



**JIM STRICKLAND
MAYOR**

EXECUTIVE DIVISION

January 7, 2019

Ms. Shirley Ford, Chief Financial Officer
Finance Division
City of Memphis
125 N. Main Street, Room 368
Memphis, TN 38103

Dear Chief Ford:

We have completed our investigation of the direct deposit discrepancy involving an employee's payroll checks. The incident was discovered when the employee contacted the Payroll Service Center on December 28, 2017 to inquire about payroll related matters. The employee's payroll checks had been inaccurately deposited into another employee's bank account via direct deposit. The employee received full restitution for the payroll discrepancy and the other employee was terminated during the early stage of the investigation.

The objective of our investigation was to determine whether this was an isolated or systemic incident related to human error, fraud, waste, abuse or misuse. To accomplish our objective, we interviewed payroll staff to obtain an understanding of pertinent payroll processes. We also evaluated the payroll processes and reviewed payroll policies and procedures to identify significant internal control weaknesses. The scope of our investigation was limited to the Payroll Service Center and direct deposit transactions for the period January 1, 2017 to April 20, 2018.

CONCLUSION

We concluded that the direct deposit discrepancy was an isolated incident that resulted from human error due to inadequate controls over the direct deposit process. We found no evidence of fraud, waste, abuse or misuse. Although we found written procedures for entering direct deposit information, we did not find any policies or procedures for ensuring the validity and accuracy of direct deposit transactions. We also did not find any evidence of ongoing monitoring of payroll activity, such as direct deposit transactions, to ensure work is performed correctly and to identify control deficiencies.

BACKGROUND

The Finance Division's Payroll Service Center (Payroll) is responsible for the administration of the City's payroll. The service center is staffed with six employees who process the biweekly payroll for approximately 12,066 active employees and retirees, who must be compensated timely and accurately. The payroll process starts with designated time administrators within each division, who are responsible for inputting relevant time and attendance information for active employees into the City's payroll system, Oracle Time and Labor (OTL) Super Timekeeper. Payroll is responsible for ensuring that City-wide payroll is submitted by the established payroll deadline. Afterwards, validation reports are run by Payroll to identify and correct all payroll errors. Additional responsibilities performed by Payroll, include but are not limited to the following:

- coordination of payroll system input data (direct deposit forms, etc.);
- payroll system reconciliation and maintenance;
- processing of garnishments;
- retirement benefit calculations, system set up of new retirees and mailing of retiree checks;
- distribution of checks to divisions and issuance of manual checks; and
- issuance of W-2 and 1099-R forms.

Applicable guidance for the payroll process is included in the *Finance Division Policy and Procedure Manual, Chapter 5* and *City of Memphis Personnel Policy and Procedure Manual, Section 34-00*. The policies and procedures are available on the City's intranet, accessible from the drop-down menus for Divisions (Finance Administration link) and Human Resources (Personnel Policies and Procedures link). All divisions are required to comply with them. The City must also comply with various federal, state and local laws and regulations governing various payroll elements such as minimum wage, deductions, and final pay.

During fiscal year 2017, Payroll disbursed approximately \$476,276,850 for personnel expenditures, which represented approximately 72% of the City's annual operating expense budget.

SUMMARY OF INVESTIGATION

We interviewed Payroll personnel to obtain specific details regarding the direct deposit discrepancy. We also obtained and analyzed the data extract of all direct deposit activity that was processed by Payroll during the period January 1, 2017 thru April 20, 2018. We sorted the 5,083 transactions by various data elements (transaction date, user, etc.) to isolate transactions for further review and inquiry. We noted the following:

Direct Deposit Discrepancy

1. On January 9, 2017, Payroll initiated a direct deposit transaction that inaccurately assigned an employee's payroll checks (**Employee A**) to another employee's bank account (**Employee B**). The misdirected pay which totaled \$16,726.06, was corrected after **Employee A** contacted Payroll on December 28, 2017.

NOTE: **Employee A** had several payroll deductions that reduced the employee's net pay for 89% (24 of 27) of the pay periods involved. For those pay periods, net pay ranged from \$31.74 to \$761.93, with a median net pay of \$271.99.

- For the remaining three pay periods, we noted a significant spike in the employee's net pay due to smaller deductions and for payroll earnings that were applicable based upon the employee's job position. The following table provides a summary of net pay for the three pay periods.

Net Pay for Highest Paid Pay Periods of Employee A

Pay Period	Pay Date	\$ Net Pay
PP13	06/30/17	3,514.52
PP24	12/01/17	1,906.21
PP27	12/29/17	1,749.79

2. According to the Payroll Analyst who processed the inaccurate direct deposit transaction, **Employee A** made a visit to Payroll to inquire about personal payroll matters. However, we did not find any documented evidence to confirm that the employee visited Payroll on January 9, 2017. There was no visitor or phone log that documented the employee's visit on that day.
 - We did not find a direct deposit form or cancelled check to justify an authorized change to the employee's direct deposit information.
3. The misdirected payroll assignment resulted in two separate direct deposit accounts for **Employee B**. We obtained copies of the employee's direct deposit forms for both accounts. The employee's most recent direct deposit form was submitted to Payroll on January 6, 2017 and requested that the full amount of the payroll payments be deposited to their checking account.
 - **Employee A's** payroll checks (noted above in item #1) were misdirected into **Employee B's** bank account that was represented on the direct deposit form submitted on January 6th. At the same time, payroll checks pertaining to **Employee B's** work assignment continued to be deposited into **Employee B's** checking account that was initially setup for direct deposit in November 2015.
 - Overall, **Employee B's** salary, which totaled \$17,385.38, significantly increased by 96.21% as a result of the misdirected pay. We noted five pay periods for which the employee's increase exceeded 200%; the highest increase was 296.76%

NOTE: **Employee B** did not inform pertinent City personnel from Payroll or Division Management about the additional payments.

4. The data extract revealed that the Payroll Analyst that initiated the payroll discrepancy, had also initiated more direct deposit transactions than anyone else in Payroll (37.36%). The Payroll Analyst was also responsible for more payroll duties than the other Payroll Analysts.

We found no written guidance for the Payroll Analyst to follow to ensure consistency, accuracy and completion of assigned tasks.

- We found no evidence of routine monitoring to ensure the validity and accuracy of direct deposit information.

In addition to the direct deposit discrepancy, we noted the following internal control weaknesses:

5. We did not find written policies and procedures that outlined the practices and procedures for all Payroll personnel to follow in performance of their various payroll duties and responsibilities, including but not limited to garnishments, mass mutual adjustment deductions, and pension calculations. The written procedures that were provided by Payroll were limited to data input and therefore lacked the following:
 - clearly defined roles and responsibilities
 - instructions outlining Payroll practices and procedures (direct deposits, garnishments, retirement, etc.)
 - criteria/conditions for processing payroll exceptions outside the normal payroll process (manual checks, emergencies, etc.)
 - documentation requirements (maintenance of pertinent documents, visitor logs, etc.)
 - proper communication of payroll errors and irregularities
 - supervisory reviews of payroll activity (monitoring)
 - reporting criteria
6. We could not determine whether the Payroll workload was distributed equitably amongst all Payroll Analysts due to the lack of clearly defined roles and responsibilities. We believe that the lack of adequate guidance, heavy workload, and lack of routine monitoring contributed to the Payroll discrepancy. It further increases the likelihood for human error to continue to occur undetected.
7. Timely and accurate compensation for the City's 12,066 employees and retirees every pay period requires a great deal of procedural efficiency and effort by Payroll personnel. We found no evidence of cross training and no succession plan to ensure continuity of Payroll operations when Payroll personnel is absent (sick, vacation, etc.), which could impact timeliness of Payroll processing.

RECOMMENDATIONS

We recommend that Finance Division Management develop and implement written policies and procedures that outline the practices and procedures for all Payroll personnel to follow in performance of their various payroll duties and responsibilities (garnishments, mass mutual adjustment deductions, pension calculations, etc.) to include:

- clearly defined roles and responsibilities
- instructions outlining Payroll practices and procedures (direct deposits, garnishments, retirement, etc.)

- criteria/conditions for processing payroll exceptions outside the normal payroll process (manual checks, emergencies, etc.)
- documentation requirements (maintenance of pertinent documents, visitor logs, etc.)
- proper communication of payroll errors and irregularities
- supervisory reviews of payroll activity (monitoring)
- reporting criteria

Finance Division Management should evaluate the Payroll workload and employee complement for maximum efficiency to ensure adequate resources to serve the City's 12,066 active employees and retirees.

Finance Division Management should also require cross training and develop succession planning to ensure continuity of operations during the absence of pertinent Payroll personnel. Your written response to the draft appears in full text in the appendix of this report. We will evaluate the adequacy of your corrective actions during our corrective action monitoring.

Investigations performed by the City Auditor's Office are considered non-audit projects and therefore does not constitute an audit under Government Auditing Standards. However, the work was performed in accordance with the general standards. We appreciate the cooperation of Finance Division management and staff during this investigation. If you have any questions or need additional information, please feel free to call me.

Sincerely,



Debbie Banks, CFE, CICA, CMFO
City Auditor

c: Jim Strickland, Mayor
Doug McGowen, Chief Operating Officer
Alexandria Smith, Chief Human Resources Officer
Chandell Carr, Deputy Chief Operating Officer
Andr  Walker, Deputy Director, Finance
Candi Burton, Interim City Comptroller
Yolanda Alexander, Deputy Comptroller, Payroll
Julianne Bowen-Mabry, Supervisor, Payroll
Bridgette Wilder, Senior Manager, Office of Equity, Diversity & Inclusion

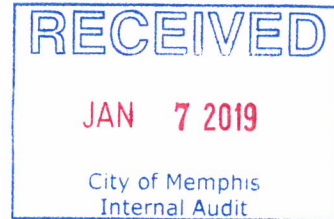
APPENDIX – RESPONSE FROM CHIEF FINANCIAL OFFICER



JIM STRICKLAND, MAYOR

**DIVISION OF FINANCE
SHIRLEY FORD, CHIEF FINANCIAL OFFICER**

TENNESSEE



January 7, 2019

Debbie Banks
City of Memphis
Internal Audit

Re: Response from Chief Financial Officer

The Finance Division appreciates the due diligence related to the investigation of the payroll direct deposit discrepancy discovered on December 28, 2017. The Finance Division acknowledges the need for measures to be taken regarding the internal control issues identified.

The City has committed to the dedication of resources and technology to provide the appropriate infrastructure support for the remediation of this critical issue.

I look forward to our continued collaborations for best practices and process improvements.

Shirley Ford
Chief Financial Officer
City of Memphis