

## EXECUTIVE SUMMARY

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A performance audit (audit) was conducted of the payroll internal controls of the City's Civil Service Department, payroll, accounting, management information systems (MIS) and treasury functions for the period January 1, 2009 through June 30, 2010. The objective of the audit was to evaluate the adequacy of the City's internal controls related to the payroll process. The audit also evaluated the adequacy of access controls for each software program used to process payroll.

The audit revealed that City payroll internal control processes were deficient in certain areas leaving the City's payroll function vulnerable to fraud opportunities.<sup>1</sup>

The audit noted that the Civil Service Department could not produce a listing of City employees independently from the City's MIS department. The City did not resolve previous external audit findings, nor did it reconcile payroll cash accounts and payroll clearing accounts timely. The City incurred \$50.7 million in personnel expenditures in 2009 that were not budgeted in the personnel services budget. Most NOPD timesheets sampled were not signed by employees, and 13% of the workforce exceeded the annual limit of 416 hours of overtime.

The audit found that two employees (reduced from 10 in 2009) in 2010 had approval access for all levels in the HRTS and could approve hours and time without oversight. Wire transfers were initiated without the requestor's signature, and the key to the signature stamp was found unsecured. The City did not follow up on undistributed manual payroll checks.

The recommendations in this report, if adopted, would improve the City's accountability and reduce the opportunity<sup>2</sup> for fraud and waste related to payroll.

*Note: All responses by the Civil Service Department and the City in the body of this report are direct statements and have not been modified.*

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<sup>1</sup> Internal controls alone are insufficient to fully prevent occupational fraud. Properly designed and monitored controls decrease opportunities for fraud.

<sup>2</sup> Opportunity, along with rationalization and pressure is one of the three components of the fraud triangle as identified by Donald R. Cressey, Wells, Joseph T. (2007). *Corporate Fraud Handbook*. New Jersey: John Wiley & Sons.