



AUDIT  
EXIT CONFERENCE  
FYE JUNE 30, 2019

*Dedicated to providing worthy solutions for our clients.*

Incorporated County of Los Alamos, New Mexico

November 26, 2019



LOS ALAMOS  
where discoveries are made



MORTON  
ACCOUNTING, LLC

certified public accountants | consultants

# Agenda

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- Auditor's Responsibilities vs. Management's Responsibilities
- Opinions
- Required Communications
- Schedule of Findings and Questioned Costs
- Timeline for Completion

# Auditor's Responsibilities vs. Management's Responsibilities

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## Auditor

- Express Opinion over financial statements - material and fairly stated.
- Communicate significant matters.
- Plan and perform audit to obtain *reasonable*, rather than absolute assurance.
- Perform audit with planned scope and timing as previously communicated.
- Comply with Independence Requirements.
- Consider internal control.

## Management

- Financial Statements.
- Provide access to information and documentation for audit.
- Maintain Internal Controls Structure.
- Provide management representations.

# Audit Opinions

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- Independent Auditor's Report - **Unmodified**
- Report On Compliance With Requirements That Could Have a Direct and Material Effect On Each Major Program and On Internal Control Over Compliance in Accordance with OMB Uniform Guidance - **Unmodified**

# Required Communications

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- Significant Accounting Policies, Note 1
- Significant Accounting Estimates –
  - Allowance for Doubtful Accounts
  - Fair Market Value, Investments
  - Lives of Capital Assets for calculating Depreciation Expense / Accumulated Depreciation
  - Accrued Compensated Absences, Short Term Portion
  - Self Insurance IBNR Reserve
  - Net Pension Liability
  - Other Post-Employment Benefits Liability
  - Special Closure Costs –
    - San Juan Mine Reclamation
    - Laramie River Plant Decommissioning
    - Landfill Closure

# Required Communications

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- Financial Statement Disclosures
  - New Disclosures – GASB 83 Implementation
    - Note 17 – GASB 83, Certain Asset Retirement Obligations – San Juan Power Plant
    - GASB 83 required:
      - Recording of Deferred Outflow of Resources and Long-Term Liability for estimated decommissioning costs
      - Amortization of Deferred Outflow, recorded as an expense
      - Restatement of Net Position required to record Deferred Outflow of Resources - \$5.6 million

## Required Communications, continued

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- Significant Difficulties During Audit – None
- Corrected and Uncorrected Misstatements – None
- Disagreements with Management – None
- Representations will be Requested from Management

# Required Communications, continued

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*SECTION I – SUMMARY OF AUDITOR'S RESULTS*

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**Financial Statements**

Type of auditor's report issued:	<b>Unmodified</b>
Internal control over financial reporting:	
1. Material weaknesses identified	No
2. Significant deficiencies identified	No
3. Noncompliance material to the financial statements noted	No

**Federal Awards**

Type of auditor's report issued on compliance for major programs:	<b>Unmodified</b>
Internal control over major programs:	
1. Material weaknesses identified	No
2. Significant deficiencies identified	
3. Any audit findings disclosed that are required to be reported in Accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program</u>
81.140	Fire Protection, Emergency Medical and Rescue Services – Cooperative Agreement
20.509	Nonurbanized Area Formula Grant Program Section 5311

Dollar threshold used to distinguish between Type A and Type B Programs	\$756,474
Auditee qualified as a Low-Risk Auditee	Yes

# Findings

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Prior year findings cleared:

- 2018-001 – Internal Control Over Payroll Disbursements
- 2018-002 – Internal Control Over Procurement

## Current year finding:

### ■ 2019-001 – Internal Control Over Payroll Disbursements

Background related to audit test work over payroll disbursements:

- Significant Transaction Class
- Assessed as *higher risk* for misstatement due to MUNIS implementation issues, as well as number of corrections checks issued to employees noted during review of disbursement population
- Performed the following test work on a sample basis:
  - General Internal Control test work over significant transaction class.
  - Dual Internal Control and Compliance (Allowable Costs/Activity and Period of Performance) test work over significant disbursements for major federal program required by Uniform Guidance.
  - Reconciliation between check stubs and IRS Form W-2's
  - Analytical procedures over payroll expense account balances

# Findings, continued

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## **2019-001 Internal Control over Payroll Transactions (Summarized)**

### **CONDITION:**

Issues related to implementation of new accounting system, Munis.

- Inaccurate time reported in the original timesheet or timecard related to employee implementation of new timekeeping system. In some instances, incorrect time was approved/certified by both employees and supervisors, then later corrections were requested. (User Implementation)
- Time sheets were correct, but system underreported total hours. (System Implementation)
- Original time sheets included coding errors, later corrected. (User Implementation)
- System did not include total hours in “Totals” column on printed paystub. (System Implementation)
- Incorrect payrate carried forward into System. (System Implementation)

# Findings, continued

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## 2019-001 Internal Control over Payroll Transactions, continued

### CONDITION:

Exceptions noted:

1. A difference of \$30.45 between calculated Medicare wages and Taxable Wages to calculated amounts on full year of paystubs was identified (W-2 was lower). Additionally, for same employee, the calculated Public Employees Retirement Association contributions calculated were \$7.95 lower than those reported on employee's last pay stub of the year.

*In order to estimate the possible misstatement resulting from the errors noted above on the financial statements, we extrapolated the actual error to all Police Department payroll expenses subject to blended rates (16 employees). The estimates of possible misstatements calculated to \$487.20 and \$127.20, respectively, based on the errors in our sample*

2. A difference of \$32.13 between calculated Taxable Wages and those reported on employee Form W-2 was identified (W-2 was higher).

*In order to estimate the possible misstatement resulting from the errors noted above on the financial statements, we extrapolated the actual error to all Police Department payroll expenses subject to blended rates (16 employees). The estimate of possible misstatement calculated to \$514.08.*

# Findings, continued

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## **2019-001 Internal Control over Payroll Transactions, continued**

### **CONDITION:**

At year end, it also appears that there is specific risk related to the Police Department payroll transactions. As noted earlier, these transactions are more complex given the various pay levels involved per the bargaining agreement, and methods applied to the averaging of pay. Additionally, there appears to be excessive adjustments to time reported per original timesheets and previously approved payroll amounts, requiring subsequent corrections.

### **RECOMMENDATION:**

We recommend that individual departments, specifically the Police Department, implement a rigorous review and approval process for time recorded to minimize subsequent corrections to authorized time - which may reduce the negative impacts to all payroll obligations, reconciliations, and reporting. Further, we recommend that the finance and human resources departments conduct a thorough test of the payroll and HR system, specifically after upgrade, to identify any issues with configuration (pay rates/pay differentials) and ensure that system calculations are accurate. We have noted many manual controls already put in place by payroll to proactively address any potential pay errors, and recommend a continuation of rigorous processing controls and testing.

# Findings, continued

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## **2019-001 Internal Control over Payroll Transactions, continued**

### **MANAGEMENT RESPONSE:**

The County payroll and human resources staff have worked diligently with all corresponding departments and county personnel to diagnose and correct any pay issues that have been identified and/or continue to be identified as a result of the conversion of the payroll system and new implementation of electronic time-keeping software. Although rigorous testing occurred prior to the Go-Live date of July 1, 2018, the County could not fully predict all production and processing challenges that have occurred, but continues to troubleshoot and make necessary pay adjustments that arise.

The County agrees that solid and timely controls are necessary to address the understanding, approval and certification of pay, including knowledge and application of the personnel rules and more complex pay structures identified in bargaining agreements. The Police Department has implemented a tracking mechanism for any pay issues inclusive of what type of error (system or user) to assist in the corrections, process improvements and diagnosing of system related problems. The PD will continue to work closely in conjunction with payroll and human resources to implement more controls over time approvals and accurate time reporting.

Payroll has experienced turnover in key staffing during the implementation year, and has worked extensively to take over all configuration issues, processing procedures, and employee training of timekeeping and payroll functions. This continues to be a challenge, and the County has begun to address the need and assignment of more resources to the overall Countywide payroll function.

# Findings, continued

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## **2019-001 Internal Control over Payroll Transactions, continued**

### **MANAGEMENT RESPONSE:**

Payroll has put into place many pre-audit controls to identify and diagnose potential payroll entry errors at the time of processing each by-weekly payroll – which has significantly decreased the need for payroll adjustments. Payroll and human resources staff meet bi-weekly to collaborate on all interrelated pay topics, and will continue to build more controls and implement more timekeeper and system user training to reach an even more seamless process.

Although the two exceptions noted above and assumptions therein of potential impact may have a minimal effect to employees identified, the County will perform further investigation and more testing of upcoming W-2 reporting. It is important to note that the remainder of the extensive payroll sampled did not indicate significant errors in payroll reporting. The representative sample above made up a very small percentage of total reported taxable wages for the entire County, which supports our own internal sampling, recalculations and representation of a successful conversion and implementation of our new software. Ultimately, the County is committed to putting forth the efforts and tools for all employees to utilize to address the need for complete accuracy in the calculation and reporting of pay.



# Timeline for Completion

- Review of CAFR – In Process
- Management Representation Letter
- Submit to NM State Auditor’s Office on December 2, 2019
- NM State Auditor’s Office Review and Issuance of “Ok to Print” – TBD
- NM State Auditor’s Office Release Letter - TBD



# Questions





*Thank You*