



Office of the City Auditor

INFORMATION CALENDAR
May 30, 2017

To: Honorable Mayor and Members of the City Council
 From: Ann-Marie Hogan, City Auditor
 Subject: Status Report – Performance Audit of the Payroll Audit Division

INTRODUCTION

On June 28, 2016, the City Auditor's Office presented to City Council an independent audit completed by Macias Gini & O'Connell (MGO) LLP: [Performance Audit of the Payroll Audit Division](#).¹ Overall, MGO found that Payroll Audit's internal control practices, policies, procedures, and control environment are designed to protect against fraud, waste, and abuse; and to operate in compliance with Federal, State, and City policies, rules, and regulations. However, MGO cited areas of concern related to the City's aging automated infrastructure, FUND\$, including difficulty in controlling access rights to the payroll module, and inefficiencies and control weaknesses related to the manual, labor-intensive, paper-based process that FUND\$ demands. This is the City Auditor's Office second report back to Council on the implementation of MGO's audit recommendations. We issued our first status report on [January 24, 2017](#).² We will provide our next report September 26, 2017.

CURRENT SITUATION AND ITS EFFECTS

This status report provides information on the actions that the Payroll Audit Division of the City Auditor's Office, with assistance from Information Technology staff, has taken to address MGO's recommendations. Details on progress made are in the attachment to this report.

MGO's audit included ten recommendations. In our January 24, 2017 status report, we identified three recommendations as fully implemented, three as partially implemented, and four as not implemented. In this report, we amend the status to two fully implemented, two partially implemented, and six not implemented. We categorized some recommendations were implemented because Information Technology had provided or modified reports to assist in monitoring whether employees had inappropriate access. In attempting to use those reports, we realized that they were not

¹ MGO Payroll Audit (6/28/16): http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/A.2%20RPT%20Performance%20Audit%20of%20Payroll%20Division.pdf

² First Audit Status Report (1/24/17): http://www.cityofberkeley.info/Clerk/City_Council/2017/01_Jan/Documents/2017-01-24_Item_53_Status_Report_Performance.aspx

usable for that purpose, or in one case worked in the test environment but had not yet been moved to production, so the recommendations are not fully implemented.

BACKGROUND

The City of Berkeley's Payroll Audit Division organizationally sits within the City Auditor's Office and includes a staff of seven full-time employees. While the Payroll Audit Division is one of the smaller divisions in terms of staff, it has one of the largest jobs: processing biweekly payroll for the approximately 1,600 individuals employed by the City. In fiscal year 2016, personnel costs represented approximately 60 percent of the City's total budget and the Payroll Audit Division processed approximately 43,000 checks and direct deposits. Placement of the Payroll Audit Division within the City Auditor's Office means that we cannot audit payroll activities in accordance with government auditing standards as that creates the appearance of a lack of independence. Therefore, we concluded that the best way to safeguard our independence was to hire an outside auditor to conduct an audit of our Payroll Audit Division's operations. We contracted with the consulting firm of Macias Gini & O'Connell (MGO) LLP to perform the work.

ENVIRONMENTAL SUSTAINABILITY

The payroll process as it currently exists is a highly labor-intensive, manual, expensive, paper-based process. The City consumes about 100 reams of copy paper annually in just time sheets alone, not including paper check stubs and manual paychecks. While the City uses recycled paper, the process for producing recycled paper is far from eco-friendly. The City, and the environment, would benefit greatly from a modern, automated payroll process that uses far less paper and ink.

POSSIBLE FUTURE ACTION

Enterprise Resource Planning is currently underway to replace the City's core financial system, FUNDS\$. Replacement will include implementation of a new personnel and payroll system that will address many of MGO's recommendations regarding inadequacies and inefficiencies of the current payroll module and paper-based, manual processes. Although the new system is expected to address MGO's concerns, action is needed in the interim.

The City must make an investment of staff time and money to address MGO's audit recommendations, and to keep the personnel and payroll system functioning until replacement is complete. Payroll audit will assist IT in determining whether IT can contract with SunGard to make the changes and in quantifying the amount of new funding that Council would need to appropriate in the FY 2018-2019 budget in order to address the significant risks of not taking action.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

According to the Government Finance Officers Association, the current estimate for FUND\$ replacement now stands at \$15.1 million, which includes software licensing, professional services, and additional personnel costs to fund the temporary backfill for staff assigned to the City Manager’s FUND\$ replacement implementation team. The cost to contract with the current City’s software vendor, SunGard, to implement all of the MGO recommendations are not yet known, but likely to be substantial.

CONTACT PERSON

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Attachments:

1: Auditee Response Form: Payroll Audit Recommendation Summary Status_053017

City of Berkeley City Auditor’s Office - Response to MGO Payroll Audit Fiscal Year 2016
 Status Report – Performance Audit of the Payroll Audit Division Auditee Response Form Payroll Audit Recommendation Summary Status - 053017

Findings and Recommendations	Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
<p>1 At a minimum, to ensure that proper access controls over the payroll process are appropriate, and in the absence of a report that can be readily produced due to system software limitations, the Deputy Auditor over Payroll Management should work closely with IT to remove all access (within reason as to not disrupt the payroll process), to rebuild system access rights and user key access and edit controls within FUND\$ modules.</p>	<p>We agree with the recommendation: Payroll Audit will work with IT to determine how we can review and verify departmental access to the payroll system given the limitations of the SunGard system, and will then create a listing of the employees’ access to the payroll system to the extent possible, and Payroll Audit will review the list and determine needed access changes.</p> <p>If we cannot develop an adequate list from the system, we will consider whether to pursue contracting with SunGard to do so, or whether, to work with IT to remove all payroll access and rebuild system access rights and controls. We would not be able to do this for the entire City at one time because it would delay payroll input for the departments whose payroll clerks enter time</p>	<p>Target date to determine whether alternative action can be funded in next year’s budget and outsourced: 6-30-17</p> <p>Previous Target Date: 12-31-16</p>	<p>Initial Status 1-24-17: Partially Implemented. Meeting with IT staff to determine if an access list is available.</p> <p>Status Update 5-30-17: Not Implemented. IT provided a reformatted version of the FUND\$ access report identifying Payroll users’ group access and account access, but after testing it, we determined that report continues to be unusable for identifying inappropriate access. Extensive computer programming would be needed to make the report usable and IT has not been able to allocate such resources. Payroll audit will assist IT to quantify the amount of new funding that Council would need to appropriate in the FY 2018-2019 budget in order to</p>

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	<p>during the weekend and consequently delay the City’s payroll processing. If we chose this option, we would take action one department at a time to lessen the impact of the weekend work.</p>		<p>address the significant risks involved, and to determine whether IT can contract with SunGard to make the changes. Although the new ERP system should address the significant risk of improper access for payroll and other modules, this audit recommendation was for what must be done immediately to address the risk. Payroll Audit reviewed the updated report, and determined that it is not implemented.</p>
<p>1.a Once the Deputy Auditor, working with the IT Department, has revised user access and edit controls, should any key positions, roles and responsibilities be found to be incompatible, the Payroll Audit Division may consider making changes to user’s access or</p>	<p>We agree with the recommendation: Expired access to the payroll system will be removed. If the SunGard system design permits, incompatible access will also be removed. We will develop proper procedures to mitigate this problem and monitor access.</p>	<p>New Target date: 9-30-17 Previous Target Date: 12-31-16</p>	<p><u>Initial Status 1-24-17: Partially Implemented.</u> Meeting with IT staff to determine if an access list is available. <u>Status Update 5-30-17: Not Implemented.</u> EXPIRED ACCESS: IT reviews monthly reports from HR on staff</p>

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<p>changes in the Payroll Audit Division’s organizational structure.</p>			<p>changes and change access appropriately for terminated employees. IT reviews inactive user reports monthly and deactivate access for users who have been inactive for over 30 days. In addition to this, users who have not logged in for 90 days are automatically locked out of the system (de-activated) and IT must manually re-activate their accounts. INCOMPATIBLE ACCESS: this is dependent on successful completion of task 1 above.</p>
<p>2.a In the absence of an access controls report, there may be a need for enhanced controls over super-user edit access to avoid potential abuses. The Auditor should consider implementing the following spot checks by performing the following:</p>	<p>We agree with the recommendation: Payroll Audit will forward the report to the department that processed the payroll and require someone who is not involved in payroll processing to ensure the legitimacy of the payments.</p>	<p>New Target date: 6-30-17 Previous Target Date: 10-31-16</p>	<p><u>Initial Status 1-24-17: Implemented.</u> Payroll Audit and IT developed two reports for duplicate checks and direct deposits. Payroll Audit staff verify the reports and then forward them</p>

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<ul style="list-style-type: none"> The existing report that shows any duplicate payments to one employee or one bank account should be forwarded to someone outside of the Payroll Audit Division or someone that is not involved in payroll processing. Any changes that do not appear reasonable should be investigated. 	<p>If we needed, Payroll Audit will develop Impromptu reports of duplicate payments to one employee or a bank account.</p>		<p>to Performance Audit for final review every pay period.</p> <p>Status Update 5-30-17: Partially Implemented. The "Multiple Checks Issued to Employees" report has been created but has some data issues that need to be fixed. The status of this recommendation was previously reported as implemented because IT submitted a report, but subsequent review determined the need for revision to the report. Due to IT staff personal emergencies, fixes for this task were not completed this month but will be fully in place by 6-30-2017.</p>

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2.b In the absence of an access controls report, there may be a need for enhanced controls over super-user edit access to avoid potential abuses. The Auditor should consider implementing the following spot checks by performing the following: <ul style="list-style-type: none"> On a periodic basis, request a report from HR and review the payroll for any names of employees that are no longer employed by the City and run it against paycheck names and account numbers. 	We agree with the recommendation: Payroll Audit will review our existing reports every pay period and, if needed, develop an Impromptu report that will allow us to compare terminated employees, per Human Resources records, against paycheck records of names and account numbers.	New Target date: 6-30-17 Previous Target Date: 10-31-16	<p>Initial Status 1-24-17: <u>Implemented.</u> Payroll Audit and IT developed a report for terminated employees with payment. Payroll Audit staff verify the report and then forward it to Performance Audit for final review every pay period.</p> <p>Status Update 5-30-17: <u>Partially Implemented.</u> The report has been created and successfully tested in non-production environment. It needs to be moved to production environment and verified there. Due to IT staff personal emergency, fixes for this task were not completed this month but will be fully in place by 6-30-2017.</p>

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<p>3 As a stop-gap measure to address potential control issue areas among staff with possible incompatible access or edit rights, the Division should run periodic reports to monitor changes, such as changes in vacation balances, pay rates, and deferred compensation amounts.</p>	<p>We agree with the recommendation: As noted in our response to recommendation 1, limitations in the SunGard system prevent generation of an adequate report for user access (in all FUND\$ modules, including the FUND\$ payroll/personnel module) but we will periodically run existing reports and work with IT, HR, and Finance regarding alternative measures.</p>	<p>Target date: 12-31-16 Implemented: 04-18-17</p>	<p>Initial Status 1-24-17: Partially Implemented. Meeting with IT staff to determine if a method is available in addition to our current reports. Status Update 5-30-17: Implemented. Payroll Audit provides an Accrual report to departments for review and distribution to supervisors. The Deferred Compensation reports in the payroll system are compared with the electronic files uploaded to PERS, Mass Mutual, and Prudential for accuracy by someone in Payroll Audit other than the person in charge of uploading the files. Only HR has authority to make changes to employees' pay records. Payroll Audit reviews the changes every pay period.</p>

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<p>4</p> <p>Although a City administrative regulation provides guidance on the process to grant employee access to various systems, the Division should formally develop policies and procedures for granting, maintaining, and terminating access to payroll related areas of the financial, human resources, and timekeeping information systems to provide clear guidance on documenting changes and continuous monitoring of user access requests and changes.</p>	<p>We agree with the recommendation:</p> <p>Payroll Audit will work with IT and HR to develop policies for granting, maintaining, and terminating access to the payroll/personnel system.</p>	<p>New Target date: 9-30-17</p> <p>Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u></p> <p>Payroll Audit will be scheduling meetings with IT and HR to develop policies for granting/maintaining/removing access to the payroll system.</p>
<p>5</p> <p>The Payroll Audit Division should develop a procedures manual for running COGNOS report queries to ensure that all reports are catalogued for easy access, in the absence of key personnel with report query expertise.</p>	<p>We agree with the recommendation:</p> <p>Payroll Audit will review and update the list of COGNOS reports now being run by the Auditor II in Payroll Audit, add information about the purpose of each report, and identify the last time it was run. We will also work to develop written material about how</p>	<p>New Target date: 9-30-17</p> <p>Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u></p> <p>Payroll Audit will be scheduling meetings with both the Auditor II and the Accounting Technician to comply with the recommendation.</p>

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	<p>the payroll file structure works in the SunGard system so that others can better use COGNOS for payroll. We will work with the Accounting Technician in payroll, who has a COGNOS license, to back up the Auditor II on increasingly more complex reports. We will also work with departments who have COGNOS licenses already (such as Human Resources) to determine what would be needed for them to run these reports themselves. Payroll Audit will encourage departments to designate employees who can learn how to write Imromptu reports for their own departments.</p>		
<p>6.a We observed current access and edit rights for the Accounting Technician in Payroll Audit. Based on current access and edit rights granted to this position, the City Auditor should consider reviewing access and edit rights for this</p>	<p>We agree with the recommendation: The City Auditor will determine whether staff from the Performance Audit division or staff from another department should handle the recommended review.</p>	<p>New Target date: 9-30-17 Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u> Payroll Audit will be scheduling meetings with IT to determine if the segregation of duties is permitted in the FUNDS system. If not, an alternative</p>

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<p>tion to determine if they are incompatible between Payroll Audit functions and Human Resource functions. This position currently performs benefits processing tasks, such as additions of dependents and changes in deferred compensation deductions. The position also has access to payroll related functions, such as the ability to change vacation, etc. The City Auditor should consider the following: Review and determine whether proper segregation of duties exist. If the City Auditor determines that there may be a risk of access to both Payroll and HR data, there may be a need to separate and realign the duties and responsibilities that are HR related to the HR Department.</p>			<p>way will be developed to comply with the recommendation.</p>

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<p>6.b We observed current access and edit rights for the Accounting Technician in Payroll Audit. Based on current access and edit rights granted to this position, the City Auditor should consider reviewing access and edit rights for this position to determine if they are incompatible between Payroll Audit functions and Human Resource functions. This position currently performs benefits processing tasks, such as additions of dependents and changes in deferred compensation deductions. The position also has access to payroll related functions, such as the ability to change vacation, etc. The City Auditor should consider the following:</p> <ul style="list-style-type: none"> • In the interim, to address this issue, we suggest periodic reports are run by an independent reviewer in 	<p>We agree with the recommendation:</p> <p>The City Auditor will determine whether staff from the Performance Audit division or staff from another department should handle the recommended review.</p>	<p>New Target date: 9-30-17</p> <p>Previous Target Date: 6-30-17</p>	<p><u>Not Implemented – No change since 1-24-17 report.</u></p> <p>Payroll Audit will be scheduling meetings with IT, Performance Audit and HR to comply with the recommendation.</p>

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<p>Internal Audit (that is not involved in payroll and benefits processing) to ensure that all changes made to deferred compensation and other benefit-related changes are consistent with source documentation.</p>			
<p>7 The City Manager should require that all Department Clerks have a designated back up, and ensure detailed desk procedures are in place for guidance in the event of prolonged absences of the primary Payroll Clerk to ensure continuity.</p> <p>Payroll Audit should confirm procedures and appropriate back-up personnel exists, and report to the City Manager on progress.</p>	<p>We agree with the recommendation:</p> <p>The City Manager reports that desk procedures are in place and that backups are in place (or currently being trained) for the payroll clerks who responded to the survey. We will also inform payroll clerks about the importance of having backups and desk procedures at our next CSI meeting, scheduled for June 2016.</p>	<p>Actual date: 6-30-16</p>	<p><u>Implemented.</u> Desk procedures are already in place and staff have been trained to back up the payroll clerks. Also, the importance of having desk procedures and backups was discussed at the CSI meeting.</p>