OBM | Office of Internal Audit

State of Ohio

Payroll Enterprise Audit

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Contents

Executive Summary

Background

As part of the Fiscal Year 2009 State of Ohio Enterprise Audits, the OBM Office of Internal Audit (OIA) conducted an audit of the Payroll processes performed by state agencies. These processes utilize the Ohio Administrative Knowledge System (OAKS) to record and process transactions. The OAKS subsystem for payroll is Human Capital Management (HCM), which was operational for state agencies beginning in December 2006.

The Payroll processes are initiated at the individual state agency and executed by OAKS. Additionally, HCM is performed by the Department of Administrative Services (DAS). Audit work was performed at a detail level by visits to the Department of Job & Family Services, Department of Transportation, DAS, Department of Natural Resources, and Department of Rehabilitation and Correction. Additionally, inquiries of processes were made at the other 16 state agencies within OIA oversight.

The governance structure for OAKS and the financial application was modified in early 2009. The OAKS enterprise resource planning (ERP) system is managed by three governing bodies:

- The OAKS Executive Board meets quarterly and consists of the department directors at DAS, OBM, Insurance, and Job & Family Services and the OAKS Steering Committee Chair. They are responsible for business oversight, risk management escalation, and approval of large projects.

- The OAKS Steering Committee is a nine member body which meets monthly and has overall strategic IT oversight. Additionally, they are responsible for issue and risk management as well as large discretionary change requests.

- The OAKS Change Control Board is an 11 member body which meets bi-weekly to serve as a central point for logging system changes and approving small discretionary change requests.

 The OAKS HCM application is overseen by DAS. The input, authorization, and monitoring controls for the Payroll processes reside with the management of the individual state agencies.

During the audit, OIA identified opportunities for state agency management to strengthen internal controls and improve business operations. Summary and detailed observations have been provided. OIA would like to thank state agency staff and management for their cooperation and time in support of this audit.

Scope and Objectives

Crowe Horwath, LLP, was engaged by OIA to review enterprise risks related to the Payroll processes. This work was completed between March 3, 2009 and June 8, 2009 with an update completed by OIA in July 2009.

The scope of this audit included individual state agency controls with the following areas:

- Payroll

  o System access is properly controlled;

  o Time and leave are authorized and properly entered into the system;

  o Payroll errors and exceptions are appropriately resolved; and

  o Employee hiring and separations are authorized and comply with state payroll policies.

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion[1]
Evaluate the design and effectiveness over system access within the HCM payroll system.	**Improvements Needed – See Observation 1**
Evaluate the completeness and accuracy of employee time and leave entered into the HCM payroll system.	**Well-Controlled with Improvements Needed**
Evaluate the design and effectiveness over state agency payroll errors and exceptions identified in the HCM payroll system.	**Well-Controlled with Improvements Needed**
Evaluate the completeness and accuracy of employee hiring and separations to determine compliance with state payroll policies.	**Well-Controlled**

[1] Refer to Appendix A for classification of audit objective conclusions.

Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.

No.	Observation	Recommendation	Risk[2]
1.	**Monitoring of System Access** – Through inquiries with twenty-one agencies, it was determined that a number of agencies are not reviewing OAKS Human Capital Management system access to validate if access roles and segregation of duties are appropriate.	We recommend state agencies perform a complete system access review to determine that only current employees have OAKS payroll system access. The assigned role should align with their job duties and allow for an adequate segregation of duties for the payroll process. Additionally, the agency access list should be monitored by state agency management on a periodic basis for accuracy and completeness.	**Moderate**

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist state agencies in achieving improvements in internal controls, compliance, and operational efficiencies.

  [2] Refer to Appendix A for classification of audit observations.

Detailed Observations and Recommendations

Observation 1 – Monitoring of System Access

State agencies process employee payroll utilizing the OAKS Human Capital Management application. Agency system access to the OAKS Human Capital Management application should be primarily restricted to human resource personnel and the access role should be appropriate for the employee job duties. The state agencies are responsible for periodic monitoring of the system access rights and roles within their agency.

Through inquiries with twenty-one agencies, it was determined that a number of agencies are not reviewing OAKS Human Capital Management system access to validate if access roles and segregation of duties are appropriate. Some agencies are maintaining an Excel file listing employees and their access to roles within OAKS. This file is maintained internally as individuals are hired, terminated, and transferred, but because it is limited to the people currently working at the agencies that should have access, this review would not detect any people who have inappropriate access.

It should also be noted that until this audit was performed, agencies were not aware of a report within OAKS that would allow them to create a user access list by security role. Agencies were only able to run user access by employee to determine the roles for which that specific employee had access.

The lack of system access monitoring by the individual state agencies increases the risk of users having an inappropriate payroll access role for their job duties. Although the number of users is limited in most agencies, personnel changes within the human resources division create a need for periodic monitoring.

Recommendation

We recommend state agencies perform a complete system access review to determine that only current employees have OAKS payroll system access. The assigned role should align with their job duties and allow for an adequate segregation of duties for the payroll process. Additionally, the agency access list should be monitored by state agency management on a periodic basis for accuracy and completeness.

Management Response
Payroll system access reviews have been completed and a process has been implemented to monitor payroll access rights and roles on a quarterly basis.
This management response was a composite of individual state agency remediation plans.

Risk	Remediation Owner	Reported Completion Date
Moderate	State Agency Management	June 2009

Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), Audit Committee (Not reported)

Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

Detailed   Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

Limited   Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

Informal   This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.