

EXECUTIVE SUMMARY

AUDIT OF PAYROLL FOR NON-OPERATORS AND OFF-BOARD FARE COLLECTORS

INTRODUCTION

Internal Audit conducted an audit of internal controls associated with payroll processing for non-operating employees (NOP employees) and off-board fare collectors (OFC employees).¹ Port Authority's operating budget for fiscal year 2009 was approximately \$350.2 million. Salaries and wages are the largest expense category and account for approximately \$137.6 million (39%) of the total operating costs of which non-operator wages are \$40.1 million (11%).

STATEMENT OF AUDIT OPINION

The internal controls are operating sufficiently to provide reasonable assurance that payroll for non-operators is being processed appropriately. This was a large, full scope audit. We performed over 25 detailed tests of the payroll records and no significant issues or irregularities were found. Employees in the Payroll Department are doing a good job of administering the payroll process to ensure that employees are paid accurately and in a timely manner. However, several recommendations were made to improve business processes and internal controls and they are summarized below.

AREAS IDENTIFIED FOR PROCESS IMPROVEMENT WITH MANAGEMENT RESPONSES

- 1) Port Authority processes payroll for NOP employees on a pay-by-exception basis in which PeopleSoft automatically pays employees for their regularly scheduled hours each pay period unless their supervisors enter an exception to regular pay into PeopleSoft. This approach has the inherent risk of paying employees for time that they did not work due to exceptions not being entered into PeopleSoft.
 - We recommend implementing an automated time and attendance system for all NOP employees which would not utilize a pay-by-exception approach to processing payroll.
 - Managers in the Bus Operations, Rail Operations and Finance Divisions concur and the first stakeholders' meeting to address implementing an automated time and attendance system will be organized by the payroll manager by March 31, 2010 with the goal of achieving consensus among stakeholders on the approach to take for this initiative by June 30, 2010.

- 2) Port Authority does not have a process in place to ensure that security access for applications and the network is modified for employees who transfer positions or terminate their employment. At the time our fieldwork was performed, we observed two employees who were no longer working in the Payroll Department and an account that was established for use by temporary employees from an employment agency still had access to the PeopleSoft payroll module. Also, periodic background checks are not performed for Payroll Department employees.
 - We recommend that security access for these three accounts should be removed and management should create a procedure to ensure that security access to applications and the network are updated appropriately. Also, periodic background checks should be performed for Payroll Department employees.

¹ Please note that the payroll process for salaried employees and operators will be audited separately in the near future.

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- Management concurs. The security access for the three accounts has been removed. The chief technology officer and the manager of system development will draft procedures for managing application and network security access by October 31, 2009. The manager of payroll will work with stakeholders to implement annual background checks for employees in the Payroll Department by December 31, 2009.
- 3) Timekeepers in all but three departments maintain daily records of time and attendance. Employees are not required to sign these records to document agreement with them. The three departments that do not maintain daily records of time and attendance enter exceptions to regularly scheduled hours directly into PeopleSoft daily. In these three departments, pay records cannot be verified by audits because pay records are automatically created by PeopleSoft using the pay-by-exception approach to creating payroll records.
- We recommend that all timekeepers maintain daily records of time and attendance and that all NOP employees should be required to sign daily records of time and attendance each pay period to document agreement with pay hours. If time cards are used as the daily record of time, the NOP employees should be required to sign them. Timekeepers should review and sign the PeopleSoft Time and Labor reports and return them to the Payroll Department after each pay period.
 - Management in the Bus Operations, Rail Operations and Finance Divisions concur and will work with appropriate stakeholders to obtain concurrence on procedures for implementing this recommendation by June 30, 2010.
- 4) NOP employees sometimes 'punch in' well in advance of the start of their shift which can create discrepancies in payroll records maintained in time books and PeopleSoft. This practice can weaken Port Authority's position in grievance hearings and audits.
- We recommend that the payroll manager should establish a time window for the beginning and end of each shift within which employees are permitted to record their start and ending times using the time clocks.
 - Management concurs and will implement procedures to do so by March 31, 2010.
- 5) PeopleSoft contains a function that allows payroll accounting assistants to change employees' wage rates on a pay line. This function can be used to change employees' wage rates without proper authorization or detection. Time and labor variances less than a maximum threshold are not reviewed by employees in the Payroll Department. Therefore, if an unauthorized wage rate change that is under the threshold for review was made it would not be detected.
- We recommend eliminating the possibility of employees in the Payroll Department changing wage rates on a pay line by deactivating this function in PeopleSoft.
 - The payroll manager and controller concur. Port Authority is in the process of upgrading PeopleSoft and the chief technology officer will determine whether this

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recommendation can be implemented as part of the upgrade. Alternatively, personnel in the Information Technology Services Department will create a report that identifies changes made to wage rates using this feature and the payroll manager will review this report each pay period. The upgrade is planned to begin in the spring of 2010.

- 6) Practices for handling unclaimed and uncashed pay checks are informal and inconsistent between operating locations. The Accounting Department does not follow up on uncashed pay checks as part of its monthly payroll account reconciliations. Approximately 600 employees receive pay checks. The option to receive a pay check is part of Port Authority's collective bargaining agreement with Amalgamated Transit Union Local 85.
 - We recommend that, as part of the payroll account reconciliation process, a list of the uncashed pay checks should be provided to the Payroll Department.
 - The payroll manager and controller concur. The payroll manager met with the accounting manager to change the business process so that the Payroll Department will receive a list of uncashed pay checks quarterly. At the time of the audit, there were 15 uncashed pay checks and employees in the Payroll Department resolved all of them. The payroll manager will draft procedures for processing unclaimed pay checks by January 1, 2010.
- 7) Utilizing the ePay module in PeopleSoft would eliminate the need for employees in the Payroll Department to print hard copies of the employees' pay stubs. Port Authority owns a license to the ePay module that allows employees to access this information online.
 - We recommend utilizing the ePay module in PeopleSoft to allow employees to access/update their payroll information and eliminate direct deposit mailers for employees who elect to only receive their information online.
 - The controller and payroll manager concur and will work with stakeholders including employees from the Human Resources, Information Technology and Operations Divisions to include the ePay module in the upgrade to PeopleSoft planned for fiscal year 2010.