

# **AUDITOR'S REPORT**

## **AUDITOR'S OFFICE PAYROLL OVERTIME CALCULATION**



**August 1, 2014**

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**HARRIS COUNTY AUDITOR**

August 1, 2014

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RE: Auditors Office Payroll Overtime Calculation

The Audit Services Department performed procedures relative to the Auditor's Office Payroll Overtime Calculation. The objective of the engagement was to determine whether the controls of this project were adequate, and that acceptance testing by the Information Technology Center (ITC) and the Auditor's Office Payroll provided assurance that the Payroll Overtime Calculation Project was properly implemented.

Our procedures included the following:

- Determined if requirements document was completed and formally acknowledged by management, and that requirements were consistent with testing to be performed.
- Evaluated the reasonableness of the test plan and test results, reviewing the completed acceptance testing to evaluate whether Payroll's testing agreed that overtime calculation for non-exempt and exempt employees had been properly modified and the required incentives were included in the hourly pay rate amount.
- Reviewed implementation procedures for reasonableness.
- Determined if the project methodology was in compliance with County application change requests policies and procedures.
- Determined if policies and procedures have been updated to reflect changes in the process due to the addition of new overtime standards and compensatory carry-over and payout rules. Reviewed communication documentation and determined if the system changes had been communicated to all necessary parties.
- On a sample basis, independently calculated employee payments for the period ended December 13, 2013 for the pay cycles that had been affected by the application changes and verified that the results matched the actual distributions.

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Chief Information Officer

The functionality of calculating final pay at termination could not be tested. Although this was included in the original proposed change, Payroll decided to postpone adding this functionality until a future change.

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott  
County Auditor

cc: District Judges  
County Judge Ed Emmett  
Commissioners:  
R. Jack Cagle  
El Franco Lee  
Jack Morman  
Steve Radack  
Devon Anderson  
Vince Ryan  
William J. Jackson

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## OVERVIEW

Payroll information originates in each County department. The Payroll Department verifies and processes payroll disbursements each pay period by using information such as salaries, hourly rates, change of employee's status, deductions, etc., already stored in the County's financial system (IFAS). Computer generated payroll reports, deduction and contribution registers, as well as exception reports are reviewed by Payroll before funds are disbursed by the County Treasurer. Payroll is also responsible for preparing the federal payroll tax deposits and related payroll reports.

Overtime pay is calculated based on directives from Commissioner's Court, department policies, and federal and state law. From time to time these directives are updated requiring modifications to how overtime is calculated. Depending on the complexity of the modifications the calculation may require edits to the IFAS application (Program Changes) or could be changed through IFAS settings (System Settings). Program Changes are changes to the actual commands and functionality of the application. Procedures for making changes to IFAS code are defined by County Accounting Procedures O.9, *IFAS Program Changes*. System Settings are values that the application is designed to use for determining how calculations are made without changing the application. The process for making changes to System Settings is defined by O.10, *IFAS System Settings Service Requests*. Testing for both IFAS Program Changes and System Settings changes are defined by County Accounting Procedures O.12, *Financial System Testing Guidelines*.

## RESULTS

Based on our procedures the test plan, the test results, and the controls related to implementation procedures of this project appeared to be adequate; however, as the accounting procedures related to program changes were not followed for this project, controls related to this area require improvement as explained below and in the Issues and Recommendation matrix on page 7.

The following scope objectives had exceptions:

- Payroll and ITC follow an informal process for changes that includes testing and approvals; however, the process being followed is not in compliance with all of the requirements of Harris County Accounting Procedures O.9, *IFAS Program Changes*, O.10, *IFAS Service Request*, and O.12, *Financial System Testing Guidelines*. This issue is presented in the attached Issues and Recommendations matrix.
- A formal requirements document was not completed and acknowledged by management; however, the Payroll Department's requirements, which were verbally communicated to Audit Services, were consistent with testing performed.

The following scope objectives had no exceptions:

- The test plan and test results appeared reasonable for testing that overtime calculation for non-exempt and exempt employees had been properly modified and the required incentives were included in the hourly pay rate amount.
- Implementation procedures were reasonable.
- Departmental policies and procedures did not need to be updated or communicated to other parties.

- Subsequent to the implementation Audit Services independently calculated employee payments for the pay period ended December 13, 2013 for the pay cycles that had been affected by the application changes. The actual employee distributions were verified to the amounts calculated by Audit Services without exception.

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>Compliance with IFAS Change Control Policy</p>	<p>County Accounting Procedure O.9, <i>IFAS Program Changes</i>, details the actions that are to take place to request, plan, and approve any changes to the IFAS system. It defines the actions that the requestor is to perform, to include the completion of County Auditor's Form 25, <i>IFAS Program Change Request</i>, which includes details on what the change consists of and requires the module owner to authorize the change.</p> <p>ITC is then required to evaluate, authorize if complete, and assign a priority number to the request. ITC uses this information to complete the County Auditor's Form 62-0027, <i>IFAS Program Change - Specification Sheet</i>. Form 62-0027 is then provided to the requestor</p>	<p>The Payroll Department does not use County Accounting Procedures O.9, O.10, or O.12 as guidance for IFAS modifications and changes. The Payroll Department has an informal process that includes acceptance testing and documentation consisting of e-mails between participants stating requirements, outcomes, and approvals; however, the informal process does not include documentation for testing and authorizations that are required by the County Accounting Procedures.</p> <p>Without following the requirements set forth in Policies O.9, O.10 and O.12, there is an increased risk of misunderstood requirements or incomplete testing leading to the implementation of changes</p>	<p>ITC and Payroll management should review implementation requirements as outlined in the County Accounting Procedures O.9, O.10 and O.12, ensure that they are still current, and follow the guidance provided in the future. ITC management should enforce the policy and not initiate any application or setting changes without required documentation and authorization forms.</p>	<p>The Payroll Department will ensure compliance with all requirements delineated in these procedures. This includes implementation of a formal testing process that will provide documentation of the outcome for all tests conducted. The Payroll Department will document signoff of the individual conducting the test and the manager approving the determination of the results.</p> <p>ITC FHRA management will meet with Payroll management to review the implementation requirements outlined in Procedures O.9, O.10, and O.12, make recommendations if needed to Auditor Systems and Procedures, and follow the policies outlined in these Procedures.</p>

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Compliance with IFAS Change Control Policy (Continued)	for approval so that ITC can proceed with the change request.  County Accounting Procedures O.12, defines managerial approval of acceptance testing. Per this policy, the test plan document receives a managerial signature approval at the conclusion of testing, with one copy to be retained in the Payroll department, and a copy forwarded to ITC.	that cause errors in payroll disbursements.		