



Internal Audit Division

Auditor-Controller-Treasurer-Tax Collector

Follow - Up Audit Report

Sonoma County Payroll Process

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Executive Summary

As part of the 2025/2026 Annual Audit Plan, the Internal Audit Division of the Auditor-Controller-Treasurer-Tax Collector (IA), conducted a second follow-up audit of the Sonoma County's (County) Payroll process. The original audit was issued on May 31, 2016, and the first follow up audit was issued on December 1, 2023. The original report contained 10 recommendation categories and 33 recommendations which were accepted by management.

The objective of this follow-up audit is to determine the implementation status of the remaining ten outstanding recommendations reported in the original Sonoma County Payroll process Audit Report, which have had status updates since the first follow-up audit.

Eight out of the ten recommendations that were the subject of this follow-up audit have been implemented and two are partially implemented as shown below. Additional details are included beginning on page 3.

Summary of Recommendation Implementation Status

Recommendation number(s)	Status
3b, 3d, 6a, 6b, 6f, 6g, 9, 10	Implemented
1, 2	Partially Implemented

Introduction

The Internal Audit Division (IA) completed a second follow-up audit of the County's Payroll process. We conducted our follow-up audit in accordance with the Global Internal Audit Standards (Standards). These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our audit objectives. We believe that the evidence obtained provides a reasonable basis for the results contained in our report. The standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions, or that senior management has accepted the risk of not taking actions.

The Payroll Division is responsible for processing the County's payroll. The Payroll Division and the Internal Audit Division (IA), both report to the Auditor-Controller-Treasurer-Tax Collector (ACTTC). Except for conducting this audit, IA has no other responsibilities or involvement in the payroll process. We do not believe that performing this audit constitutes assuming responsibility for the design, implementation, or operation of any part of the County payroll internal control system.

Background

The Payroll Division is primarily responsible for:

- The accurate and timely payment of wages and salaries to County employees.
- Timely remittance of withholdings and deductions to the appropriate State and Federal agencies or other third parties.

The County's Payroll process is complex, requiring the involvement of the ACTTC Payroll Division (Payroll), designated Payroll Clerks from each County department, Human Resources (HR), Information Systems Department (ISD), and the Treasury and General Accounting Divisions of the ACTTC Office. Payroll relies on three main information systems: UKG (formerly Dimensions), Human Resource Information System (HRIS), and the Enterprise Financial System (EFS).

Scope & Methodology

Our procedures were limited to reviewing evidence supporting the actions taken by Payroll and ISD management towards implementation of the report recommendations. To accomplish our audit objective, we reviewed Payroll and ISD records and conducted interviews with management. Where available, we reviewed documentation supporting implementation of the recommendation. We conducted this follow-up from August through September 2025.

Recommendations & Implementation Status

No.	Recommendations	Implementation Status
1	<p>Recommendation: High / Priority 1 Developing Countywide Policies and Procedures can Enhance Coordination and Implementation of Payroll Processing</p> <p>Payroll should assume responsibility for developing, evaluating, and enforcing County-wide payroll policies and procedures that focus on the accuracy of payroll processing. This should include an updated County-wide policies and procedures manual. The manual should include, at a minimum:</p> <ul style="list-style-type: none"> a) Procedures for time and labor reporting: <ul style="list-style-type: none"> • Management review of time and labor reports, • Vacation, sick, and family leave reporting, • Overtime processing, • Garnishment processing, • Workers' compensation requirements. b) Payroll audits: <ul style="list-style-type: none"> • Monitoring and reporting, temporary employees, and terminated employees. c) Policies for ownership of payroll data: <ul style="list-style-type: none"> • Check distribution, • Oversight, • Changing direct deposit information, • System quality assurance checks, • Removing extra help employees from the system. d) Payroll-related training requirements for staff. e) Uniform and rigorous county wide policy for employee privacy protection. <p>These policies and procedures should be centrally maintained and reviewed and updated at least annually. After uniform County-wide</p>	<p><u>Status: Partially Implemented</u></p> <p>The Payroll Division has drafted payroll policies and procedures which includes general statements on topics such as roles & responsibilities, procedural requirements and internal controls. Due to the complexity of incorporating requirements from multiple unions and departments, ACTTC management has determined that a detailed policy which includes the items as stated in the recommendation, is not feasible. The draft policy and procedures are intended to supplement the payroll policies in labor agreements and MOU's. A draft of the payroll policy was under review by the ACTTC management at the time of this follow-up. After ACTTC management completes its review, the policy will be submitted to the Administrative Policy Review Committee for further review.</p>

No.	Recommendations	Implementation Status
	<p>policies and procedures have been implemented, Payroll should reduce the time it spends reviewing payroll transactions submitted by departments and focus their efforts on higher payback activities.</p>	
2	<p>Recommendation: High / Priority 1 Develop County-wide payroll training program.</p> <p>Payroll Manager should develop a County-wide training program and conduct related training for all staff that process or work on other payroll-related activities. The training program should address the newly developed County-wide policies and procedures, requirements for supervisory review as well as changes to State and Federal payroll reporting requirements. The training program should also address requirements for privacy protection.</p>	<p><u>Status: Partially Implemented</u></p> <p>Payroll conducts ad-hoc training for department payroll based on department feedback and areas of need identified. ACTTC Payroll developed a Payroll Clerk Meeting Survey (Survey) to identify departments' payroll processing needs. The Survey is sent to departments, and the issues identified are incorporated into training.</p> <p>Payroll also created a bi-weekly Audit Task List (Checklist) for the departments. ACTTC Payroll developed detailed instructions for every task. All training materials are located on SharePoint and are easily accessible to staff. Each step is numbered and corresponds to the written instructions. Departments provide their Checklists to ACTTC Payroll on a bi-weekly basis.</p> <p>ACTTC Payroll plans to incorporate the newly developed Payroll Policy into training after the policy is finalized. ACTTC Payroll stated that the Policy will be incorporated into the new hire onboarding checklist to ensure all new employees receive it. It will also be distributed to all employees involved in the hiring and onboarding process.</p>
3b	<p>Recommendation: High / Priority 1 Information System controls need better execution</p> <p>Payroll should coordinate with ISD to improve controls over application access and change management, to ensure payroll</p>	<p><u>Status: Implemented</u></p> <p>The HRIS Division has established an automated process to identify employee transfers, terminations and position changes that may affect system access needs, the process runs daily,</p>

No.	Recommendations	Implementation Status
	<p>information is safeguarded and the integrity and continued availability of the payroll systems. Updates on these controls should include but not be limited to:</p> <p>b.) User account privileges based on best practices requirements should be implemented for the applications:</p> <ul style="list-style-type: none"> • The reviews should be conducted on the principal of least privilege, whereby each individual is only granted access to the functions and data that are required for the performance of their primary duties, • User access reviews should be performed at least annually, • Accounts should be reviewed to ensure that the system enforces a proper segregation of duties, • Review access authorization to outside entities such as the EDD and the IRS to verify that only authorized County employees have system access. 	<p>exceptions are followed up by HRIS. For the HRIS system, the HRIS Support Organization performed a security check working with departments to do a thorough cleanup of any outdated system access. As part of routine maintenance, they periodically run access audit reports. A Senior Information System Specialist audits system access for all users in power roles several times a year. This process works as a spot check for users, to make sure that the daily automated access review process is working and validated.</p> <p>For Dimensions, the Payroll team receives a biweekly system generated report from HRIS, which shows employee updates (changes in position or terminations) from HRIS. Based on the employee update report, the Payroll team updates employee access accordingly.</p> <p>Annual user authorization reviews for outside systems such as EDD and Social Security Administration (SSA) are reviewed by Payroll quarterly and annually respectively.</p>
3d	<p>Recommendation: High / Priority 1 Information System controls need better execution</p> <p>Payroll should coordinate with ISD to improve controls over application access and change management, to ensure payroll information is safeguarded and the integrity and continued availability of the payroll systems. Updates on these controls should include but not be limited to:</p> <p>d.) Change notification procedures. ISD should be notified upon any HRIS pay code updates so that they can be mapped and added to EFS or other system interfaces.</p>	<p><u>Status: Implemented</u></p> <p>The HRIS team worked with ISD to schedule daily automated exports from HRIS, which includes pay code updates. The exported data is then mapped by ISD and imported into EFS. All processes are automated and occur on a daily basis. The daily automated exports from HRIS to EFS started in February 2024.</p>

No.	Recommendations	Implementation Status
6a	<p>Recommendation: High / Priority 1 Evaluate and restructure Payroll to mitigate critical risks and achieve operational objectives.</p> <p>The Payroll Manager should restructure Payroll implementing, at a minimum, the following changes:</p> <p>a.) Update the Payroll accounting policies and procedures to cover required reconciliations, classification of payroll transactions, maintenance of documentation adequately supporting transactions, segregation of functions etc.</p>	<p><u>Status: Implemented</u></p> <p>Payroll division procedures were developed to address key areas such as reconciliations, classification of payroll transactions, proper documentation, and segregation of duties. These procedures are organized by staff roles, aligned with daily tasks, and centrally maintained on SharePoint for easy access. Management reports that these measures have helped to reduce risks and improve operational efficiency.</p>
6b	<p>Recommendation: High / Priority 1: Evaluate and restructure Payroll to mitigate critical risks and achieve operational objectives.</p> <p>The Payroll Manager should restructure Payroll implementing, at a minimum, the following changes:</p> <p>b.) Provide targeted payroll processing training program based on identified payroll processing needs.</p>	<p><u>Status: Implemented</u></p> <p>ACTTC Payroll evaluated staff roles and responsibilities and created an Employee Duties Breakout spreadsheet which lists staff roles and responsibilities. ACTTC Payroll staff complete a bi-weekly Audit Task List (Checklist) which tracks the number of corrections for each task performed by ACTTC Payroll. Common errors and corrections are consolidated for training purposes.</p>
6f	<p>Recommendation : High / Priority 1 Evaluate and restructure Payroll to mitigate critical risks and achieve operational objectives.</p> <p>The Payroll Manager should restructure Payroll implementing, at a minimum, the following changes:</p> <p>f.) Delegate a Payroll staff person to formally track all inquiries received by the Payroll System Applications Help Desk;</p>	<p><u>Status: Implemented</u></p> <p>All inquiries are tracked in the division inbox. The Admin Aid is responsible for tracking inquiries and informing management what is working well and what areas need improvement. All inquiries are formally tracked in an excel spreadsheet and are incorporated into the payroll training.</p>

No.	Recommendations	Implementation Status
	<p>prepare an annual report and incorporate the results into annual payroll training.</p>	
<p>6g</p>	<p>Recommendation: High / Priority 1 Evaluate and restructure Payroll to mitigate critical risks and achieve operational objectives.</p> <p>The Payroll Manager should restructure Payroll implementing, at a minimum, the following changes:</p> <p>g.) Conduct additional workflow reviews to evenly distribute workloads among staff. The workflow reviews should identify all tasks performed weekly, bi-weekly, and monthly and reassignment of activities should be based on the skill set of existing staff.</p>	<p><u>Status: Implemented</u></p> <p>The Payroll Manager evaluated roles and responsibilities and created an Employee Duties Breakout spreadsheet, which lists both processing and non-processing tasks. Payroll also utilizes a bi-weekly Audit Task Checklist that tracks each processing task by audit time. Staff skill sets are taken into consideration when assigning duties.</p>
<p>9</p>	<p>Recommendation: High / Priority 1</p> <p>The Payroll Manager should develop and adopt a set of performance metrics to assist with continuous process improvement. These analytics should be performed by staff with the knowledge, skills, and abilities to compute these metrics, interpret trends and recommend corrective actions for improvements. Examples of relevant performance metrics include but are not limited to:</p> <ul style="list-style-type: none"> • Number of incorrect vacation payouts upon employee termination per pay period. • Number of incorrect data entries per pay period. • Number of adjustments not made by the departments per pay period. • Time to setup new employee profiles in the payroll system. 	<p><u>Status: Implemented</u></p> <p>ACTTC Payroll developed and adopted a set of performance metrics to support continuous process improvement. The metrics include hours to process payroll, % of direct deposit to total pay, average cost to prepare each paycheck, correction rate and others. Trend analyses of these metrics are prepared bi-weekly by payroll staff and reviewed by Payroll Manager and the Assistant ACTTC.</p>

No.	Recommendations	Implementation Status
	<ul style="list-style-type: none"> • Number of work hours to perform payroll audits. • Number of exceptions identified while performing department payroll audits. • Average cost to issue a paycheck. 	
10	<p>Recommendation: High / Priority 1</p> <p>The Payroll Manager should, in collaboration with the Human Resources Department, develop a program to eliminate manual check issuance for new employees and encourage existing employees to convert to electronic deposit.</p>	<p><u>Status: Implemented</u></p> <p>The number of manual checks issued each pay period is insignificant compared to direct deposits, accounting for less than 3% of the total payroll. Due to timing of entering new hires into the Payroll system, it is not administratively possible to execute payroll disbursement via direct deposit on the employees' first pay day, which explains a portion of this percentage. In addition, manual checks are ongoing for employees who have not opted into direct deposit, and they are also required for one paycheck when an employee updates their bank account information.</p>

Priority Ratings and Definitions

Priority Ratings	Definition of Priority Ratings and Suggested Implementation Timeframe
High / Priority 1	<p>Priority 1 recommendations are assigned to the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, which results in the likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority One recommendations also include issues related to non-compliance with laws, regulations or policies and procedures.</p> <p>Management should urgently implement these recommendations within one to three months after issuance of the final audit report to avoid risk exposure.</p>
Medium / Priority 2	<p>Priority 2 recommendations are assigned to the moderately assessed level of risk. For these recommendations, internal controls provide reasonable assurance that the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors; however, additional action is needed to strengthen current practices.</p> <p>Management should promptly implement these recommendations within three to six months after issuance of the final audit report to improve internal control processes.</p>
Low / Priority 3	<p>Priority 3 recommendations are assigned to the lowest assessed level of risk. For these recommendations, internal controls are operating as designed to ensure the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors. These recommendations are desired actions to enhance current practices.</p> <p>Management should consider implementing these recommendations within six to 12 months after issuance of the final audit report to provide additional confidence in the internal control system.</p>
Opportunity for improvement/ Priority 4	<p>Priority 4 recommendations are assigned to matters which do not involve internal controls, they typically involve opportunities for improvement or efficiency/effectiveness issues that require management's consideration to implement or enhance processes.</p>