

**Post-Audit Review 15-03:
Payroll Third Party Deductions**

March 2016

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

March 2, 2016

To: Mayor Andy Berke
City Council Members

Subject: Post-Audit Review of Payroll Third Party Deductions (Report #15-03)

Dear Mayor Berke and City Council Members:

Attached is a summary report on the status of audit recommendations in our 2015 Payroll Third Party Deductions report. The purpose of this report is to confirm whether, and to what degree, management has implemented the recommendations made in the original audit.

The original audit concluded:

1. Overall, internal controls were in place that substantially ensured deductions were properly authorized and submitted timely to third parties;
2. The administrative contract had minimal terms, and
3. Opportunities existed to improve the efficiency of the deduction reconciliation process.

The audit had seven recommendations to improve efficiency and effectiveness of the third party deduction process as well as address internal control deficiencies observed. At the time of this Post-Audit Review, three recommendations were not implemented and four were implemented. Recommendations not implemented are herein reported to the Audit Committee for follow-up, as appropriate.

This Post-Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
 Stacy Richardson, Chief of Staff
 Maura Sullivan, Chief Operating Officer
 Daisy Madison, Chief Financial Officer
 Todd Dockery, Human Resources Administrator

RECOMMENDATIONS NOT IMPLEMENTED (3)

Recommendation	Actions Taken
1 We recommended the Benefits Division develop a contract detailing specific requirements and duties (conferring with the City Attorney, if necessary).	The division has not developed a new contract with the current vendor. Management anticipates services for the FSA and HSA funds will be contracted with different vendors.
2 We recommended the contract, once developed, be provided to the Council.	The Service Level Agreement is currently being reviewed by the City Attorney's Office. The Benefits Division will submit a copy of the executed contract to Council.
5 We recommended using the automated process previously developed by the Benefits Division to reconcile the FSA and HSA deductions on a weekly basis.	The Benefits Division has not implemented the recommendation as of the release of this report. The division intends to revisit the reconciliation process after vendors are selected under the new contract(s).

RECOMMENDATIONS FULLY IMPLEMENTED (4)

Recommendation	Actions Taken
3 We recommended the Payroll Division require all forms be properly authorized before the deduction is initiated. The form should be retained as supporting documentation.	We reviewed a sample of deduction forms completed between October 2015 and January 2016. All forms were properly authorized.
4 We recommended the Payroll Division have a supervisory review of third party deductions that require a manual calculation. The review should be documented and maintained.	The division has implemented the supervisory review and indicates such by initial and date of the reviewer.
6 We recommended the Benefits Division determine the proper minimum balance needed in the Client Cash Account Balance. We recommended any amounts in excess be used in accordance with IRC Section 125 rules.	The Benefits Division determined the appropriate balance needed in the account and received a refund from the vendor.
7 We recommended the Benefits Division review the Client Cash Account balance annually.	The Benefits Division has determined the need to review the balance at year end and request the vendor refund any excess amounts to the City.

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