



# REVIEW OF THE PAYROLL SERVICE BUREAU

## FOR THE PERIOD CALENDAR YEAR 2023

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## EXECUTIVE SUMMARY

The Payroll Service Bureau (Bureau) is a division of the Department of Accounts (Accounts) responsible for payroll processing and certain other related functions for approximately 65 participating agencies. Annually, the Bureau processes over \$2 billion of payroll expenses. Our Office conducted a review covering calendar year 2023 to evaluate the adequacy of the Bureau's internal control framework following the implementation of the Commonwealth's human resource and payroll management system.

Our review found matters at the Bureau involving internal control and its operation necessary to bring to management's attention. In the section titled "Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control findings identified through our review as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and developing and appropriately implementing adequate corrective actions to resolve the findings. Those corrective actions may include additional items beyond our recommendations.

## - TABLE OF CONTENTS -

	<u>Pages</u>
EXECUTIVE SUMMARY	
INTRODUCTION	1
FINDINGS AND RECOMMENDATIONS	2-4
TRANSMITTAL LETTER	5-6
FINDINGS SUMMARY	7
AGENCY RESPONSE	8

## INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. To facilitate a more efficient and effective annual work plan, the APA developed a risk-based approach for auditing agencies that we are not required to audit every year. We refer to these agencies as “cycled agencies.” This approach allows the APA the flexibility to focus on the more significant agency operations at any one or several of these cycled agencies. The Payroll Service Bureau (Bureau) falls into the cycled agency category and is part of this approach. The Bureau is a division of the Department of Accounts (Accounts); however, we review it separately from the main operations of Accounts since the division is performing a service for other agencies. We performed a review of select internal controls over the Bureau’s processing of agency payroll transactions covering calendar year 2023. This report contains the results of this review.

The Bureau is responsible for payroll processing and certain other related functions for approximately 65 participating agencies. Annually, the Bureau processes over \$2 billion of payroll expenses. In August 2016, Accounts launched a project to replace the Commonwealth’s existing payroll system that had been in place since 1986. Accounts expanded this project in May 2018 to also replace the Commonwealth’s human resources; time, attendance, and leave; and benefits administration systems for an all-encompassing Human Capital Management (Cardinal HCM) project. This integration reduced risks by replacing several aging statewide systems, improved performance with all Commonwealth system applications using cloud infrastructure, and fulfilled the majority of the Commonwealth’s payroll and human resource requirements. Accounts implemented the final release of the Cardinal HCM project in October 2022. Our Office conducted a review covering calendar year 2023 to evaluate the adequacy of the Bureau’s internal control framework following the implementation of Cardinal HCM.

Calendar year 2023 was a period of stabilization for the Bureau. The implementation of Cardinal HCM changed the scope of services offered by the Bureau and the division of responsibility between the Bureau and participating agencies for certain tasks. Most notably, the Bureau now relies on agencies to enter changes to employee pay and benefits within the system. Throughout the review period, we observed that the Bureau had to frequently update their processes as they worked to stabilize operations. This, coupled with high staff turnover (nearly 19%) during the year, made it difficult for the Bureau to dedicate the necessary resources to focus on enhancing their internal control framework.

Our review found matters at the Bureau involving internal control and its operation necessary to bring to management’s attention. In the section titled “Findings and Recommendations” we have included our assessment of the conditions and causes resulting in the internal control findings identified through our review as well as recommendations for addressing those findings. Our assessment does not remove management’s responsibility to perform a thorough assessment of the conditions and causes of the findings and developing and appropriately implementing adequate corrective actions to resolve the findings. Those corrective actions may include additional items beyond our recommendations.

## FINDINGS AND RECOMMENDATIONS

### **Improve Internal Controls over Payroll Processing**

**Type:** Internal Control

The Bureau should improve payroll processing internal controls by clearly documenting the internal control framework, including comprehensive policies and procedures, and maintaining adequate evidence of control performance. Currently, the Bureau's existing policies and procedures do not sufficiently outline internal controls over payroll processing nor provide clear guidance on how Bureau staff should execute the controls. Additionally, several of the Bureau's policies and procedures remain incomplete and lack necessary context, such as topic description, revision details, effective dates, and other pertinent information. Comprehensive policies and procedures are essential for Bureau staff to execute their responsibilities consistently and effectively. The Bureau's policies and procedures also lack evidence of management's review and approval.

We also identified the following additional issues with the Bureau's internal control framework:

- While the Bureau requires reviews of certain payroll tasks, staff are not consistently maintaining evidence (i.e., digital stamp) of these reviews. This inconsistency makes it difficult to identify the tasks staff are performing, who is performing each task, or if proper segregation of duties exists.
- Bureau staff extracts data entered by agencies, analyzes the data, and sends it to agencies for confirmation of completeness. While the Bureau's current practice is to reconcile this data to the payroll system, staff are not maintaining sufficient evidence to demonstrate reconciliation performance prior to sending payroll information to participating agencies.
- Bureau staff are not consistently providing payroll certification packets within a reasonable time frame to ensure agencies have adequate time to review payroll changes prior to certification deadlines.
- Bureau staff are not consistently requiring agencies to confirm the accuracy of payroll prior to the Bureau finalizing payroll.

Lack of a clearly documented internal control framework increases the risk of errors and inefficiencies and can adversely affect the Bureau's operations and quality of service it provides to participating agencies. Additionally, as noted in the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905, a lack of complete and up-to-date internal policies and procedures, customized to reflect the agency's staffing, organization, and operating procedures, reflects inadequate internal control. Having an inadequate internal control framework limits management's ability to hold Bureau staff accountable for accurately and consistently completing payroll tasks. Lastly, as we observed during our review, management cannot assert that internal controls are functioning as designed due to the lack of substantiating evidence.

In October 2022, the Commonwealth implemented a new human resource and payroll management system (system). The Bureau's use of the new system had a significant impact on the Bureau's internal control framework. Although certain key functions, such as payroll certifications and reconciliations remained intact post system implementation, the manner in which the Bureau performed those tasks changed. The Bureau's use of the new system changed its scope of services to participating agencies and altered the division of responsibility for certain tasks. The Bureau now relies on agencies to enter changes to employees' pay within the system, which further supports the need for agencies to confirm the accuracy of payroll prior to the Bureau finalizing payroll. While calendar year 2023 was a period of stabilization for the system and its users, the Bureau experienced turnover and correspondingly used its resources to focus on operations rather than enhancing its internal control framework.

The Bureau should evaluate its current control environment to identify key processes and tasks performed by staff and use this evaluation to formalize its internal control framework within its policies and procedures. The Bureau should ensure that it maintains sufficient evidence to demonstrate compliance with the framework when processing payroll. Further, summarizing controls in the form of a checklist with timeframes could synchronize documentation of control activities and results among staff and ensure staff complete all tasks prior to finalizing payroll. Additionally, management should implement a schedule for periodic review of controls and update documentation as necessary to reflect changes in processes. By addressing these deficiencies and implementing process improvements, the Bureau can significantly enhance its internal controls over payroll processing and build resiliency through staff turnover and other unforeseen challenges.

#### **Perform Required Payroll Reconciliations**

**Type:** Internal Control

The Bureau is not timely performing required reconciliations. Specifically, the Bureau did not complete the monthly health benefits reconciliation for participating agencies from July 2023 to May 2024. Participating agencies rely on the Bureau to review the automated reconciliation of healthcare enrollment and deduction amounts and communicate when refunds are due to the agency or when the agency owes additional charges to the Commonwealth's Health Insurance Fund (Health Insurance Fund). Additionally, the Bureau has not reconciled retirement billings or provided its participating agencies with reports they need to complete monthly retirement billings reconciliations. The Bureau has not clearly defined the responsibilities for completing retirement billings reconciliations within its communications with agencies. This reconciliation is important to ensure agencies are not paying the employees' portion of retirement benefits.

The CAPP Manual Topics 50430, 50470, and 50905 require agencies to complete these reconciliations and make any necessary corrections to resolve outstanding items monthly. Failure to communicate necessary adjustments to participating agencies on health and retirement benefits information could result in incorrect employee deductions. Additionally, outstanding errors on the health benefits reconciliation could lead to improper reporting of the Health Insurance Fund's activity by the Department of Human Resources Management to Accounts for inclusion in the Annual Comprehensive Financial Report.

Bureau management stated that automated reports within the Commonwealth's human resources and payroll management system do not always provide adequate and comparable information to capture all exceptions to facilitate the completion of the health benefits reconciliation each month. Bureau's management communicated challenges with the reports' capabilities to Accounts' State Payroll Operations division, who is evaluating this further. In the interim, the Bureau developed a manual process to complete the reconciliation on an annual basis and has since asserted they have completed reconciliations through May 2024. Regarding the retirement reconciliation, Bureau management has not prioritized this over other operations.

The Bureau should continue to develop and implement a monthly reconciliation of healthcare enrollment and deductions. Additionally, the Bureau should collaborate with State Payroll Operations, as necessary, to ensure future automated reports properly capture all information preparers need to complete the health benefits reconciliation. The Bureau should also define the responsibilities for retirement billings reconciliations and incorporate the Bureau's responsibilities into their monthly processes. Lastly, as the Bureau incorporates changes to facilitate the reconciliation processes, the Bureau should document the reconciliation processes in its policies and procedures.



# Commonwealth of Virginia

## Auditor of Public Accounts

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

November 8, 2024

The Honorable Glenn Youngkin  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Scott Adams  
Comptroller, Department of Accounts

We have performed a review of internal controls at the Payroll Service Bureau for calendar year 2023 and submit our report entitled **Review of the Payroll Service Bureau**. The primary objectives of this review were to evaluate the adequacy of the Payroll Service Bureau's internal controls over payroll processing and test compliance with Commonwealth policies and procedures.

We gained an understanding of the overall internal controls, both automated and manual, as they relate to the objectives, sufficient to plan the review. We considered significance and risk in determining the nature and extent of our procedures. Our review encompassed controls over the following areas:

- Payroll Adjustments
- Payroll Certifications
- Payroll Reconciliations
- System Access

We performed tests to determine whether the Payroll Service Bureau's controls were adequate, had been placed in operation, and were being followed. Our review also included tests of compliance with provisions of applicable Commonwealth policies and procedures, as they pertain to our objectives. Our procedures included inquiries of appropriate personnel, inspection of documents, records, and observation of the Payroll Service Bureau's operations.

We noted certain matters involving internal control and its operation during our review that are described in the section titled "Findings and Recommendations." We discussed this report with management on October 25, 2024. Management's response to the findings identified is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether it adequately addresses the issues in this report.



This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

JDE/vks

## FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Calendar Year
Improve Internal Controls over Payroll Processing	Ongoing	2023
Perform Required Payroll Reconciliations	Ongoing	2023

\* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



## COMMONWEALTH of VIRGINIA

SCOTT L. ADAMS, CPA  
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971  
RICHMOND, VIRGINIA 23218-1971

Ms. Staci A. Henshaw  
Auditor of Public Accounts  
James Monroe Building  
101 N. 14<sup>th</sup> Street  
Richmond, Virginia 23219

Dear Ms. Henshaw:

The Department of Accounts appreciates the opportunity to respond to the *Findings and Recommendations* contained in your 2023 Payroll Service Bureau (Bureau) Audit Report. We give your comments the highest level of importance and consideration as we continue to review and improve our current practices.

### **Findings and Recommendations**

#### *Improve Internal Controls over Payroll Processing*

In the coming year, the Bureau will update desk procedures to include topic descriptions, revision details and effective dates. Further, the Bureau will maintain a log of significant modifications and ensure that procedures and controls are reviewed at least annually. The Bureau will also ensure its internal controls are clearly reflected in the policies and procedures, including documentation of the responsibilities of each security role and individuals assigned to the specific roles.

#### *Perform Required Payroll Reconciliations*

The Bureau will ensure that reconciliation responsibilities are clearly defined and communicated to participating agencies. Additionally, the Bureau will work with responsible parties to incorporate the changes needed to facilitate timely reconciliations and ensure the policies and procedures are updated accordingly.

Sincerely,

A handwritten signature in black ink, appearing to read "P Benos".

Pamela Benos

Cc: Scott Adams, State Comptroller  
Sharon Lawrence, Deputy State Comptroller