

DOUGLAS COUNTY INTERNAL AUDIT DIVISION

Final Report
FY 2006/2007 Annual Payroll Review
FY 2007/2008 Special Report # 6
August 3, 2007

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Introduction

Every year, as part of the fiscal year audit plan, Douglas County Internal Audit Division (DCIAD) staff performs compliance and internal control testing for the Douglas County external audit firm, KPMG. The external auditor uses the test data provided by DCIAD to formulate a professional opinion, issued in the Comprehensive Annual Financial Report (CAFR), concerning financial reporting in Douglas County.

This special report describes the results of the compliance and audit testing of the Douglas County payroll process.

Scope and Methodology

Thirty employee payroll transactions were selected¹ for review, from twelve of twenty-six pay periods in fiscal year 2006/2007.² The employees, and payroll periods, were determined using the Excel Data Analysis tool and random statistical sampling methods.

Random sampling ensures that all combinations of sampling units in a population have an equal chance of selection. The test selections included transactions from various Douglas County departments and results, and recommendations, are restricted to the sample transactions tested.

The Microsoft (MS) Excel Data Analysis sampling tool was used, as part of our test selection process, to randomly select the number of pay periods needed. Twelve payroll periods were extracted from a total population of twenty-six.

The MS Excel Random Number Generation tool was used to determine how many employees from each pay period were needed to total 30 employees from the total population. See Appendix A for a table of payrolls, and number of employees, selected.

All relevant employee data, from the twelve selected pay periods, was imported to an MS Excel spreadsheet. The data was separated by pay period; then sorted by name, employee number, and organization. An additional sort was performed on the refined data to remove any duplicates.

The MS Data Analysis Random Number Generation tool was used to extract a simple random sample (SRS) of the predetermined number of employees needed for testing from

¹ Employees were selected from the population

² See Appendix A

each pay period. Categories of employee included in our test sample included; new hire; termination; full-time; part-time; union; monthly salary; hourly; current; and arrears. For payroll testing purposes, DCIAD has access to Oracle Douglas County Payroll Professional-Auditors and HRMS Super Manager-Query only. Subsequent manual tests are performed to verify the accuracy of the data in Oracle.

Objectives

The audit objectives are to:

1. Randomly select the pay periods for review;
2. Determine if the employee payroll data for the selected employees agrees with the most recent "Civil Service Commission Employment and Change Report"; Union Contract Wage Agreement; or budget document;
3. Determine whether the Civil Service Commission Employment and Change Report was approved by the Department head and Personnel;
4. Verify whether the payroll Information Report was properly signed and authorized certifying the payroll as correct;
5. Verify the calculation of gross pay;
6. Verify the calculation of all other withholdings (Federal Income Tax, FICA, Medicare, Nebraska State Tax, and Douglas County Pension);
7. Verify that employee benefit deductions were withheld on the proper pay periods and match the total listed in the Miscellaneous Deduction Register. Verify the existence and correctness of employee W-4 forms, health insurance cards and other benefit cards;
8. Confirm the payroll was approved by the Board of Commissioners for all pay periods;
9. If the employee selection is a termination, verify the employee status for the following pay period.

Payroll leave balances

The leave process requires that employee leave requests are checked and approved by their appropriate supervisor. Leave requests, comp time, and hours worked are recorded in Oracle Time and Labor (OTL) by the employee. Timesheets, including all leave used, are approved in Oracle by the employees' immediate supervisor. Higher levels of supervisors may also approve employee timesheets. Access to the Oracle system is password controlled and time stamped.

In departments without employee access to Oracle a department timekeeper enters the timecards for employees. Employees send their time and labor form to their supervisor for approval, and after the form is approved, it is forwarded to the payroll administrator.

For purposes of payroll testing, it is assumed leave balances, hours worked, and shifts differentials, in Oracle are accurate.

Payroll Division Written Policies and Procedures

For several years DCIAD has recommended the Payroll Division compile a written Policies and Procedures manual. At this time the department has not started the process. However, the Finance Division has written procedures for the bi-weekly payroll reconciliation process.

Finding#1

Payroll Division does not have written policies and procedures for the payroll process

Recommendation

DCIAD recommends that the Payroll department begin documenting policies and procedures. Written policies and procedures describe an organization's policies for operation and the procedures necessary to fulfill the policies. Written procedures provide a method to ensure consistent application of policies, even if staff changes occur.

Management's Response: *Management concurs and will work first to gather those processes that are documented into a central location, and then to document the remaining processes. We will include federal, state, local laws and regulations and Clerk/Comptroller policies.*

Oracle Access to Payroll Data

Payroll information is stored in the Oracle database. Douglas County Internal Audit Division has inquiry only access to the Oracle database for payroll data and cannot aggregate data for sampling selection. Sampling selection data used by DCIAD must be aggregated by the Oracle Functional Lead and downloaded into an MS Excel spreadsheet. This process allows an opportunity for the manipulation of data used for payroll testing.

Finding # 2

DCIAD does not have direct access to Oracle data via ACL, an auditing software application.

Recommendation

DCIAD recommends that the server edition of ACL be procured, to allow direct access to Oracle data, for the purpose of independently obtaining data needed for testing.

Management's Response: *Management concurs. The server edition of ACL was procured over a year ago. We have directed the Internal Audit Supervisor to contact DOT.Comm to review how they installed the software and resolve any issues. We have also directed the Internal Audit Supervisor to meet with appropriate Clerk/Comptroller and DOT.Comm staff to resolve the issue of direct access to the Oracle databases and determine the most efficient way to access the data.*

Timely Termination Notification

Internal controls over safeguarding of assets (safeguarding controls) constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention, or timely detection, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Lack of controls over these activities, such as lack of documentation for major transactions, or absence of appropriate reviews and approvals of transactions, accounting entries, or systems output, presents control issues.

Several Douglas County employees receive alerts when changes occur in any county employee's record. At the current time, alerts are sent for salary change notice, salary changes (name only) and terminations.

A timely termination notification process is essential to ensure appropriate measures are taken to discontinue access for terminated employees from all systems, and to prevent possible unauthorized use of a terminated employee's payroll obligation.

If termination notifications are not received in a timely manner an additional control mechanism is needed to prevent access to unauthorized use of an employee's payroll obligation.

Finding # 3

No alerts are sent to the distribution list for payroll payment method changes (manual) and change of payment assignment, such as, bank change, or payment address change.

Recommendation

DCIAD recommends expanding the alert notification process to include amendments to payroll payment details including changes to payment method and payment assignment change.

Management's Response: *Management concurs that a more effective way of assuring payment assignment changes are not possible without adequate review would be beneficial. However, management does not agree that Oracle alerts would be an effective way of achieving this and recommends that we require the department payroll clerk to witness the signature of the employee. That signature, which is on file in the Payroll Division, would then be verified for each payment assignment change.*

Appropriate Access to Sensitive Personal Data

The Institute of Internal Auditing Global Technology Audit Guide (GTAG) advises "the IT audit function should help ensure that systems administrators only have access to data and functions required to perform job responsibilities. Currently, over thirty county employees in the payroll, benefits, and human resources departments, have access to all employee data, including social security numbers, on the Oracle system.

Finding # 4

Over thirty county employees in the payroll, benefits, and human resources departments, have update access to all employee data on the Oracle system.

Recommendation

Oracle responsibilities, for county employees with update access, should be reviewed and appropriately restricted, allowing a minimum number of employees update access, and all other access should be inquiry only.

Management's Response: *This review is performed annually and has been since the ERP applications went live. Access is reviewed for appropriate segregation of duties, to assure that terminated employees have had their access reviewed, and to terminate access to those responsibilities which are not used by employees.*

DCIAD Response: It has been determined that department requests to Douglas Omaha Technology Commission (DOT.Comm), to terminate access, are not responded to in a timely manner. DCIAD will continue to discuss this issue with DOT.Comm management.

Social Security Number Verification

No federal laws regulate the overall use of Social Security numbers (SSNs). However, a number of federal laws, and regulations, enacted since the 1960's require certain programs and federally funded activities to use the SSN for administrative purposes. These laws and regulations generally limit the use of SSNs to required purposes by explicitly prohibiting other uses or disclosures.

The Douglas County Clerk's office has a SSN Verification Policy that requires any employee who requires access to SSNs, first read the Social Security Number Verification Service Handbook and complete an authorization form.

During the 2005/2006 payroll audit, DCIAD performed a Social Security Number verification procedure with the assistance of the Douglas County Oracle Function Lead. Appropriate employees were notified of identified errors.

Finding # 5

Douglas County does not have a uniform policy, or process, to ensure the protection of personal information, including Social Security numbers, of employees.

Recommendation

Douglas County Risk Management Division, with the approval of the County Board of Commissioners, should formulate an Information Security Policy for the Secure Handling of Personal Information, including Social Security numbers, for all county departments. There are readily available internet sites that provide model language for a policy.

Suggested links:

- <http://www.theiia.org/guidance/technology/gtag/gtag5/>
- http://www.it.northwestern.edu/policies/SSN_policy.html
- http://www.ssa.gov/kc/id_practices_best.htm

Management's Response: *Management concurs and will forward this report to the Chair of the Douglas County Board of Commissioners, County Attorney and the County's Risk Administrator with recommendation for same.*

Security over Payroll Documentation

The information Douglas County Clerk/Comptroller Finance Division uses to perform payroll reconciliation is provided by the Douglas County Clerk/Comptroller Payroll Division. The documentation contains personal employee payroll deposit information. It is important to ensure the information provided is properly secured at all times, and access is restricted to the appropriate personnel.

Finding # 6

There is no secure location provided for personal employee payroll information in the Douglas County Clerk/Comptroller Finance Division.

Recommendation

Personal employee payroll information should be kept in a secure, locked location unless it is being used by appropriate personnel.

Management's Response: *Management concurs. The information has already been moved to a secure location and will be kept there when not being used to perform the payroll reconciliation tasks.*

APPENDIX A

Pay Periods and Number of Employees Selected		
Beginning of Pay Period	End of Pay Period	Number of Employees Selected
July 3, 2006	July 14, 2006	2
July 17, 2006	July 28, 2006	
July 31, 2006	August 11, 2006	3
August 14, 2006	August 25, 2006	4
August 28, 2006	September 8, 2006	3
September 11, 2006	September 22, 2006	3
September 25, 2006	October 6, 2006	
October 9, 2006	October 20, 2006	
October 23, 2006	November 3, 2006	3
November 6, 2006	November 17, 2006	
November 20, 2006	December 1, 2006	
December 4, 2006	December 15, 2006	1
December 18, 2006	December 29, 2006	
January 1, 2007	January 12, 2007	
January 15, 2007	January 26, 2007	3
January 29, 2007	February 9, 2007	2
February 12, 2007	February 23, 2007	
February 26, 2007	March 9, 2007	
March 12, 2007	March 23, 2007	
March 26, 2007	April 6, 2007	
April 9, 2007	April 20, 2007	2
April 23, 2007	May 4, 2007	
May 7, 2007	May 18, 2006	
May 21, 2007	June 1, 2007	2
June 4, 2007	June 15, 2007	
June 18, 2007	June 29, 2007	2

Sample Size: 30 employees
2370 employees (average)
26 Payroll Periods
12 Pay Periods Selected