

AUDIT OF COUNTY PAYROLL SYSTEM



Submitted by

Office of the County Auditor
County of Kaua'i
State of Hawai'i

Report No. 15-02

PREFACE

This audit assesses whether the County of Kaua'i's payroll system is in compliance with rules and regulations and uniformly applied. This performance audit of the County's payroll system was designed to examine County programs to ensure accurate reporting, appropriate application of pay scales and to identify areas for process improvement.

We would like to thank all who contributed data to this report, especially the Information Technology section of the Department of Finance and the Department of Personnel Services.

TABLE OF CONTENTS

PREFACE	1
EXECUTIVE SUMMARY	3
CHAPTER 1	6
Introduction	6
Background	6
Audit Objectives and Scope	6
The County of Kaua'i Payroll Process	7
Audit Methodology	8
CHAPTER 2	10
Audit Findings and Recommendations	10
Finding 1. The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements.	10
Finding 2. The County applied incorrect pay or benefit rates resulting in overpayments to employees.	12
Finding 3. Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.	13
AUDITEE RESPONSE	15

EXECUTIVE SUMMARY

PKF Pacific Hawaii LLP (“PKF” or “we”) has completed an audit of the County of Kaua‘i’s (“County”) payroll system and procedures under contract with the Office of the County Auditor. The performance audit examined the County-wide payroll system during the period from January 1, 2009 to December 31, 2013. The audit was designed to answer:

- Are the County’s controls and policies related to payroll activities adequately and appropriately operating to assure the County is in compliance with applicable rules and regulations?
- Are the County’s policies and procedures uniformly and consistently applied throughout the County to ensure that pay and benefits are accurate, appropriate, earned and paid to its employees? and
- Has the County established appropriate rules, policies and procedures to safeguard County assets, provide appropriate checks and balances and ensure the accountability of government?

The audit findings and recommendations are summarized as follows:

Finding 1: The amount of supporting documentation maintained by Department of Personnel Services (“DPS”) is inconsistent and could expose the County to risk of non-compliance with bargaining unit agreements.

Employee files are not centrally and securely maintained. There were many instances of missing documents due to lack of record retention and poor transitions of duties and responsibilities as payroll personnel turnover occurred. Documentation for benefit elections were not maintained prior to 2013.

Recommendation: DPS should maintain accurate and complete employee files, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Finding 2: The County applied incorrect pay or benefit rates resulting in overpayments to employees.

Pay rates and benefit elections are not timely updated and documentation for the changes are missing or unsecured.

Recommendation: Pay rates and benefit elections should be updated in the County's AS400 Payroll system ("the AS400" or "the payroll system") in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Finding 3: Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Certain employees outside the payroll function are capable of creating positions requisitions, adding new users and updating user permissions, among other user rights. They also have the ability to reapply base rates, rebuild hours, override and make pay adjustments. Though they cannot create new employees themselves, personnel outside of the payroll function should not have the ability to adjust an employee's pay rate due to the potential for fraud.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the human resource ("HR") and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

CHAPTER 1

Introduction

This audit was conducted pursuant to the authority of the Office of the County Auditor, as provided in the County Charter.

Background

This performance audit examines the County payroll system for compliance, efficiency and accuracy. Performance audits provide information to improve program operations and facilitate decision making. For a complete definition of performance audits see Government Auditing Standards section 2.10.

Audit Objectives and Scope

The audit was designed to answer the following questions:

- Are the County's controls and policies related to payroll activities adequately and appropriately operating to assure the County is in compliance with applicable rules and regulations?
- Are the County's policies and procedures uniformly and consistently applied throughout the County to ensure that pay and benefits are accurate, appropriate, earned and paid to its employees? and
- Has the County established appropriate rules, policies and procedures to safeguard County assets, provide appropriate checks and balances and ensure the accountability of government?

The period under evaluation spanned from January 1, 2009 through December 31, 2013. Our scope included all pay periods during this time period. Controls and access rights in the AS400 were also considered.

The County of Kaua'i Payroll Process

DPS has been processing payroll since July 1, 2014. Three employees who process payroll were transferred to DPS as of July 2014; the Central Payroll Accountant, Accountant III and the Payroll Specialist. Prior to this, the payroll function and positions were part of the Department of Finance.

The County begins its payroll processing once each department has entered its time in the AS400. The AS400 is a password protected payroll-processing software that contains a digital profile of all county employees including the employee's department, position, pay grade and benefit elections. DPS uses this system to process their payroll. Updates to employee data are made by the Payroll Administrator and Accountant III when an EC-1 form is received and signed by the employee and departmental personnel officer.

Out of 19 departments, nine submit a signed, detailed summary of their employees' hours to the DPS. The Payroll Specialist enters the time in the AS400 on the departments' behalf, while the remaining departments submit their time via the AS400. A signed Hours Proof Listing is submitted by all departments to DPS, which summarizes the department's hours by pay code. Changes to hours input can be made up until the Preliminary Payroll report is generated by the Central Payroll Accountant. The Preliminary Payroll report is sent to each department's payroll clerk for review but are only returned if errors are noted by the payroll clerk. At this point, the departments are unable to make any further changes in the AS400. Additional corrections may be made with approval from the Payroll Administrator and Accountant III up to two days prior to processing payroll. When the final payroll register is run, DPS compares it to the signed Hours Proof Listing to ensure no unauthorized changes were made during payroll processing.

After payroll is finalized, a fiscal officer from the Department of Finance authorizes the release of County funds. The EUTF bills DPS for the benefits who, in turn, bills the individual departments. The IT Department prints the payroll checks, which are housed and issued by the Department of Finance. For the employees who have not elected direct deposit, their department must sign for, and pick up, the checks at DPS. Checks issued are for the work performed in the prior period as the County is on a one period pay lag.

Pay rates and benefits are negotiated between the County and the individual BUs. The BU agreements list employee rights, grievance procedures, types of pay, types of leave, allowable expense reimbursements and types of benefits and their rates. Non-BU employees receive comparable rates based on the BU agreements or individual service contracts. The table below lists the types of BUs associated with the County.

COUNTY OF KAUA'I BARGAINING UNITS

BU Number	BU Description
1	Blue collar workers
2	Blue collar supervisors
3	White collar workers
4	White collar supervisors
11	Fire fighters
12	Police officers
13	Professionals and scientists

Audit Methodology

We developed an overall audit plan and risk-based strategy to approach and address the audit objectives, which included three distinct stages: planning, fieldwork and reporting.

The planning stage involved obtaining an understanding of the County's payroll system and process. Through telephone conferences and written requests, we reviewed documents prepared by DPS including payroll process checklists, memorandums and executive orders among other documentation to familiarize ourselves with the County's payroll process. We also utilized our employee benefit plan and financial audit resources to help identify key controls and high-risk areas in the payroll process, as well as establish a benchmark against which to test.

We reviewed the County's organizational chart and position descriptions to select key personnel to interview and walk us through the payroll process. On November 18, 2014, we met with the Payroll Administrator and Accountant III to get a better understanding of the payroll process, the AS400 and internal controls, including segregation of duties, within the department.

To review internal controls within DPS' IT systems, we requested a listing of those with access to the AS400 and those with access to NeoGov, the hiring and personnel software used by DPS, along with their user rights and permissions in each system. We compared the lists to determine whether anyone had access to both systems and if proper segregation of duties had been implemented.

We randomly selected five departments, one for each pay period in our sample to test hours input procedure within the payroll process. For each department, we reviewed the hours proof listing for proper sign-off by the Payroll Clerk and agreed the hours to the payroll register for each pay period. We also reviewed the Fiscal Officer's approval of the release of funds for each pay period in our sample as part of our test of the overall payroll process.

To test the accuracy of employee pay and benefits, we identified a population from which to sample. The population was defined as all pay periods within the time period under scope. We randomly selected one pay period from each year and requested a comprehensive list of county employees along with their salaries and bargaining units ("BU"). We randomly chose one employee from each BU and one non-BU employee from each pay period for a total of 40 unique sample items to test payroll reporting.

We recalculated the pay and benefits for each employee in our sample using the hours reported on the payroll register and the salary schedules from the BU agreements. We used the grade and step from the employee's Payroll Certification ("PC") as of each pay period sampled to determine the correct rate on the salary schedule.

For each employee in our sample, we agreed the employer portion of benefits paid per the payroll register to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") Monthly Insurance Premium Rates schedules based on the employee's EC-1 benefit election form. We followed-up on any issues noting mitigating circumstances and controls. Remaining findings were noted in Chapter 2 of this report.

To test the overall payroll process, we reviewed the fiscal officer's approval of the release of funds for each pay period in our sample and randomly chose one department from each period and agreed the hours per the signed Hours Proof Listing to the payroll register.

We conducted this performance audit in accordance with generally accepted government auditing standards. Information deemed confidential under the Hawai'i state open records law (Hawai'i Revised Statutes ("HRS") chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices ("OIP") Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, "OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors." Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the Hawai'i collective bargaining law (HRS chapter 76).

CHAPTER 2

Audit Findings and Recommendations

Finding 1. The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to the risk of non-compliance with bargaining unit agreements.

Despite multiple follow up requests for support, one of the most prevalent and pervasive issues during our testing was the lack of documentation maintained by DPS, in particular for benefit elections. DPS disclosed to us that documentation for benefit elections had not been maintained prior to 2013. Of the 40 employees we tested, 38 had at least one benefit or pay item where DPS was unable to provide supporting documentation for a total of 81 instances. The details of our findings are presented in the table below.

INSTANCES OF UNSUPPORTED BENEFIT ELECTIONS OR PAY

Type of Payroll Item	Classification	Description	No. of Times Occurred
Benefit	Ret Other Pst Ret-Medical	Benefits paid to cover employee medical expenses after retirement.	38
Benefit	Retirement (Regular Employee, Fire, Police)	Employer contributions for employees who participate in the State retirement system.	23
Pay	Temporary Assignment	Additional pay for employees who temporarily fill and serve in a position above their own.	12
Benefit	Health Fund Life Ins	Employee's election for life insurance.	5
Pay	Fire Rescue Specialist; Hazard Assignment	Additional pay for employees who serve in search and rescue missions and hazardous conditions.	2
Pay	Employee's Basic Pay	Base salary paid to employee.	1

Though there appeared to be adequate authorization and review of changes in employee status, pay rates and benefit elections, there did not seem to be an independent verification of time entry. Departments ultimately certify their own time input during the preliminary payroll approval process. Without independent verification or support to show approval of additional hours, the County is left susceptible to both error and fraud.

Further, all County BU agreements include a clause providing employees the right to inspect their personnel files. Based on our findings, the County may have risked violating the BU agreements if a dispute over benefits had arisen, or if an employee had requested to see any of the missing support in the table above between 2009 and 2013.

In addition, six of 39 EC-1 benefit election forms were signed after the pay period we selected for testing. Although the benefit elections matched the rates reported on each employee's payroll register, there was no way to confirm these were the actual benefits elected at the time payroll was processed as they were signed after the fact.

As we tested the overall payroll process, we noted discrepancies between the billings from the EUTF to DPS and the subsequent billing from DPS to the departments. DPS partially substantiated this by explaining the EUTF is not always up to date and, for example, will continue to bill for benefits for an employee who terminated. DPS noted, however, the EUTF will usually correct their error on subsequent billings. After several requests, DPS was ultimately unable to reconcile and quantify the difference in billings.

Finally, we noted eight instances where both BU and non-BU employee pay could not be substantiated beyond their PC. The PC acts as the County's input sheet into the AS400 for basic employee data including position title, class and grade, pay rate and other demographic information. It is derived from various source documents including the BU agreements and is signed by both the appointing authority and the Director of DPS. Though we agreed the employee's pay from the payroll register to their PC, we were subsequently unable to use their step and grade from their PC to vouch their pay to the salary schedule from their BU agreement. We were therefore unable to verify the accuracy of their pay and determine the extent of any potential over or under payments by the County.

Recommendation: DPS should maintain accurate and complete employee files, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated

versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Finding 2. The County applied incorrect pay or benefit rates resulting in overpayments to employees.

Our testing revealed a total of 43 instances in which pay and benefits were improperly applied to the 40 employees in our sample. Nine of the findings were due to incorrect application of rates for various types of pay, which affected five of the 40 employees we tested and resulted in approximately \$1,400 in overpayment by the County as shown in the table below.

INCORRECTLY APPLIED PAY RATES

Reason for Incorrect Application	Count	Overpayment	Pay Type
Rate applied does not appear in BU salary schedule.	7	\$118.63	Employee's basic pay, leave without pay, standby pay, night alarm pay and rest period pay.
Wrong pay class or grade applied,	2	\$1,265.50	Employee's basic pay.
Total Pay Rates Applied Incorrectly.	9	\$1,384.13	Net overpayment.

The remaining 34 instances were comprised of benefits that, according to the employee's EC-1, were applied but not elected or had a rate assigned from either the wrong type of plan (e.g. two-party vs individual vs family plans, etc.)

or the wrong BU agreement. The 34 instances affected 10 of the 40 employees who had an average of 3.4 benefits incorrectly calculated out of a possible seven different benefit elections. As mentioned in the prior finding, DPS did not maintain documentation for benefit elections prior to 2013. Breakdowns of the various types of errors encountered are provided below.

INCORRECTLY APPLIED BENEFITS

Reason for Incorrect Application	Count	Over (under) Payment	Benefit Type
Rates from wrong BU and wrong plan applied.	19	(\$64.31)	Medical, drug, dental and vision coverage.
Rates from wrong BU applied.	8	\$79.47	Medical, drug, dental and vision coverage.
Did not elect benefit on EC-1 but was given anyway.	6	\$1,191.41	Life insurance, retirement contributions, retirement medical contributions, drug coverage.
Benefit elected but not paid.	1	(\$2.08)	Life insurance.
Total Benefits Applied Incorrectly.	34	\$1,204.49	Net overpayment.

Recommendation: Pay rates and benefit elections should be updated in the AS400 in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Finding 3. Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Segregation of duties is a key component of effective internal control and consists of the Authorization, Custody and Record Keeping functions. The principle behind segregation of duties is to isolate key operating functions in a business so no single individual or entity is able to bypass internal controls or perpetrate fraud.

During our review of IT controls, we noted 23 employees who have access to both the AS400 and NeoGov. Eight of these employees are representatives from requesting departments that are classified as Hiring Liaisons in NeoGov. These employees are capable of creating position requisitions, adding new users and updating user permissions, among other user rights. The eight liaisons also have access rights to the hours entry function in the AS400, which

gives them the ability to reapply base rates, rebuild hours, override and make pay adjustments.

Those with the ability to create an employee should not be able to pay them as well. Though Hiring Liaisons are incapable of creating new employees themselves, personnel outside of DPS should not have the ability to adjust an employee's pay rate.

While we did not observe any lack of segregation of duties within DPS, we did note during our interviews that no formal action plan had been established either prior to or during the merger of the payroll and hiring functions under DPS to ensure a seamless transition. Both functions appeared to continue to operate independently of each other without a clear direction of the goals or vision of the department.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the HR and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

* * * *

AUDITEE RESPONSE

Finding 1: The amount of supporting documentation maintained by DPS is inconsistent and could expose the County to risk of non-compliance with bargaining unit agreements.

Recommendation: DPS should maintain accurate and complete employee files, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Auditee's Response: Agree. With the recent restructuring of the Department of Human Resources (HR) including the transfer of central payroll functions, employee files related to employment, pay and benefits are now centrally maintained at HR.

Cross training is already in progress at HR to ensure seamless transitions when employees separate from the County or on extended leaves.

The County Attorney's office is already working on a comprehensive policy regarding document retention for not only HR but all County departments with regards to varying public and personnel files.

Finding 2: The County applied incorrect pay or benefit rates resulting in overpayments to employees.

Recommendation: Pay rates and benefit elections should be updated in the AS400 in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Auditee's Response: Agree. With the recent restructuring Department of Human Resources (HR), payroll transactions are now being generated centrally at HR (versus at the various departments). A flowchart that depicts the work flow processing has been developed and anticipated payroll transactions are tracked to be processed one (1) month before the effective date. Reliance on departments for operational changes still present a challenge for timely processing.

Payroll staff will monitor and audit transactions including benefits during every payroll cycle to ensure accurate payments. Departments will be required to submit a summary of payroll entries as a check to the payroll hours proof form that is already being submitted.

Payroll staff will continue to work with the Employer-Union Health Benefits Trust Fund (EUTF) to obtain accurate and detailed billing information to ensure that health insurance premiums paid out correctly reflect the County's financial obligations.

Finding 3: Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the HR and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel

with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

Auditee's Response: Agree. The Department of Human Resources (HR) has been working diligently with the Department of Finance-Information Systems to develop appropriate security access for the various HR functions while maintaining an adequate level of backup support. Changes have already been made to provide read-only access to specific HR staff who are not involved with personnel and payroll transactions.

The HRIS (Human Resources Information Systems) Task Force has been meeting for over a year now and continues to look at merging the different aspects of payroll and personnel, thereby creating greater efficiencies.

Auditor's Comment: While DPS is taking steps to ensure the appropriate security access and internal controls are in place to prevent payroll fraud, DPS should remain vigilant of the inherent risks associated with combining payroll and personnel functions under the same department. In addition, payroll personnel should leverage resources from the Department of Finance for any complex tax issues and other payroll-related compliance measures to the extent needed. DPS should further ensure that its personnel have the appropriate experience and training to carry out its implementation plan. This includes having adequate succession planning procedures in place in the event of the attrition of key personnel.

Bernard P. Carvalho, Jr.
Mayor



Janine M.Z. Rapozo
Director

Nadine K. Nakamura
Managing Director

DEPARTMENT OF HUMAN RESOURCES
County of Kaua'i, State of Hawai'i
4444 Rice Street, Suite 140, Lihu'e, Hawai'i 96766
TEL (808) 241-4956 FAX (808) 241-6593

June 19, 2015

Mr. Tyler Kimura
PKF Pacific Hawai'i LLP
1132 Bishop Street, Suite 2500
Honolulu HI 96813-2864

Subject: Payroll System Audit
Draft Report

Dear Mr. Kimura,

Thank you for the opportunity to submit a written response to the subject draft audit report. Following are our responses to the recommendations made therein.

Finding 1: The amount of supporting documentation maintained by the Department of Personnel Services ("DPS") is inconsistent and could expose the County to risk of non-compliance with bargaining unit agreements.

Recommendation: DPS should maintain accurate and complete employee file, especially when it comes to benefit elections. All documents related to employment, pay and benefits should be aggregated and maintained in a single, secured file for each employee. These files should be kept on hand for record-keeping purposes and not be replaced with updated versions or discarded after an employee terminates. The County would consequently be able to substantiate changes in rates or benefits for future audit examinations, employee requests to exercise their right to inspect their personnel file and resolve any possible disputes with employees.

There are numerous sources of governance that dictate document retention and maintenance requirements at the federal, state and county levels. DPS should consult with the County Attorney to implement a comprehensive policy that ensures compliance with these standards.

AN EQUAL OPPORTUNITY EMPLOYER

Further, there likely would not have been as many instances of missing documents had the County adequately transitioned the duties and responsibilities of payroll personnel as turnover occurred. It was frequently noted during our testing that documents could not be located due to uncertainty regarding their location as previous payroll employees may have had a different filing system, record retention policy or documentation maintenance system. Procedures should be consistently applied from one employee to the next to avoid this confusion. A sufficient transition period and training would ensure that the organization consistently follows best practices regardless of employee turnover.

Response:

Agree. With the recent restructuring of the Department of Human Resources (HR) including the transfer of central payroll functions, employee files related to employment, pay and benefits are now centrally maintained at HR.

Cross training is already in progress at HR to ensure seamless transitions when employees separate from the County or on extended leaves.

The County Attorney's office is already working on a comprehensive policy regarding document retention for not only HR but all County departments with regards to varying public and personnel files.

Finding 2:

The County applied incorrect pay or benefit rates resulting in overpayment to employees.

Recommendation:

Pay rates and benefit elections should be updated in the County's AS400 Payroll system ("the AS400" or the payroll system") in a timely manner and documentation for all such changes should be maintained in the employee's file in a secured location. We recommend that DPS monitor benefit payments and evaluate these instances of overpayment to see if adjustments need to be applied.

Response:

Agree. With the recent restructuring Department of Human Resources (HR), payroll transactions are now being generated centrally at HR (versus at the various departments). A flowchart that depicts the work flow processing has been developed and anticipated payroll transactions are tracked to be processed one (1) month before the effective date. Reliance on departments for operational changes still present a challenge for timely processing.

Payroll staff will monitor and audit transactions including benefits during every payroll cycle to ensure accurate payments. Departments

will be required to submit a summary of payroll entries as a check to the payroll hours proof form that is already being submitted.

Payroll staff will continue to work with the Employer-Union Health Benefits Trust Fund (EUTF) to obtain accurate and detailed billing information to ensure that health insurance premiums paid out correctly reflect the County's financial obligations.

Finding 3: Certain County personnel have the ability to make changes in both the hiring and payroll systems, resulting in a lack of proper segregation of duties.

Recommendation: Though the merging of the hiring and payroll processes under the same department itself does not violate the principles of segregation of duties, the IT systems for the human resource ("HR") and payroll functions should remain completely segregated from each other. Those who have access to one should be limited to read-only rights in the other. The involvement of a department in the payroll process should be limited to time reporting and reviewing and approving the preliminary payroll report. Payroll should be the only personnel with the ability to adjust an employee's pay rate. This should ensure no one with the ability to hire an employee has the ability to pay them as well.

With adequate internal control and segregation of duties remaining a priority, DPS should consider establishing and communicating a definitive vision and business plan as well as re-analyzing its operations and structural hierarchy. DPS should subsequently determine if integrating certain aspects of the payroll and hiring processes could improve efficiency and reduce costs now that both are under the same department.

Response: Agree. The Department of Human Resources (HR) has been working diligently with the Department of Finance-Information Systems to develop appropriate security access for the various HR functions while maintaining an adequate level of backup support. Changes have already been made to provide read-only access to specific HR staff who are not involved with personnel and payroll transactions.

The HRIS (Human Resources Information Systems) Task Force has been meeting for over a year now and continues to look at merging the different aspects of payroll and personnel, thereby creating greater efficiencies.

Mr. Tyler Kimura
Page 4
June 19, 2015

We are pleased that the audit report confirmed that the many of the changes being implemented since central payroll functions were transferred from the Department of Finance to the Department of Human Resources are moving in the right direction towards safeguarding the County's assets, providing checks and balances and ensuring accountability of government.

Respectfully submitted,



Janine M.Z. Rapozo
Director of Human Resources

cc: Bernard P. Carvalho Jr., Mayor
Nadine Nakamura, Managing Director
Mel Rapozo, Council Chair
Ross Kagawa, Council Vice Chair
Mason K. Chock, Councilmember
Gary L. Hooser, Councilmember
Arryl Kaneshiro, Councilmember
KipuKai Kualii, Councilmember
JoAnn A. Yukimura, Councilmember