



Town of Palm Beach

Internal Audit Report
Human Resources
July 2010

Town of Palm Beach

Internal Audit Report Human Resources

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I. Executive Summary

OVERVIEW

Crowe Horwath LLP (Crowe) performed an internal audit of the Human Resources function of the Town of Palm Beach (Town) as of March 31, 2010. The overall objective was to review the controls over Human Resources management. We reviewed selected policies and procedures, discussed compliance with these policies and procedures with the Town's personnel, and in some cases tested certain detail records, technical configurations and settings.

BACKGROUND

I. Human Resources Management

The Town of Palm Beach maintains a Human Resources Department. The Human Resources department performs a gamut of oversight functions; however, the scope of our review included those activities related to the oversight of the policies and procedures responsible for Discipline Administration, Performance Evaluation, Staff Development and Supervisor Training of Town employees.

II. Payroll Processing

All the departments of the Town of Palm Beach use the Eden software application system for Payroll, except the Fire and Public Works departments, which use the Telestaff system. At the end of each payroll period each department has a key employee that is responsible for ensuring all the timecards have supervisory review and approval. After the payroll has been reviewed and approved by the department director, all the payroll information is considered accurate and is ready to be processed. Both the Finance Director and the Town Manager review and approve the final payroll.

III. Pension Processing

The City of Palm Beach has three distinct pension plans: Fire, Police, and General Employee. All three plans have similar pension benefit process, however, the Fire and Police plans are administered by an outside third party, while the General Employee plan is administered by the Human Resources department of the City of Palm Beach.

Once the Board has approved an employee's retirement and the actuarial certification is received the plan administrator enters the payment information into the Eden system. The benefit information is sent to the Town of Palm Beach Finance Department to review the information in the Eden system compared to the information on the actuary certification. The Pension Benefit Calculator application system is used by the plan administrator to calculate the pension benefit for each retired employee based upon information entered into the Eden software application system. Periodic pension benefit payments are processed through the normal payroll cycle in the Eden software application system.

REPORTING METHODOLOGY

In this report, we provide a summary of our results and recommendations as well as management's responses. To assist you in analyzing our recommendations, we have provided our suggestions for corrective action based on the finding's exposure to loss or increased regulatory scrutiny, as follows:

High – Requires *immediate* remedy and, if left uncorrected, exposes the Town to significant or immediate risk of loss, asset misappropriation, data compromise or interruption, fines and penalties, or increased regulatory scrutiny.

Moderate – Requires *timely* remedy and, if left uncorrected, may expose the Town to risk of loss or misappropriation of company assets, compromise of data, fines and penalties, or increased regulatory scrutiny. These issues should be resolved in a timely manner, but after any high priority issues.

Low – Should be addressed as time and resources permit. While it is not considered to represent significant or immediate risk, repeated oversights without corrective action or compensating controls could lead to increased exposure or scrutiny.

Best Practice – Represents operational efficiencies or improvements for consideration by management based on industry best practices and Crowe’s experiences.

SUMMARY OF RESULTS

The table below displays the number of recommendations identified through our procedures, categorized by priority.

Risk Rating	Total
High	5
Moderate	9
Low	4
Total	18
Best Practice	1

Detailed observations and recommendations are provided in Section II – Results and Recommendations. These items offer opportunities for the Town to further strengthen controls and processes.

A summary of our observations is as follows:

The internal control environment and procedures throughout the Human Resources transaction cycles that were examined can be improved overall by more consistent documentation. In addition, we did observe some critical IT conditions that were rated as high risk that should be addressed with an implementation plan as soon as possible.

Our observations can be summarized as follows:

High:

1. Third party vendors and employees are not adequately restricted from the electronic pension data.
2. Testing of Employment Eligibility I-9 Forms revealed numerous record keeping errors which could subject the Town to fines and penalties ranging from \$100 to \$1,100 per incorrect form.
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

purposes because the definition of compensation for pension purposes is not clearly and unequivocally defined.

4. Employees in the IT department have full access rights to the Payroll and HR modules; however, these individuals do not need "full" access to these modules to perform their job responsibilities. This condition creates an increased risk that unauthorized manipulation of payroll data could occur.
5. Password security polices for the payroll application did not reflect industry best practices.

Moderate:

6. Documented periodic procedures have not been implemented to validate the accuracy of the data that is downloaded into the Pension Benefit Calculator from the Eden Payroll System.
7. Manual pension calculations were not documented as reviewed for accuracy.
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.
9. Conflict of Interest Policies could be expanded to more clearly communicate prohibited activities and also could be enhanced to provide a reporting process that ensures enforcement of the policy and monitoring for compliance.
10. Testing for compliance with the Family and Medical Leave Act provisions revealed some exceptions as well as the opportunity to improve processes and procedures.
11. Testing for adequate pension benefit file documentation revealed numerous documentation exceptions, some of which were able to be corrected once brought to light through our testing.
12. Testing for terminated employees with active system rights revealed an exception.
13. The Town does not obtain SAS 70 reports from third party vendors performing outsourced services in such areas as insurance claims processing, hosted software, etc.
14. Testing for documentation of approval and support for special wages included in compensation for pension benefit calculations revealed one exception.

Low:

15. The employment policies and procedures manual could be improved to provide better evidence of compliance with the employment laws and improve communication to employees.
16. The Town does not obtain confidentiality agreements from the third party vendors providing outsourced pension benefit services.
17. The payroll execution process is not standardized amongst Town departments. Standardizing the process and documentation could improve efficiency and the effectiveness of the internal controls.
18. Documented procedures have not been implemented to monitor service retirement dates for DROP participants.

Best Practice:

19. The Town should provide and document periodic training to supervisors and managers on discipline administration, FMLA policies and procedures, Fair Labor Standards Act wage and hour provisions and exemption provisions, ADA and principles of management.

II. Results and Recommendations

Finding #1: *Vendor and Employee Access to Sensitive Information*
Risk Rating: *High*

We reviewed access controls over the Payroll, Human Resources and Pension Benefit Calculation modules, noting that information access controls do not provide for sufficient restrictions over access to sensitive certain human resources data. The current configuration allows third party contractors active directory access rights to the pension folder that includes the Pension Benefit Calculator and related information. This could lead to these individuals accessing pension information that is unauthorized. Also, the configuration allows all users with active directory access current access to this specific folder. This would allow all Town employees (Domain Users) to access sensitive pension data that should be restricted to only authorized individuals. Accordingly, the current operating environment exposes the Town to increased legal and reputation risk, creating potential loss exposure in the event of the unauthorized use of information.

Recommendation

Management should restrict these two third party contractors Active Directory access rights to only authorized files and folder locations. Management should also review Town employee (Domain Users) and vendor access to determine that employee and contracted individuals have been restricted from all network areas that are not needed for operational use.

Management's Action Plan

During the Meeting with the IT Auditor on April 14, 2010, I was asked to explain the pension calculator system and how it was setup. The entire system resides on a Town Server that serves the data and program to Finance and Human Resources staff. There is a folder on this server that holds three spreadsheets that are used to convert Finance data to be used by the Pension Calculator. I was asked to review the security of this one folder and it was discovered that it was not secured from all Town Users. On April 14th while the IT auditor was there, we secured this folder to be open only to Finance staff. I printed a copy of this security change to this folder and gave it to the auditor that same day.

All shared data folders are housed on the Town's Iseries server and the security is based on authorization lists on the Iseries. Department Directors establish the levels of authorization for their department. All folders that are used to store Finance and Human Resources files such as documents, spreadsheets and images are secure and managed in accordance with the Iseries authorization lists which are established by the Human Resources Director and Finance Director.

The Office of Information Systems has reviewed and continually monitors users access to all Town Systems. As of this time, the Active Directory Authorities and the Iseries Authorization Lists are up to date and correct.

Individual(s) Responsible: **Spencer D. Wilson, Information Systems Manager**
Due Date: **Completed**

Finding #2: *Employment Eligibility Form I-9*
Risk Rating: *High*

For a judgmental sample of 25 employees, we performed a review of Employment Eligibility I-9 Forms. The purpose of this form is to prove that employees are legally entitled to work in the United States. Employment Eligibility Form I-9 is subject to audit by Department of Labor and Immigration and Customs Enforcement auditors. We noted the following record keeping errors in review of the selected information:

- Three of the Employment Eligibility Form I-9 requested could not be provided.
- There were 8 forms with the following exceptions noted:
 - In fifteen instances (multiple exceptions per form), there were errors in the proof of identity and eligibility to work;
 - In seven instances, the employee signed the form after the date of hire;
 - In one instance, the employer did not sign the form;
 - In three instances, management's signature was more than three days after the date of hire;
 - In three instances, there was a discrepancy between the hire date management certified on the form and the hire date recorded in the human resources information system; and,
 - In one instance management did not certify the employee hire date.

Employment Eligibility Form I-9 is subject to audit by Department of Labor and Immigration and Customs Enforcement auditors. There is risk of fines and penalties for record keeping errors on Form I-9 in the event of an audit. Fines can range from \$100 to \$1100 per incorrect form. Accordingly, there is risk present that an audit by Department of Labor and Immigration and Customs Enforcement auditors may result in fines and penalties for Form I-9 record keeping errors.

Recommendation

We recommend that management conduct an audit to determine whether a properly completed Employment Eligibility Form I-9 is on file for all employees. New forms should be completed in instances where original forms cannot be located. We also recommend management review the I-9 documentation requirements with appropriate personnel to ensure that managers, supervisors and other individuals responsible for obtaining and documenting this information are sufficiently knowledgeable regarding the recordkeeping requirements for this federal law.

Management's Action Plan

Prior to 2008, I-9 forms were filed by date of completion instead of employee last name. This method of record retention caused difficulties in tracking receipt, locating specific employee forms, and complying with record retention requirements. During the audit all forms were placed in alphabetical order by employee last name and placed in binders for retrieval and retention.

A complete I-9 audit is scheduled for August 2010. Human Resources will identify active employees with incomplete or non-existent I-9 forms, obtain proper work authorization documentation, and complete any inaccurate forms identified thru the audit. We expect to be in full compliance no later than October 31, 2010. Additionally, those staff who complete I-9 forms will be provided with written guidelines and personal training as needed to ensure future compliance with the completion of I-9 forms.

Individual(s) Responsible: Kennie Wells, Assistant Director of Human Resources
Due Date: October 31, 2010

Finding #3: *The Definition of Pensionable Compensation*
Risk Rating: *High*

Condition

Compensation is the primary determinant of a retiree's pension benefit.

The ordinance at section 82-52 defines compensation: "Compensation means the salary or wages paid a member for personal service rendered the town while a member of the retirement system. Compensation shall include base salary or wages; longevity pay; cost-of-living allowances; salary or wages while absent from work on account of vacation, holiday or illness; overtime pay; special assignment overtime pay; shift premiums; educational incentive payments; and the value of housing furnished a member by the town. Compensation shall not include lump sum payments for accumulated leave paid to or at the direction of a member. Special detail pay shall not be included as compensation."

We observed during our testing of members' includable compensation that several components of compensation, while not specifically includable per the ordinance, have been judgmentally included in the calculation of final average compensation. These pay codes include:

- Storm emergency pay
- Hurricane bonus
- Storm duty pay

Thus, under current practice, all compensation that is not a lump sum payment for accumulated leave paid to or at the direction of a member is included in the determination of pensionable wages. We also noted that Town ordinance specifically exempts "Special Duty Pay" pay from inclusion in the calculation of the pension benefit; however, we determined that no compensation has been defined as "Special Duty Pay" subsequent to June 1999, where the Town Council approved changing the treatment of pay for special detail assignments from "Special Detail Pay" to regular overtime.

Accordingly, discretionary payments to employees that are in addition to base pay and overtime are included in the calculation of an employee's pension benefit amount. The inclusion of all wages other than the aforementioned lump sum payments may result in significant increased pension cost and pension funding liability to the Town.

Recommendation

Since compensation is a primary determinant of a member's pension, the definition of compensation should be clearly and unequivocally defined in order to ensure payroll benefits are granted in accordance with the Town Council's wishes and to avoid subsequent confusion in the calculation of pension benefits. The ordinance should be revised to reflect the Town Council's definition.

Management's Action Plan

Staff agrees with the auditor's recommendation to clarify the definition of compensation. The Town Manager's recommendation for pension reform presented on April 6, 2010, has defined pensionable compensation as only base salary and a cap of 100 hours of overtime. Subsequent to the impasse hearing, an Ordinance will be presented to the Town Council that will address this matter. Whether the Ordinance contains the Town Manager's pension reform recommendation or other pension reforms, the definition of pensionable compensation will be addressed.

Individual(s) Responsible: Peter B. Elwell, Town Manager and Jane Struder, Finance Director
Due Date: Late 2010 or Early 2011

Finding #4: *IT Access to Make Payroll Changes*
Risk Rating: *High*

We reviewed all employees with access to the Payroll and Human Resources modules of the Eden payroll processing software, noting that employees in the Information Systems area are set-up with full access to both the Payroll and HR modules; however, it was determined that these individuals do not need "full" access to these modules to perform their job responsibilities. The access levels assigned to these individuals provide them with the capability to modify Payroll and HR data, including salary information and on-going payroll files. Under the current environment, there is increased risk that unauthorized manipulation of payroll data could occur.

Recommendation

We recommend that a review of user access rights for all Eden payroll application modules be completed to determine if access rights have been minimized for all users and are consistent with the requirements of an individual's job responsibilities. Management should ensure assigned access levels reflect the different needs of the assigned users, such as troubleshooting access for information systems personnel versus from operational activities of the other departments.

Management's Action Plan

Based on the recommendation of the audit, the Office of Information Systems removed all edit access from Information Systems Staff to both the Finance Eden System and the Human Resources Eden System Employee files. As of July 16, 2010, this has been completed.

Individual(s) Responsible: Spencer D. Wilson, Information Systems Manager
Due Date: Completed

Finding #5: *Windows Password Settings*
Risk Rating: *High*

The Eden payroll software application manages employee time entry and salaries. We reviewed the password security policies for the application noting that they did not reflect industry best practices. The current operating environment may expose the Town to increased financial, legal and reputation risk, creating potential loss exposure in the event of the unauthorized access to restricted information or functions.

Recommendation

We provided industry best practice password guidelines to Town management during our review and recommend that Management consider modifying current policy to more closely align with industry standards.

Management's Action Plan

Based on the recommendations of the audit, the Office of Information Systems will institute a password change and strength policy as an update to the Information Systems Security Policy. With the recent purchase of software that allows password synchronization between Active Directory, Lotus Notes and the Iseries, the Office of Information System will be able to manage and support frequent password changes. The policy for the Town will follow the best practices that have been mentioned by the auditor. This policy will apply to any department employee that has access to the Finance Eden system. This will be defined in detail in the update to the Information Systems Security Policy.

Individual(s) Responsible: **Spencer D. Wilson, Information Systems Manager**
Due Date: **Completed**

Finding #6: *Controls Over Accuracy of System Information used for Pension Benefit Calculations*
Risk Rating: *Moderate*

Condition

We performed a walkthrough of the pension benefit calculation process and observed that the Town of Palm Beach Plan Administrators for the Police, Fire, and General Employee pension benefit plans have not implemented an internal control procedure to periodically validate the accuracy of the information downloaded into the Pension Benefit Calculator from the Eden system (Payroll System). Town management currently relies on testing performed at the time of initial set-up and implementation of the software. Under current procedure, there is increased risk that erroneous data input may be used for the calculation of employee pension benefits and not identified in a timely manner. Undiscovered errors would result in an individual's pension benefit payments being either overstated or understated, and the plan obligation liability misstated.

Recommendation

We recommend the Town of Palm Beach implement an internal control procedure to periodically validate the accuracy of the data download into the Pension Benefit Calculator. The validation test should be designed to determine if the wage information used by the Pension Benefit Calculator and used for the pension benefit plan calculation is complete and accurate. Data testing procedures should include, on at least on a sample basis, comparison of a 5 year wage report from the Eden system to the payroll information used by the Pension Benefit Calculator software to determine the correct wages are used for the calculation of the pension benefit. In addition, we recommend that, on at least on an annual basis, the Finance Department perform a review of the payroll system codes in the Eden system used to define pensionable wages to ensure that only appropriate compensation is used for the pension benefit calculation.

Management's Action Plan

Staff agrees with the auditor's recommendation. We will validate and test the wage information used by the Pension Benefit Calculator and annually review the payroll system codes to ensure that only appropriate compensation is used for the calculation.

Individual(s) Responsible: Jane Struder, Finance Director and Amy Wood, Accounting Supervisor

Due Date October 1, 2010 and Ongoing

Finding #7: *Review Manual Pension Calculations for Accuracy*
Risk Rating: *Moderate*

Condition

We performed a walkthrough of the pension benefit calculation process and tested a judgmental sample of 38 pension benefit calculations, observing an evolving process for the pension benefit calculation for a sample of recently retired public safety employees retiring during the period February 2008 through February 2010. For three of the six tested, we noted that average compensation had been manually summarized and calculated using an Excel worksheet, without an independent review of the preparer's calculation. Under this procedure, which has been subsequently revised, there is a risk that erroneous average compensation balances have been used for the calculation of employee pension benefits and not identified in a timely manner. Undiscovered errors would result in an individual's pension benefit payments being either overstated or understated, and the plan obligation liability misstated.

We also tested sixteen public safety members currently receiving benefits who retired from 1974 through 2007. We noted one instance whereby a member retiring during calendar year 2000 whose service was overstated by one month as the result of a manual calculation in the file.

Recommendation

We recommend the Town identify all retirees whose pension benefit was calculated using the manual system as described above. Each retirees' average compensation should be recalculated and the calculation be subject to a review process to determine if errors have occurred. Any errors detected should be corrected as deemed appropriate in accordance with the Town Ordinance Section 82-74

Correction of Errors, which provides "Should any change in the records result in any individual or estate being paid more or less than would have been paid had the records been correct, the board of trustees shall correct such error, and as far as practicable shall adjust the payment in such manner that the equivalent actuarial value of the benefit to which the individual or estate was correctly entitled shall be paid"..

Management's Action Plan

Part I / General Employee Plan

Prior to the implementation of the Pension Benefits Calculator, the AS400 system was used to calculate the average final compensation. The AS400 system contained employment information including all payroll actions. The administrator would run a paper report from AS400 that calculated the final average compensation by pay type. The earnings from the non-pensionable pay types were manually removed by the administrator from that report. The remaining data, the final average compensation, was manually entered into an Excel spreadsheet. The Excel spreadsheet containing the average final compensation data, only the pensionable compensation, was sent to the actuary for the final pension estimate. In addition to the average final compensation, the spreadsheet contained employee demographic information including the hire date, retirement date, birth date, beneficiary's birth date, and their accumulated contribution.

Since November 2008, the Town realized the opportunity for human error and enhanced efficiency thereby implementing a new process for identifying average final compensation. The Town installed the EDEN enterprise relational database system to take the place of AS400 for finance, payroll, and employment action processing. This robust system allows the Finance Department to transmit and audit payroll information from EDEN to the newly implemented Pension Benefits Calculator. The Pension Benefits Calculator uses the information from EDEN to calculate the average final compensation by excluding the non-pensionable pay types from electronic calculations, thereby removing the opportunity for human error.

We currently have 126 active retirees in the General Employee Retirement Plan. Of those 126 retirees, 110 of them retired prior to the implementation of the General Employees Pension Benefit Calculator and EDEN. The payroll history information for those 110 retirees was not transferred from AS400 to EDEN. Therefore it is not possible to recalculate the average final compensation for those 110 retirees using the current EDEN and Pension Benefits Calculator. In order to confirm the average final compensation provided to the actuary for determination of pension benefits for those 110 retirees, the administrator or designee will manually review AS400 paper reports within each file and confirm that the data matches that found in the Excel spreadsheet provided to the actuary for final pension benefit determination.

Individual(s) Responsible: Danielle Olson, Human Resources Director and staff as designated

Due Date: Commence immediately and complete by March 31, 2011

Part II / Public Safety Plans

This administrator agrees with the finding. This administrator began work for the two public safety Boards of Trustees on April 15, 2008. There did not exist a system for automation of calculations at that time. This administrator did send final calculations, along with spread sheets, to Town staff for subsequent review prior to submission to the actuary for final verification. A manual calculation was performed to determine average final compensation by reviewing payroll information over a 5 year interval. A determination was made for application of the highest two consecutive years of retirement compensation after a careful and tedious review of each payroll record. Retirement compensation

was entered into a spread sheet after an appropriate determination was made from a list of codes provided by the Town representing types of compensation. This administrator urged the Police Officer Board of Trustees and Firefighter Board of Trustees to purchase a reliable automated software. All Boards, including the General Employee Board of Trustees later approved to engage into an arrangement with the software company that currently serves all plans. As the report suggests, no longer are calculations manually produced.

This administrator agrees with the recommendation that the calculations of retirement benefits during this short period be recalculated and adjusted where appropriate to correct errors as required under law.

**Individual(s) Responsible: William P. Hanes, Pension Administrator for Public Safety Plans
Due Date: September 30, 2010**

Finding #8: *Timely Supervisory Review of Fire Department Payroll Information*
Risk Rating: *Moderate*

Condition

We performed a walkthrough of the payroll preparation process and noted that current internal control procedures do not provide for an effective review of the Fire Department's payroll information prior to submission to submission for processing. One of the internal control weakness noted arises from the submission of supporting documentation from the various supervisors for vacation, overtime, etc, subsequent to the submission of employee payroll information prior to submission to the Finance Department for processing. In addition, we noted that the timekeeping system is fully automated and electronic and supervisors have access to review electronically; however, the documentation evidencing the supervisory review of payroll information was not consistent from supervisor to supervisor. In addition there is no final review of the overall payroll by the Chief. Under current procedure, there is increased risk that erroneous or unauthorized payroll information may be processed and not identified in a timely manner, which may result in an individual's compensation being overstated.

Recommendation

We would recommend that the town modify current procedures to standardize the supervisory review process of the Fire Department's payroll information. Written procedures should provide for effective submission deadlines and procedures for the standardization of documentation requirements to evidence the performance and completion of the supervisory review procedure.

Management's Action Plan

The Fire Rescue Department has the following procedures in place for supervisory review of payroll information:

- Telestaff is programmed to maintain daily staffing based on the pre-programmed protocols which are based on the Department's rules, procedures, policies, and bargaining unit contract. There are only two individuals on the Department trained to program the system, both are Chief Officers.

- Telestaff records every time a user logs in and a change is made in the system. Personnel have different levels of access based on position / rank and job necessity.
- The Battalion Chief (B/C) creates and maintains daily operations staffing for their respective shift. Changes to daily staffing are performed by the B/C to accommodate such events as sick leave, injury leave, bereavement, FMLA, etc., and it is their responsibility to ensure that staffing is accurate before they leave at the end of each shift. Every member of the Department has access to **view** staffing and is responsible for ensuring that their time is accurate.
- Administrative Staff members are responsible for ensuring that their time is accurately reflected in Telestaff. Telestaff need only be changed if it should be coded something other than “regular” pay. The hours entered by administrative staff are reviewed by their supervisors.
- Because of the 24-hour shift schedule, it sometimes takes a shift or two for paperwork related to events and non-duty activities to circulate through the chain of command for signatures; this may make it too late for placement on proper payroll. Especially if these events take place the last few days of a pay period. However, any time that is manually added to payroll is supported by documentation signed by the supervisor and the Assistant Chief of Operations.
- Anytime a correction is made to a prior payroll, there is supporting documentation for the change and the affected payroll is checked and reason for the change is noted.
- There is a program which converts Telestaff time directly into Eden. Codes such as compensatory time accrual and extra pay (for personnel physicals) do not exist in Telestaff and must be manually added into Eden. Documentation of physicals are signed and submitted by the Town Nurse and compensatory time accruals are reviewed and signed by the Assistant Chief of Operations and the employee’s supervisor.

Most of the Fire-Rescue Department’s payroll process is automated. There are many controls throughout the process. Chief Officers have constant access to review staffing, and payroll is submitted to the Chief as soon as payroll is processed on the Monday following the end of the pay period.

As recommended, we will review this process (paying special attention to the manner in which compliance with controls is documented) and make any necessary changes to further secure the accuracy of the process.

Individual(s) Responsible: William Amador, Fire - Rescue Chief and Jane Struder, Finance Director

Due Date: October 1, 2010

Finding #9: *Scope of Conflict of Interest Policies*
Risk Rating: *Moderate*

Condition

The Town's Conflict of Interest policy appears to lack sufficient detail regarding the scope of activities and behaviors that are considered within the scope of the policy. For example, the policy does not appear to encompass self-dealing within the scope of the activities. Where an official has a straightforward capacity to use their official position to affect a personal interest, self-dealing is involved. This may involve taking action in an official capacity which involves dealing with oneself in a private capacity and which confers a benefit on oneself. The Town's Conflict of Interest policy also does not appear to cover private gain from public office. In situations where a public official draws on

the prestige of their position to reap private gain (which may, for example, be in the form of a board membership, fee for service transactions, and expense paid trips), a conflict of interest may be involved.

Recommendation

We recommend that the Town evaluate the Conflict of Interest Policy and consider expanding the policy to more clearly communicate the types of activities and behaviors the Town wishes to prohibit. We also recommend that a reporting process be implemented to insure enforcement of the policy and to monitor for compliance with the policy statement.

Management's Action Plan

The Town's Code of Ethics policy is shown below:

Section 7-13: Code of Ethics Policy:

Ethical behavior is critical to the Town's ability to achieve its mission, goals, and objectives. The community's perception of and confidence in Town employees and officials are fundamental to quality government. As public servants, Town employees are accountable for high standards of conduct, per Florida Statutes Chapter 112, "Code of Ethics for Public Officers and Employees".

The standards and examples outlined within this policy are designed to clearly guide conduct in common situations. However, special circumstances which require specific interpretation may be referred to the appropriate department director or Human Resources Department, if necessary.

Some common examples of unethical, illegal, or unsafe activity include:

- *Accounting or auditing irregularities*
- *Bribery*
- *Conflicts of interest*
- *Creating or ignoring safety or environmental hazards*
- *Destroying, altering, or falsifying records*
- *Disclosure of confidential information*
- *Harassment or discrimination*
- *Misuse of public funds*
- *Theft and fraud*

Ethical behavior is further defined in this manual under Sections 7-1, Equal Employment Opportunity Policy Statement; Section 7-2, Sexual Harassment Policy; Section 7-3, Retaliation Policy; Section 7-4, Workplace Violence Policy; Section 7-5, Statement of Drug-Free Workplace; Section 7-6, Non-Smoking Policy; Section 7-7, Non-Town Employment Section, and 7-8, Nepotism Policy.

Section 7-13.1: Conflicts-of-Interest:

As a general rule, employees shall not engage in or hold any direct or indirect interest in any business or transaction which may conflict with their official duties. This includes any obligations (real or perceived) which may impair their independence of judgment in the discharge of their duties. Furthermore, employees should not engage in conduct which could reasonably give rise to the appearance of wrong-doing.

Section 7-13.2: Public Confidence:

Employees should be impartial and dedicated to the best interests of the Town. Employees are expected to conduct themselves, both inside and outside the Town's service, so as not to cause distrust of their impartiality or of their dedication to the Town's best interests.

Employees should avoid perceived conflicts of interest, which are actions of an employee that the public may consider preferential service or a lack of neutrality in dealing with department clientele.

Section 7-13.3: Acceptance of Favors and Gratuities:

In compliance with Florida Statute 112.313, Standards of Conduct, no Town employee shall solicit or accept anything of value to the recipient, including a gift, loan, reward, promise of future employment, favor, or service, based upon any understanding that the action or judgment of the employee would be thereby influenced.

Section 7-13.4: Use of Confidential Information:

Employees shall not disclose confidential information acquired by or available to them in the course of their employment with the Town or use such information for personal gain. This applies to improper disclosure within the organization as well as to the public.

Section 7-13.5: Use of Town Employment and Facilities for Private Gain:

Employees may not use their time when working for the Town, or the Town's facilities, equipment, or supplies for private gain or advantage, nor may they use or attempt to use their position to secure unwarranted privileges or exemptions for themselves or others.

Employees may be allowed limited use of office equipment or hand tools during off-duty hours for non-business purposes provided it does not conflict with any Town use or represent a direct cost to the Town and is done with department director approval.

Equipment should not be taken out of Town facilities for non-Town purposes. All equipment used away from the Town work place for Town business must be authorized. Employees on 24-hour duty may use office equipment, exercise equipment, and other light equipment during their assigned recreational periods with departmental approval. Employees will not use heavy equipment for purposes unrelated to their official duties.

In general, employees may use lunch time to do personal business, make phone calls, and run errands. However, limited personal business may be conducted during normal working hours if it is approved in advance and if the time involved is made up and if it does not detract from job performance.

Section 7-13.6: Contracts:

Town officers and employees cannot be involved, in any way, with any contract or sale in which they have a financial interest, per Florida Statute 112.313(7)(a). Violation of this statute can result in discipline up to and including termination from employment and/or a civil penalty not to exceed \$10,000 and/or any other punishment as outlined in Statute 112.317, Penalties.

Section 7-13.7: Responsibility:

The Town believes that every employee shares in the responsibility for maintaining high standards by conducting business ethically and legally. Each employee is responsible for reporting ethical violations committed by fellow employees to a supervisor, department director, or the Human Resources Department. Any employee with questions about the appropriateness of an action should consult with their department director or the Human Resources Department.

The Town of Palm Beach also offers an anonymous reporting option. Individuals who see or suspect unethical or illegal behavior may report their concerns anonymously and confidentially to a third-party hotline provider, The Network, toll free at 1-886-614-5860. Upon receipt of the report, The Network will forward the information to Town management for investigation and follow-up. Reports will be handled promptly and discreetly.

Appropriate disciplinary action will be taken against any employee violating this policy. Any employee who wishes to report an unethical, illegal, or unsafe incident may do so without fear of retaliation.

The above policy addresses the private gain and has specific detail regarding the behaviors that are considered unethical.

Staff will be updating the policy to include language that requires prompt reporting by the employee to Human Resources when they receive anything of value from a person or organization within the Town of Palm Beach for any reason including a hardship or educational assistance for their offspring.

The Director of Human Resources will provide an annual report to the Town Manager each December of all reported instances.

Individual(s) Responsible: Danielle Olson, Human Resources Director
Due Date: September 30, 2010 and Ongoing

Finding #10: *Family and Medical Leave*
Risk Rating: *Moderate*

Condition

We reviewed a judgmental sample of 5 employees receiving Family and Medical Leave (FMLA) benefits, noting that five of five FMLA records did not contain a record communicating a due date for return of the physician's certification of medical necessity. Without communicating a due date and taking action in situations where the due date is not met, there is risk that a standard procedure will not be followed and management's position in the event of a dispute would be weakened. We also noted that one file did not contain a copy of the requested certification. We also noted that Management is providing an obsolete form for physician's certification of medical necessity for leave and the FMLA notification letter to employees does not include employee rights and responsibilities under the Act. Under current process, there is increased legal risk to the Town in the event of employee dispute.

Recommendation

We recommend management communicate a due date for return of certification of medical necessity in all cases where leave approval depends on such certification. The Family and Medical Leave Act requires that employees be allowed at least 15 days to obtain certification of medical necessity. We also recommend management ensure a copy of the certification is retained in the file.

Management should obtain and use following forms for certification of medical necessity for leave:

- WH-380-E Certification of Health Care Provider for Employee's Serious Health Condition (FMLA);
- WH-380-F Certification of Health Care Provider for Family Member's Serious Health Condition (FMLA);

- WH-384 Certification of Qualification Exigency for Military Family Leave (FMLA); and,
- WH-358 Certification for Serious Injury or Illness of Covered Service member—for Military Family Leave (FMLA). Obtain and use WH-381 Notice of Eligibility and Rights & Responsibilities (FMLA) and WH-382 Designation Notice (FMLA) to notify employees of their rights and responsibilities under the Act

Management's Action Plan

The Human Resources Department and Town clinic took immediate steps to streamline and update the FMLA process. The following changes have been made to the process to date:

- Prior FMLA forms have been replaced with the appropriate Department of Labor (DOL) Wage and Hour Division Forms (i.e. WH-380-E).
- The FMLA notification letter has been updated to include language advising the employee they have 15 days to return the form for review.
- Forms WH-381 Notice of Eligibility and Rights & Responsibilities (FMLA) and WH-382 Designation Notice have been obtained and are being used.
- Copies of all obtained certifications are being filed and tracked by the Town clinic.

In order to ensure full compliance an assessment of the Town's FMLA process is scheduled to commence in August 2010. All FMLA related Town policies and procedures will be reviewed to determine opportunities for improvement and/or streamlining, ensure proper record keeping practices are in place, and identify ways to utilize the Town's EDEN enterprise system to assist with tracking and managing FMLA absences.

Individual(s) Responsible: Kennie Wells, Assistant Director of Human Resources
Due Date: August 2010 and Ongoing

Finding #11: *Benefit File Documentation*
Risk Rating: *Moderate*

Condition

We reviewed file documentation for a judgmental sample 38 pension benefit recipients, noting the following:

- We noted two instances (of six members tested) during the testing of public safety retirees whereby the member's file did not include a document (Application for Service Retirement) by which the member makes elections for benefits, designates beneficiaries, and indicates his DROP election. These members retired during calendar years 2008 and 2009.

The Application for Service Retirement form is designed to be signed by the member and notarized. The form calls for attestation as to the member's and beneficiary's dates of birth as indicated by their birth certificates, copies of which are to be provided by the member. The form also states that the member acknowledges that benefit elections have been explained, and that all information the member has furnished in the determination of benefits is correct.

In each of these cases, the members elected DROP; the separate DROP application was used to document their elections. However, this application contains none of the elections, other than commencement of DROP, as indicated above. We also noted an instance whereby the application form was not thoroughly completed (i.e. benefit option not selected) for a member retiring during 2009.

- From the sample of sixteen public safety members retiring prior to 2008, we noted two instances whereby the Application for Service Retirement form was not evident in the file for a member retiring in 1992 and a member retiring in 1974. Of these files tested, we also noted eight did not include documentation of the calculation of final average pay. For six of these eight, this documentation was later supplied by Town staff from the Town payroll records. Two calculations of final average pay could not be verified for a member retiring in 1992 and a member retiring in 1974.
- From a sample of fifteen general retiree files reviewed, nine of the files did not include the members' birth certificate for members retiring during calendar years 1985 through 2009. A birth certificate serves as verification of the member's age, which is a primary determinant of the pension benefit.

This lack of readily recoverable documentation may lead to situations whereby the member, or beneficiary, later challenges the pension calculation and resultant pension payments, and can result in costly disputes and possible litigation.

Recommendation

We understand the administrator is currently obtaining signed election forms for three of the recent exceptions as noted above. The administrator should continue his ongoing efforts to ensure all relevant forms are present in a member's file prior to submission of the file for approval of benefit payments.

Management's Action Plan

Part I / Public Safety Plan

This administrator agrees with the findings. This administrator does not agree with the assigned degree of risk as being moderate, and believes the appropriate rating should be assigned as low. The current law provides the standard plan as a default option, and as a matter of law only when an applicant chooses an optional plan, and does so in writing, is the member able to receive the benefit and choose a survivor different from what is provided with the standard option. Essentially, there is a very strong presumption in the law, and the law only provides an optional selection upon selection of an optional plan, in writing. The provisions of the standard plan are self-executing, meaning the calculation of the benefit payment, ten year certain, and who serves to receive survivorship payments are all a matter of the standard option presumed or chosen. The standard provides for a survivor as the wife and surviving dependent children who survive death of the retirant. (See 82-96 and 82-116)

The Auditor discovered two cases when this administrator provided that DROP application forms be completed for members who were applying for DROP benefits, but did not require the completion of the application for service retirement. As noted in the report, this administrator has subsequently worked with these two retirants, and service retirement applications have been completed by both members. The completion of a service retirement application is now required for all applicants for retirement or DROP, and all form requirements are completely executed prior to payment of a benefits.

**Individual(s) Responsible: William P. Hanes, Pension Administrator for Public Safety Plans
Due Date: Completed**

Part II / General Employee Plan

With respect to General Employee Retirement Plan, the administrator will perform an audit and check the current general retiree's pension file for existence of birth certificates. If the retiree file does not contain a birth certificate, the administrator will send a letter to the retiree requesting a copy of the birth certificate be provided to the Town.

The request for this documentation currently exists within the existing written notification provided to the future retiree upon their notice of intent to retire; however, an audit system was not in place to track receipt. Therefore, effective immediately when a general employee notifies the administrator of their intention to retire, the administrator will request that the employee brings a copy of their birth certificate to the meeting regarding their intention to retire. Retirement enrollment will neither be considered complete nor processed for payment of pension benefits without a copy of the members' birth certificate on file.

**Individual(s) Responsible: Danielle Olson, Human Resources Director and Kathryn Dyson,
Human Resources Analyst
Due Date: December 1, 2010 for certificate audit. Effective immediately for current retiree
actions.**

Finding #12: *Terminated Employee with an Active Windows Account*
Risk Rating: *Moderate*

We reviewed information system access rights for a judgmental sample of five terminated employees, noting one individual was found to still have Active Directory access rights. It was also noted that this particular individual did not have active Eden application access. Failure to delete information systems access across all computer systems and applications at the time of an individual's termination may increase the risk of unauthorized access to system applications and information.

Recommendation

We recommend that a review of the termination and user account removal process be completed to determine why this individual was not removed or disabled on Windows. Based on the information obtained from this assessment, management should re-design the process to better ensure that terminated employee access is removed. Also, the individual identified at the time of the review should have his Active Directory access disabled.

Management's Action Plan

During the review, there was one person who was still active in the Active Directory that was terminated. The Office of Information Systems requires that Human Resources create an IS Work Order to request that employees be added or removed from the Town Systems. These work orders are handled by one staff member in the Office of Information Systems. Due to the one person that was missed, I am changing our procedure so that two staff members have to sign off on this work order and that the work order come to me for final review. This will guarantee that all the steps that are needed to remove an individual are completed and reviewed. This will also be added to the Information Systems Security Policy as an update.

Individual(s) Responsible: Spencer D. Wilson, Information Systems Manager
Due Date: Completed

Finding #13: *Monitoring Controls for Outsourced Services with Third Parties Vendors*
Risk Rating: *Moderate*

Condition

We performed a walkthrough of the Town's payroll processing; pension processing and human resources related activities and noted that the Town of Palm Beach utilizes third party vendors for outsourced services in the human resources department. An example of the outsourced services include health insurance claims processing. For these outsourced services, we noted that the Town has not obtained Statement on Auditing Standards (SAS) 70 reports from the various third party vendors or performed alternative procedures to evaluate the adequacy and effectiveness of internal controls maintained by critical vendors. The American Institute of Certified Public Accountants documents the responsibilities of third party vendors and users of those third party vendor services in the aforementioned standard. This report provides documentation of the internal controls that the third party service organization have in place, which allows the Town to identify and rely on the controls related to the services provided by the third party. The risk of not obtaining these SAS 70 reports would be the false reliance on a third party's internal controls that do not exist, or controls that are not reasonable in circumstances consistent with their contractual obligations to the town. This could potentially lead to loss of assets and additional liabilities imposed by claimants on the Town. Obtaining the SAS 70 reports would serve to protect the assets and integrity of data of the Town.

Recommendation

We recommend that management of the Town augment their existing internal controls to include a documented assessment of the control environment of third party vendors who perform processing, administration or custodial functions. This due diligence process should include obtaining and reviewing the vendor's SAS 70 report, which is a report on internal controls prepared by an independent auditor. The SAS 70 report is typically made available to customers of the vendor to assist them in this due diligence process, and to clarify user controls which should be coordinated with the vendor controls to establish an effective control system. If the Town is contracting with vendor who does not have a SAS 70 report available, management should consider other steps to determine the adequacy of the vendor's controls, including an onsite evaluation of the vendor's internal controls.

Management's Action Plan

Staff will request a SAS70 report from our health insurance claims processor and any other applicable third party vendor.

Individual(s) Responsible: Danielle Olson, Human Resources Director
Due Date: October 1, 2010 and Ongoing

Finding #14: *Salary Support for Special Wages*
Risk Rating: *Moderate*

Condition

We selected a judgmental sample of seven retirees for expanded testing and requested detail supporting documentation of salary/wages included in the pension benefit calculation. During our testing, we noted that the Town implemented sign-in sheets to track employees that worked and earned hurricane bonus pay and that the employees' supervisor would sign the sign in sheet verifying an employee's time. For one of the individuals selected, we noted that the sign in sheet that documented hurricane time was signed by an employee to authorize their own hours. We also noted that this individual was the highest ranking official of his department and that the alternative in this instance would be for the Town Manager to authorize the sign in sheet. The risk in the process used is the lack of independence in the approval of time incurred.

Recommendation

We recommend that the Town implement a procedure that requires an independent approval for all individuals that will be receiving additional bonus pay for special circumstances to provide transparency and to help mitigate perceived conflict of interest situations.

Management's Action Plan

In the past, special wages (Storm Pay) documentation was approved by the Town Manager and Finance Director when they approved the payroll. In the future the Town Manager will approve Department Director hours and his/her own hours on supporting documentation in advance of the payroll processing for special storm pay.

Individual(s) Responsible: Peter B. Elwell, Town Manager
Due Date: Immediately

Finding #15: *Employment Policies*
Risk Rating: *Low*

Condition

We noted certain aspects of the employment policies and procedures manual that could be improved to provide better evidence of compliance with the employment laws and improve communications of policies to employees. The following outline specific aspects that we have identified:

- The equal employment opportunity policy does not include prohibition of discrimination based on genetic information. The Genetic Information Nondiscrimination Act (GINA) 2008 prohibits discrimination against individuals on the basis of their genetic information in both employment and health care. The employment provisions of GINA become effective in November 2009.
- Last review and update of the employee handbook was in October 1, 2009. The previous revision was completed in 2006. Employment regulations change frequently enough to warrant review and revision of employment policies on an annual basis.
- Notice of provisions of the Uniformed Services Employment & Re-employment Rights Act was not posted until the audit revealed its absence.

Recommendation

We recommend management accomplish and implement the following with respect to employment policy communications:

- Include prohibition of discrimination based on genetic information in the equal employment opportunity policy;
- Establish regular annual review and update for policies communicated in the employee handbook;
- Develop a procedure for timely acquisition and posting of employment law notices.

Management's Action Plan

15.1 Employee Personnel Manual

The Human Resources Department's most recent complete review of the Employee Personnel Manual was finished on October 1, 2009. A complete review and update of the Manual was also conducted in 2006. Sections of the Manual were reviewed and revised in 2007 (Section 7) and 2008 (Sections 5 and 8). We will annually review the entire document in the future.

Revisions to the Manual are reviewed by the Director of Human Resources, Town Manager, and legal counsel. As indicated within the conditions of Finding #15, the Genetic Information Nondiscrimination Act (GINA) took effect in November 2009. This Federal law action occurred after the October 2009 annual review of the Manual. Non-discrimination statements throughout the Manual identify that any form of unlawful discrimination in accordance with federal, state, or local law is not permissible. As GINA falls within the scope of Federal law, the update of the Manual to specifically identify GINA was postponed until the FY10 annual review of the document. The information will be added, in addition to any other appropriate changes, no later than September 30, 2010.

Employees are notified of updates to the Employee Personnel Manual thru e-mail and posting of notice within each Department. The email distributed on October 2, 2009 is provided below.

Employee Personnel Manual - revised 10/1/2009

William C Crouse to : Town Users(All Users) 10/02/2009 04:21 PM

As intended in the foreword of the Employee Personnel Manual, and in an effort to maintain currency of procedures, practices, and policies, the Human Resources Department has refreshed the Employee Personnel Manual which was last updated in 2006. In an effort to "go green" we have created an interactive Adobe pdf document. As you open the document, simply click on a subject listed in the Table of Contents in order to be directly linked to the page desired. We encourage you to refer to the document found on-line within the Town Document Library versus printing the 103 page document. Also, discard any existing earlier versions of the manual.

Please consult the Human Resources Department if you have any questions.

[Click here to access the Employee Personnel Manual on-line: Notes Link](#)

William C. Crouse
Director of Human Resources
Town of Palm Beach
360 South County Road
Palm Beach, FL 33480
561/838-5450 Office
561/838-5451 Fax

15.2 Posting of Employment Law Posters

Staff within the Department of Human Resources purchase and distribute the appropriate labor law posters on an annual basis. The prior clerical staff assigned to track this task did so within a manually maintained calendar until her departure in July 2009. Replacement staff was hired in October 2009 and the task moved from manual to electronic reminder notices. Upon inquiry from the auditor regarding the currency of the labor law posters it was determined that the most recent poster was purchased but not posted. The poster was immediately posted. The electronic reminders are set to occur annually in October. This reminder includes review of Federal, State and local notice obligations, purchase of appropriate posters, and placement of posters Town-wide.

Individual(s) Responsible: Danielle Olson, Human Resources Director

Due Date: Complete and Ongoing

Finding #16: *Confidentiality Agreements for Third Party Vendors*
Risk Rating: *Low*

Condition

We noted that the contracts with the two third party vendors who are responsible for maintaining the Pension Benefit Calculator application did not include a confidentiality agreement. The lack of written agreements including confidentiality agreements could expose the town to legal and reputation risks if confidential information were disclosed by a vendor of the Town.

Recommendation

We recommend that Management maintain confidentiality agreements with all third party individuals or vendors that have access to sensitive Town information. In addition, we recommend that management review all existing contracts with outside service providers with access to sensitive information and to determine if the agreements include confidentiality agreements.

Management's Action Plan

We agree with the recommendation and will work with the Town Attorney to draft a confidentiality agreement that we can use for our third party vendors that have access to sensitive information.

Individual(s) Responsible: **Jane Struder, Finance Director and John Randolph, Town Attorney**
Due Date: **October 1, 2010**

Finding #17: *Payroll Execution Process*
Risk Rating: *Low*

Condition

We performed a walkthrough of the payroll preparation process and noted that each department within the Town of Palm Beach communicates the execution phase of the payroll process to the finance department differently. During the walkthrough of the payroll process in three departments, we noted that two provided documentation of email communication to the finance department and one department stated both verbal and or email communication is provided. The lack of consistency in this process could potentially decrease the efficiency and effectiveness of the internal control process. The lack of a standard process may result in increased risk of delay, inefficiency or inaccuracy for a specific pay period.

Recommendation

To improve the internal control process in relation to the execution of the payroll process, we recommend that the Town consistently adhere to their policy that is currently in place. The policy states each department will provide electronic email communication to the finance department when the department's payroll process is complete and ready for final execution.

Management's Action Plan

The Town Departments send an email notification to Finance when the department's payroll is ready to process. There may have been a few instances when the Department called first and sent an email after the call. We will require that an email notification is sent every time the payroll is ready to process.

Individual(s) Responsible: Amy Wood, Accounting Supervisor and Donna Bragel, Payroll Clerk

Due Date: Immediately

Finding #18: *DROP Participants*
Risk Rating: *Low*

Condition

We noted during interviews with the Police and Fire pension plan third party administrator that the Town currently lacks a process to monitor service retirement dates for employees participating in the Deferred Retirement Option Program (DROP). DROP participants are only allowed to participate in the plan for 60 months from the date they entered the program. The lack of proper monitoring of the DROP program participation may cause additional obligations and benefits paid to DROP participants by the town. In addition, the government could impose fines due to DROP overpayments.

Recommendation

We recommend the Town and third party administrator develop and implement a process to monitor required service termination dates for those employees who are participating in the DROP program.

Management's Action Plan

Part I / Public Safety Plan

This administrator agrees with the finding. I have utilized an informal process to monitor participants of the DROP program due to the very small number of participants. As of July 1, 2010, there were a total three (3) DROP Police Officers and six (6) DROP Firefighters. The code provides maximum periods for participation in DROP status based on the following:

82-99(c) and 82-119 (c): *Participation in the DROP.*

- (1) The date on which participation in the DROP must terminate is within 120 months of the commencement of the election period provided in subsection (b)(1) of this section. Participation in the DROP may not exceed a maximum of 60 months. No DROP participant may continue to be eligible to participate in the DROP for more than 60 months or for any time after 120 months

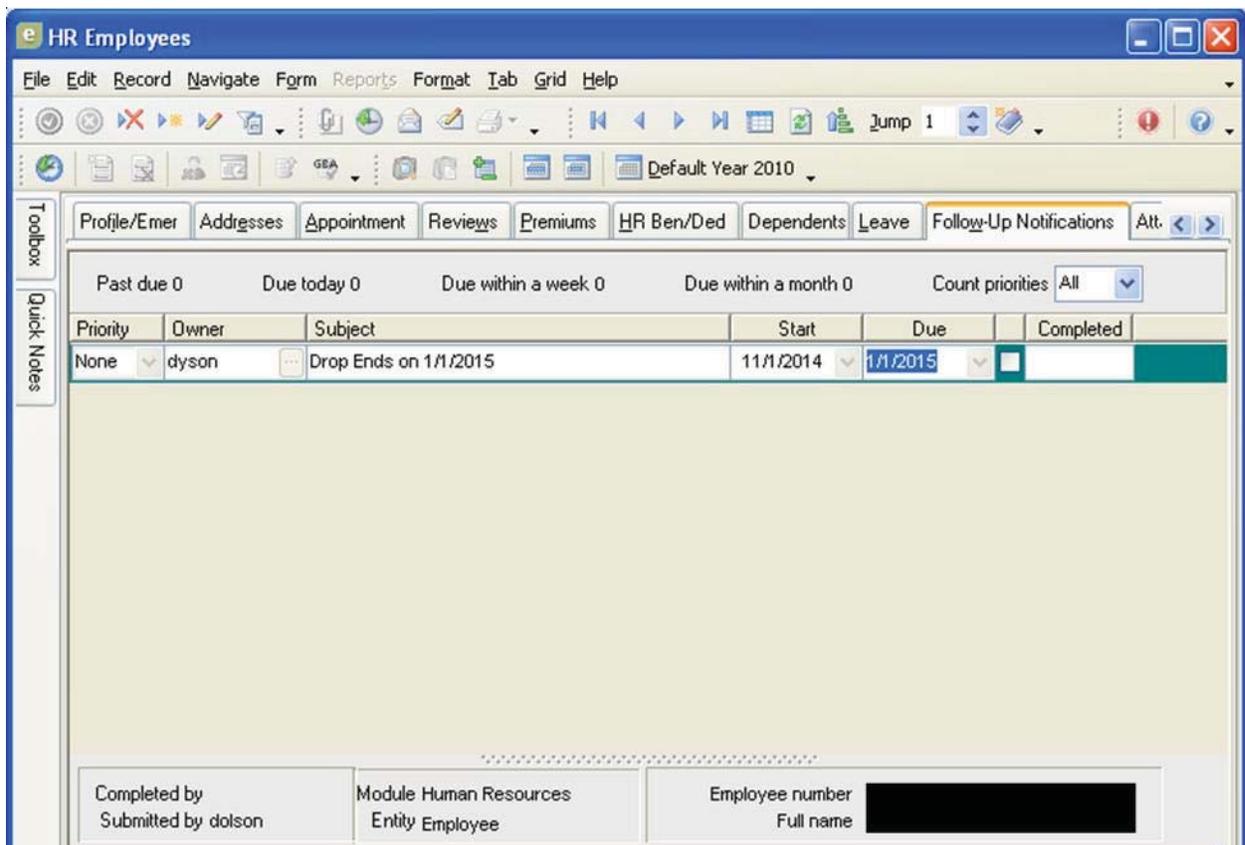
following the date on which the member first reaches normal retirement age or date, unless the member first reached normal retirement age or date prior to the effective date of the ordinance from which this section derives.

This Administrator will begin to provide the Police Officer Board of Trustees' and Firefighter Board of Trustees' a DROP status report at each quarterly meeting.

Individual(s) Responsible: William P. Hanes, Pension Administrator for Public Safety Plans
Due Date: Completed

Part II / General Employee Plan

With respect to administration of the General Employees Retirement Plan, the EDEN system has been used to track the conclusion of DROP participation (prior to EDEN the AS400 system was used). The EDEN system provides an electronic reminder system that allows individual employee records to be flagged for future notice or action. The electronic Follow-Up Notification automatically notifies staff that action is needed within EDEN. The notice is set for two months prior to the end of the DROP period. An example of this action is below for convenient reference.



Individual(s) Responsible: Kathryn Dyson, Human Resources Analyst
Due Date: Completed

Finding #19: *Employment Law Training for Managers and Supervisors*
Risk Rating: *Best Practice*

Managers and supervisors have not received training on discipline administration and compliance with the Family and Medical Leave Act, Fair Labor Standards Act, and Americans with Disabilities Act. Managers and supervisors play a significant role in compliance with these employment laws and they should be aware of how provisions of the laws may affect their day-to-day interactions with employees. Training of appropriate Town personnel in these principles and their daily application supports productivity and reduces risk of disputes with employees.

Recommendation

Provide training to supervisors and managers on the following topics and ensure that training records are maintained:

- Discipline administration; Family and Medical Leave Act policies and procedures;
- Fair Labor Standards Act wage and hour provisions and exemption provisions;
- Americans with Disabilities Act and ADA Amendments Act; and, Principles of management.

Management's Action Plan

Staff will develop and implement appropriate training to provide supervisors and employees with relevant information regarding policies, procedures, Federal, State and local employment laws. Delivery of group training will be provided in person or electronically. A web-based training program for the Prevention of Sexual Harassment was purchased prior to the Crowe audit and will be delivered by September 1, 2010. Subsequent programs will be forthcoming as budget permits.

Individual(s) Responsible: Danielle Olson, Human Resources Director
Due Date: August 2010 and Ongoing

III. Summary of 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 not 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 in 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 in judgment, carelessness, or 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 required in the 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.

Scope of Work

1. Interview staff and review the employee policies, procedures and other documents to determine if the organization communicates appropriate policies. Evaluate policies addressing employment status, anti-discrimination, anti-harassment, technology use, performance management, discipline, overtime, benefit deductions/or changes to benefits, and leaves of absence under state and federal family and medical leave laws.
2. Interview Human Resources staff and review documents to determine the degree to which employees are evaluated on objective, job-related criteria. Determine the extent of performance appraisal completion per organization policy and whether disciplinary issues are managed appropriately. Evaluate Human Resources staff development and supervisor training to determine if it is adequate to support management's role in carrying out Human Resources policy.
3. Review selected active and terminated employee files, leave records, and employment eligibility forms to determine if the organization maintains records in accordance with laws affecting recordkeeping and retention. We evaluate recordkeeping practices in light of the risks associated with discovery in the event of a dispute with an employee. (Refer to Appendices A, B, C & D for testing detail).

Scope of Work

4. Interview Human Resources staff and review documents to determine whether the organization's human resources related safety and security practices are appropriate and comply with OSHA.
5. Discuss with management the process of payroll processing from analysis and authorization, through initiation to recording the transaction to the general ledger. Document the process, considering essential control points. Comment on whether the controls are designed effectively and are in operation.
6. Discuss with management the procedure in place regarding analysis of payroll costs to budget and to prior period. Determine that any excessive variances are reported to the appropriate oversight committee. Document the process considering the essential control points. Comment on whether the controls are designed effectively and are in operation.
7. Discuss with management the process of recording payroll entries to the subsidiary payroll accounting system and to general ledger. Document the process considering the essential control points. Comment on whether the controls are designed effectively and are in operation.
8. Select a sample of hourly employees from payroll journals. Trace total hours paid to employee to an approved timecard. (December, March, February, and October). (Refer to Appendix E for testing detail).
9. Select a sample of employees from payroll journals and recalculate payroll. Trace rate from payroll system to employee file. Recalculate gross pay and overtime to determine if it is properly authorized and accurate. (Refer to Appendix E for testing detail).
10. For selected employees, review applicable job descriptions, incentive programs, overtime practices, and salary administration. Comment if the compensation costs of selected personnel appear consistent with the organization's needs and objectives. (Refer to Appendix E for testing detail).
11. Discuss with management the process of pension benefit processing from analysis and authorization, through initiation to recording the transaction to the general ledger. Document the process, considering essential control points. Comment on whether the controls are designed effectively and are in operation.
12. Discuss with management the procedures in place regarding analysis of pension benefit costs to budget and to prior period. Determine that any excessive variances are reported to the appropriate oversight committee. Document the process considering the essential control points. Comment on whether the controls are designed effectively and are in operation.

Scope of Work

13. Discuss with management the process of recording pension benefit entries. Document the process considering the essential control points. Comment on whether the controls are designed effectively and are in operation.-
14. Discuss with management the procedures in place to ensure that pension plans are implemented in conformance with existing federal, state and town laws and ordinances.
15. Determine if there is a proper segregation of duties in place for determination of the employer contribution(s), recording of employer contributions in the Plan Sponsor's accounting records, and the payment/remittance of the employer contribution(s) to the trust established for the Plan.
16. Select a sample of employees from payroll journals and recalculate employer pension contributions. Determine if contributions are checked for accuracy to ensure they were determined in accordance with the definition of eligible compensation per the Plan document. Determine if employer contributions are detailed by participant, prepared using accurate payroll information, reviewed, and approved prior to the authorization of the remittance to the Plan. (Refer to Appendix F for testing detail).
17. For a sample of Pension Benefit Plan recipients, select individual benefit payments to participants for testing. Complete the following steps for the sample of benefit payments selected for testing (Refer to Appendix F for testing detail):
 - a. Examine supporting documents (such as a benefit election form for a retiring participant, a withdrawal request or employment termination notice, a death certificate supporting a death benefit paid, etc.).
 - b. Test the recipient's eligibility to receive the benefit by reviewing documentation which provides evidence of participants' age, years or hours of service, earnings, or other relevant factors and comparing them to the provisions in the plan document.
 - c. Examine payroll or other relevant documents supporting the employee contribution component of the benefit or withdrawal amount.
 - d. Recompute the benefit amount, including vesting percentage, based on the participant's eligibility and years of service and plan provisions. Investigate any significant differences.

Scope of Work

18. From discussions with management, determine and document the various aspects of the process within the scope of the audit area relative to segregation of duties, including: Authorization, Recording, Reconciliations. Comment on whether the controls are designed effectively and are in operation.
19. Within the documentation, identify the related responsibilities and applicable individuals involved. Identify if there are any conflicting responsibilities and, if applicable, related compensating controls.
20. Where segregation of duties is achieved through system settings, the auditor may obtain evidence to support segregation of duties through system settings in this section or in the System Access process.
21. From discussion with management, gain an understanding of the following:
22. The process to establish access levels to the systems utilized in the area for new and existing personnel. Document management's ongoing review of user access levels as well. Include all kinds of posting access.
23. The process regarding how personnel access the systems utilized in the area once they have been set up on the system. Consider factors such as how the system recognizes their level of authorization (i.e., is the user's access restricted based on his/her unique user name and password).
24. Obtain a list of employees within the department and, on a sample basis, compare the access rights assigned on the system to their job responsibility profile. Determine if any additional access to the system is appropriate for the job responsibilities assigned to the individual.
25. Based on discussions with management, document the process for preparing and reviewing reconciliations. Document the process of researching and clearing reconciling items. Comment on whether the controls are designed effectively and are in operation. Consider the following at a minimum:
 - a. Who prepares the reconciliation(s) and their other responsibilities within the institution and whether they conflict with the reconciliation process,
 - b. Frequency of the reconciliation(s),
 - c. Whether an independent review exists, and
 - d. The process for researching, resolving and/or elevating reconciling items to management.
26. Discuss with management the procedures in place regarding security over access to the payroll application/system and data. Determine if payroll and pension data records are maintained in a secure place to which access is limited to authorize persons.
27. Examine documentation concerning assignment of passwords to note the frequency with which they are changed and note standards for password creations. Obtain a report from the system validating passwords settings are in accordance with organization policy.
28. Determine if IT management obtains independent internal control reviews of third party service providers providing payroll and benefit plan processing services.

Appendix A

Employee Selection	Required Information Recorded in HR Info System (name, address, date of birth, social security number, job title, regular rate or pay, & work schedule)	Acknowledgements and Authorizations											Other Documents			
		Signed Job Application	Employee Handbook	Hold Harmless Form/Public Oath, if Necessary	IT Security Policy	Credit History Authorization/Background Check Authorization/Criminal	Drug Screen Disclosure	Direct Deposit Authorization	Retirement Incentive Program Form and Drop Calculation	W-4 and Deferred Compensation Forms	Orientation Checklist/Action Form	Current Performance Evaluation				
Employee 1	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	NA
Employee 2	Yes	1	NA	1	1	1	1	1	1	1	1	1	1	1	1	NA
Employee 3	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 4	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 5	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 6	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 7	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 8	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 9	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 10	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 11	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 12	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 13	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 14	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 15	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 16	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 17	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 18	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	NA
Employee 19	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 20	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	NA
Employee 21	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 22	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	NA
Employee 23	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employee 24	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	NA
Employee 25	Yes	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1

LEGEND:

1 = Found in file; no exception noted.
NA = Not applicable; document not expected.
X = Not found, expected.

Appendix B

Form I-9 Review for Town of Palm Beach

Employee Selection	Correct Version of Form Used? (y/n)	Proper Box Checked? (y/n)	Completed On or Before Hire Date? (y/n)	Employer Signature? (y/n)	Documents Copied? (y/n)	Documentation Properly Recorded?
Employee 1	NL	NL	NL	NL	NL	NL
Employee 2	Y	Y	Y	Y	Y	NRC
Employee 3	Y	Y	Y	Y	Y	Y
Employee 4	Y	Y	N	Y	N	NRC
Employee 5	Y	Y	Y	N	N	NRC
Employee 6	NL	NL	NL	NL	NL	NL
Employee 7	Y	Y	Y	Y	Y	Y
Employee 8	Y	Y	N	Y	N	NRC
Employee 9	Y	Y	Y	Y	Y	Y
Employee 10	Y	Y	Y	Y	Y	Y
Employee 11	Y	Y	N	Y	Y	NRC
Employee 12	Y	Y	N	Y	Y	NRC
Employee 13	Y	Y	Y	Y	Y	Y
Employee 14	Y	Y	N	Y	Y	NRC
Employee 15	Y	Y	Y	Y	Y	Y
Employee 16	NL	NL	NL	NL	NL	NL
Employee 17	Y	Y	Y	Y	Y	Y
Employee 18	Y	Y	N	Y	Y	NRC
Employee 19	Y	Y	Y	Y	Y	Y
Employee 20	Y	Y	N	Y	Y	Y
Employee 21	Y	Y	Y	Y	Y	Y
Employee 22	Y	Y	Y	Y	Y	Y
Employee 23	Y	Y	Y	Y	Y	Y
Employee 24	Y	Y	Y	Y	Y	Y
Employee 25	Y	Y	Y	Y	Y	Y
Totals	0	0	7	1	3	8

LEGEND:

Y = Attribute tested without exception.
 N= Attribute tested with exception noted.
 NL = I-9 Form not located. Testing not performed.
 NRC = Documentation not recorded correctly.

Appendix C

FMLA File Review for Town of Palm Beach						
Employee Selection	Within 5 Days? (y/n)	If Physician Certification Required, Enter Date Required.	Was Employee Allowed at Least 15 Days to Obtain Certification? (y/n)	Copy of Certification in File? (y/n)	Leave Approved? (y/n)	Intermittent Leave Dates Tracked? (y/n/na)
Employee 1	Y	N	Y	N	Y	Y
Employee 2	Y	N	Y	Y	Y	NA
Employee 3	Y	N	Y	Y	Y	Y
Employee 4	Y	N	Y	Y	Y	NA
Employee 5	Y	N	Y	Y	Y	Y
	0	5	0	1	0	0

LEGEND:

Y = Attribute tested without exception.
 N = Attribute tested with exception noted.

Appendix D

Terminated Employees Testing

Employee Selection	Termination Reason	Documents Supporting Involuntary Termination	Resignation Letter Supporting Voluntary Termination	Termination Checklist	Evidence of COBRA Notification
Employee 1	✓	✓	na	✓	✓
Employee 2	✓	na	✓	✓	✓

- ✓ Attribute tested without exception.
- na Not applicable.

Appendix E

Town of Palm Beach Payroll Test of Controls							
	Internal Control Testing						
Employee Selection	A	B	C	D	E	F	G

Employee 1	✓	✓	✓	✓	✓	✓	✓
Employee 2	✓	✓	✓	✓	✓	✓	✓
Employee 3	✓	✓	✓	✓	✓	✓	✓
Employee 4	✓	✓	✓	✓	✓	✓	✓
Employee 5	✓	✓	✓	✓	✓	✓	✓
Employee 6	✓	✓	✓	✓	✓	✓	✓
Employee 7	✓	✓	✓	✓	✓	✓	✓
Employee 8	✓	✓	✓	✓	✓	✓	✓
Employee 9	✓	✓	✓	✓	✓	✓	✓
Employee 10	✓	✓	✓	✓	✓	✓	✓
Employee 11	✓	✓	✓	✓	✓	✓	✓
Employee 12	✓	✓	✓	✓	✓	✓	✓
Employee 13	✓	✓	✓	✓	✓	✓	✓
Employee 14	✓	✓	✓	✓	✓	✓	✓
Employee 15	✓	✓	✓	✓	✓	✓	✓
Employee 16	✓	✓	✓	✓	✓	✓	✓
Employee 17	✓	✓	✓	✓	✓	✓	✓
Employee 18	✓	✓	✓	✓	✓	✓	✓
Employee 19	✓	✓	✓	✓	✓	✓	✓
Employee 20	✓	✓	✓	✓	✓	✓	✓
Employee 21	✓	✓	✓	✓	✓	✓	✓
Employee 22	✓	✓	✓	✓	✓	✓	✓
Employee 23	✓	✓	✓	✓	✓	✓	✓
Employee 24	✓	✓	✓	✓	✓	✓	✓
Employee 25	✓	✓	✓	✓	✓	✓	✓

Appendix E

LEGEND:

A	Eden Payroll System File agrees to employee's personnel file. CH obtained the employees human resources personnel file. Agreed the detail employee information from the Payroll System Masterfile (which goes on the paycheck) to the supporting documentation. Agreed salary information, overtime authorization. The supporting documentation included the employment eligibility verification, copy of drivers license and/or passport, social security card, deduction election forms.
B	Check agrees to employee payroll processing report.
C	Payroll Expense properly recorded in the GL. Coding of item is appropriate. Items were coded to allocation accounts.
D	Employee timesheets/time cards are reviewed and approved by employee and supervisor, per company policy. The hours are in agreement with what was paid.
E	Recalculated payroll based on supporting documentation and agreed to payroll journal.
F	Reviewed job descriptions for selected employees and IT access information (for IT assessment see IT section of Internal Audit Procedures).
G	Reviewed pension deduction from the payroll. Based on pension type 1106- general, 1107-police, 1108- fire, 1109-lifeguard.

Appendix F

Pension Benefit Testing

<u>Selected Employee</u>	<u>Documentation Complete?</u>	<u>Annual Pension</u>	<u>Recalc. Annual Pension</u>
Employee 1	✓	29,497.06	✓
Employee 2	✓	24,079.44	✓
Employee 3	✓	34,698.51	✓
Employee 4	✓	10,975.41	✓
Employee 5	E1	23,789.58	✓
Employee 6	✓	77,630.23	✓
Employee 7	✓	18,492.71	✓
Employee 8	✓	42,307.01	✓
Employee 9	✓	49,552.02	✓
Employee 10	✓	27,735.35	✓
Employee 11	✓	30,231.39	✓
Employee 12	✓	55,101.94	✓
Employee 13	✓	26,779.36	✓
Employee 14	E3	145,332.39	✓
Employee 15	✓	15,458.61	✓
Employee 16	E1	5,336.45	✓
Employee 17	E1	116,589.20	✓
Employee 18	✓	76,245.97	✓
Employee 19	✓	61,495.34	✓
Employee 20	E1	88,383.18	✓
Employee 21	✓	112,576.76	✓
Employee 22	E2	20,076.03	✓
Employee 23	✓	21,342.72	✓
Employee 24	E2	20,490.61	✓
Employee 25	✓	8,973.12	✓

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<u>Selected Employee</u>	<u>Documentation Complete?</u>	<u>Annual Pension</u>	<u>Recalc. Annual Pension</u>
Employee 26	✓	64,291.43	✓
Employee 27	E2	25,971.71	✓
Employee 28	✓	9,920.39	✓
Employee 29	✓	41,044.39	✓
Employee 30	E2	37,901.88	✓
Employee 31	E2	5,110.08	✓
Employee 32	E2	27,959.76	✓
Employee 33	E2	23,618.82	✓
Employee 34	E2	20,608.39	✓
Employee 35	✓	33,479.69	✓
Employee 36	E2	5,821.79	✓
Employee 37	✓	27,302.63	✓

LEGEND:

- ✓ Attribute tested without exception, recalculated without significant difference noted.
- E1 File did not include a "Application for Service Retirement" form.
- E2 Copy of birth certificate not in file.
- E3 Salary support not complete.