



# Department of Administrative Services Human Resources/Payroll Check-Off Audit

---

**Audit Period: July 1, 2012 to January 31, 2013**

## Results Summary:

Objective	Conclusion
Entering, Updating and Monitoring of Payroll Check-Off Charge Rates in the HCM system	Well-Controlled with Improvement Needed
Payroll Check-off Reconciliation	Well-Controlled with Improvement Needed



## **Executive Summary**

### **Background**

Payrolls issued for employees of the State of Ohio have certain payroll-related charges. These charges (i.e. PERS Employer Contribution, Accrued Leave Premium, etc.) are pro-rated to the same OAKS combo code chart of accounts as the employee's salary. These charges are referred to as payroll check-off charges, and DAS is responsible for collecting, recording, and distributing the payroll check-off charges to the applicable agencies.

The payroll check-off rates are identified at the division/program level and are reviewed and approved by the DAS Office of Finance, and the OBM Budget and Planning Division. The payroll allocations are calculated in the OAKS HCM system and distributed to the appropriate agency by DAS.

During the audit, OIA identified opportunities for Department of Administrative Services to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DAS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance audit related to the controls over the agency's payroll check-off process. This work was completed March 2013 through May 2013. The following detailed audit objectives included:

- Evaluate the design and effectiveness of controls over the entering, updating and monitoring of payroll check-off charge rates in the HCM system.
- Evaluate the design and effectiveness of controls over the payroll check-off reconciliation process.

### **Observations and Recommendations**

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



## Observation 1 – Policies and Procedures

Policies and procedures help ensure the actions initiated by management to address risks are achieved and the entity's objectives are effectively carried out. Procedures should define roles, designate responsibilities, and detail actions necessary to achieve management's objectives and help ensure compliance with applicable laws and regulations. In addition, detailed procedures help ensure the continuity of the process in the event of personnel turnover.

At DAS, several procedures related to the Human Capital Management (HCM) payroll check-off process are not formally documented. They include:

- The Application and Reporting Team's (ART) testing of the rate updates
- The HCM Payroll Group's updating of the new and adjusted rate

The lack of complete and formally documented policies and procedures may lead to:

- Inconsistent or inaccurate updating of payroll check-off rates
- Negative impact on business continuity
- Customers receiving inconsistent levels of service, leading to dissatisfaction

### Recommendation

Enhance current procedures to include defined individuals' roles and responsibilities of the tasks to be performed. The tasks should be sufficient that individuals not familiar with the process can assist and perform the tasks effectively and efficiently. These policies and procedures should be formally documented, approved by management, and periodically reviewed for updates. Additionally, documentation should be maintained to evidence control activities.

### Management Response

DAS will document the procedures. Procedures and controls are currently in place.

Risk*	Remediation Owners	Estimated Completion Date
<b>Moderate</b>	HRD State Payroll Administrator and ART Manager	October 2013

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 your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	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.
<b>Major Improvement Needed</b>	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.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	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.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee