



26-04

INTERNAL AUDIT REPORT

Payroll

2026

Contents

Introduction.....1

Background 1

Objective.....1

Scope.....1

Methodology.....1

Results 3

User Access 3

 Finding 1: Strengthen user access management control 3

Opportunity For Improvement.....3

 Opportunity 1: Enhance User Access Review Processes 3

Recommendations and Management Response.....5

Opportunity for Improvement.....5

Conclusion.....7

Authorization 7

Statement of Independence 7

Distribution of.....7

Report.....7

Performed By.....7

Introduction

The Payroll Audit was included on the Three-Year Audit Plan. The purpose of the audit was to assess control effectiveness for the complete, accurate, and timely payment of payroll. Control processes are intended to provide reasonable assurance but cannot guarantee that errors or irregularities will not occur. The audit included a review of payroll procedures, walkthroughs of key payroll processes, and testing of payroll activities for a sample of employees and payroll periods, including timekeeping, approvals, employee master file changes, system access, and payroll-to-general ledger reconciliations.

Background

The City of Sioux Falls processes payroll for a diverse population of approximately 2,000 employees, including bargaining unit and non-bargaining unit employees, through a centralized payroll function supported by multiple systems and departments. Payroll operations involve coordination between Human Resources, Payroll, and Finance personnel to ensure employee data, timekeeping information, and financial reporting are maintained accurately and consistently across the organization. Employees are paid every two weeks on Fridays.

The City utilizes Time & Attendance and Telestaff to support the capture and approval of employee time and attendance data. Time is recorded through a combination of time clocks, mobile applications, and desktop-based systems. Certain departments, such as fire and police, also use specialized scheduling system, Telestaff, to track hours worked. These systems facilitate supervisory review and approval of recorded time prior to payroll processing.

Approved time and attendance data is interfaced into Munis, the City's financial system, which also serves as the payroll processing system. Munis is used to calculate employee wages, including regular and overtime pay, based on recorded and approved hours. The system supports the generation and review of payroll runs and ensures that employee compensation is calculated accurately and consistently.

Upon completion of payroll processing, payroll transactions are recorded directly within Munis, the City's financial system. As Munis serves as both the payroll processing and general ledger system, payroll expenses and related liabilities are posted within the same system. This integration supports the accurate and timely recording of payroll activity in the City's accounting records.

The payroll process includes multiple layers of review and approval designed to promote accuracy and completeness. Employees record

or report their time, which is subject to supervisory review and approval prior to payroll processing. Supervisors are supported by designated alternate approvers within the Time & Attendance system, and in cases where a supervisor does not respond, Payroll follows up and escalates to the alternate approver. If no response is received from either party, Payroll/Benefits Specialists may approve time sheets at the supervisor level as necessary, with all such actions subject to audit tracking. Payroll personnel subsequently review and approve time entry batches, process payroll transactions, and generate payroll outputs, while Finance personnel are responsible for posting payroll activity to the general ledger and facilitating payroll disbursements. The process also includes defined pay codes and earnings types used to calculate compensation and ensure payroll is processed in accordance with established policies and agreements.

In addition, the city maintains processes for managing employee master data, including new hires, terminations, and compensation changes, which require appropriate documentation and authorization. Payroll corrections, manual adjustments, and off-cycle payrolls may be processed as needed, and payroll-to-general ledger reconciliations are performed to ensure payroll activity is accurately recorded. The city also maintains controls over user access to the payroll system to support appropriate segregation of duties and restrict access to authorized personnel.

Overall, payroll processes and controls are designed to support the complete, accurate, and timely payment of employees, including defined procedures for timekeeping, payroll processing, approvals, and financial reporting. Based on the procedures performed, key areas of focus included assessing the design and operating effectiveness of controls related to payroll processing, employee data management, reconciliations, and system access.

Overall, we found that payroll processes and controls are generally being followed to support the complete, accurate, and timely payment of employees.

Objective

The audit scope included a review of payroll processes and controls for the City of Sioux Falls, with a focus on assessing control effectiveness for the complete, accurate, and timely payment of payroll. The scope encompassed payroll-related procedures, timekeeping and payroll systems, payroll calculations and approvals, employee master file changes, payroll adjustments, payroll-to-general ledger reconciliations, and user access management. Our review focused on whether established processes and controls are designed and operating to support payroll processing in accordance with City procedures; however, we did not assess the accuracy of individual employee payroll amounts beyond the selected samples tested.

Scope

To review payroll processes and controls and assess whether payroll transactions are processed completely, accurately, and timely. This included evaluating timekeeping, payroll calculations, approvals, employee master file changes, payroll adjustments, reconciliations, and user access for compliance with established policies, procedures, and applicable requirements.

Methodology

The audit procedures included interviews with City personnel, review of payroll procedures, and evaluation of documentation supporting payroll processing and control activities. Procedures were performed to obtain an understanding of the end-to-end payroll process, including timekeeping, payroll processing, employee master data maintenance, and financial reporting. The review included evaluating systems used for payroll processing, assessing payroll calculations and approvals, inspecting supporting documentation for selected payroll transactions and employee master file changes, reviewing payroll registers and reconciliations, and evaluating user access controls over the payroll system to determine whether controls are designed and operating effectively to support the complete, accurate, and timely payment of payroll.

User Access

Finding 1: Strengthen user access management control

User access to the payroll system was reviewed to determine whether access is appropriately restricted and aligned with job responsibilities. Based on procedures performed, access controls are generally in place to restrict system access to authorized personnel, and roles and permissions are assigned to support payroll processing activities.

However, an instance was identified where a user account ("John Doe") with HR administrator-level access has remained active without a defined end date for deactivation. Access to this account is currently restricted to two IT personnel, with password activity monitored through audit logs. Based on discussion, this account is intended to be used for testing purposes; however, maintaining elevated access on a continuous basis outside of active testing periods increases the risk of unauthorized or inappropriate system use. Opportunities exist to enhance processes for managing temporary or elevated access to ensure such access is limited to defined timeframes and appropriately monitored.

See recommendation for finding 1.

Opportunity For Improvement

Opportunity 1: Enhance User Access Review Processes

User access controls over the payroll system for the City of Sioux Falls were reviewed, with a focus on processes for performing and documenting periodic user access reviews. Based on procedures performed, user access is generally restricted to authorized personnel and reviews are being conducted, indicating that processes exist to monitor access. However, opportunities exist to enhance the consistency and clarity of the user access review process. Specifically, expectations regarding review frequency, documentation, and evidence of preparer and reviewer approval are not consistently defined. In addition, documentation of reviews does not consistently include evidence of reviewer sign-off, even in instances where no significant findings are identified, which may limit the ability to demonstrate that reviews are performed consistently, completely, and with appropriate oversight.

Overall, no inappropriate access was identified within the samples tested; however, the observations noted represent an opportunity to strengthen the structure and documentation of user access review

processes to further support accountability, transparency, and control effectiveness.

See recommendation for opportunity 1

Recommendations and Management Response

1 We recommend implementing controls to ensure that temporary or elevated access accounts are appropriately managed, including defining activation periods, monitoring usage, and establishing end dates for deactivation. Access associated with testing or other temporary activities should only be active when needed and removed or disabled promptly after use to reduce the risk of unauthorized access.

Management's Response: The City agrees with the recommendation and recognizes the importance of appropriately managing temporary and elevated system access. The City believes the best process for these particular role changes (temporary or elevated access) is to develop a ticketing process through Ivanti. This process would require a two step review and approval process. The first step would notify human resources and finance of the new admin and activation of these roles.

Along with this, a second step will be implemented to identify an end date or have recurring tasks sent to finance to reiterate this access to finance and HR until the role is deactivated. This would provide additional documentation in regards to the role still being active or removed.

The City will work with individuals in charge of providing access through IT to implement this. Along with this, the City will implement documented procedures that outline this process and the parties involved.

Management Representative Responding: Cody Papke, Chief Accountant

Date of expected implementation: 08/31/2026

Opportunity for Improvement

1 We recommend defining and documenting formal expectations for user access reviews, including review frequency, required documentation, and preparer and reviewer sign-off. Documentation of reviews should include evidence of reviewer approval, even when no significant findings are identified, to demonstrate completeness of the review and appropriate oversight. Additionally, user access reviews should include evaluation of access to shared accounts to ensure access is appropriate and periodically validated.

Management's Response: The City agrees with the opportunity and recognizes the importance of appropriately documenting formal expectations. The City will work on developing both a formal control policy that indicates the frequency of employee reviews.

The Chief Accountant will also perform and sign off on a monthly review in a similar manner as to before the audit but with a sign off of a review to ensure that all elevated items were in fact submitted for a ticket.

An annual review of all admin and elevated roles will be performed on an annual basis by finance, HR, and IT and will be signed off prior to year-end.

Management Representative Responding: Cody Papke, Chief Accountant

Date of expected implementation: 08/31/2026

Conclusion

We reviewed payroll processes for the City of Sioux Falls, including payroll procedures, supporting documentation, and key control activities, and obtained an understanding of the end-to-end payroll process. Overall, payroll processes are established, and controls are generally in place to support the complete, accurate, and timely payment of employees. Opportunities were identified to enhance documentation, consistency, and oversight within certain control areas, including payroll process documentation, payroll register review evidence, and user access management.

Authorization

The Sioux Falls City Council approved this audit by resolution and was included in the Three-Year Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

Statement of Independence

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per Section 32.022 of the Code of Ordinances of Sioux Falls, SD.

Distribution of Report

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record, and its distribution is not limited.

Performed By

CliftonLarsonAllen

Ryan Lauseng
Internal Auditor