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AUDIT REPORT

Mid-Year Payroll

"Pursuant to Section 55.161 RSMo., the Auditor's Office shall audit, examine and adjust all accounts of county officials and courts operating in such counties, and which are accumulated and intended for public purposes."

Audit Objective: Budget versus Actual Expenditures, Year to Date / Year End Forecast

AUDIT REPORT IN BRIEF

The Auditor's Office has completed a midyear payroll audit. The audit focus is on budget conformity, data accuracy, year-end forecasts, and payroll tax related filings. Audit tests and analysis of the payroll reports resulted in the discovery of several minor budgeting issues, and a problem with the Federal and State tax tables used during payroll processing.

BACKGROUND

Payroll and benefits, an estimated \$14.6 million for 2011, represent more than 26% of the County's operating budget and have a significant enough level of activity to warrant a mid-year review ensuring budget compliance, accurate payroll processing, year-end forecasting, and processing adjustments as needed for changes not anticipated during the budgeting process.

The areas for review include salary and wages, benefits, medical insurance and retirement plans, and payroll related taxes. Each of these areas is tested using various methods to determine accuracy and compliance with the appropriate governing body.

AUDIT FINDINGS

Accounts – The payroll audit reviewed the following accounts for each fund/department:

- 60050 – Overtime Salaries
- 60100 – Other Salaries
- 63015 – Employer Payroll Taxes
- 63020 – Workers Compensation
- 63025 – Lagers
- 63035 – Health Insurance
- 63050 – Life / Disability Insurance

Offices / Departments – The total expenditure as a percent (%) of budget for all payroll related categories is as follows:

Office / Area	% YTD
Administration	49.56
Assessor	47.34
Commission	43.38 ⁽¹⁾
Personnel	48.45
Building & Maintenance	50.51
Janitorial Services	48.35
Resource Center	49.03
County Clerk	43.16 ⁽²⁾
Planning and Zoning	52.74 ⁽³⁾
Information Services	46.74
Auditor	39.79 ⁽⁴⁾
Treasurer	49.80
Recorder of Deeds	49.93
Collector	50.05
Circuit Judge	42.23 ⁽⁵⁾
Prosecuting Attorney	49.53
Sheriff & Emergency Management	40.72 ⁽⁶⁾
Public Administrator	49.89
Stormwater Construction	50.72
Parks Operations	46.49
Public Works	44.80

As noted, most are at or below 50% of the budget, indicating budgeting accuracy and proper management of the resource. Seasonal impact skewed areas such as Parks Operations and Public Works. Following this report is the worksheet used in the analysis. The footnote below provides reason for budget variance.

- (1) *Waiting periods for Lagers and two of three electing health insurance are the primary contributors to the 6.62% below budget.*
- (2) *Position vacancy contributed to the 6.84% below budget.*
- (3) *Budgeting error; associated insurance and tax costs not adjusted for staffing modification, pending budget amendment.*
- (4) *Waiting periods and position vacancy contributed to the 10.21% below budget.*
- (5) *Personnel turnover contributed to the 7.77% below budget.*
- (6) *Multiple officers called to active duty are contributing to the 9.28% below budget.*

Payroll Related Taxes – As an audit test, Federal and State withholdings were calculated on random employees' year to date earnings. From this calculation, withholdings were not being calculated at the correct 2011 rate. Upon further review, it was determined to be a consistent trend throughout the County, as the tax tables in the payroll software did not reflect correct 2011 withholding rates.

The financial system vendor, Pentamation, was contacted as to the possible cause of incorrect rates in the tax tables and why the tax tables were not updated at the beginning of 2011. From the inquiry, it was learned that the upgrade negotiated by the previous Auditor in 2008 does not include a function that

would update the Federal Circular E and State tax rates, and that these rates must be entered manually into the software each year. This was a surprise to learn as an annual update of tax tables is a standard function of most accounting and payroll software packages.

CONCLUSION

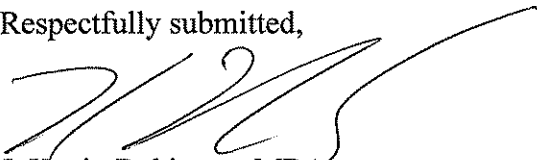
Federal and State withholdings are calculating below the rate per payroll. The withholdings are employee contributions for personal income taxes, and are advised to seek professional tax advice to determine individual impact. The County is the conduit for payment and withholdings simply pass through to the State and Internal Revenue Service. The County does not contribute or bare any of the employees' personal income tax. The burden of this incorrect tax table calculation, if not adjusted by additional withholding through year-end, will be corrected when the employees prepare their personal tax return.

The Auditor's Office is responsible for the selection, implementation, and maintenance of the County's Financial Accounting system. The implementation of the following recommended processes and procedures specific to maintenance of the system and accounting software will ensure that there is no confusion over year end responsibilities and provide the County employees with accurate Federal and State withholding deductions.

RECOMMENDATIONS

<u>Processes and Procedures</u>	<u>Responsible Party</u>
Ensure Pentamation updates the W-2 Form in Pentamation	Information Services
Process W-2's through Pentamation	Payroll Specialist
Review W-2's for accuracy	Treasurer / Auditor's Offices
Run Year-end Reports	Payroll Specialist
Review Year-end Reports	Auditor's Office
Run Year End Processes in Payroll	Payroll Specialist
Close out year in Pentamation	Auditor's Office
Update Federal and State Tax Tables	Payroll Specialist
Update FICA/Medicare	Payroll Specialist

Respectfully submitted,



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