



Douglas County Internal Audit

May 14, 2012

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, PJ Morgan,
Chris Rodgers and Pam Tusa

Tom Cavanaugh, Douglas County Clerk/Comptroller
1819 Harney St., Room H08
Omaha, NE 68183

Dear Commissioners and Mr. Cavanaugh:

I have completed an audit of Douglas County payroll processing. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to prepare payroll each pay period. The audit revealed that, overall, controls were adequately designed and worked effectively with the exception of documenting supervisory approval of employees' time. Detail related to this exception appears below.

Background

As part of the fiscal year-end audit plan, Douglas County Internal Audit performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by Internal Audit to formulate a professional opinion about the County's year-end financial statements. Below are the details related to tests of the controls for processing the County's payroll.

Objectives

The objectives of the audit were to determine that:

- Employees are paid based upon rates that are properly authorized by appropriate County officials.
- Employees are paid based upon time that is accurately recorded and properly authorized and approved.
- Gross compensation, tax withholdings, deductions and net pay are recorded completely and accurately.

Scope and Methodology

The audit included a review of forty randomly chosen employees' pay from five randomly chosen pay periods from July 1, 2011 through April 13, 2012. The sample was chosen from Oracle payroll data and included tests to verify that:

- Pay rates were approved by Board resolution or included in the appropriate union contracts.
- The time recorded in the payroll period for each employee was properly authorized and approved.
- Gross pay, tax withholdings, deductions and net pay were properly calculated.
- All deductions were properly authorized by the employees and included in the Deduction Report.

Findings

Criteria: All time entered for employees should be properly authorized and approved by their supervisor. Evidence of supervisory approval should be appropriately documented.

Condition: In January of 2012 the county Board passed the following resolution:

"NOW, THEREFORE, BE IT RESOLVED BY THIS BOARD OF COUNTY COMMISSIONERS, DOUGLAS COUNTY, NEBRASKA, hereby directs elected officials, department directors and court administrators to develop a process whereby there is assurance and documentation of supervisory review and verification that the time charged for each payroll period is for time and shifts actually worked and any paid time-off is accurately classified."

This policy was not always followed or completely implemented as evidenced by the exceptions noted below:

- The employee entering time for the County Attorney was not aware of the policy. Supervisors were reviewing employee's times, but were not documenting the review.
- For Corrections Administration, Records, Work Release, House Arrest, and Day Reporting employees, there was no process to document supervisory approval.

Effect: Without supervisory approval, pay for gross wages and paid time-off may not accurately reflect the actual amount or type of pay due the employee.

Cause: The policy was communicated to all County Department heads and elected officials. However, the policy and the processes needed to comply with the policy were not fully discussed and communicated to all the pertinent personnel.

Recommendation: County Administration should inform all department heads and elected officials that the timekeeping approval policy needs to be communicated and understood by their supervisors and timekeepers. Any questions or concerns about the processes used by the

departments should be discussed with Payroll Department personnel. It should be noted that Oracle workflow is the preferred methodology for a consistent county-wide process and that it complies with the policy as long as the approvers have the appropriate supervisory capabilities.

Management Response: The Chair of the Douglas County Board will inform all elected officials and department directors that they must have a supervisory review process in place to assure that the earnings for each employee reflect the time and shifts actually worked and that other types of earnings are appropriate. This process must include adequate documentation of the review, provide for adequate segregation of duties, and be communicated to all timekeepers in their offices. Questions regarding the adequacy of the process should be forwarded to the Payroll Department.

Note: The Corrections Administrative Services Manager felt he could have a fully compliant process in place within two weeks which would include the storage of supervisory approval records for an appropriate period of time. The County Attorney's office indicated they would begin documenting the supervisory approvals immediately.

Audit Standards

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

Internal Audit appreciates the excellent cooperation provided by various departmental managers and their staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

- cc: Paul Tomoser
- Joni Davis
- Trent Demulling
- Donald Stephens
- Kathleen Kelley
- Joe Lorenz
- Patrick Bloomingdale

Kathleen Hall
Jerry Prazan
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