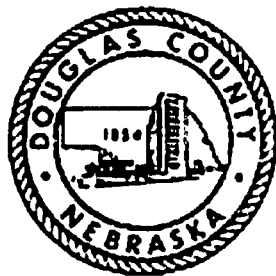


DOUGLAS COUNTY INTERNAL AUDIT DIVISION



**ANNUAL PAYROLL TESTING
REPORT ON INTERNAL CONTROLS
FOR HAYES & ASSOCIATES
FY 2009/2010 #03**



Douglas County Internal Audit Division

To: Honorable Thomas Cavanaugh
Douglas County Clerk/Comptroller

From: Carmen Harmon, Internal Audit Administrator
Douglas County Internal Audit Division

Date: August 27, 2009

RE: Annual Payroll Testing

As part of the fiscal year audit plan, Douglas County Internal Audit Division (DCIAD) staff performs compliance and internal control testing for the Douglas County external audit firm, Hayes & Associates, L.L.C. The external auditor uses the test data provided by DCIAD to formulate a professional opinion, issued in the Comprehensive Annual Financial Report (CAFR), concerning financial reporting in Douglas County.

This special report describes the results of the compliance and audit testing of the Douglas County payroll process.

Objectives

The audit objectives are to:

- Determine whether the Civil Service Commission Employment and Change Report was approved by the Department head and Personnel;
- Determine if the employee payroll data for the selected employees agrees with the most recent "Civil Service Commission Employment and Change Report"; Union Contract Wage Agreement; or budget document;
- Verify the Oracle Time and Labor approval process is functioning appropriately;
- Verify the calculation of gross pay;
- Verify the calculation of all other withholdings (Federal Income Tax, FICA, Medicare, Nebraska State Tax, and Douglas County Pension) ;
- Verify that employee benefit deductions were withheld on the proper pay periods and match the total listed in the Miscellaneous Deduction Register. Verify the existence and correctness of employee W-4 forms, health insurance cards and other benefit cards;

For purposes of payroll testing, it is assumed leave balances, hours worked, and shifts differentials, in Oracle are accurate.

Scope and Methodology

There were twenty-six pay periods in fiscal year 2008/2009. Ten pay periods, and forty employees, were randomly selected, using the EXCEL data analysis tool. Random sampling ensures that all combinations of sampling units in a population have an equal chance of selection.

See Appendix A for a table of payrolls, and number of employees, selected.

All relevant employee data, for the ten selected pay periods, was imported from Oracle¹ into an EXCEL spreadsheet. The data was separated by pay period and sorted by name, employee number, and organization. An additional sort was performed on the refined data to remove any duplicates.

¹ The Oracle ERP system is audited annually

Exception # 1 – There was one (1) W-4 form that could not be located. There were two (2) W-4 forms where the number of exemptions on the W-4 form did not match the pay slip. There were two (2) W-4 forms with the marital status of Married/Single and the pay slip stated Single.

Criteria: ²The employee must complete a Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Condition: The Douglas County Payroll Division was notified that employee 2362 W-4 form could not be located during payroll testing. Employees 3536 and 2191 both had W-4 discrepancies due to a payroll error. ³Per Payroll Division; employee 1837 and employee 824 were employees prior to 1995 and from 1995 and prior years W-4 statuses Single and Married but withholding at higher Single rate had no significance when processing payroll.

Cause: Douglas County Payroll Division misplaced an employee's W-4 form. The Douglas County Payroll Division also inaccurately entered W-4 exemptions on employee records.

Effect: The Douglas County Internal Audit Division recommends that the Payroll Department should notify employee 2362, in regards to filling out a new W-4 form for the Payroll Division's records.

Recommendation: The Douglas County Internal Audit Division also recommends that the Payroll Department should annually review employee W-4 forms to verify the accuracy of information.

| Employee Number | W-4 Discrepancy |
|-----------------|--|
| 3536 | Marital status does not match W-4 |
| 1837 | Marital status of Married/Single same as Single Status prior to 1995 |
| 824 | Marital status of Married/Single same as Single Status prior to 1995 |
| 2191 | Exemptions do not match W-4 |
| 2362 | Can not locate W-4 |

Management Response: Management concurs. All above mentioned instances of W-4 issues have been corrected (corrected W-4's have been requested and received from the employees.)

² IRS: <http://www.irs.gov/pub/irs-pdf/fw4.pdf?portlet=3>

³ * Payroll stated married, but withholding at higher single rate is the same as single. Prior to 1995 married, but withholding at higher single rate was not an option the employee could choose.

APPENDIX A

| PAYROLL SELECTIONS | | |
|--|---------------------------|-----------------------|
| From | To | # of employees |
| August 10, 2008 | August 23, 2008 | 4 |
| August 24, 2008 | September 6, 2008 | 4 |
| September 7, 2008 | September 20, 2008 | 4 |
| October 5, 2008 | October 18, 2008 | 4 |
| October 19, 2008 | November 1, 2008 | 4 |
| November 2, 2008 | November 15, 2008 | 4 |
| November 30, 2008 | December 13, 2008 | 4 |
| January 25, 2009 | February 7, 2009 | 4 |
| February 8, 2009 | February 21, 2009 | 4 |
| March 8, 2009 | March 21, 2009 | 4 |
| Total Number of Employees per payroll | | 40 |

**Cc: Honorable Thomas F. Cavanaugh, Douglas County Clerk/Comptroller
Kathleen Hall, Chief Deputy, Douglas County Clerk/Comptroller
Jane Faust, Payroll Administrator, Douglas County Clerk/Comptroller
Audit Committee Members⁴
Mr. Frank Hayes C.P.A., Hayes and Associates, LLC**

⁴ The audit committee members are: Honorable Chris Rodgers, Douglas County Commissioner; Mr. Ronald Bucher, Metropolitan Utilities District, Dr. Jack Armitage, Professor University of Nebraska at Omaha; Mr. T. Paul Tomoser, and Ms. Joanie Davis, Omaha Public Power District.

DCIAD Staff participants in Report on internal controls for Hayes and Associates for
FY 2009/10 #03:

(signed)
Brandon Clark, Internal Audit Analyst
Primary Auditor

(signed)
Carmen Harmon, Internal Audit Administrator

**FY 2008-2009 Annual Payroll Testing, Report on internal controls for Hayes &
Associates for FY 2009/2010 #03 was released on August 27, 2009.**

