

EXECUTIVE SUMMARY

During the Payroll Internal Control Audit issued in 2011, the auditors noted several accounts with large older balances within the Payroll Clearing Fund, an Agency Fund¹. These accounts had little or no activity for several years.²

Due to the risk of under-stated accrued liabilities³ in the individual funds and older outstanding liabilities in the Payroll Clearing Fund, the auditors reviewed payroll liabilities to test for accuracy and completeness.

The audit revealed that the Payroll Clearing Fund had approximately \$1.5 million in liabilities that should have been written off in previous years. The auditors also noted \$107.1 million in debit balances and \$106.8 million in credit balances that appeared questionable after the original \$1.5⁴ million dollar adjustment was posted.

The City was unwilling to perform research to determine the accuracy of these balances when questioned by the OIG auditors.⁵

The auditors found that employees' annual and sick time was entered incorrectly into the Advantage Human Resource System (AHRIS)⁶ for 27 of the employees selected for testing resulting in an understatement of leave balances totaling \$206,747.

The recommendations in this report, if adopted, should improve the City's management of payroll liabilities, increase the accuracy of amounts recorded in the Payroll Clearing Fund and ensure correctness of accrued sick and annual leave balances recorded in the other respective funds.

Note: All responses from the City in the body of this report are direct statements and have not been modified.

¹ The Governmental Accounting Standards Board No. 34 defines an agency fund as a fund "used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments."

² Finding #4 of The Payroll Internal Control Performance Audit, issued October 28, 2011, stated that the balances "were in excess of \$1.2 million."

³ Accrued liabilities are expenses that occurred in one period but are not paid until a later period. In order to reflect expenses in the proper period, these expenses were accrued and shown as a liability on the balance sheet. Payroll, vacation and sick time expenses were accrued as they were earned and "banked" until the employee used them. The total amount accrued was based on the employee's department, start date, and years of service.

⁴ This difference is a combination of transactions which have remained for several years.

⁵ The auditors originally requested explanations of these accounts on June 30, 2011, which was more than two months before the September 19, 2011 issue date of the December 31, 2010 Financial Statements.

⁶ AHRIS is the City's DOS-based payroll processing system.