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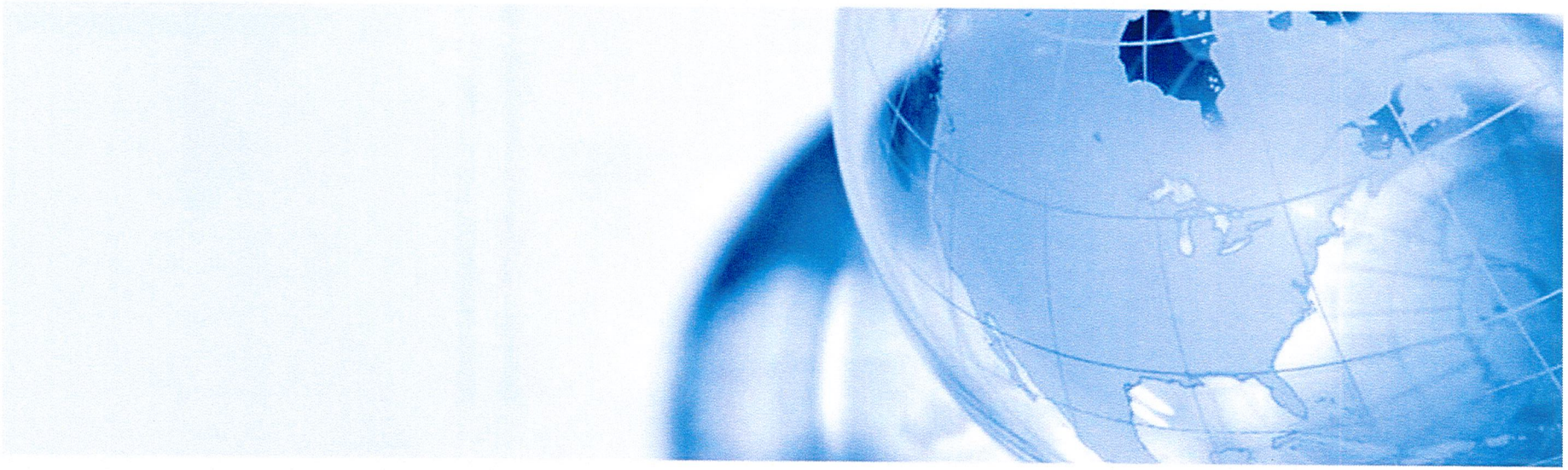

Town of Palm Beach
Human Resources Department
Follow-Up Internal Audit

For the Period Ended May 31, 2011
Crowe Horwath LLP - Public Sector Services

Audit | Tax | Advisory | Risk | Performance

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Background and Objective

Crowe Horwath LLP ("Crowe" or "we") performed a follow-up audit on the prior year internal audit on the Town of Palm Beach's Human Resources Department ("HR" or "Department") as of May 2011. The overall objective was to follow-up on observations and recommendations from the prior internal audit report. We reviewed policies and procedures, interviewed Department personnel, and performed testing on certain sampled items related to human resource and pension file documentation.

The objective of the internal audit was to evaluate implementation of recommendations noted in the 2010 audit of the Human Resources. During that audit, the design and effectiveness of internal controls were tested to determine whether:

- Compensation information produced by payroll and pension benefit information systems is accurate.
- Pension plans are implemented in conformance with existing federal, state, and town laws and ordinances.
- Procedures to insure conformance with gift acceptance polices were implemented and followed.

Scope

The specific procedures performed were based on the concepts of selective testing. Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would have been detected had procedures been changed or expanded.

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments requirement in processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

EXECUTIVE SUMMARY

Summary of Results:
Overall, the Town has appropriate internal control measures in place to ensure that the Town is operating as intended; however, we did note some areas where improvements, if implemented, could strengthen the overall internal control framework.

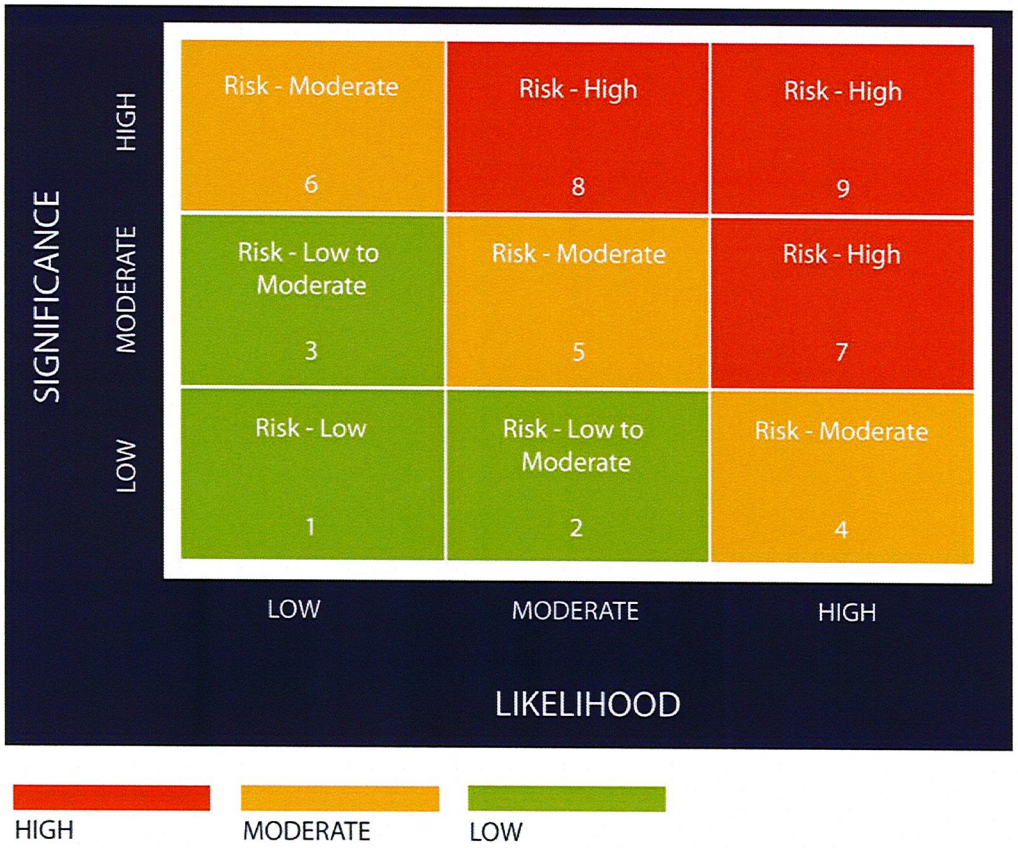
Below is a summary of Crowe's audit procedures where we noted areas of improvement. We also listed the corresponding opportunity for improvement, summary, and risk rating. The detail for this table can be found on page 9 of this report:

Audit Procedure	Opportunity for Improvement	Audit Finding	Risk Rating
Follow-up Wage Validation	1	Wage Verification Variance Analysis	LOW RISK
Follow-up File Documentation	2	Retirement File Documentation	LOW RISK
Follow-up SAS 70 Review	3	SAS 70 Review	LOW RISK

EXECUTIVE SUMMARY

Rating Risk

Risks are evaluated based on its "significance" to management's strategy and its "likelihood" to occur. This will result in a risk profile of the highest risks to the organization as presented below:



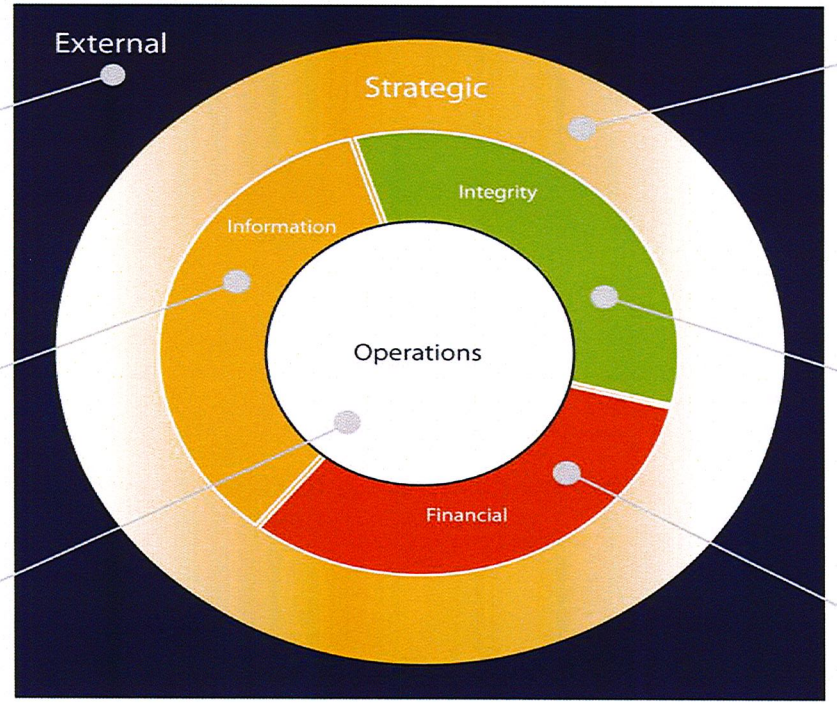
The Crowe Horwath Risk Model SM

Definition of Risk
Business risk is an event, action, or failure to act that may adversely affect an organization's ability to achieve its business objectives and successfully implement its strategies. Below is a graphic profile of Crowe's Risk Model, which identifies various types of risk:

External Risks
Regulatory/Legal
Investor Relations
Competitor
Financial Markets
Catastrophic Loss
Sovereign/Political

Information Risks
Product/Service Pricing
Performance Measurement
Budget & Planning
Accounting Information
Financial Reporting
Access
Availability

Operations Risk
Customer
Human Resources
Product Development
Supply Chain
Business Interruption
Compliance
Performance



Strategic Risks
Leadership
Alignment
Planning
Communication
Business Model

Integrity Risks
Fraud
Authority Limit
Unauthorized Use
Reputation

Financial Risks
Price
Liquidity
Credit

PROCEDURES PERFORMED

PROCEDURES	*RESULTS*
Procedures to follow-up on prior audit observations:	
1. Obtain User Access lists to Town systems. Determine who in the Town has access to Finance data used by the Pension Calculator and obtain proof.	Crowe obtained and reviewed user access listing for financial data used by pension calculator noting only appropriate Town users have access to information.
2. Obtain the binder with all employees I-9 forms. Determine if an internal audit was performed by Town employees of the I-9 forms, as mentioned in Management's response.	Crowe obtained documentation of I-9 audit procedures performed by Human Resources Department noting procedures performed. Crowe selected sample of five Town employees to test I-9 documentation. Crowe noted no exceptions in the I-9 documentation for the five employees tested.
3. Some components of compensation, while not specifically includable in pension wages per the ordinance, have been judgmental included in the calculation of final average compensation for pension	Crowe met with various individuals at the Town as well as individuals contracted by the Town to assist in this process.
4. Obtain IT access rights to Payroll and HR modules and document the employees who have access. Determine, based on the information, if IT resources have "full" access.	Crowe obtained and review user access rights for Payroll and Human Resource modules of the Eden system. Crowe noted that there was one IT employee who currently has "full" access rights to the Human Resource module. Through discussion with IT and HR personnel, HR is currently in the process of implementing a new employee benefits process within the system and the IT personnel "full" access to the HR module is directly related to the testing and implementation of the new benefit process and the full access will be removed once the system is in place and running smoothly.
5. Obtain the Information Security Policy and determine whether a Password Change and Strength Policy has been included and document the types of systems it has been implemented for.	Crowe obtained a copy of the Information Security Policy noting the policy has been updated to include industry standard password changes and strength policies.
6. Obtain document to prove that the Town has begun validating and testing the wage information used by the Pension Calculator. Also obtain proof that the Town has begun to annual review the payroll system codes to ensure that only appropriate compensation is used in the calculation.	Through discussions with HR and Finance personnel, Crowe noted the Town has begun to validate information used by the Pension calculator. Crowe obtained and reviewed documentation of annual review of pensionable wage codes. **See Opportunity for Improvement 1**.
7. Manual pension calculations were not documented as reviewed for accuracy.	Through discussions with the Town, and others contracted by the Town to assist in this process, the Town has implemented a per pay period process that is reconciled, reviewed, and documented.
8. Current internal control procedures do not provide for an effective and timely documented review of the Fire Department's final payroll information prior to submission for final processing.	Through discussions with the Town, and others contracted by the Town to assist in this process, the Town has implemented a per pay period process that is reconciled, reviewed, and documented.

OBSERVATIONS AND RECOMMENDATIONS

PROCEDURES	*RESULTS*
9. Choose a sample of 2 or 3 employees currently on FMLA and request documentation supporting that there was a communication with a due date for the return of the physician's certification of medical necessity. Determine whether the appropriate forms were obtained. WH-380-e, WH-380-f, WH-384, WH-358	Crowe selected 2 employees currently on FMLA and 1 employee who participated in FMLA since prior audit and obtained supporting documentation of Town communication related to required FMLA documentation. Crowe noted the Town performed all the required communications
10. For public safety retirees during June 2010 through current, determine if the Application for Service Retirement form is available, completed, signed, and notarized.	Crowe reviewed Police and Fire Pension Trust Board minutes noting 10 new retirement applicants. For each of these new public safety retirement applicants, Crowe obtained and reviewed the Application for Service Retirement noting the form was available, completed, signed, and notarized. No errors noted in testing. Per review of the Board minutes there was also one DROP participant that exited the DROP program for active retirement during the testing period. Crowe reviewed supporting documentation for the participant status change, **see Opportunity for Improvement 2**.
11. For 3 employees who were terminated between June 2010 and current, determine if their Window's account was disabled. Obtain documentation that shows that the sample employee's account was disabled "soon" after termination.	Crowe selected and tested 3 terminated employees. No issues noted.
12. Obtain the SAS 70 reports of third party insurance processors, obtained by the town. Document what they do with the SAS 70 reports.	Crowe obtained the SAS 70 reports for the Town's third party insurance process. **See Opportunity for Improvement 3**.
13. Through discussions with the Town (Finance Director/HR) determine if there was any special "Storm Pay" during the past 6 months. If so, request documentation supporting the Town Manager and Finance Director's approval of any "special wages"	Crowe inquired with Town personnel noting that within the past 6 months there has not been any special "Storm Pay".
14. Obtain the Town's updated Employment Policies and Procedures.	Crowe obtained updated policies and procedures.
15. Obtain Town's confidentiality agreements from third party vendors providing outsourced pension benefit services.	Crowe obtained signed confidentiality agreements.
16. For the most recent 2 payroll periods, obtain email notification received by the accounting department notifying them that payroll was ready to process.	Crowe obtained 2 most recent payroll processing e-mail notifications. No issues noted.
17. Obtain information from the most recent 2 quarterly meetings of the Police Officer Board of Trustees' and the Firefighter Board of Trustees' meetings that the DROP status report was provided.	Crowe obtained documentation from 2 most recent quarterly meetings for public safety Pension Trust Boards noting DROP status report was provided. No issues noted.
18. Obtain information to document that training, online information, or other communications were developed in relation to the items included above and in the recommendation.	Crowe obtained a listing of training provided to Town employees. Crowe selected 1 course and reviewed the course description and participant listing. No issues noted.

OBSERVATIONS AND RECOMMENDATIONS

Overall, the Finance and Human Resources Departments have adequate internal control measures in place to ensure that the functions addressed in this report are operating as intended. However, the following observations were noted during our audit procedures:

1. **OPPORTUNITY FOR IMPROVEMENT 1 – Wage Verification Variance Analysis: LOW RISK**

   Per our discussions with Finance personnel, we noted that the Town is performing a bi-weekly verification of wages between the Eden general ledger system and the Ellen software Pension Benefit Calculator. We obtained a copy of the reconciliation performed for the verification of wages noting there were two variances between the two systems with no documentation of the cause of the variances on the reconciliation. Per further discussion with Town Finance personnel, Crowe determined the variances between the systems had been analyzed and were in the process of remediation.

   Recommendation:
   We recommend the Town document the cause of variances on the reconciliation documentation so that causes and corrections can be tracked.

   Management Response / Action Plan:
   Based upon Crowe's recommendation, Finance Department staff now document the cause of any variance noted during the bi-weekly verification of wages and the remedial action taken to correct the variance.

   Individual(s) Responsible:
   Jane Struder, Director of Finance

   Due Date:
   Complete

2. **OPPORTUNITY FOR IMPROVEMENT 2 – Retirement File Documentation: LOW RISK**

   During our review of Public Safety employee retirement documentation, we noted that one participant that moved from the DROP program to active retirement did not have any documentation within their retirement file of the status change.

   Recommendation:
   We recommend that Public Safety retirement files include formal documentation of all status changes.

Management Response / Action Plan:
In Public Safety when an employee moves from DROP to Retiree status, Plan Administrator Bill Hanes requires each participant to provide a signed statement advising of their retirement and final day of employment. In addition to the statement, the participant is required to submit new direct deposit and W-4P forms. These three documents have been used to demonstrate that the participant's status has changed from DROP to Retiree. The above referenced participant was identified as Steven Wood and Mr. Hanes confirmed that the three documents are in Mr. Wood's file. Nevertheless, to ensure clarity for the future, Staff agrees that an official status change form should be placed in each participant's retirement file. Effective immediately, the Human Resources Department will provide Mr. Hanes with an executed personnel action form showing that the employee has officially separated employment with Town and has moved from DROP status to Retiree status. This will be done for employees in all pension benefit groups. Mr. Hanes became the Plan Administrator for all benefit groups effective April 2, 2012.

Individual(s) Responsible:
William Hanes, Pension Plan Administrator, and Kennie Wells, Acting Human Resources Director

Due Date:
Complete

3. **OPPORTUNITY FOR IMPROVEMENT 3 – SAS 70 Review: LOW RISK**

Through discussion with Town personnel, the Town has obtained a SAS 70 Report for their third party insurance administrator. Crowe noted, through discussions, that Town has completed a review of the SAS 70 report; however, there was no documentation of the review. Also, Crowe noted that the most recent SAS 70 report obtained by the Town was out of date for the current fiscal year.

Recommendation:
We recommend the Department implement the new procedure or checklist to document the review of the SAS 70 report, or other available compliance report, to ensure that any control issues included in the report are followed up on by Town management.

Management Response / Action Plan:
Staff agrees with the auditor's recommendation and has implemented a checklist to document the review of the SSAE 16 (formerly SAS 70) report.

Individual(s) Responsible:
Kennie Wells, Acting Human Resources Manager

Due Date:
Complete