Public Sector Auditing ….. Private Sector Thinking

Internal Audit Report
Lincolnshire Police - Payroll

Overall Opinion:

Date: ***24/08/2014***

Contents

	Page
Introduction and Scope	**1**
Executive Summary	
Assurance Opinion	**2**
Key Messages	**3**
Management Response	**4**
Action Plan	
Findings, Recommendations and Agreed Actions	**6**
Low Priority Recommendations	
Findings and Low Priority Recommendations	**12**
Appendix	
Appendix 1 – Assurance Definitions	**13**

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

This report has been prepared solely for the use of the Board and Management of Lincolnshire Police. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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Introduction and Scope

The Force has worked in strategic partnership with G4S, whose services include HR and Payroll, since 2012. In April 2014 the partnership introduced a new Enterprise Resource Management (ERM) system called T Police. The payroll system still remains independent of T Police, being processed on SAP via local payroll provider Mouchel.

Since May 2014, the Force has experienced a number of issues around the accuracy of the payroll, for example:

- incomplete data extraction resulting in the June overtime payments for approximately 300 Officers being delayed
- overpaid allowances to senior officers (subsequently recovered without employee authorisation)
- 36 Officers being paid on the incorrect scale point for July

The Force had also noted that the overtime spend, year to date, was higher than expected and a £142k overspend was forecast on a £1m overtime budget. As budget managers had not highlighted any specific reason for this overspend, this increased the need for assurances around the suitability and effectiveness of the controls in this area.

Given the concerns around the accuracy of payments, the Force has commissioned an independent audit of Payroll. The objective was to undertake a system review of the processes that lead to the payment of salaries, overtime, expenses and mileage and provide independent assurance on their effectiveness.

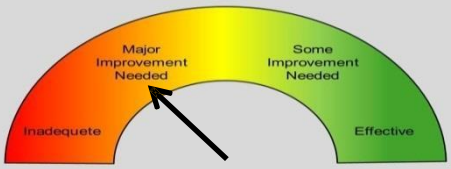
The scope of the audit included:

- assessment of payroll policy and procedures
- review of authorisation procedures and segregation of duties
- identification and assessment of controls and checks on input to the payroll
- assessment of payroll escalation processes
- confirming links between Force policies and payroll processes
- review of current performance measures in giving reassurance of overall payroll performance
- assessment of the adequacy of the HR and Payroll system reconciliations

Executive Summary

Assurance Opinion

Major Improvement Needed



Our opinion is based primarily on ongoing interface issues between 'T Police', Crown DMS and Payroll, checks on overtime input, monitoring of payroll costs and uncertainties around written policy and procedures.

The lack of interface between 'T Police' and the current payroll system (SAP) is a key risk affecting the efficiency and accuracy of the Payroll. The Payroll team are working hard to manage this via a range of manual interventions using Microsoft Excel prior to uploading the data to the Payroll system. However, this involves monthly manual adjustments to pay types and pay cost codes, increasing the risk of error or omission. In addition, outstanding overtime exceptions flagged in Crown DMS are not highlighted in the data extract generated by 'T Police' – this is a timing issue which results in under/over payments of overtime and the need for adjustments in the following pay period.

A 'T Police' system configuration involving the authorisation of expenses and mileage claims has created the need for further manual interventions by the Payroll Team prior to payment. We would expect interface and processing issues to have been identified and resolved during System and User Acceptance Testing (UAT) during 'T Police' implementation, prior to "go live". This, however, was not within the scope of this review though the Force may wish to investigate this matter further.

Payroll accuracy is also likely to be affected by two control issues:

- the input of overtime claims to Crown DMS, whilst authorised, is not checked for accuracy prior to payment
- payroll cost monitoring reports are not currently detailed enough or validated by budget holders

The Force is working on a central repository for payroll/ HR policies and procedures which should alleviate the issues we identified around policy ownership, awareness, updates, responsibilities and understanding. It is important that both Force and G4S staff can easily access these procedures, understand their responsibilities and the need for compliance.

Another potential high risk area we identified is the self-authorisation process where up to 2 hours per day overtime to be claimed without approval. We advise the Force review their risk appetite in relation to self-authorisation and the controls in place, such as exception reporting and spot checks, to manage this risk. The Force must be satisfied that controls reduce the risk to within their risk appetite limits.

We have identified three issues which have the potential to affect the accuracy of the overtime payments and could be contributing to the projected overspend:

- Clearance of overtime exception flags in Crown DMS – overtime claims which exceed pre-defined parameters require further checks and authorisation before processing. Outstanding exceptions are not highlighted in the data extracted via 'T Police' and therefore, are paid even though they may be incorrect. Once the flags are cleared Crown DMS is updated retrospectively and can no longer be reconciled to the 'T Police' extract or Payroll. We also note that incorrect overtime payments are adjusted in the following month without employee notification – which is not in line with Force policy.

- Sergeants, Duty Planners or Line Managers currently input the overtime claims to Crown DMS. Whilst all claims are authorised, there are no independent checks over accuracy. Any input errors or incorrect overtime coding will not, therefore, be identified.

- Payroll cost monitoring reports are not currently validated by budget holders – these have not yet been developed and so those with the operational knowledge are not able to validate their pay costs. The Finance Team are reviewing budget reports for reasonableness but this is only likely to identify the most significant/obvious error.

The Payroll Team have needed to develop a range of manual interventions as 'T Police' does not interface with the current payroll system (SAP). Also the coding of payroll costs and pay types in 'T Police' is different to SAP so the team have to manually change all coding in the data extract prior to uploading to the SAP Payroll system. The payroll team have worked hard to develop a method of changing the codes in Excel to minimise the risk of error; however manual changes of data will always carry the risk of error – it also increases the workload. The coding changes are then reversed to update the T Police accounting system with the payroll costs for each month.

There is a defined process between HR and payroll to action changes to payroll standing data via a 'green form' – the payroll team apply a 100% check of all changes and sign off all amendments. Our test results confirmed that this process was working well. However, the responsibility for identifying, interpreting and applying local and national changes to allowances is not clearly defined, creating the potential for such changes to be missed.

Expenses and Mileage claims are mainly processed through the 'T Police' self-service system. The payroll team have appropriate procedural guidance in this area and our sample of claims from the self-service system had all been paid correctly. The 'T Police' standard for expenses and mileage is for self-authorisation of claims up to £100 – the Force removed this and introduced line management authorisation into the system. Whilst this is an appropriate control, it has created the need for further manual intervention by the Payroll Team. The system excludes any unauthorised claims from the monthly extract, but it also excludes them from the following month's extract (even though they are authorised) as they relate to the

previous pay period. The Payroll team have devised a manual process to ensure these claims are added to the data upload and paid. As with the overtime claims – this manual intervention increases the risk of error and creates additional work.

We found that payroll related policies, procedures and guidance exist but require ownership, review and in some cases updating. There is no central repository for this procedural guidance and this has affected compliance, awareness levels, clarity around responsibilities and has created uncertainty over how G4S and Force procedures link together. We note the Force is aware of these issues and has plans to create a structured central repository.

The action plan below gives full details of our findings and recommendations, along with agreed actions and timescales to implement improvements.

We would like to thank Nick Ward, Sarah Pompa, Matt Denness and Michael Robinson for their help and support in undertaking our work.

Management Response

Management Actions	No	All to be completed by:
High Priority	6	Dependent on payroll implementation timescale confirmation.
Medium Priority	5	30 June 2015 (Dependent on Payroll implementation)

We welcome the report and its recommendations which have led to open dialogue around the perceived issues with the payroll, interfaces and particularly the Crown duty management system. We hope that by implementing the audit recommendations we will go some way to providing assurance and confidence that the interfaces between DMS / tPolice and payroll are working correctly.

We recognise that the current working practices will increase the risk of possible errors with the payroll but have mitigated these risks by implementing a series of controls and balances. We would highlight that to date no issues surrounding the payroll (since the go-live of tPolice) can be attributed to the manual processes involved in extracting and loading the data into payroll.

We also recognise that current working practices to extract data from tPolice / DMS and load into payroll are not as efficient as an automated upload routine. We will be working with our payroll provider Mouchel to ensure that when we move to a new payroll solution that we do have the automatic interfaces in place.

G4S are currently working alongside the Force to implement a new upgrade version of Crown DMS- this should be ready for go-live later in the Financial year. The issue highlighted in the audit around un-cleared exception flags resulting in under/over payments of overtime lays clearly with the line managers to resolve the exceptions in a timely manner. Further communication and training will be implemented to try and resolve this issue.

Overtime reports are sent out at a detailed level to the four main Police Officer areas, East, West, Operations and Crime. This contains person by person analysis, top 10 earners etc, and provides meaningful information for both budget manager and holder to ensure they are able to make informed decisions. These reports come from both Crown extracts and Payroll file info.

The problem regarding the iExpenses extraction due to the date of approval of the expenses has now been resolved following further system configuration work undertaken by Capgemini.

We continue to create the central repository of Payroll / HR policies, procedures and process notes. The framework for this repository has been agreed with all parties and all documents are been reviewed as business as usual.

Further work to independently check the accuracy of the claims on DMS has been undertaken in the months since the audit. This work has identified the issues contributing to the project overspend. The following has been discovered –

- Some overtime claims made on DMS have been entered and authorised at the incorrect rates. These claims have resulted in a number of officers been overpaid; the Force are currently working on a process for communicating, correcting and recovering the overpayments. The issue with the incorrect claims has been address by further training and education of officers and line managers. It is hoped that the new upgraded version of DMS and the potential to transfer to a book on book off system should also ensure overtime is entered/approved correctly. The effectiveness of the Crown system in recording overtime worked will possibly always result in a slightly higher overtime bill as all worked hours classed as overtime are recorded where the old overtime system relied on officers completing manual claims when they wanted to claim overtime.

- Complying with Police Regulations with regard to converting TOIL to overtime after three months would without doubt increase the overtime spend of the Force. Previously the Force has never actioned this regulation.

Findings, Recommendations and Agreed Actions

No	Findings	Recommendations	Agreed Actions	Priority	Responsibility & Timescale
Policies, Procedures and Guidance					
1.	We found that payroll related policies, procedures and guidance exist but require ownership, review and in some cases updating. We also note that there is no central repository for storing them which has affected access, caused uncertainty around responsibilities and some confusion between Force & G4S policy and procedure. This fragmented approach has resulted in policy noncompliance and increases the risk of payroll errors. We note the Force is aware of the issue and has plans to address this.	The Force should continue developing a central repository of policies, procedures and guidance ensuring: • updates, where appropriate • review dates are assigned & monitored • policy ownership • access (Force & G4S staff) Attention should also be given to: • Force and G4S procedural compatibility • the communication of policy updates, storage arrangements and the need for compliance	The Force and G4S have jointly developed a procedure, policy and process framework which will incorporate payroll – this will address the audit recommendations. This was completed and the force CFO has approved it and it will continue to be updated monthly.	Medium	Nick Ward, (Finance) with necessary input by Wendy Drury, HR Operations. 31 July, 2015.
2.	Responsibility for identifying, interpreting and applying local and national changes to allowances is not clearly defined, creating the potential for such changes to be missed.	A procedure and responsibility for horizon scanning for national and local changes to pay and conditions should be developed. This should include: expected action, authorisation arrangements, communication and implementation.	Both HR and Finance are working closely together to identify, interpret and implement changes which affect employees pay and conditions. Legalisation and contractual changes can come from many different sources. We continue to develop our links with	Medium	Angela Durham (Finance) and Steve Morley (HR). 30 June, 2015.

No	Findings	Recommendations	Agreed Actions	Priority	Responsibility & Timescale
			the Force Pension Administrators; Home Office departments and Payroll Manager community. We intend to request that the Force communicates to the ACPO secretariat to ensure that any paperwork or email received are forward to both HR and Finance.		This has been requested
Processes and Controls					
3.	Due to interface problems, Payroll staff are using a range of manual interventions using Microsoft Excel prior to uploading the data to the Payroll system. This involves monthly manual adjustments to pay types and pay cost codes which are different in 'T Police' & SAP. This introduces the risk of error or omission, creates more work and reduces system efficiency. We would expect such issues to have been identified and rectified during System and User Acceptance Testing (UAT) prior to 'go live'.	We advise G4S works with the 'T Police' software provider to develop a fix for the interface issues. Force management should ensure that when the payroll system is changed (Mouchel are discontinuing SAP use) the new system interfaces with 'T Police' to prevent the need for manual interventions. Any software fixes may attract a cost – the Force should consider a review of the Integration System Testing (IST), UAT and project sign off to identify why these issues were not identified and rectified and to establish whether there is any organisational learning for future IT projects.	The manual interventions in place at present are a consequence of the current operating model. The two systems, tPolice and SAP, do not integrate and therefore a manual process is used to take the tPolice data and amend to upload into SAP payroll. Any manual intervention does increase risk <u>but</u> these are mitigated by the controls put in place within the Finance department. Furthermore there have been no errors which can be directly attributable to the intervention process since the go-live of tPolice. A future operating model would move away from manual intervention to full integration of the HR and payroll data. Work will be undertaken between	High	Nick Ward (Finance). Dependent on payroll implementation timescale confirmation.

No	Findings	Recommendations	Agreed Actions	Priority	Responsibility & Timescale
			the Force and G4S to develop two payroll operating models: 1) Current operating model – utilising existing systems (SAP payroll). 2) Future operating model – utilising integration between HR & payroll. The future operating model will give achievable dates for the transition from the current model.		The integration will take place during the next 2 years and as early as we can, but we are reliant on Kier. Annual internal audits of payroll will continue to review the manual processes in the meantime.
4.	Sergeants, Duty Planners or Line Managers currently input staff and officer overtime claims on Crown DMS. Whilst there is appropriate authorisation, there are no checks over the accuracy of the input. Errors are probable due to the many different overtime codes.	We advise the Force considers either alternative overtime input so the authorisers can check both appropriateness and accuracy, or introduce an additional check following input.	A sample checking process will be put in place to negate the risk of the lack of checks over the accuracy of the overtime input onto DMS. This sample checking will be a two-fold process: 1) DMS administrator will sample check overtime data prior to running the overtime extract. 2) The payroll team will sample check overtime rates above 1.33 to ensure validity of the claim. Both checking will be done before the payment of the overtime in	High	Matt Denness (HR) and Sarah Pompa (Finance). Implemented February, 2015. Whilst the upgrade will have no impact on our processes, since this report was written we have had no issues regarding incorrect functionality of the

No	Findings	Recommendations	Agreed Actions	Priority	Responsibility & Timescale
			payroll. The sample checks will be monitored to ensure that they are picking up any trends on error rates. The issues will be resolved by the implementation of the new DMS version which is due to go-live between August – October 2015.		Payroll extract. This will continue to be monitored by internal audit.
5.	Detailed pay cost information is not currently available to budget holders in order to analyse and validate overtime costs. The payroll and accountancy team are taking some action to identify potential errors but they do not have the operational knowledge to verify the overtime figures.	We advise detailed pay reports are routinely provided to operational managers to enable effective validation overtime and other allowances. Management should identify the detail required at an operational level for budget holders to fulfil this monitoring role.	Detailed Payroll Cost Monitoring reports are now available to all budget managers through OBIEE. Development work of the current report writing capabilities is in progress. *	High	G4S and Force representatives are working together on this – on an on-going reviewable basis.
6.	The 'T Police' / DMS system for booking on and off does not (as it is currently set up) require approval of overtime less than two hours a day. In our opinion, this high level of self-authorisation may make it harder to effectively manage costs.	The Force should consider the level of risk they are prepared to accept in relation to the self-authorisation of overtime. The authorisation levels in 'T Police' / Crown DMS should be set to reflect the decision and noted in Force procedure. If self-authorisation is introduced, there should be appropriate exception reporting to effectively manage costs	The Force moved to a 2 hour self-authorisation of overtime limit with the introduction of the Crown DMS system. The Force understands the risks involved in such a decision but believes in the empowerment of the staff in the correct way ahead in this area provided that there is effective reporting and sample checking to identify any potential issues.	High	Implemented April 2014.

No	Findings	Recommendations	Agreed Actions	Priority	Responsibility & Timescale
		and identify potential irregularities.			
7.	There is currently no formal escalation procedure between G4S and the Force when payroll concerns are identified. Relevant Force staff may not be notified and/or it may hamper swift remedial action.	To ensure a consistent approach to any payroll issues a formal escalation procedure between G4S and the Force should be agreed, documented and implemented.	A formal escalation procedure between G4S and the Force will be agreed and documented as part of the payroll procedures.	Medium	Nick Ward (Finance). 31 March, 2015
8.	Sample testing of paid overtime hours found differences between the hours recorded on Crown DMS and the 'T Police' extract. Payroll staff suggested that this related to claims with outstanding exception flags – these are not highlighted in the 'T police' extraction and are paid even though they may be incorrect. Later clearance creates a retrospective change on Crown DMS which means it could no longer be reconciled to the 'T Police' extract.	The Force should investigate ways of regularly clearing the exception flags on Crown DMS prior to the data extraction to prevent over and under payments and subsequent recoveries being made.	Crown DMS can be reconciled to the DMS extract if multiple extracts are used. Furthermore the problem with retrospective changes to DMS could be resolved by the following: 1) Supervisors resolve all exceptions before the payroll extract is run. 2) The officer/staff claim overtime in a timely manner. Guidance documentation has been revised and is available on the above requirements. If issue continues to be a problem then the solution maybe to amend the DMS payroll extract calendar – this would give officers and line	High	Implemented December, 2014. The majority of queries raised are now referred and dealt with by line managers with support from payroll/HR. The number of exceptions has significantly reduced.

No	Findings	Recommendations	Agreed Actions	Priority	Responsibility & Timescale
			manager longer to enter claims onto DMS before the extraction date. This may alleviate the issues highlighted by the audit.		
9.	Overpayments caused by not clearing the exception flags are recovered from the following months' payroll run. Individuals are not notified of the subsequent recoveries – this does not comply with current Force policy.	The policy for recovery of overpayments from employees should be consistently applied.	The current overpayment recovery policy has been amended to better fit the DMS processes around the payment and subsequent adjustment of overtime claims.	Medium	Nick Ward (Finance). 30 April, 15
10.	We reviewed the October payroll performance report produced by G4S. We expected to see a fail on the rectification of payroll errors in August and September due to the overpaid senior officer allowances – the KPI shows 100% for both months.	Management should explore the potential anomalies in the payroll KPI reporting and seek assurances from G4S over the future accuracy of the performance data.	There is already a process in place as all performance indicators are reviewed at the monthly TMB meetings between G4S and the force. On this occasion the wording of the KPI was open to misinterpretation and we have now undertaken a review of all finance performance indicators and have agreed them.	Medium	N/A

Low Priority Recommendations

The following items are advisory recommendations / comments arising from the audit, which management may wish to consider implemented to improve the system or performance.

No	Findings	Advisory Recommendation
1.	We reviewed the performance indicators for payroll and generally found these to be appropriate for monitoring a payroll provider relationship; however there was no KPI to assess the effectiveness of the new claims system.	The Force and G4S should consider a performance indicator showing the percentage of manual claim / expense / payroll transactions as an indicator of how effective 'T Police' has been in reducing the workload associated with manual transactions.
2.	Checking and authorisation of the payroll data upload – records were signed as checked, but did not detail the person preparing the upload.	Payroll data upload – we advise G4S provide evidence of who has carried out the task and who has verified the accuracy of the data upload.

Assurance Definitions[1]

Effective	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively. As a guide there are a few low risk / priority actions arising from the review.
Some improvement needed	Our critical review or assessment on the activity gives us a reasonable level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low. A few specific control or risk issues identified. As a guide there are low to medium risk / priority actions arising from the review.
Major improvement needed	Our critical review or assessment on the activity identified numerous concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives. As a guide there are numerous medium and a few high risk / priority actions arising from the review. Our work did not identify system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
Inadequate	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. Our work identified system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of high risks / priority actions arising from the review.

[1] These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.