



## PAYROLL SERVICE BUREAU

# INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2019

Auditor of Public Accounts  
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# Commonwealth of Virginia

*Auditor of Public Accounts*

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July 22, 2019

David Von Moll, State Comptroller  
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Payroll Service Bureau  
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## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on May 31, 2019, for the **Payroll Service Bureau (Bureau), a division of the Department of Accounts (Accounts)**. The purpose of this review was to evaluate if the Bureau has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Bureau is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." This includes the Bureau. Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review for the Bureau.

### Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities. However, as Accounts performs these functions on the Bureau's behalf, the Bureau's questionnaire mainly focused on the Bureau's controls over its key business process of payroll processing for participating agencies.

We review the responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for the Bureau. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

### **Review Procedures**

The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by Accounts; therefore, we included a review of ARMICS. The level of ARMICS review performed was based on judgment and the assessed risk. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of the Bureau’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll processing for participating agencies, system access, and the handling of sensitive data. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

### **Review Results**

We noted the following areas requiring management’s attention resulting from our review:

- The Bureau should re-evaluate its procedures to make it easier to determine that analysts have performed the necessary reviews of payroll transactions. The Bureau’s “Required Reviews of Business Processes” procedure (procedure) requires reviews, which are not necessary and; therefore, are not performed. For each payroll, the analyst and reviewer complete a worksheet certifying they have performed their reviews. However, the certification worksheet does not contain all reviews required by the procedure, as several of these reviews are not relevant. Additionally, in one instance, a signature and date were not present on the worksheet, so there was no evidence of any of the analyst’s reviews. The Bureau should update the procedure to exclude unnecessary reviews, ensure the worksheet and procedure are consistent, and ensure all certifications are present.

- The Bureau does not provide specific guidance to participating agencies on what fields the Bureau requires for payroll coding changes. In one case, an agency provided a coding change notification that did not contain the account code. This increases the risk of mis-coding the payroll expense. As the Bureau's Scope of Services Manual (Manual) indicates the Bureau may rely on transmittals provided by the agency for coding changes, the Bureau should update the Manual to include the specific coding elements necessary to ensure proper classification.
- The Bureau does not have a documented policy on communicating with agency contacts regarding the contacts' own payroll transactions. It is each participating agency's responsibility to provide proper approvals for payroll transactions in accordance with topic 50515 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual and the Bureau has no control over the agencies' approval processes or compliance with this requirement. However, the existence of a documented policy requiring the Bureau's analysts contact an individual other than the recipient of the pay for questions or approvals would reduce the risk of agency contacts bypassing this requirement from the CAPP manual. This would also reduce the risk of improper payments statewide.
- The Bureau processed payrolls containing incorrect amounts for two annual leave payouts. These errors were the result of mis-keyed amounts in the leave payout calculations. The Bureau should enhance the review process outlined in its procedures to include a re-performance of the calculations performed and agreement of the amounts used to the proper supporting documentation.

We discussed these matters with management on June 19, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/clj



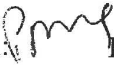
# COMMONWEALTH of VIRGINIA

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**To:** Martha Mavredes, Auditor of Public Accounts  
Jennifer Eggleston, Audit Director  
Brad Hypes, Audit Manager  
Megan Bridgewater, Auditor  
Zack Waskin, Auditor

**From:**  Pam Benos, Senior Assistant Director, Payroll Service Bureau

**Date:** September 3, 2019

**Subject:** Internal Control Questionnaire Review Results - Agency Response

Thank you for reviewing the Bureau's controls over key business processes and suggesting ways to improve the Bureau's control environment.

## Documentation

With respect to APA suggestions to re-evaluate procedures to make it easier to substantiate required transactional reviews, the Bureau will review the Payroll Audit Worksheet (Worksheet) and the Required Reviews of Business Processes (Required Reviews) to ensure the Worksheet and the Required Reviews are consistent and current. The Bureau will also re-evaluate the most effective means to document such reviews.

Documentation improvements will also be made with respect to programmatic coding. Given that the Bureau relies on agency transmittals and PMIS data to execute programmatic coding, and taking into account the limitation that the PMIS system does not store all of the data fields needed for programmatic coding, the Bureau will update the Scope of Services document to outline all of the data fields needed to establish/update programmatic coding.

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### Policies and Procedures

The Bureau's mission is to process payroll, benefits and leave in a uniform manner with sufficient internal controls to provide reasonable, but not absolute assurance over the protection of and proper accounting for the Commonwealth's financial resources. Services are performed in compliance with CAPP, Federal, State and Local laws, State Human Resource/Benefit policies, and ARMICS. The Bureau Scope of Services outlines how it will execute transactions authorized by agencies but the Bureau does not have control over Bureau participating agencies' approval processes or compliance with participating agency internal approval processes. Bureau participating agencies should have internal policies to ensure segregation of duties and proper review and authorization for its payroll transactions. To reduce the risk of improper payments, participating agency internal control should include and outline additional approval steps needed for all transactions that impact those with certification authority, human resource approval authority or PMIS update capabilities. The Bureau Scope of Services will be updated to specify that it is the participating agencies' responsibility to develop internal approval processes over updates to agency contacts' pay record before forwarding to the Bureau for processing.

### Review of Payroll Payments

Thank you for identifying a departure from the Required Reviews. Corrective measures will be taken immediately to rectify this departure. Corrective measures will include modifying the desk procedure to include redundant exceptional item review and enhancing mitigating controls.

The Payroll Service Bureau appreciates the opportunity to respond to recommendations received from APA.

cc David A. Von Moll, State Comptroller  
Lewis R. McCabe, Deputy State Comptroller  
Michael Hall, Assistant Director, Payroll Service Bureau  
Shannon Gulasky, Assistant Director, Payroll Service Bureau