efficient use of staff time.

#### **Action Plan Lead**

Manager, Payroll Operations

#### **Timing**

June 30, 2013

# Internal Audit Scorecard – December 2012

	Key Measures	TARGET	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
CORPORATE STRATEGY	Audit Committee	Approval of annual risk-based audit plan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
		Number of reports presented to the Audit Committee	4	0	1	1	1	1	2	2	2	3	3	4	4
		Timely reporting of recommendations	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
		Estimated quantification of Value-for-Money for current year projects (2012)		\$0	\$0	\$0	\$0	\$0	\$425K	\$425K	\$425K	\$435K	\$435K	\$935K	\$935k
	Management/Auditees	Number of closing meetings held with management	8	0	0	0	1	2	2	3	5	5	5	7	8
		Number of concise, value-added recommendations		0	0	0	0	0	16	16	16	37	37	41	41
INTERNAL AUDIT STRATEGY	Innovation/Capabilities	Number of best practices identified by internal audit		0	0	0	0	0	16	16	16	37	37	41	41
		Use of internal audit resources and processes	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Internal Audit Processes	Percentage of projects completed	98%	0%	0%	11%	12%	23%	43%	62%	63%	63%	88%	98%	98%
		Completion of annual risk assessment and updates to audit plan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

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## ***Rating Scale – Status of Past Project Action Plans***

### **Closed**

All action plans have been addressed by the appointed Action Plan Lead.

### **On Track**

All action plans targeted for completion have been addressed. Action Plan Leads are progressing well towards future action plan targets.

### **Some Delays**

Some action plans targeted for completion have not been addressed. Action Plan Leads have revised some targets.

### **Not Addressed**

Action plans targeted for completion have not been addressed by the appointed Action Plan Lead.

## ***Status of Past Project Action Plans***

<b>Project</b>	<b>Status</b>
Technology Services - Information Security Governance Assessment – <i>Corporate Services/Information Technology</i> (2011)	<b>Some Delays</b>
Time Off Provisions - <i>Corporate Services /Human Resources</i> (2011)	<b>On Track</b>
Water & Sewage Revenue – <i>Environmental &amp; Engineering Services</i> (2011)	<b>On Track</b>
Fleet Asset Management – <i>Environmental &amp; Engineering Services</i> (2011)	<b>Some Delays</b>
Development Approvals – <i>Development &amp; Compliance Services</i> (2011)	<b>Some Delays</b>
Municipal Housing Finance and Monitoring – <i>Housing and Social Services</i> (2011)	<b>On Track</b>
Bid Process and Approved Consultants – <i>Corporate Services/Finance</i> (2011)	<b>On Track</b>
Financial Management – <i>Housing and Social Services</i> (2012)	<b>On Track</b>
Health and Safety – <i>Parks and Recreation</i> (2012)	<b>On Track</b>
Building Control Compliance – <i>Development and Compliance Services</i> (2012)	<b>On Track</b>
Purchasing Cards – <i>Corporate Services/Finance</i> (2012)	<b>Closed</b>
Expenditure Approval & Payment – <i>Corporate Services/Finance</i> (2012)	<b>On Track</b>

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## *Summary of Past Due Action Plans*

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<b>Project</b>	<b>Status</b>
<b>Technology Services</b>	Some of the IT governance action plans that were planned to be completed by December 31, 2012 have been delayed due to the reduction of IT management staff. Management is continuing to evaluate the impact on action plan resolution timelines. However, progress has been made, including the creation of a Corporate IT Steering Committee which met for the first time in January 2013. Recommendations relating to IT General Controls in JD Edwards were addressed as part of the upgrade, and the new version of JD Edwards went live successfully in November 2012.
<b>Fleet Asset Management</b>	Some of the Maintenance action plans relating to labour and parts controls and the rental rate calculation have been deferred either due to resource constraints or because they are still under development by management. All recommendations have been at least partially addressed and management continues to focus on implementing recommendations, including those requiring assistance from Stores, Financial Planning & Policy and support from TSD. The status of the action plans is considered reasonable given recent staffing changes in the division, financial challenges and the complexity of the issues.
<b>Development Approvals</b>	The performance of many of these action plans will be resolved subsequent to the Development Charge study to be finalized in 2014. Progress towards completing the recommendations has been made by re-assigning the Development Finance division to report to the City Treasurer in April of 2012. Efforts have been made towards improving succession planning.

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