November 27, 2006
AUD 07-050

An Internal Audit Report by the Office of Auditor General On

Review of Internal Controls Related to Payroll

As part of our initiative to review financial internal controls within WMATA and a request from the Controller, we conducted a review of Internal Controls Related to Payroll.

We reviewed the policies and procedures to ensure that they were effective and efficient. We documented procedures used, conducted a 'walk through' of operations and observed the payroll process. We also conducted interviews with personnel involved in the Payroll operations

The major issues of concern are:

- Lack of documented policies and procedures for processing the payroll data in DTG;
- Several issues with the payroll process by Superintendents, Supervisors and employees in the field
- Field employees are not properly trained on the DTG payroll system;
- Lack of communication between the Field Management Personnel and Payroll regarding access rights to the payroll systems;
- Supervisory review of the payroll data prior to the submission to Payroll is not consistently performed;
- Acting and Temporary Assignments are not terminating after six months;
- Polices and procedures over Accounting and Financial Reporting are not current and are not adequately documented;
- There is a lack of checks and balances within PeopleSoft when payroll checks are reissued.
- We have made 86 recommendations for improvement.
- We note that during our audit, ACCT hired a new Payroll Manager who has over 15 years of work experience with vast knowledge and management experience in the area of payroll, to include human resources, compensation and benefits.
- We have discussed the findings and recommendations with ACCT, the Chief Financial Officer (CFO), Acting AGM Workplace Development and Administration (WFDA) and the Acting Chief Information Officer (CIO) who agreed with the findings and recommendations. We have included their comments in the report where appropriate.

AUD 07-050

SUBJECT: **Review of Internal Controls Related to Payroll**

DATE: **November 27, 2006**

FROM: **AUDT- James C. Stewart**

IN REPLY REFER TO: **AUD 07-050**

TO: **CFO – H. Charles Woodruff III**
WFDA – Brender Gregory
CIO – Rod Burfield

Background

As part of our initiative to review financial internal controls within WMATA and a request from the Controller, we have conducted a review of Internal Controls Related to Payroll.

The Washington Metropolitan Area Transit Authority (WMATA) payroll for employees is governed by Policy-Instruction 10.0.

The Payroll Branch is part of the Office of Accounting (ACCT) in the Department of Finance. It is responsible for collecting, reviewing, processing, and reporting of all documentation required to support payroll for all WMATA employees. In order to facilitate this process, the Payroll Branch is divided into two sections, Salaried Payroll & Tax Accounting Section and Hourly Payroll Section.

The payroll and labor processes consist of the following systems:

- Details-to-Gross (DTG) is an exception-based timekeeping and attendance system for hourly employees which captures, classifies and summaries hourly pay information and performs the timekeeping and labor distribution function for Operating and Non-Operating employees.

- Electronic Time Sheet (ETS) captures compensated hours for all employees who are paid bi-weekly. This includes all management and administrative employees.

These systems did not integrate with each other, limiting the ability to share information. The supporting technology lacks the capability found in Web-based tools. So the implementation of the Information Technology Renewal Program (ITRP) is transforming WMATA information technology from several legacy systems to an integrated software application of computer systems and software in order to serve the customers through a more efficient process. The legacy systems were replaced by the following:

- The PeopleSoft Human Resources, Payroll and Projects applications which were implemented during August 2005.

- The Trapeze system includes an automated routing and scheduling software system as well as bid configuration, automated bidding, daily dispatch, timekeeping, workforce management, and vehicle and yard management. The Trapeze system interfaces with a maintenance and materials management application and with the human resources management database.

The Kronos system is expected to be implemented in July 2007. Kronos will provide standardized time and attendance and will replace the two legacy systems, ETS and Non-OPS DTG. Kronos will interface with PeopleSoft's Human Resources, Payroll and Projects applications as well as Maximo. The benefits of Kronos are as follows:

- Provides detail breakdown and tracking of overtime for better management control and employee accountability;
- Single system, real time data;
- Centralized view and control of payroll systems;
- Eliminates entry into multiple systems;
- Increases accuracy and efficiencies of pay through standardized time calculations and collection;
- Interfaces with PeopleSoft's Human Resources, Payroll, and Project's application as well as Maximo.

According to information provided by ACCT, in fiscal year 2006, the payroll related expense for WMATA was $845,856,840 summarized as follows:

Personnel Expenses	**YTD Actuals 6/30/2006**
Labor	$552,301,173
Fringe Benefits	202,690,423
Overtime	90,865,244
Total	$845,856,840

Objectives, Scope and Methodology

The objectives of our review were to ensure that:

1. Additions, separations, wage rates, salaries and deductions are properly authorized, recorded, and processed within PeopleSoft in a timely manner;

2. Employees' time and attendance are properly reviewed, approved, processed, documented, and accurately coded for accounting and distribution;

3. Payroll data is properly reconciled, recorded in a timely manner, and in the proper accounting period;

4. Payroll journal entries and supporting documentation are reviewed and approved by the appropriate level of Management;

5. Confidentiality of personnel data is maintained;

6. Employees have been given access to the PeopleSoft-HR/PR Module, DTG, ETS, and Trapeze on an as-needed basis and;

7. Controls over the payroll process are evaluated.

The scope of the review included (1) payroll processed from August 1, 2005 to December 31, 2005 and (2) all other related documents and information pertaining to the collection, reviewing, processing and reporting of payroll plus supporting documentation required to support the payroll for all WMATA employees.

We reviewed the policies and procedures used to administer Payroll's operations to ensure that they were effective and efficient. We documented procedures used, conducted a 'walk through' of operations and observed the payroll process. In the Field, we conducted interviews with personnel involved in the Payroll operations to include the General Superintendents, Superintendents, Supervisors, Rail Line Managers, Depot Clerks, Utility Clerks, Facility Maintenance Clerks, and the Rail Division Clerks. We conducted interviews of the Information Security Representatives.

We reviewed and evaluated the current staffing levels and procedures for the payroll process to determine whether the current process is effective and efficient and provides reasonable assurance that WMATA's resources are being safeguarded. During fiscal year 2006, the Payroll Manager retired and the two Payroll Supervisors (both hourly and salary) have accepted other positions within WMATA.

We interviewed personnel in Human Resources, Accounting, Operations, and other persons involved in the process.

We were not able to review the overall payroll process. We also were not able to determine if WMATA employees were given access to the PeopleSoft-HR/PR Module, DTG, ETS, and Trapeze on an as-needed basis.

Executive Summary

Our review of the internal controls related to payroll determined 31 issues of concern which we have summarized in our report.

The major issues of concern are:

- Lack of documented policies and procedures for processing the payroll data in DTG;
- There are several issues with the payroll process by Superintendents, Supervisors and employees in the field
- Field employees are not properly trained on the DTG payroll system;
- Lack of communication between the Field Management Personnel and Payroll regarding access rights to the payroll systems;
- Supervisory review of the payroll data prior to the submission to Payroll is not consistently performed;
- Employee’s access to the computer network is not modified and/or terminated when an employee transfers to another office/department or leaves WMATA;
- The audit trail functionality is not turned on in PeopleSoft;
- The Payroll Folder was not restricted from unauthorized personnel;
- Reversals are not performed timely, lack the appropriate Supervisory approval and are not consistently performed;
- Acting and Temporary Assignments are not terminating after six months;
- Payroll reports are not reviewed prior to the processing of the payroll;
- Polices and procedures over Accounting and Financial Reporting are not current and are not adequately documented;
- Payroll data was not being posted to the general ledger timely;
- Bank reconciliations are not reconciled timely and are not consistently reviewed and approved;
- There is a lack of checks and balances within PeopleSoft when payroll checks are reissued.

We have made 86 recommendations for improvement.

We note that during our audit, ACCT hired a new Payroll Manager who has over 15 years of work experience with vast knowledge and management experience in the area of payroll, to include human resources, compensation and benefits.

We discussed our findings and recommendations with representatives of ACCT and they had several comments which have been incorporated in the report.

We have discussed the findings and recommendations with the Chief Financial Officer (CFO), Acting AGM Workplace Development and Administration (WFDA) and the Acting Chief Information Officer (CIO) who agreed with the findings and recommendations. We have included their comments in the report where appropriate.

Summary of Field Concerns

As part of our audit, we met with Senior Representatives from several Offices in Operations to determine any issues and/or concerns that they had with payroll. We met with the Superintendents and Supervisors of Bus Transportation, Bus Maintenance, Car Maintenance, Plant Maintenance, Elevators and Escalators, Systems Maintenance and Rail Line Management, and a representative in the Office of Operations Planning and Administrative Support (OPAS) who deals with employees' payroll issues to document payroll issues and concerns. During the Field visits with these Representatives, we noted the following issues and concerns:

Trapeze:

- Trapeze and PeopleSoft are utilizing the same server. As a result, when Payroll is run during the day on Monday and Friday, the individuals in the Field are not able to use Trapeze. Although on these two days, information can be processed manually, the Supervisors have to later pay their Clerks overtime to enter the data into Trapeze. They have considered sending their employee's home since they are unable to use Trapeze. In addition, Trapeze is down at least 2 to 3 times a month;

- For Reporting purposes, Trapeze is not able to generate reports needed for them to perform their jobs. The three reports needed are Seniority, Alpha, and Run Missing;

- Superintendents complained that Trapeze does not fit their business needs. They were not considered as subject matter experts. They request that the Experts meet with the Users so that they are able to better understand how Trapeze can meet their business needs;

- Trapeze is slow and keeps freezing up;

- Operating manual is not helpful and is not complete;

- When sick leave is entered into Trapeze, it is not reflected on the employee's pay. A voucher is needed to be prepared for a pay shortage;

- Random – if an Operator works the first block, takes off the second block, and then works a tripper, Trapeze will not reflect their overtime. A voucher is needed to be prepared for a pay shortage;

- Superintendents wanted to know if there were a way that they could be able to review the payroll electronically rather than having to use the manual process;

- For Station Managers, Trapeze does not indicate the station number and where they are located. For the Train Operations, Trapeze does not indicate the block number. Currently, Trapeze indicates the division code, the run, and the employee number;

- Daybook – Need a Block board; unable to print broken runs; unable to indicate what people are working;

- Travel time and intervene time is not in Trapeze;

- Eight hour rule versus Customer Service.

DTG:

- Terminated and deceased employees are still shown on the division's payroll;

- New hires are receiving their sick benefits (96 hours) prior to their anniversary dates;

- Although an employee's time and attendance is entered into DTG, it is not consistently shown on the Weekly Assignment Report;

- Employees are appearing active in DTG that have not been with the company for awhile.

ETS:

- Some Superintendents have been processing their time and attendance manually. Superintendents are not able to approve their employee's time and attendance if they are at a different location. The Supervisors are able to approve their employee's time and attendance. Therefore, the Supervisor's are approving their own time and attendance in ETS;

- Sometimes ETS does not show the correct pay period date. As a result, a paper timesheet needs to be submitted.

***PeopleSoft*:**

- PeopleSoft went live during August 2005. A problem with the data input into PeopleSoft has caused a lot of the problems with the payroll;

- The check location field was changed and eliminated. This caused a problem with the check distribution;

- Every pay week, a check shows up on the register as having a pay statement but it is not on the PDF file;

- When PeopleSoft went live, the organization was not ready for PeopleSoft;

- Data entry procedures were extremely short in covering all situations. Access was inadequate.

    - In Genesys, there was one screen. If an employee had access to this screen, they had authorization to the following information:

        - Position line control number, department code, check location code, work location code, and shift
        - In PeopleSoft, there is only one data entry input screen;

- During July – December 2005, the position line control number and/or department code was changed; went to the job code and position table and brought in default data values from the table;

- In December 2005, the Office of Information Technology (OIT), Human Resources, and Compensation came together and certain personnel were granted limited access for 30 days to change the default information and before the task was completed, access was terminated;

- WMATA personnel were still playing catch-up on the Step Progressions from February and March;

- Missed Step progression – automatic progressions are not paid on time. A program was written for Compensation that is performed monthly for the step progressions. WMATA is several months behind in paying Retro Pay to employees due to the volume of retro's;

- No data dictionary;

- Many 'correct history' changes are taking place. There is no indication of the original data. The original data is overridden;

- Servers' setup;

- PeopleSoft is not connected to the databases. The three databases have not been consolidated and no one has been making sure that they are consistent.

JGB Payroll:

- Progression Increase is not happening and when it does happen, it is not timely;

- Sick and vacation balances are incorrect and are not updated timely;

- The Field is not able to communicate effectively and timely with JGB Payroll. Payroll representatives do not appear to answer calls from an in-house phone, but if the call appears to come from an outside line the Payroll representatives will answer the call. Payroll appears to be using their voicemails to screen their calls;

- Payroll Corrections are not performed timely. It takes about a week to receive a check;

During our exit meeting, the Payroll Manager indicated that a written policy was in place that indicates when the hours are more than eight; the corrections are processed either the same day or the next day.

- Some employees that receive direct deposits do not receive pay stubs;

- There does not appear to be a clear process of what an employee needs to do in order for their check to be directed correctly. If the location code is changed, the employee may not get paid;

- After an employee comes back from being sick and inactive, it takes awhile to get them active again and to receive a paycheck;

- The data from RTRAC is needed to make informed decisions. This information needs to be imported to PeopleSoft;

- Some employees have been formally trained on the use of payroll and then there are some that have been trained by their predecessors;

- On some occasions, the Pay stub does not indicate the number of hours paid;

- Employee morale is low.

Kronos:

- Since ETS and DTG will be replaced by Kronos, the concern is that Kronos will not be able to fit the organization's needs. There is a concern by supervisors in the field that Kronos would not recognize non-traditional issues (since everyone at WMATA does not have a 9 to 5 shift).

Medical:

- There is a lack of communication between Medical and the Field. Although the request for sick benefits is sent to Medical for review and approval, the Field is not notified timely or at all when employee benefits will be denied and the reason for the denial.

Disbursement:

- There is a lack of checks and balances in Disbursement. Checks are sorted by location.

As a result of the Field Concerns, we recommend that OIT accomplish the following:

- **Increase server capacity to eliminate the problems experienced by the field in processing payroll on Trapeze;**
- **Coordinate with field personnel to ascertain what reports and payroll related information are needed to be able to process payroll correctly and help them to identify the necessary information for them to generate the payroll in Trapeze and reports in PeopleSoft needed to perform their jobs;**
- **Request employees/consultants who have expertise in Trapeze to meet with field personnel to help them understand how Trapeze can meet their business needs;**
- **Evaluate the Trapeze Operating Manual and evaluate how it can be improved to make it helpful and user friendly to the field personnel;**
- **Work with the field personnel to ascertain the issues pertaining to sick leave in Trapeze and correct the problem;**
- **Work with field personnel and Superintendents to train them on the use of Trapeze to include electronic review;**
- **Work with field personnel to ensure that they have the necessary tools and hardware for managers to be able to process their own time and attendance plus that of their direct reports located at different locations using ETS;**
- **Ensure that all time and attendance personnel are included in the development of Kronos to ensure that their needs are met, that they understand the program and are timely trained.**

During our exit meeting, the CIO stated that he concurs with our recommendations. He mentioned that OIT is currently working on increasing the server capacity. He stated that these recommendations will be implemented by July 1, 2007.

During the exit meeting, the CIO made several suggestions that should be evaluated as possible improvements in the payroll process as follows:

He suggested that ACCT enforce the due date for submission of payroll data to Payroll for processing. He also suggested that ACCT should consider running payroll from 3:00 PM to 11:00 PM rather than during the day when it ties up server capacity. He also mentioned that it would be more efficient if hourly payroll was run once every two weeks rather than weekly. He acknowledged that the last suggestion would involve union issues but he thought that the idea should be evaluated for cost effectiveness and union reaction.

As a result of his suggestions, we have the following recommendations for consideration.

- **ACCT should enforce the due date for submission of payroll data to Payroll for processing.**

- **ACCT should consider running payroll from 3:00 PM to 11:00 PM rather than during the day when it ties up server capacity.**
- **He also mentioned that it would be more efficient if hourly payroll was run once every two weeks rather than weekly. Therefore, we suggest that consideration should be for ACCT and LABR to raise the subject of bi-weekly payroll with the applicable unions to obtain their reaction and consider moving forward with bi-weekly payroll for hourly employees if the union reacts favorably.**

Summary of Findings and Recommendations

Field Visits and Issues

As part of the audit, we also visited 18 timekeepers in the Field to obtain a better insight of the payroll issues and concerns. We reviewed and documented the payroll process in the various Field locations to determine who the responsible individuals were in the Field for processing the payroll data.

We observed the timekeepers entering and processing the payroll data and the various levels of review that were being performed over the payroll data. We ascertained who had formal training and who was trained by a predecessor.

We also gained an understanding of who was responsible for the Personnel Action Reports (PARs) and the Separation Personnel Action Reports (SPARs) in the field.

During our Field visits, we noted the following:

1. Lack of documented policies and procedures in processing the payroll data in DTG.

Personnel in the Field do not have access to the DTG documentation for processing the payroll data as a result of position turnover.

Recommendation

- **We recommend that policies and procedures on how to process the payroll data in DTG be updated and distributed to the Timekeepers.**

2. Field employees are not properly trained on the DTG payroll systems.

The payroll data is being processed inconsistently by the various timekeepers and this is due to the lack of training and/or due to the employee being trained by a predecessor. The timekeepers, at times, were unsure of whom to call in Payroll when they encountered payroll issues.

Recommendations

We recommend that:

- **Timekeepers in the Field be formally trained by ACCT on how to use the DTG payroll system;**
- **Formal training should be provided for new Supervisors on how to perform the payroll function.**

During the exit meeting, the Controller stated that this is part of their goals for FY 2007.

3. Lack of communication between the Field Management Personnel and Payroll regarding access rights to the payroll systems.

During the pick, the Superintendents do not inform Payroll when an employee who is assigned to work on payroll has been transferred to their Division so that their access to DTG could be modified. As a result, there are instances where timekeepers still have access to their prior Division's payroll data.

Recommendations

We recommend that:

- **Superintendents inform Payroll when an employee who is assigned to work on the Payroll has been transferred to their Division;**
- **Payroll review the access rights in DTG to ensure that employees have not been granted access to more than one Division and/or location code.**

4. The Sharing of Passwords.

During a Field visit, it was brought to our attention by a Depot Clerk that the Utility Clerks did not have their own User ID and password to log on to Trapeze. The Utility Clerks are using the Depot Clerk's User ID and password. The Depot Clerk stated that he had mentioned the sharing of passwords with the ITRP Functional Coordinator.

Recommendation

- **We recommend that ACCT, OIT, and the General Superintendents emphasize to all employees that employees should not share passwords.**

During our exit meeting, the CIO stated that OIT will provide these employees with passwords.

5. Superintendents are inconsistently reviewing and approving the sick and holiday leave.

Superintendents in the Field have the ability to review and approve sick and holiday leave in Trapeze. There are instances, where some Superintendents allow Trapeze to automatically approve the employee's sick and holiday leave.

Recommendation

- **We recommend that the Superintendents consistently review and approve the employee's sick and holiday leave prior to the processing of payroll.**

6. PARs and SPARs are not centralized consistently at the Divisions.

The PARs and SPARs are centralized in Bus Transportation, Bus Maintenance, Plant Maintenance, and Rail Services. Although centralized, there is a lack of resources dedicated to adequately perform this function efficiently and effectively. The processing of PARs and SPARs is not centralized at Car Maintenance and Track and Structures/Systems Maintenance.

Recommendations

We recommend that PARs and SPARs:

- **Be centralized in the various Offices and that adequate resources be dedicated to perform this function;**
- **Planned automation of PARs and SPARs occurs expeditiously.**

7. Supervisory review of the payroll data prior to submission to Payroll is not consistently performed.

During the Field visits, we observed the timekeepers that were responsible for performing the payroll function. We noted that the payroll data was processed by the Administrative Assistants in Car Maintenance, by the Supervisors in Bus Transportation and Bus Maintenance, by the Facilities Maintenance Clerks in Plant Maintenance, and by the Division Clerks in Rail Services.

- In Car Maintenance, the payroll function is performed by the Administrative Assistants who are the only employees that have access to DTG. There is no supervisory review of the payroll data prior to transmitting the payroll data to Payroll.

- In Bus Transportation, the Daybook employee is responsible for ensuring that the runs are filled for the next day. The Depot and/or Utility Clerk are responsible for filling the runs for the day to day operations. The Operation Supervisor is responsible for ensuring that the Payroll Sheets, the Manifest, the Daybook information, and Trapeze are in sync.

- In Bus Maintenance, the Supervisors are responsible for entering and approving the payroll data for their respective employees. The Superintendents are responsible for reviewing the payroll data prior to transmitting the payroll data to Payroll.

- In Plant Maintenance, the Facilities Maintenance Clerks are responsible for entering the payroll exception information. The Supervisor reviews the payroll data prior to transmitting the payroll data to Payroll.

- In Rail, the Daybook employee is responsible for ensuring that the runs are filled for the next day. The Depot Clerk is responsible for filling the runs for the day to day operations. The Rail Division Clerk is responsible for ensuring that the Payroll Sheets, the Manifest, the Daybook information, and Trapeze are in sync. There is inconsistent Supervisory review of the payroll data.

The Rail Divisions are on Trapeze and DTG. During our review of payroll processing on Trapeze during the Field visits at the Rail Divisions, it did not appear that a Supervisor was reviewing the payroll information prior to it being submitted to Payroll. Our review of the payroll processing on DTG at the Rail Divisions, we noted that the Supervisors and the Superintendents had access to DTG. The Rail Division Clerk transmitted the payroll data once confirmation of a review was performed by the Supervisor.

We also noted that the payroll function is being performed by Union employees. At times, the backup for a Union employee is another Union employee. In many instances, there is not sufficient backup when a timekeeper has to take a leave of absence for an extended period of time. This appears to be where Supervisory review is lacking the most. The following chart summarizes the various timekeepers and whether Supervisory review is performed at the various Offices.

	Division	Timekeeper	Union Employee	Supervisory Review	Payroll System
1	Car Maintenance	Administrative Assistants / Supervisors	No	No	DTG
2	Bus Transportation	Operation Supervisors / Superintendents	No	Yes	Trapeze / DTG
3	Bus Maintenance	Supervisors / Superintendents	No	Yes	DTG
4	Plant Maintenance	Facilities Maintenance Clerks / Supervisors	Yes	Yes	DTG
5	Rail	Rail Division Clerks	Yes	Inconsistent	Trapeze / DTG

Recommendations

We recommend that:

- **Supervisors in the Field perform the payroll function for their respective employees and the Superintendents review and transmit the payroll data to Payroll;**
- **RAIL BUS and OPRS ensure that the procedures for the processing, reviewing, and transmitting of the payroll function and the level of supervision is consistent across WMATA;**
- **The payroll function should be transferred from Union employees in the Field. The risk is that WMATA employees may be potentially paid for work that is not performed due to the lack of Supervisory review;**
- **Accountability of the payroll function in Operations should be given to individuals at the supervisory level.**

8. The Manifest is not submitted timely to the timekeeper.

At some Divisions, the manifest is not turned in daily to the timekeeper for processing. In some instances, the manifest is pre-printed and at others the routing information on the manifest is left blank. Although compensated for their time, the Operators have to manually document their routing information on their manifest daily.

Recommendations

We recommend that the:

- **Manifest be pre-printed with the routing information for all Divisions**;
- **Manifest be submitted to the timekeeper daily**;
- **Operation Supervisors compare the Daybook, the Payroll Reports, and the Manifest to the Verification Report and Trapeze on a daily basis**.

Other Issues

9. The Medical Service Branch does not inform the Field when an employee's sick benefits have been denied.

When a union employee calls in sick due to an illness or injury, the Field Supervisor completes the Absence Due to Illness or Injury Report and submits it to the Medical Services Branch (Medical) in the Office of Human Resources Management Services. When the employee returns to work, the Field Supervisor completes the Return to Duty Report and also submits it to Medical. Upon receipt of the Return to Duty Report, Medical will either approve or deny the sick leave benefits. If the Return to Duty Report is not properly completed and/or if the employee's doctor's certification does not contain specific wording that the employee has been physically examined, the employee's sick leave benefits are denied. When sick benefits are denied, Medical does not communicate this information to the Field Supervisors and/or timekeepers.

According to the *Sick Leave* Policy# 18 dated July 26, 2001, when an employee is ineligible for sick leave benefits, a letter of denial is sent to the division. The Manager of Medical Services stated that she did not think that it was realistic for two people to be able to process the volume of sick leave requests and be able to report the status to the various timekeepers prior to the checks going out since the union agreement calls for weekly paychecks.

Recommendations

We recommend that the:

- **Sick Leave Policy# 18 be enforced by Medical and that when sick leave is denied that an email should be sent to the Division to inform them that sick benefits are being denied;**
- **Medical process pertaining to sick leave should be an automated process.**

During our exit meeting, with the AGM, WFDA, she stated that HRMS concurs with the recommendation that an email will be sent to the respective division's designated representative when sick leave benefits are being denied within 48 business hours of processing, and Medical will explore automation options in

collaboration with OIT and include designated division's representatives as appropriate.

10. The Personnel Action Report (PAR) policy and procedures do not indicate a timeframe in which the initiating department is to complete and expedite the PAR.

There is a PAR policy in place at WMATA. However, the policy does not indicate a timeframe when the PAR should be completed and submitted by the initiating office/ department to HRMS. Based on our review, it appears that in several instances the employee's status (promotion, salary increase, etc.) is not sent in a timely manner to allow Payroll time to process the PAR. One reason for the untimely submission of the PAR is because there is no requirement in the Policy for a specific timeframe for submission of the PAR. As a result, in instances where the PAR is received later, Retro pay has to be calculated for the employee.

Recommendations

We recommend that:

- **HRMS modify the PAR policies and procedures to include a reasonable timeframe such as 2 days for receipt of PAR;**
- **HRMS issue the updated version of the PAR policies and procedures and hold the initiating department accountable for noncompliance;**
- **The schedule for the PAR process to be automated should be expedited.**

During our exit meeting, the AGM, WFDA stated that HRMS concurs with this recommendation and will coordinate with individual departments to identify and designate management employees accountable for compliance. The policy will be updated by December 31, 2006.

During our exit meeting, the CIO stated that the implementation of E Desktop Management which will automate PARS will take place by July 1, 2007.

11. The Separation of Personnel Action Reports (SPAR) policy and procedures do not indicate a timeframe in which the initiating department is to complete and submit the SPAR.

Although there is a SPAR policy in place at WMATA, when an employee is separated from the Authority, the initiating office/department is not notifying ACCT by telephone or fax as soon as the office/department becomes aware that an employee has resigned, retired, and/or will be terminated. As a result, there is a possibility that the employees are overpaid since the actual SPAR is not received by the Payroll Section until after the employee has left the Authority. This policy is not being enforced by the Offices of HRMS and OIT. The enforcement of the policy is critical since a majority of the employees at WMATA now have direct deposit.

Recommendations

We recommend that the:

- **SPAR policy and procedure be updated and modified to include that the initiating office/department is responsible for informing HRMS, Payroll, and OIT immediately when an employee is leaving WMATA. The policy should also include that the initiating office/department should be held accountable for noncompliance;**
- **Schedule for the SPAR process to be automated be expedited.**

During our exit meeting, the AGM, WFDA stated that HRMS concurs with the recommendation to modify HROP's internal office procedure. The procedure will be updated by December 31, 2006.

During our exit meeting, the CIO stated that the implementation of E Desktop Management which will automate SPARs will take place by July 1, 2007.

12. Employee's access to WMATA's computer network is not modified and/or terminated when an employee transfers to another office/department or leaves WMATA.

According to *Information Security* Policy# 15.1, HRMS is to notify OIT of all personnel suspensions and terminations so that the OIT Security Administrator can take the appropriate steps to remove the necessary security authorization for the employee. Office Directors and Superintendents are responsible for notifying the OIT Security Administrator of voluntary and involuntary terminations of contract staff. The OIT Security Administrator will be notified by HRMS of any personnel transferring to a different office or department.

Although there is an Information Security policy in place at the Authority, an employee's access is normally not removed from the Authority's network either within the same day or within a reasonable time of separation. In addition, the appropriate WMATA Director or Superintendents and HRMS do not inform IT Security of personnel transferring to a different department so that their access can be modified. This policy is not being enforced by the Offices of HRMS and OIT.

Recommendations

We recommend that:

- **Information Policy# 15.1 be enforced by OIT and HRMS;**
- **HRMS send an email to OIT on a weekly basis that lists all the employees that have left WMATA;**

- **HRMS send OIT an email that lists all employee transfers on a weekly basis. The list should include the employee's name, employee ID #, old office code, and new office code if possible. This information would be used to remove PeopleSoft application access from the employee's old location.**

During our exit meeting, the AGM, WFDA stated that HRMS concurs with the recommendation and will assume responsibility for providing the relevant information to OIT on a weekly basis beginning November 27, 2006. The information will include all transfers and terminations.

During our exit meeting, the CIO concurs with our recommendations.

13. The Location codes in PeopleSoft are not accurate.

During our review of the Personnel Action Report (PAR) process, we noted discrepancies between the location codes within PeopleSoft and the location codes that were shown on the PARs. Based on discussions with the Supervisor of Employment Services, during the conversion, information from Genesys was brought over to PeopleSoft and the accuracy of this information was not reviewed. Managers and Supervisors in the Field were granted access and provided with limited training. As a result, in some cases the location codes in PeopleSoft do not properly reflect the physical location where the employee works and/or reports to on a daily basis.

Recommendations

We recommend that HRMS:

- **Ensure that the location codes in PeopleSoft accurately reflect the physical location of the WMATA employee;**
- **Implement a policy and procedure on how the change in location codes should be communicated to HRMS from WMATA Representatives via fax and/or email to allow the location codes to be changed timely within PeopleSoft.**

During our exit meeting, the AGM of WFDA indicated that corrections received from the field representatives will continue to be accepted for changes by HRMS.

14. The PeopleSoft Human Resources, Payroll and Project application and the other payroll systems do not have "read only" functionality.

When PeopleSoft was implemented, the 'read-only' access was not part of the Human Resource Payroll Module and other related payroll systems within PeopleSoft. Based on discussions with OIT representatives, a 'read-only' access was implemented only on PeopleSoft Financials since there was a need for individuals in the Field to view financial data. As a result of not having the read only functionality on the payroll systems, this caused increased inefficiencies for us in this audit and limited the ability to conduct a comprehensive, detailed, and confidential examination.

During the exit meeting, the Controller and the Payroll Manager stated that the Human Resource Payroll Module does contain the 'read-only' functionality. However, a profile was not currently created for 'read-only'.

During the exit meeting, the AGM of WFDA indicated that the Human Resource segment of the HR payroll module currently provides the ability to read only access to employee's based on security level approvals.

Recommendation

- **We recommend that OIT enhance PeopleSoft with a 'read-only' feature within the Human Resource Payroll Module, other related payroll systems, and within other PeopleSoft Modules. This will also increase the efficiency of reviews that we may desire to perform and the annual external auditor's review of the PeopleSoft system.**

15. OIT is not able to generate a report of all the employees at WMATA and what software systems they have access to.

OIT is not able to develop a report of all the employees in WMATA that have access to PeopleSoft and other related systems within WMATA and what they have access to. When PeopleSoft was implemented, access rights were granted to employees based on requests from managers/superintendents in WMATA. Since then, the access rights have not been reevaluated by the managers/superintendents to ensure that employees were granted the proper access based on their job responsibilities or on an as-needed basis. Therefore, it is possible that there are employees at WMATA that have access rights that either exceeds their job responsibilities or are not enough to perform their jobs. As a result, OIT is not able to review the access rights within PeopleSoft and other related systems to determine if the access rights that were granted are current and accurate.

Recommendations

We recommend that OIT:

- **Monitor the access rights of those employees that have the ability to 'correct history', 'add', and 'delete' in PeopleSoft;**
- **OIT generate a report of the employees that have access to PeopleSoft.**

During the exit meeting, the CIO concurs with our recommendations.

16. The Audit trail function is not turned on in PeopleSoft.

There have been instances, where information in PeopleSoft had been changed and there was not any record of who had changed the information in PeopleSoft.

Recommendation

- **We recommend that the audit trail function be turned on in PeopleSoft especially on employees with the correct history functionality.**

During the exit meeting, the CIO stated that there were many audit controls in PeopleSoft but they were not currently in place. The CIO requests the assistance of Payroll and Audit to assist with the design.

17. Payroll representatives do not secure their desktops.

During our review of the payroll process, we noted several instances where Supervisors and the Payroll Technicians would leave their desktops without securing their workstations.

Based on best practices, a standard screen saver is usually used on workstations. The screensaver is activated after the computer is idled for 15 minutes. A network password is required to de-activate the screen saver. This is implemented to increase security on the workstations. To lock the workstation prior to the 15 minutes, the employee should press **Ctrl+Alt+Del** and choose **lock workstation**. The screen saver will be activated after the system is idled for 15 minutes.

It only takes a few minutes for someone to view data on another employee's screen or to access information while the employee is away from their desk. Some or all of the information is sensitive or proprietary. Access should be limited to authorized and properly authenticated users (inside or outside the organization). The integrity of the information is critical. It should not be compromised; that is, not modified by unauthorized users. This information should be readily accessible by authorized users whenever they need it to perform their work.

Anytime an employee leaves their computer unattended, it is a security risk.

During the exit meeting, the Payroll Manager initially stated that there was not a need for the Payroll Representatives to secure their desktops since Payroll is in a secure location. However, the Controller stated that due to the confidentiality of the payroll data, there was a need for the Payroll Representatives to secure their desktops if they were leaving the office.

We are concerned about security of confidential payroll information and believe that the workstation needs to be secured when the payroll personnel leave their computer.

Recommendation

- **We recommend that the Payroll personnel secure their workstations when they leave their workstations (i.e. a password protected screensaver).**

18. The Payroll Folder was not restricted from unauthorized personnel.

The Payroll Folder that contained the payroll checks and advices was located on the Accounting share drive. Access was not restricted so that unauthorized personnel could not review the folder.

ACCT should take all necessary precautions to assure proper safeguards are established and followed to protect against unauthorized access and assure the confidentiality of employee records.

Privacy is a risk management issue. Failure to protect privacy and personal information with the appropriate controls can have significant consequences to WMATA and to confidential information. For example, it can damage the reputation of individuals and the organization, lead to legal liability issues, and contribute to employee mistrust.

Recommendations

We recommend that:

- **ACCT restrict the Payroll folder to authorized Payroll personnel only;**
- **ACCT should authorize access to information resources on a need-to-know basis;**
- **Access should be granted only to the employees necessary to accomplish authorized endeavors.**

During the audit, ACCT immediately restricted the payroll folder when it was brought to their attention.

19. The Personnel Action Report (PAR) Process is not current and Supervisory review is not consistently shown on the Retro Worksheet.

Upon receipt of the PAR in Payroll, it is entered into a Quattro Pro spreadsheet by the Payroll Technician. The information on the PAR is compared to the information in PeopleSoft. Discrepancies in the PAR are returned to Human Resources Operations (HROP) for further review or correction. The effective date on the PAR is reviewed to determine if the employee is due retro pay. The Technician reviews the 'Paycheck' screen within PeopleSoft to determine if the employee has been overpaid and set up on the Payroll System. If so, the Technician completes the 'Retro Adjustment and/or Separate Check Worksheet' to calculate the retro amount and this amount is entered into PeopleSoft.

The employee's direct deposit and W4 information are also entered into PeopleSoft. This information is maintained, date stamped, and filed by pay period. Since the W4 information is filed by pay period, this makes it very difficult for the Technicians to retrieve the hardcopy information from the files when needed.

During a review of the PAR process, we noted the following:

- Although the same process, the PAR process on the Hourly side and the Salary side within Payroll are not consistently applied;

- The Payroll Supervisors do not consistently review the calculation on the Retro Adjustment and/or Separate Check Worksheet that is performed by the Payroll Technicians to ensure that the payroll information is correct and accurate;

- The employee's W4 information is filed by pay period. This makes it difficult to find when needed. Also, there were discrepancies between what was entered into PeopleSoft and what was indicated on the employee's W4.

During the exit meeting, ACCT provided us with payroll procedure PR2.1.1 dated August 31, 1993 for the Personnel Action Reports (PARs).

Since this procedure is 13 years old, we believe that the procedure should be updated to reflect the current process and procedures.

Recommendations

We recommend that:

- **HRMS modify the PAR process to include the proper levels of review and PeopleSoft functionality. This will ensure that the process is working effectively and ensure that the process is consistently applied. This will also aid in the training of new employees;**

  During the exit meeting, with the AGM WFDA, she stated that HRMS concurs with and currently has responsibility for activities associated with the first bulleted recommendation. The Employment Services Branch is in the process of initiating a computer-based training module for PAR/SPAR processing.

- **ACCT update payroll procedure PR 2.1.1 to reflect the current process and procedures.**
- **Payroll Supervisors review and sign-off on the Retro Adjustment Sheet to ensure that the calculation is performed correctly;**

- **ACCT and OIT should ensure that the Retro feature in PeopleSoft is implemented.**

During the exit meeting, the Controller stated that PeopleSoft was implemented without the Retro module in place with the promise to go-live within a few months.

- **ACCT file the employee's W4 information by the employee's payroll number;**
- **The Payroll Technician responsible for entering the W4 payroll information should double check his/her work.**

20. The Separation Personnel Action Report (SPAR) Process is not current and should be updated. Supervisory reviews of the SPARs are not consistently being performed, and the Vacation Payout Calculations are not consistently supported.

During our review of the Separation Personnel Action Report (SPAR) process, we ascertained that when an employee leaves the Authority, upon receipt of the SPAR, Human Resources Operations (HROP) deactivates the employee within PeopleSoft. The SPAR is then sent to Payroll for processing. Based on our review of the SPAR process for the Hourly and Salary employees, we noted the following:

- Documented policies and procedures for handling SPARs, in particular, vacation payout have not been updated since August 31, 1993 to accommodate the new payroll processes.

- The Payroll Technicians perform the SPAR process. They obtain the supporting documentation and perform the vacation and/or vacation payout calculations. They also enter this information into PeopleSoft. There were instances where the SPAR documentation was not being consistently reviewed by the Supervisors.

- The Payroll Technicians obtain the supporting documentation for the vacation and/or vacation payout amounts. However, there were instances where we were unable to determine how the vacation payout amounts were calculated.

- There are instances where HROP did not input the proper coding within PeopleSoft so that the employee would become inactive. This coding is necessary particularly for employees leaving the Authority as this coding informs Treasury that the employee's check is to be kept in Disbursement for pickup.

- Based on our review, it appears that on several occasions, from the time the Initiating Department obtains signatures and submits the SPAR to Human Resources for sign off and for deactivation, it appears to have taken the SPAR at least 2 months or more to reach Payroll. By this time, the employee has already left the Authority. If the employee's timesheet is not modified to reflect when he/she has left the company, the employee would have been overpaid.

During the exit meeting, ACCT provided us with payroll procedure PR2.1.2 dated August 31, 1993 for processing the Separation Personnel Action Reports (SPARs)

Since this procedure is 13 years old, we believe that the procedure should be updated to reflect the current process and procedures.

Recommendations

We recommend that:

- **ACCT update payroll procedure PR 2.1.2 to reflect the current process and procedures to include documenting the Separation Personnel Action (SPAR) process so that the procedures can be consistently performed within Payroll. The documentation of this process will aid in the training of new employees;**

- **A signature and date be indicated on the supporting documentation to indicate a level of review by the Supervisor. Along with the supporting documentation, a calculation tape should be incorporated to indicate how the vacation amounts were derived;**

- **HROP ensure that employees leaving WMATA are properly shown as 'inactive' in PeopleSoft.**

During the exit meeting, the AGM, WFDA stated that HRMS will generate a weekly report and reconcile hard copy SPARs received in HROP with a PeopleSoft generated status report. This assumes that HROP receives SPARs consistent with all terminations and retirements in a timely manner.

21. Reversals are not performed timely, lack the appropriate Supervisory approval, and are not consistently performed.

The Payroll Supervisors perform the reversals for overpayments to employees. When an employee has been overpaid, the Payroll Supervisors prepare and submit an ACH Changed/Delete/Reversal Form to the Office of Treasury (TRES) to deduct funds from the employee's bank account. Upon receipt of the funds from the employee's account, TRES will confirm the return of the funds from the employee's account. Upon verification from TRES of the receipt of the funds from the employee's account, ACCT reverses the overpayment amount from the employee's wages and documentation of this process is maintained.

During a review of this process, we noted the following:

- Employees were overpaid in September 2005 by approximately $284,000. The employees' wages were not reversed from their earnings until November 2005 and January 2006. There are instances where the ACH Changed/Delete/Reversal

Form was submitted to TRES by ACCT and the employees' wages were reversed prior to the receipt of confirmation from TRES. There is no indication that TRES was able to obtain the funds back from the employees. As a result, ACCT needs to collect approximately $22,000 from employees due to this overpayment. Also, the employees' W2s were understated;

- There were several instances where the overpaid amounts were reversed from the employees' bank accounts but the employees' wages were not reversed. As a result, the employees' W2s were overstated;

- In January 2006, we noted that overpaid amounts totaling $44,000 were reversed from the employees' wages. However, the net pay amounts are not reflected on the general ledger. The net pay amounts are reflected in the deductions field on the employees' paychecks;

- There is no formal standard operating procedure (desk procedure) in place to handle overpayments under the PeopleSoft system;

- A brief description of the reason for the reversal is not indicated on the documentation. There is no indication on the documentation that the overpayment was reviewed and approved by the Payroll Manager;

- Reconciling items on the bank reconciliations are not researched and cleared in a timely manner (within 60 days).

The Controller states that this is due to PeopleSoft issues.

Our concern is that the review and reconciliations need to be timely to reduce the likelihood that mistakes will occur.

Recommendations

We recommend that ACCT:

- **Develop a process for handling overpayments. The employee needs to be informed in writing of the overpayment. If the employee is not able to provide full payment of the overpayment, then agreed upon scheduled payments should be made via PeopleSoft from the employee's paycheck;**

- **Understand the effect that returns and reversals have on the general ledger. This will enable ACCT to properly clear reconciling items in the cash accounts in a timely and efficient manner;**

- **Should research and clear reconciling items on the bank reconciliations in a timely manner (within 60 days);**

- **Request Payroll to develop a consistent way to reverse and correct overpayments;**

- **Request Payroll to perform the reversals in a timely (within the next pay period) manner and provide ACCT with supporting documentation of the reversals;**

- **Perform the reversals only upon receipt of a confirmation from TRES that the funds have been returned. This documentation should be maintained in the official files. A signature and date should be indicated on the supporting documentation by the Payroll Supervisor along with an explanation for the overpayment. A signature and date should be indicated on the supporting documentation by the Payroll Manager indicating review and approval.**

22. Acting and Temporary Assignments are not terminating after six months.

We reviewed the PARs for the acting and temporary assignments from August 2005 through December 2005. During our review of the process, we noted that a PAR was issued for a WMATA employee to perform an acting assignment for one month. The acting assignment effective date and the termination of acting assignment effective date were both indicated on the PAR.

During our review of this process, we noted the following:

The acting assignment effective date was entered into PeopleSoft but the termination date was not entered into PeopleSoft by Human Resources Operations (HROP).

Payroll is only authorized to process payroll data based on the information that is entered in PeopleSoft by HROP. Upon receipt of the PAR, Payroll compares the information on the PAR to the information in PeopleSoft. Based on our understanding of the process, PARs with discrepancies are returned to HROP for further review or correction. Although there appeared to have been a discrepancy between the PAR and PeopleSoft, in this instance, the PAR was not returned to HROP. The PAR was processed by Payroll on the acting assignment effective date.

Since the termination date was not entered into PeopleSoft by HROP and the PAR was not returned to HROP, although there was a discrepancy between the PAR and PeopleSoft, an employee was overpaid for 5 months.

The Payroll Supervisor's review and sign off is not consistently performed within the PAR process.

Policy Number 5.2 *Salary Administration* does not address the supporting documentation that WMATA Managers/Superintendents should submit for authorizing overpayments and/or extension when an employee's acting assignment has been extended.

During the exit meeting, the Controller stated that this issue appears to have been an isolated incident.

Even though, according to ACCT, this may have been an isolated instance, it is still a concern and should be addressed.

Recommendations

We recommend that:

- **HROP should implement a process to ensure that the information that is entered into PeopleSoft from the PAR is accurate and complete;**

- **HRMS should implement a process to ensure that PARs with discrepancies are returned to the appropriate offices/departments within 24 hours for further review, correction, and for follow-up. The discrepancies should be resolved within 24 hours;**

- **A signature and date should be indicated on the PAR by representatives from HROP and Payroll to indicate a level of review. A signature from a representative in HROP should indicate that the information on the PAR is properly reflected within PeopleSoft. The date should indicate when the review took place. The signature from the Payroll Supervisor should indicate that the PAR was properly processed, supporting documentation was obtained, and the calculations to arrive at the payroll amounts were accurate;**

- **Policy 5.2 *Salary Administration* should be modified to address the supporting documentation that WMATA Managers/Superintendents should submit for any authorizing overpayment and/or extension when an employee's acting assignment has been extended.**

During the exit meeting, the AGM, WFDA stated that HRMS concurs with this recommendation and will implement the recommended actions by November 27, 2006.

23. Payroll Reports are not reviewed prior to the processing of the payroll.

There are four reports that are generated during the payroll process each pay period. On the Hourly Payroll, there is a Net over $2,000 Report and an Over 60 hours Report. On the Salary Payroll, there is a Net over $4,000 Report and an Over 90 hours Report. These Reports identify employees who either receive a net pay and/or hours over the limits as noted.

These Reports are not always generated prior to the processing of Payroll. The net pay and hours listed are researched and reviewed by the Payroll Technicians. Although it appears that this review is taking place, a signature and date is not shown on the Report. During our review of the process, we noted that in September 2005, an amount of $199,249.22 was deposited in an employee's account. If these Reports were reviewed prior to the processing of payroll, this would have been detected earlier.

During the exit meeting, the Controller stated that Payroll had 3 days to retrieve the funds and that the funds were recovered. The Controller stated that the Payroll Reports are being reviewed. The Controller also indicated that the employee never received the $199,000.

Based on our audit, we did not find sufficient documentary evidence that the payroll reports are being reviewed and offer our recommendations. In addition, our concern is that the review and reconciliations need to be timely to reduce the likelihood that mistakes will occur.

Recommendation

- **We recommend that the Net Report and the Over Hours Report be reviewed *prior* to the processing of Payroll by the Payroll Supervisor. A signature and date indicating that the reports were reviewed should be indicated on the Report by the ACCT representatives.**

24. The Adjustment Report is not consistently reviewed by the Payroll Supervisors and the Payroll Technicians to ensure the adequacy of the payroll data.

Each pay period, an Adjustment Report consisting of the employee's identification number, the type of adjustment code performed, and the number of dollars and/or hours that were provided to the employee for the pay period is submitted to the Payroll Technicians for their review by the Payroll Supervisors. Each pay period, each Technician prepares an Adjust Current Earnings spreadsheet. This spreadsheet indicates the employee's identification number, the employee's name, the type of adjustment code that was performed, the number or hours, the dollar amount, and the date the adjustment took place. Attached to the spreadsheet is the supporting documentation for each adjustment. Upon receipt of the Adjustment Report, each Payroll Technician compares the information on their Adjustment Current Earnings spreadsheet to the Adjustment Report.

During our review and discussions of the Adjustment Process with the Payroll Technicians, we noted the following:

- A separate check was issued to an employee on December 7, 2005 for funeral leave in the amount of $11,053. Although this amount was a separate check, it was not on the Adjustment Report or on the Net Pay over $2,000 Report.

- Based on discussions with the Payroll Technicians and review of the Adjust Current Earnings spreadsheet, we noted that this comparison is not consistently being performed. Many of the Payroll Technicians were unaware that a comparison was to be performed. In addition, the Adjustment Report is not provided to the Payroll Technicians in a timely manner to allow them adequate time to perform the comparison and to make changes to the payroll data, if necessary, prior to the processing of payroll.

During the exit meeting, the Payroll Manager stated that the Payroll Technicians have been empowered to approve their own adjustments that are entered into PeopleSoft. The Supervisors review and approve adjustments > $2,500.

Based on our review, there is a lack of documentary evidence that the comparison is being done. Therefore, we are concerned that the empowerment has resulted in insufficient controls being in place to ensure that the necessary comparison and review is being accomplished.

Recommendations

We recommend that:

- **Each Payroll Technician should perform a comparison of the adjustments that were performed each pay period to the Adjustment Report. A signature and date of the comparison and review should be indicated on the spreadsheet to document that the review was done;**

- **The Payroll Supervisor should enhance the review process to ensure that a comparison is being performed and that supporting documentation is maintained. A signature and date should be indicated on each Technician's Adjustment Current Earnings spreadsheet indicating that the review was done;**

- **The Payroll Supervisor should provide the Adjustment Report to the Technicians in a timely manner to allow them adequate time to compare the information on their Adjustment Current Earnings Spreadsheet to the Adjustment Report.**

Bank Reconciliations

We reviewed the bank reconciliations to ensure that the payroll cash accounts were properly reconciled, recorded in a timely manner, and in the proper accounting period. To gain an understanding of the bank reconciliation process, we obtained the policies and procedures from the WMATA intranet and interviewed personnel in ACCT. We also reviewed payroll bank reconciliations from August through December 2005. During our review, we noted the following:

25. Policies and Procedures over Accounting and Financial Reporting are not current and are not adequately documented.

Due to the implementation of PeopleSoft, ACCT does not have an up-to-date procedures manual for their accounting and financial reporting procedures. Maintaining an updated procedure manual is necessary to ensure that the goals and objectives of the organization are met, that similar transactions are handled in a similar manner, and that responsibility is assigned to specific individuals.

During the exit meeting, the Controller stated that she did not understand why this finding was addressed in this audit since a similar finding was addressed in the Accounts Payable audit. She stated that the current Policies and Procedures were sufficient.

Since PeopleSoft is a new process that has been implemented, it is necessary to review the current procedures and update/revise them to be current and consistent with the way items are being processed.

Recommendation

- **We recommend that the Office of Accounting (ACCT) prepare and maintain an updated procedure manual**.

26. Reconciling items are not cleared timely from the bank reconciliations.

We reviewed the three Payroll Cash accounts for five months for the following general ledger accounts: Hourly Account, Salary Account, and the Direct Deposit Account. We reviewed the bank reconciliations to verify if:

- the reconciliation of the payroll accounts were being performed on a monthly basis;
- they were signed by a Preparer and approved by a Reviewer;
- they were reconciled in a timely manner; and
- the bank activity had been agreed to the general ledger.

During our review, we noted that there were items on the bank reconciliation that were necessary to balance the general ledger and that they are recognized as reconciling items. Some reconciling items have appeared on the list of reconciliations for over 1 year. See the following chart for the reconciling items on the payroll bank reconciliations.

Account	GL Account #	Description	Balance @ 12/31/2005
Direct Deposit	10101150	Returns & Reversals	$ 63,410.94
		Payroll Corrections	2,506.51
		Insufficient Funds	(4,342.56)
		Funds to be Collected	(21,698.30)
			$ 39,876.59
Hourly Acct	10101210	2004 Payroll Activity	$ (171.61)
		Checks Cashed & Reversed	(1,765.10)
		GL Payroll Shortage	(7,143.25)
		Earnings Understated	(1,824.83)
		Duplicate Checks Cashed	(1,140.96)
		Checks to be Voided in PS	3,390.57
			$ (8,655.18)

A description of each of the reconciling items is as follows:

- **Reversals** represent overpayments and/or monies not due to the employee. These overpayments and/or monies were reversed from the employee's earnings and a manual check is usually issued to the employee through the Accounts Payable System. **Returns** represent monies returned back to WMATA due to incorrect account number, account closed, etc.

- **Payroll Corrections** are differences between the actual payroll that was sent to the bank and the amount shown on the general ledger. Based on discussions with representatives of ACCT, they have not been able to determine why the differences appear and how they affect the general ledger.

- **Insufficient Funds** are funds that are a residual from the overpayments and/or monies not due to the employee. All of the funds were not refunded back from the employee's bank account and the insufficient funds represent the additional amount that is due to WMATA.

- **Funds to be Collected** represents an error that was made by Payroll. Based on discussions with ACCT representatives, some employees were overpaid. Payroll reversed the employee's earnings prior to receiving confirmation that the funds had been received at the bank.

- **2004 Payroll Activity** consists of unresolved payroll issues from prior years.

- **Checks Cashed and Reversed** represents payroll checks that were issued to the employee and cashed. These checks were also reversed from the employee's earnings.

- **The General Ledger Payroll Shortage** represents the difference between the actual payroll and the amount that was posted to the general ledger. The general ledger amount was short by this amount.

- **Earnings Understated** represents direct deposits of the same amount that were reversed from the employee's salary within the same year by perhaps two different payroll employees.

- **Duplicate Checks Cashed** represents two payroll checks with identical check numbers that were cashed by an employee.

- **Checks to be Voided in PeopleSoft** represents payroll checks from the prior payroll system.

During the exit meeting, the Controller stated that the reconciling items on the reconciliations were due to the implementation of PeopleSoft. She stated that these reconciling items have not been resolved yet due to other higher priority issues.

We believe that the reconciling items should be resolved in a timely manner. The Controller states that these issues are in the process of being resolved.

Recommendations

We recommend that:

- **ACCT and Payroll personnel research and clear reconciling items that appear to be on the reconciliations > 60 days within a timely manner;**

- **Reconciling items pertaining to other offices/departments should be communicated on a monthly basis to the appropriate Accounting representative and/or Supervisor for action.**

27. Payroll Data was not being posted to the General Ledger timely.

Based on discussions with ACCT representatives, the Month-End Closing Process is a manual process that is performed by the 5th business day of each month. We reviewed the detail general ledger activity for the three payroll bank accounts from August 2005 through December 2005 and noted that there were instances where the actual payroll amounts did not post to the general ledger until the subsequent month.

In the following chart, the date of the actual payroll for three months is indicated along with the date the payroll activity was posted to the general ledger.

	Description	GL #	Date of Actual Payroll	Date Posted to GL
1	Direct Deposit	10101150	8/24/2005	9/22/2005
			10/19/2005	11/28/2005
			12/21/2005	1/4/2006
2	Hourly Acct	10101210	8/17/2005	9/21/2005
			10/5/2005	11/28/2005
			12/21/2005	1/4/2006
3	Salary Acct	10101180	8/5/2005	9/27/2005
			10/28/2005	11/29/2005
			12/23/2005	1/6/2006

The bank reconciliations appear to be reconciled on a monthly basis. However, they are not reconciled in a timely manner. Untimely preparation of the bank reconciliations delays detection and correction of errors and possible misappropriations. During our review of the payroll bank reconciliations, we noted several instances where Zero Base Account (ZBA) transfers totaling $68,044,526 pertaining to October 2005 and November 2005 bank activity did not post to the general ledger until January 2006.

Account	Description	GL #	Amount	Month of Activity	Date Posted to GL
Direct Deposit	ZBA transfers	10101150	$ 25,641,957.50	Oct-05	1/3/2006
			30,332,873.64	Nov-05	1/9/2006
Hourly	ZBA transfers	10101210	6,120,534.13	Oct-05	1/3/2006
			5,949,160.96	Nov-05	1/9/2006
		Total	$ 68,044,526.23		

During the exit meeting, the Controller disagreed with this finding. She stated that the conversion took place without the ability to post to the general ledger. There were system issues. The Controller stated that ACCT received approval from Executive Management to delay the posting of labor until the FY 2005 financial statements were finalized.

Recommendations

We recommend that ACCT:

- **Ensure that the payroll data is properly shown on the general ledger accurately and in a timely manner;**
- **Completes monthly bank reconciliations in a timely manner;**
- **Consistently close the general ledger on the 5th business day of the month. This should be documented in the updated Monthly Closing policy and procedure and enforced.**

28. The Bank Reconciliations are not timely and consistently reviewed and approved.

The bank reconciliations are reviewed monthly by the Accounting Supervisor and reviewed quarterly by the Controller during the Balance Sheet Review. Due to the implementation of PeopleSoft, bank reconciliations are an even more critical internal control relied upon by ACCT and should be implemented monthly to ensure accuracy and timeliness. The review is not as effective as it should be because timely reconciliation has not occurred. During our review, we noted that there were instances where there was not any indication that the bank reconciliations had been reviewed or approved by both the Accounting Supervisor and the Accounting Manager.

Account	GL #	Reviewed Monthly	Reviewed Quarterly
Direct Deposit	10101150	Yes	Yes
Salary Acct	10101180	No	Yes
Hourly Acct	10101210	Yes	Yes

During the exit meeting, the Controller stated that the employee at the time was acting in a Manager's capacity and had the authority to prepare and review reconciliations. Therefore, a second level of review was not necessary.

We disagree that a second level of review is unnecessary when an employee is acting in two different capacities. The internal control issue of why a second level of review is still necessary still applies.

Recommendation

- **We recommend that ACCT enhance their review process to ensure that the proper sign-offs are performed by the appropriate levels of Supervisory Management and encourage timely reconciliations.**

29. Outstanding check listing is overstated.

We reviewed the Unpaid (Outstanding) Report for the Hourly Payroll account for April 2006 totaling $1,073,180.85. The Report was reviewed for duplicate names and high dollar amounts. During our review, we noted that the Report consisted of employees that were on a paid leave of absence – sick over 30 days, retirees, terminated employees, and employees holding on to their payroll checks. The Report also identified a breakdown in the internal control process in the Field.

WMATA and Local 689 have negotiated direct deposit for union employees. Direct deposit is required for the Non-Represented and the Special Police Officers (SPO), but is not required for the Local 922 and Local 2 union employees'. When direct deposit is mandatory, it will be more important that payroll is not paid to individuals who are not entitled to receive the funds.

During our review, we noted the following outstanding checks.

	Employee Initials	# of checks	Total $ Amount	Reason In PeopleSoft (PS)
1	N.S.	36	$ 26,167.76	Paid LOA for 30 days since 11/2/02
2	C.M.	13	5,588.14	Paid LOA - WKC since 7/13/05
3	D.N.	6	816.98	Paid LOA for 30 days since 12/17/01
4	D.B.	16	10,916.13	Active in PS; PAR was not completed to change the employee's status in PS
5	D.N.	5	1,931.47	Paid LOA for 30 days since 6/2/04
6	L.L.	23	6,576.44	Active in PS; notified Supervisor to inform employee to cash paychecks
7	T.G.	16	7,062.75	Employee was terminated on 12/2/05; SPAR was not completed; SPAR entered in PS on 5/19/06
			$ 59,059.67	

Recommendations

We recommend that:

- **ACCT take a proactive approach to research the employee names on the Unpaid (Outstanding) Report on a monthly basis to ensure the accuracy and validity of the Report;**
- **Direct Deposit is required for most WMATA employees. Therefore, it is desirable to negotiate this issue with the remaining Unions so that this practice will be consistent across WMATA.**
- **Field timekeepers and supervisors ensure that SPARs are prepared timely and that time and attendance records are prepared correctly.**

During the exit meeting, the Controller disagreed with this finding. She stated that SPARs are not completed by the respective offices/departments. She also stated that payroll checks are not returned from the Field timely so that the checks can be voided. Also, Supervisors are approving and transmitting time and attendance for employees that should not have been generated.

This is a shared responsibility among the field employees and ACCT and corrective actions need to be taken by all parties involved.

30. There is a lack of checks and balances within PeopleSoft when payroll checks are reissued.

During our review of the Hourly Account, we noted several instances when an initial payroll check is reissued, that there is not any indication or history of the initial check having been issued within PeopleSoft. The initial check is only indicated on the Unpaid (Outstanding) Report as being voided. The reissued check appears on the Check Register and is included in the employee's check history within PeopleSoft. The reissued check is also indicated on the Paid Report as (either paid in the current or previous period; however, no outstanding master was received).

Date of Check	Issue Check #	Amount	Unpaid Check Rpt	In PS / GL	Reissue Check #
8/3/2005	3000558	$ 330.67	8/31/2005	N	3023965
8/3/2005	3001787	484.86	8/31/2005	N	3012052
8/10/2005	3003106	214.73	8/31/2005	N	3023966
8/10/2005	3004580	1,254.58	8/31/2005	N	3004770
8/10/2005	3004581	844.61	8/31/2005	N	3004771
8/17/2005	3006469	496.55	8/31/2005	N	3028737
8/24/2005	3009292	694.49	8/31/2005	N	3009543
8/17/2005	3005257	362.52	9/30/2005	N	3028736
8/17/2005	3006235	578.76	9/30/2005	N	3028738
9/7/2005	3012788	329.66	9/30/2005	N	3028735
9/7/2005	3014172	475.27	9/30/2005	N	3023971
9/14/2005	3014398	860.51	9/30/2005	N	3028734
9/14/2005	3015753	221.47	9/30/2005	N	3023970
9/21/2005	3017319	597.01	9/30/2005	N	3023969
9/21/2005	3017599	244.64	9/30/2005	N	3026497
9/7/2005	3013331	645.26	10/31/2005	N	3023968
9/21/2005	3018242	651.34	10/31/2005	N	3023967
10/5/2005	3023342	351.30	10/31/2005	N	3026453
10/19/2005	3028078	768.03	10/31/2005	N	3031399
10/26/2005	3029019	740.26	10/31/2005	N	3031398
10/5/2005	3022217	653.01	10/31/2005	N	3038287
11/9/2005	3034546	587.66	11/30/2005	N	3038286
11/23/2005	3038558	1,014.26	11/30/2005	N	3045507
		$13,401.45			

During the exit meeting, the Controller stated that this was a system issue.

Even though the Controller believes that this is a system issue, it still needs to be addressed.

After the exit meeting with the CIO, we received additional information from OIT's Payroll Consultants. They informed us that after investigating the list of reissued checks indicated above, they determined that all of the checks in question had been reprinted. They stated that reprinting can be treated as a re-issue. However in this case, the amounts did not change on the reprinted checks. Of the 23 checks on the list, 21 of them reconcile, meaning that the original check number is in the Dead Check table and the reprint check number is in the Pay Check table and has been cashed. Two of the checks in the list that were reprinted, we determined that the original check had been cashed and the reprinted check had not been cashed. These checks should have been sent to TRES and had the status changed to void.

One of the fields in the Dead Check Table does identify the original check that was issued, thus indicating that the checks were issued within PeopleSoft. Checks can be located in the Review Dead Checks page in PeopleSoft. The navigation to this page

is North American Payroll>Periodic Payroll Events>Check Reconciliations>Review Dead Checks. It is possible to search by both the original check number and the reprint check number. There have been 74 checks in the Dead Check table since the system went live in July of 2005. Based on the comments by the Controller and the information furnished by the OIT Payroll Consultants, it appears that ACCT is not aware of this Dead Check Table availability in PeopleSoft.

Recommendations

We recommend that:

- **Payroll research the issue and reverse the initial payroll check from the employee's earnings and provide the voided check to TRES to be voided;**

- **Payroll and OIT create a positive pay file for re-issued checks in PeopleSoft for both off-cycle and on-cycle checks to be sent to disbursement so that the file can be sent to the bank. Therefore, the bank can have an official record of these checks.**

- **OIT inform and train ACCT staff on the availability of the Dead Check Table and its function and inform them that it is not a system problem as currently believed by ACCT.**

31. The Cost Allocation process within the Payroll Section is not formally documented and WMATA employees have not had the training to perform this process.

The Payroll employees process the payroll data. However, a Consultant posted the payroll data to the general ledger. As of September 30th, this consultant is no longer working at WMATA. Based on discussions with the Controller, other employees within the office are familiar with this process, but due to staffing issues are not able to perform this function. The Cost Allocation process is not formally documented so that other employees in the office are able to reperform this process. In addition, the Allocation Calculation Log on how the various costs are allocated within the general ledger is not maintained by ACCT.

Recommendations

We recommend that ACCT:

- **Update the documentation of the Cost Allocation Process;**

- **Maintain a copy of the Allocation Calculation Log per pay period;**

- **Cross-train their staff so that the Allocation process can be performed by more than one person in a more efficient and timely manner.**

During the exit meeting, the Controller stated that the Cost Allocation process is documented and is in the process of being updated. The Allocation Calculation Log can be recreated therefore maintaining a copy is not necessary. In addition, a few employees have been trained to perform the Cost Allocation process.

James C. Stewart
Auditor General

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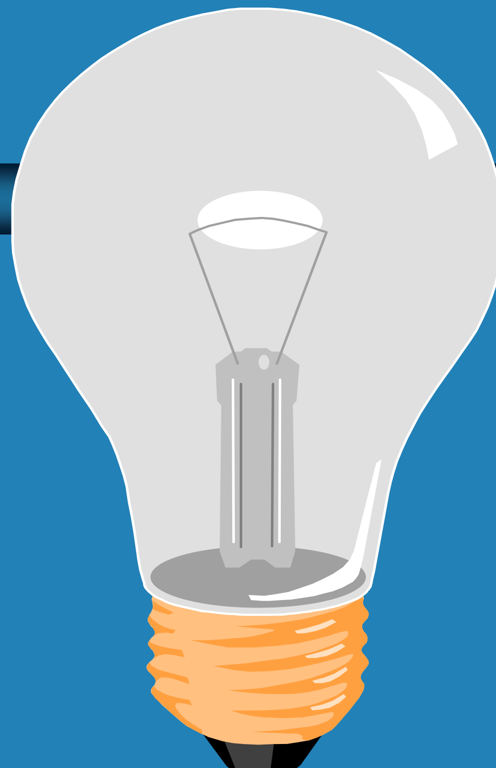
- Questions



- If you have any questions or comments pertaining to this Internal Audit Report , please contact:

- James C Stewart
  962-1008