



INTERNAL AUDIT REPORT

DATE: March 24, 2017

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Office
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Ronnie Bastin, Commissioner of Public Safety
Bill O'Mara, Commissioner of Finance and Administration
Dowell Hoskins-Squier, Commissioner of EQ&PW
Steve Haney, Director of Community Corrections
Charles Martin, Director of Water Quality
John Maxwell, Director of Human Resources
Albert Miller, Director of Streets Roads & Forestry
Tracey Thurman, Director of Waste Management
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Teresa Gipson, CFE, Internal Auditor

RE: Kronos Timekeeping Audit



Background

Kronos is an electronic timekeeping system currently used by four Divisions within the Department of Public Works and the Department of Public Safety; Streets Roads & Forestry, Waste Management, Water Quality, and Community Corrections. The Kronos system utilizes fingerprint recognition technology to identify each unique user and update their time records accordingly. Kronos provides detailed tracking of various timekeeping functions, including regular time, overtime, holidays, compensation time, etc. At the end of each payroll period, all user data is uploaded to the PeopleSoft HCM payroll system for processing of payroll activity. Kronos data can be entered and/or reviewed by various authorized users (e.g., payroll coordinators, managers, etc.) depending on their access rights. Kronos can also generate numerous reports providing management the opportunity to closely monitor time reporting activity. The Kronos System Administrator stated that LFUCG is in the process of upgrading to Kronos version 8.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Application controls exist and are adequate
- Divisions have written documentation of timekeeping policies & procedures
- Kronos accurately interfaces with PeopleSoft HCM
- Hours worked were properly approved and correctly paid
- Adjustments to time worked were timely with proper approval
- Adequate controls exist regarding the removal of terminated employees

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of our audit included payroll activity from July 13, 2015 through August 7, 2016.



Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that most of the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.



SUMMARY OF AUDIT FINDINGS

Finding #1: Kronos Access Rights Not Completely Documented

Priority Rating: High

Condition:

The ##### in Kronos contain permissions to points in the hierarchy of functions, known as access control points. The ##### define the access rights that employees have to components or functions within Kronos. For example, managers and employees who perform different functions need different #####. The Kronos System Administrator was able to provide us with a Security Matrix spreadsheet for Waste Management that included functions and features with a description of the role and the user title. It appeared that there may be some incompatible roles assigned to the Payroll Coordinator such as “Controls the employee’s ability to approve their own Timecard”. The Kronos System Administrator indicated that a Security Matrix for the remaining Divisions had not been completed.

Effect:

The absence of clearly documented access rights for all Kronos users increases the possibility that segregation of duty issues will go undetected.

Recommendation:

The Kronos System Administrator, with assistance from Kronos Support and Division personnel, should compile a ##### that details the access rights of all Kronos users and their applicable access. Once completed, the ##### should be reviewed by the Kronos System Administrator and management from the user Divisions to identify and address any segregation of duty issues.

Director of Computer Services Response:

We agree with the above recommendation, with the following change. The management group for each Division should perform the review of the ##### with respect to segregation of duty issues. The Kronos System Administrator will be available to provide additional detail or answer questions regarding a specific function.

Chief Information Officer Response:

I concur with the response.



Finding #2: Kronos ##### Need to be Reviewed

Priority Rating: High

Condition:

The audit determined that Kronos ##### have not been reviewed for accuracy since the initial implementation of Kronos in 2003. A Kronos ##### contains general payroll information such as type of pay period (e.g., weekly). A ##### can also control the pay period length, the day divide, when punches link to schedules, and holiday credits. We noted during our review of actual hours worked that the reported hours in Kronos were not solely determined by the punch in and out times but also by the #####. For example, the ##### “Water-Exempt 30 Lunch” will automatically deduct 30 minutes from an employees punched time for the day and reflect a totaled amount less 30 minutes. When we inquired about the #####, the Kronos System Administrator indicated that LFUCG is in the middle of a Kronos update and it would be a good time to revisit all Kronos #####.

We also noted some rounding differences in our recalculation of punch in and out times. Kronos indicates that rounding is a way to simplify payroll accounting and reporting and to enforce shift start and end times. We were not able to verify that the rounding times are consistent for each Division, or that they comply with the Payroll Conversion Chart as provided by the Division of Human Resources.

The Office of Internal Audit provided a list of Kronos ##### obtained during the audit fieldwork to each Division that uses the Kronos timekeeping system. Each Division was instructed to use this list to document which ##### they use, to explain what those ##### are used for and in what circumstances, and to identify any ##### they do not use. Each user Division was also instructed to explain how the Kronos time rounding function works in their respective Divisions. This information was then provided to the Division of Human Resources.

Effect:

If ##### and Kronos rounding processes are not properly configured, time reporting may be inaccurate.

Recommendation:

Using the ##### and time rounding information provided by the various user Divisions, the Division of Human Resources should evaluate the ##### and Kronos time rounding function to determine they are in compliance with any applicable laws, regulations, and ordinances. Once this review process has been



completed, Human Resources should inform the Division of Computer Services if any Kronos ##### should be amended to bring these functions into compliance. The Division of Computer Services should retain a copy of the ##### documentation as support for such changes.

In order to prevent any unauthorized additions, deletions, or edits to Kronos #####, we also recommend that Kronos access rights granting the ability to make changes to ##### or other Kronos calculation functions should be limited to the Kronos System Administrator in the Division of Computer Services.

Director of Computer Services Response:

We agree with the above recommendation that all changes to existing ##### will be documented and provided to the Kronos System Administrator for implementation.

Chief Information Officer Response:

I concur with the response.

Director of Human Resources Response:

The Division of Human Resources has examined the ##### and time rounding function related to the following Divisions: Streets and Roads, Waste Management, Water Quality, and Community Corrections. Our review process has determined that the ##### associated with these Divisions and the KRONOS time rounding function comply with applicable laws, regulations, and ordinances.

It should be noted that the Division of Human Resources was not asked to, and did not, conduct a performance audit to determine whether the ##### were being applied in any specific instance correctly, particularly with exceptions that do occur in any system. The rounding practices for computing working time is acceptable, provided that it is used in such a manner that it will not, over a period of time, fail to compensate employees properly for all the time they have actually worked.

Chief Administrative Officer Response:

I agree with the Director of Human Resources response.



Finding #3: Inaccurate Workers Compensation Payment**Priority Rating: Moderate****Condition:**

Using the pay codes in Kronos, we traced the hours by pay code to PeopleSoft HCM and recalculated pay based on applicable policy, procedures, and ordinances to ensure accuracy and completeness of transferred information. We noted that one employee appeared to be paid incorrect Workers Compensation (WC) payments during the pay period July 13, 2015 through July 26, 2015. WC services are currently provided by Risk Management Services Company and we requested their supporting documentation for the WC payments. Based on supporting documentation provided, we were able to determine that a total of \$160 had been underpaid. The current WC representative indicated that the prior adjuster made an error and keyed in the incorrect amount and this information was provided to Payroll. The Payroll Manager stated that the amounts entered into PeopleSoft for WC is provided by the WC Administrator and they rely upon their calculation.

Effect:

Inaccurate WC information may lead to over or under payments.

Recommendation:

Information regarding the incorrect calculation has been provided to the Department of Law for corrective action.

Commissioner of Law Response:

As always, Law appreciates the important work performed by Internal Audit. As to this issue, we first want to note that for 2016 there were 597 checks processed for temporary total disability, resulting in approximately \$704,103 in payments. TTD payments are based on the wage statements that Risk Management Services receive from Accounting. The employee then receives 66 2/3 per cent of their average weekly wage from their highest quarter prior to injury (for days owed based on the Workers Comp statutes and the policies/procedures of LFUCG). In this specific instance, incorrect information was keyed (typographical error). Going forward, instead of typing in the amount to be paid, the spreadsheet will incorporate the formula to calculate the payment. Additionally, Risk Management Services will perform a manual double-check on the TTD rate to confirm the correct payment amount.



Finding #4: Leave Forms Need Improved Documentation
Priority Rating: Moderate

Condition:

Leave request forms are completed in advance of a leave occurrence and are an estimate of projected leave. Therefore, actual leave taken by an employee may need to be adjusted based on their total hours worked for the week. At three of the Divisions included our audit, the Payroll Coordinators manually enter data from the leave request form. We noted during our testwork that Payroll Coordinators in the Division of Water Quality and the Division of Waste Management would sometimes make adjustments/corrections to leave requests; however, notations were not being made to the actual leave form. This gave the appearance that previously authorized leave as noted on the leave request form had been incorrectly entered into Kronos.

We also experienced problems during our test work identifying the correct employee because employee identification numbers were not included on the leave form.

Effect:

Failure to initial and date changes made to official employee leave requests results in an inadequate audit trail. Also, failure to post the employee's identification number on the leave request form increases the chances for leave data to be entered in the wrong employee's Kronos file.

Recommendation:

Payroll Coordinators should initial and date any changes made to an employee's leave request form to provide a complete audit trail. Leave request forms should be revised to include the unique employee identification number in order to eliminate any confusion regarding employees with similar names.

Director of Water Quality Response:

In regards to discrepancies between recorded Kronos leave time and signed leave slips submitted by employees, Water Quality will initiate a near-term solution by having employees initial changes made on the signed leave form so that both records match. Water Quality will also pursue a long-term solution where the employee must approve their time card prior to submittal to payroll, thus recording the employee's acknowledgement that the Kronos record is the official record of their leave time.



In regards to employee identification numbers included on the leave forms, the official forms have been edited and sent to staff for distribution and use.

Director of Waste Management Response:

The Division of Waste Management has modified the leave request to include a section for the employee identification number to be recorded on the form. This has been distributed to all staff. In addition, payroll coordinators have been informed to have leave slips signed whenever changes are made to the requested leave or to reflect the actual leave used.

Commissioner of Environmental Quality and Public Works Response:

Concurs with the changes recommended by the Directors of the Divisions of Water Quality and Waste Management.

Finding #5: Waste Management Incentive Pay Allowance Exceeded
Priority Rating: Low

Condition:

It has been a longstanding practice within the Division of Waste Management that employees will be allowed to go home with no loss in pay up to two hours before the end of their shift once they have completed their route and any assignments they have been given for that day. We performed testwork on reports generated by Kronos to determine if the Kronos ##### comply with this practice, which is also referenced in the Waste Management Memorandum of Understanding. Our review noted four separate work days where two employees reported more than two hours of incentive time for a single days work. The incentive hours exceeded the maximum daily from 0.1 to 0.2 hours.

Effect:

Exceeding the allowable incentive hours is inconsistent with the longstanding practice within the Division of Waste Management.

Recommendation:

The Director of Waste Management should coordinate with the Kronos System Administrator to conduct a controls review of the Waste Management Incentive #####. The ##### may need to be revised to flag all daily activity where the incentive hours have been exceeded for management review.



Director of Waste Management Response:

The Division of Waste Management received funds in the current fiscal year to upgrade the Kronos system and address this issue. The project includes updating ##### to simplify and improve the overall efficiency of the Division's payroll process.

Commissioner of Environmental Quality & Public Works Response:

Concurs with the Director of Waste Management and will monitor progress until fully implemented.

