



Presentation to the State Audit Committee

SAS-70 Audit Update

March 10, 2009

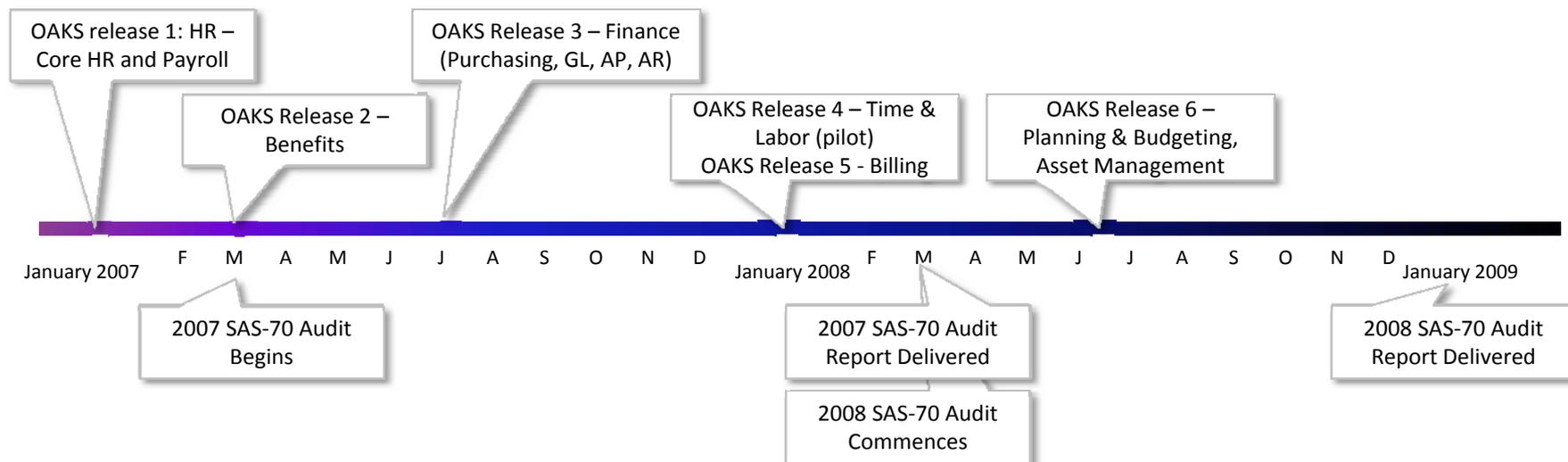
**DRAFT FOR DISCUSSION
PURPOSES ONLY**



- I. Background
- II. SAS70 Remediation Status Update
- III. Summary



The following is a brief background as to the history of OAKS with respect to the timing of various SAS-70 audits



Key Points:

- The Central Accounting System (CAS) was started in 1984 replacing the State Accounting System (SAS), which was replaced by OAKS in 2007/8
- The legacy payroll system was started in the late 1970's and continued to evolve thru out the decades. In 1999 it was renamed HR2K after the databases and CICS programs were overhauled due to Y2K concerns.
- Due to the enterprise nature of the OAKS implementation, subject matter experts were brought into the implementation program in addition to their normally assigned duties (see next slide)
- A new division within DAS was formed to assume responsibility for the development, security, and operation of the OAKS development, test and production environments following the three year design/implementation of OAKS



While retiring several legacy systems that were at the core of State accounting and HR, OAKS has realized several important objectives for the State

OAKS Objectives (2002)

- Eliminate redundant system efforts and automate paper-based manual process
- Implement advanced functionality such as e-government self-service web applications
- Conserve agency resources by replacing dated legacy systems and reduce the need for custom-built systems
- Leverage the technical capability of commercial-off-the-shelf (COTS) software packages that are regularly updated by industry leading software vendors
- Provide an integrated system with consistent non-redundant data that serves as a cohesive foundation for eventual add-on capabilities
- Conserve back-end processing resources by improving the centralized business system environment and integrating major administrative functions
- Consolidate and streamline business practices and administrative processes

Legacy Systems/Processes Replaced by OAKS

- Central accounting system
- Human resources system and payroll
- Fixed assets management system
- Procurement system
- Capital improvement projects tracking system

OAKS ERP Software Event Monitoring (Daily/Monthly)

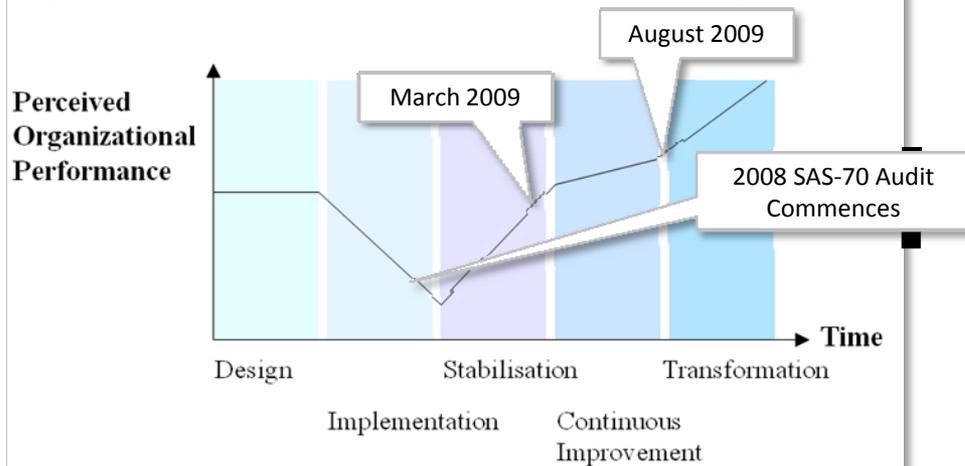
- Antivirus detections
- OAKS firewall access violations
- Computer security violations
- Physical/environmental security events of the PMO network room
- System availability
- Database performance, administration, and security incident events
- Production batch schedule problems



Productivity/Maturity Following a Major ERP Implementation

There are many market studies that demonstrate that following a major enterprise transformation/ERP implementation, productivity and operational processes lag “status quo” capabilities

Firms evaluate effectiveness at 3 points in the system’s lifecycle



J.W. Ross, “The ERP revolution: Surviving versus Thriving,” Working Paper, CISR, MIT, 1998

Key Points:

- The scale of the OAKS implementation (i.e., 65,000 employees, \$Multi-B+ in financial transactions) was significant by any measure, especially in consideration of the rollout timing
- The timing of audits was coincident with the productivity and capability “trough” following the implementation and stabilization period
- Industry averages suggest that the ERP implementation causes drop in performance, that one out of four firms experience a significant drop in capabilities which typically last from **three to nine months**



The implementation, operation and ongoing usage of OAKS is a collaborative effort between the Departments of Administrative Services and Office of Budget and Management

OBM Scope

- Budget Management
- State Accounting Functions
 - Shared Services (*future*)
 - Accounts Receivable
 - Accounts Payable
 - General Ledger

GSD Scope

- Procurement
- Construction
- Asset Management

HRD Scope

- HR
- Payroll
- Benefits Administration
- Enterprise Learning Management
- Time and Labor

Business Roles and Responsibilities

- Reconcile, prioritize and lead Agency needs and requirements to achieve respective missions
- Determine appropriate investment and business case models for defined scope and planned/implemented PeopleSoft modules and associated technology components
- Define business processes, policies and procedures for operational modules
- Lead/review/approve overall requirements, designs (functional, implementation, technical, operations and process) for major initiatives and projects
- Implement change and training as appropriate to realize business goals and objectives



Business/User Community

- Statewide
- 65,000+ Employees
- \$Multi-B Budget



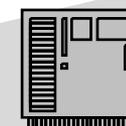
Technical Community

- OAKS Team
- Agency Employees
- Outside Consultants / Contractors

OIT Roles and Responsibilities

- Oversee/coordinate system specification, design, build, test and implementation activities
- Manages vendors to achieve operational, functional and technical objectives
- Define business processes, policies and procedures OAKS operations and maintenance
- Leads business prioritization for work completed within the set aside hours for all OAKS modules
- Review/approve and implement designs (functional, implementation, technical, operations and process)
- Perform quality and testing activities to ensure overall consistency and control of solution portfolio
- Liaise with user community, responsible for end-user expectation management
- Leads major technology initiatives and projects
- Ensure overall technology and architectural coherency

Oracle PeopleSoft® version 8 application suite



Primary Site: SOCC



D/R Site: SOT



While the 2008 State Auditors SAS-70 report identified procedural and security issues, no data/system integrity issues were raised in the audit

The most recent SAS 70 Audit did not identify major/significant risks in the system:

Financial System Findings

1. Completeness of input: all authorized transactions are input and accepted for processing by the application
2. Accuracy of input: authorized transactions are accurately recorded and in the proper period
3. Cutoff: budgetary amendments are recorded in the proper period
4. Transaction classification: budgetary amounts are made to the correct accounts (in other words, the agency is assured that initial budget and any amendments are coded to the proper account classification)
5. Transaction Occurrence: budgetary amounts recorded occurred and are not fictitious. Duplicate budgetary amounts are prevented.
6. Existence: budgetary account balances exist as of the financial statement date.
7. Completeness and accuracy of update: updates, modifications, and/or additions to information already on the application's files or database are accurately entered
8. Completeness and accuracy of accumulated data: the integrity of accumulated data is preserved

Human Capital Management System Findings

1. Completeness of input : payroll transactions are input and accepted for processing
2. Accuracy of input - payroll transactions are accurately recorded
3. Cutoff of transactions - employee services are recorded in the proper period.
4. Transaction classification - employee's payroll relates to the employee's position and duties performed
5. Transaction occurrence - payroll transactions recorded occurred and are not fictitious. Duplicate transactions are prevented.
6. Existence - account balances exist as of the financial statement date
7. Completeness and accuracy of updating - all payroll transactions input are accurately updated to the accounting system and payroll database
8. Completeness and accuracy of accumulated data - the integrity of the payroll records in the payroll database and accounting system accounts, after payroll transactions have been accumulate in them, is preserved.

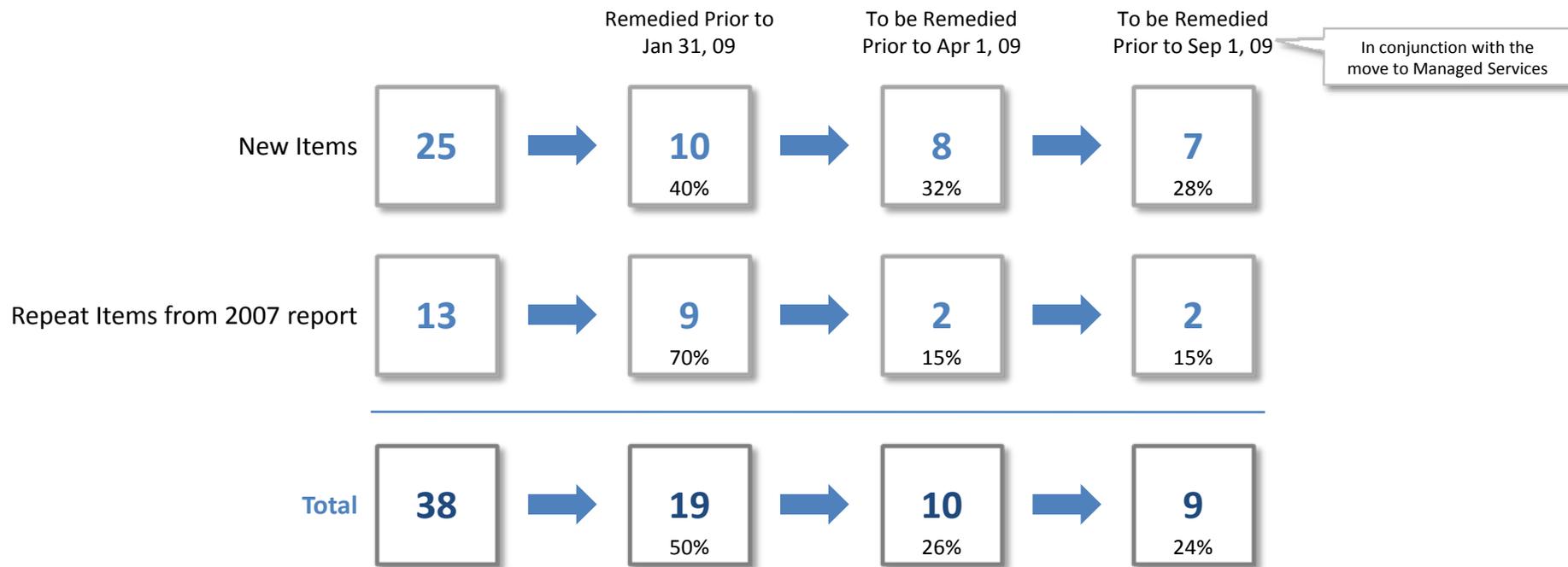
However, It did include 38 comments that identified a number of security weaknesses that are summarized on the next slide



General SAS-70 Audit Comments

There were 38 procedural/security considerations included in the 2008 SAS-70 report that are summarized as follows, many have already been addressed

As a summary of 2008 Findings, Status and Completion Dates:



General SAS-70 Audit Details and Remediation Status



Progress has been made since the creation of the 2008 report in many areas as follows:

Area	Issues / Status
<p>OAKS Application Automated Security Program – OAKS developed a program and processes to strengthen security access of all modules without adversely affecting personnel productivity</p>	<ul style="list-style-type: none"> ▪ 2 new findings with planned completion on April 1, 2009 ▪ 4 repeat findings were remedied as of October 2008
<p>OAKS application security access controls to be addressed by OAKS Application Security team, OAKS Infrastructure team, and the Managed Services vendor.</p>	<ul style="list-style-type: none"> ▪ 5 new findings with planned completion on April 1, 2009 ▪ 2 repeat findings are planned for completion on April 1, 2009
<p>OAKS Back Office Remediation – critical back office responsibilities transferred from OAKS to DAS/OIT in April 2008 were rectified based on established policies and procedures within DAS/OIT</p>	<ul style="list-style-type: none"> ▪ 2 new findings were remedied as of December 31, 2008 ▪ 2 repeat findings were remedied as of December 31, 2008
<p>OAKS Restructuring to incorporate Managed Services – a number of issues relating to change request, code migrations, and application redesign are best approached in collaboration with the Managed Services vendor</p>	<ul style="list-style-type: none"> ▪ 7 new findings to be addressed in collaboration with the Managed Services vendor by September 1, 2009 ▪ 1 repeat finding to be addressed in collaboration with the Managed Services vendor
<p>General OAKS Security – issues related to the operations at the OAKS Project Management Office, such as on-boarding, off-boarding, LAN access and physical access.</p>	<ul style="list-style-type: none"> ▪ 1 new finding was remedied as of September 1, 2008 ▪ 2 repeat findings were remedied as of Sep/Dec 2008 ▪ 1 repeat finding on Disaster Recovery to be addressed in collaboration with the Managed Services vendor (8/1)



General SAS-70 Audit Details and Remediation Status

Progress has been made since the creation of the 2008 report in many areas as follows:

Area	Issues / Status
<p>Requisition/Purchase Orders created and approved by the same user – a redesign of the work flow to prohibit a requestor from having an approver responsibility within the same workflow</p>	<ul style="list-style-type: none"> ▪ 1 finding remedied as of January 23, 2009
<p>Management of physical facilities access – a review of procedures that grant, limit, and revoke access to premises in order to reduce business interruptions from damage to computer equipment and personnel.</p>	<ul style="list-style-type: none"> ▪ 1 new finding to review and document badge access at the SOCC completed February 3, 2009 ▪ 1 repeat finding completed February 3, 2009
<p>Duplicate HCM payments issued to employees – a review of 354 instances of potential payroll overpayments indicated that although the OAKS HCM application was functioning correctly, manual overrides generally for off-cycle checks created 10 duplicate payments with a total cost of \$8,843.19</p>	<ul style="list-style-type: none"> ▪ 1 new finding with estimated near-term completion to include collection of overpayments ▪ Draft employee collection letters are with AG office for review prior to issuance
<p>Warrant writing security – includes physical security at the warrant writing facility, reconciliation of warrant processing jobs, and inventory procedures for check stock</p>	<ul style="list-style-type: none"> ▪ 3 new findings remedied as of July/November 2008 and January 2009
<p>OBM will maintain a list of the CFOs and designee for all agencies. The chartfield Request forms will be changed requiring the CFO or designee's signature. OBM will verify the signature before entering/changing the value in OAKS. Desk Procedures have been written to eliminate the risk of chartfield values being entered without the proper authorization and State Accounting Supervisor has implemented specific filing instructions.</p>	<ul style="list-style-type: none"> ▪ Procedures were developed in September, 2008. ▪ 80% of the signature forms have been obtained and are on file. ▪ Additional follow up is on going to obtain the outstanding forms.
<p>OBM management ensure all reconciliations of EFTs are performed on a daily basis.</p>	<ul style="list-style-type: none"> ▪ Completed, January 2009



We continue to make progress in resolving the issues identified in the SAS-70 report and expect to have all items remediated by September 1, 2009

Significant progress has been made associated with the 2008 report

- 50% of the issues reported have been resolved prior to March 2009
- 26% will be resolved in the next thirty (30) days
- The remainder will be accomplished coincident with the move to managed services, prior to September 2009

A focused team has been assigned to ensure remediation is accomplished as per the plan

- A cross functional team from OAKS, DAS and OBM are assigned and responsible for completion of the remediation activity as per the dates contained herein

We will continue to update the Audit Committee as to our progress

- The State Audit committee will be kept apprised of any significant developments or alterations to the presented plan, as well as to the overall completion of the plan