Internal Audit Department

ORANGE COUNTY
5th Largest County in the USA

FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL AUDIT:
SHERIFF-CORONER PAYROLL PROCESS

ORIGINAL AUDIT No. 2825

AS OF JULY 15, 2010

Our First Follow-Up Audit found the Sheriff-Coroner fully implemented all eight (8) recommendations from our original audit report dated December 2, 2009. Sheriff-Coroner Payroll Operations processed approximately $491 million in employee payroll during the original audit period between May 1, 2008 and April 30, 2009 using the in-house developed Sheriff Timekeeping System (STS).

AUDIT No: 2927-F
REPORT DATE: AUGUST 12, 2010

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ORANGE COUNTY BOARD OF SUPERVISORS'
OC Internal Audit Department

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RISK BASED AUDITING

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Transmittal Letter

Audit No. 2927-F **August 12, 2010**

TO: Sandra Hutchens
Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit
of Internal Control Audit: Sheriff-Coroner
Payroll Process, Original Audit No. 2825,
Issued December 2, 2009

We have completed a First Follow-Up Audit of the Internal Control Audit for the Sheriff-Coroner Payroll Process. Our audit was limited to reviewing, as of July 15, 2010, actions taken to implement the eight (8) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for all eight (8) audit recommendations, **this report represents the close-out of the original audit.** We commend the Sheriff-Coroner for their timeliness and responsiveness in taking corrective actions on our audit recommendations.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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First and Final Close-Out Follow-Up Audit of
Internal Control Audit: Sheriff-Coroner
Payroll Process
Audit No. 2927-F

As of July 15, 2010

OC Internal Auditor's Report

TO: Sandra Hutchens
              Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director
              Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit of Internal Control Audit:
              Sheriff-Coroner Payroll Process, Original Audit No. 2825
              Issued December 2, 2009

Scope of Review

We have completed a First Follow-Up Audit of Internal Control Audit for the Sheriff-Coroner Payroll Process. Our audit was limited to reviewing, as of July 15, 2010 actions taken to implement the **eight (8) recommendations** from our original audit report.

Background

The original audit evaluated the payroll process starting with the daily submission of over 4,000 manual timesheets (*Daily Sign-In Sheets)* from 105 pay locations to Payroll Operations, from which timekeeping data is input into the Sheriff Timekeeping System (STS), to the uploading of payroll information to Auditor-Controller Central Payroll. The Sheriff-Coroner does not utilize the Virtual Timecard Interface (VTI) automated timecard recording system used Countywide and was instead planning to upgrade STS. The audit evaluated for proper segregation of duties; supervisory or management authorization of employee hours; existence of supporting documentation for payroll changes; and reconciliations between STS and CAPS+ to ensure completeness. The audit identified eight findings and recommendations to enhance the payroll process and general IT controls over STS, including a recommendation to study the cost/benefit of implementing VTI. During the original audit, total gross pay for employees was about **$491 million**.

Results

Our First Follow-Up Audit indicated that Sheriff-Coroner fully implemented all eight (8) recommendations. **As such, this report represents the final close-out of the original audit.** Based on the First Follow-Up Audit we conducted, the following is the implementation status of the eight recommendations:

1. **Certification of Hours Worked By Employees** (Control Finding)
   Sheriff-Coroner evaluate requiring employee certification of payroll hours as part of the payroll process. If a decision is made by management not to have employees certify their time, this should be documented as such in payroll policies and procedures.

   Current Status: **Implemented.** The Sheriff-Coroner evaluated employee certification of payroll hours and determined it would be a requirement. Payroll Operations redesigned the *Daily Sign-In Sheets* to include a designated area for employee certification initials. All employees, where practicable, are required to certify their work hours as "true and accurate." In those areas where it is not practical for each employee to certify his or her hours, then the supervisor is the designee to certify the employee's hours. This procedure was implemented in February 2010.

Our testing of *Daily Sign-In Sheets* from five pay locations (Newport Beach Harbor, North Investigation Bureau, Central Justice Center, Narcotics South, and Inmate Programs) found some exceptions where employee certifications were missing by both the employee and designated supervisor. We noted that Payroll Operations sent out email reminders in late March 2010 to the locations with missing employee certifications. Because many deputies are out in the field and sometime change pay locations, Payroll Operations said it is difficult to obtain certifications daily from all staff.

Because Sheriff-Coroner took corrective action by now requiring employee certification of payroll hours, and Payroll Operations makes reasonable efforts to communicate and follow-up with the requirement, we consider this recommendation implemented.

2. **Approval of Daily Sign-In Sheets** (Control Finding)
   Sheriff-Coroner evaluate their payroll process for requiring additional approval in instances when authorized signers are approving their own time on *Daily Sign-In Sheets*; for approving time when authorized signers are off-site from the pay location; and requiring actual signatures on the *Daily Sign-In Sheets*.

   Current Status: **Implemented.** The Sheriff-Coroner evaluated the timesheet approval process and determined they would require a secondary approver on the *Daily Sign-In Sheet* when authorized signers are approving their own time. Payroll Operations redesigned the *Daily Sign-In Sheets* to include a signature line for a secondary approver. They also now prohibit any signers from using stamped, electronic or typed signatures. This procedure was implemented in February 2010.

   Our testing of *Daily Sign-In Sheets* from five pay locations (Newport Beach Harbor, North Investigation Bureau, Central Justice Center, Narcotics South, and Inmate Programs) found some exceptions where authorized signers were approving their own time. Similar to above, Payroll Operations sent out email reminders to the locations with missing secondary employee certifications. Because of the movement of employees between timekeeping locations, Payroll Operations also requested updated authorized signers from each pay location.

   Because Sheriff-Coroner took corrective action revising its policy to now require a secondary approver and prohibiting typed, stamped, and electronic signatures, and Payroll Operations makes reasonable efforts to communicate and follow-up with the requirement, we consider this recommendation implemented.

3. **Password Policy and Controls** (Control Finding)
   Sheriff-Coroner enhance their STS password policy and access controls to establish and address password length, character requirements, password aging and reuse.

   Current Status: **Implemented.** The Sheriff-Coroner Financial IT Systems group reconfigured STS now enforcing the minimum password length to be 5 alpha-numeric characters, with the maximum being 8 characters. There is now a 30-day expiration of passwords and passwords cannot be re-used within a twelve month period. This procedure was implemented in March 2010. We validated that STS was reconfigured with the enhanced password policy and access controls. Therefore, we consider this recommendation implemented.

4. <u>**Access Controls**</u> **(Control Finding)**
Sheriff-Coroner enhance their STS access controls to address automatic lockouts and time-out features. Also, Sheriff-Coroner ensure written authorization is required for adding and removing system users.

<u>Current Status</u>: **Implemented.** The Financial IT Systems group reconfigured STS to trigger an automatic lockout after three incorrect logon attempts and to automatically "time-out" after 30 minutes of inactivity. Additionally, a *Systems Access Request Form (ARF)* was created for the purpose of adding authorized users or deleting unauthorized users from STS. We validated that STS was reconfigured to automatic lockout after three failed logon attempts; to time out after 30 minutes of inactivity; and that an ARF form was created. At the time of our Follow-Up Audit, there had been no added or deleted users from STS; therefore, there were no completed ARFs. Because of the corrective actions taken, we consider this recommendation implemented.

5. <u>**Change Management Controls**</u> **(Control Finding)**
Sheriff-Coroner enhance their STS change management controls in order to monitor system changes and security.

<u>Current Status</u>: **Implemented.** The Financial IT Systems group created an STS Software Modification Log for their Change Management Control System that will enable them to track all STS change requests and program modifications usually requested by Payroll Operations staff. The Software Modification Log contains the requestor's name, description of the request, the IT staff who carried out the task, and the IT staff that tested the successful modification to the system.

At of the time of our Follow-Up Audit, only one STS software modification request was made. We noted there was an associated email request and a completed Software Modification Log showing the requestor and who performed the modification. Because corrective action was taken to enhance STS change management controls, we consider this recommendation implemented.

6. <u>**Activity Logs and Audit Trails**</u> **(Control Finding)**
Sheriff-Coroner ensure system activity logs and audit trails are established in STS.

<u>Current Status</u>: **Implemented.** The Financial IT Systems group configured STS to establish a system activity log to effectively track system usage. The STS User Login Control screen now enables management to monitor usage of STS and gives them audit trails to review activities, such as last successful logons; last failed logons; last logouts, and failed logon attempts. It also provides tracking of who is logged in or out of STS at any given time. We verified that STS was configured to establish a system activity log (STS User Login Control screen) to provide management a means for tracking usage of the system. We were informed that the log is reviewed as needed. Therefore, we consider this recommendation implemented.

7. **Data Back-Up** (Control Finding)
   Sheriff-Coroner Payroll and Payroll IT evaluate their STS data back-up procedure and consider increasing the frequency of back-up, at least on a weekly basis.

   Current Status: **Implemented.** A determination was made to increase the frequency of the payroll data back-up. Effective June 2010, the back-up of STS payroll data is performed on a weekly basis. Payroll data is backed-up by the Financial IT Systems group on a USB drive and magnetic tape, stored in a locked container, and is picked up by the vendor (Iron Mountain) via the CEO/IT Data Center each week. This data is stored by Iron Mountain at a secure off-site location. We verified this information with the Data Center. Therefore, we consider this recommendation implemented.

8. **Manual Payroll Process Can Benefit From Automation** (Control Finding)
   Sheriff-Coroner perform a cost/benefit analysis of the planned STS-II upgrade compared to implementing VTI. This assessment should include a detailed analysis of STS-II upgrade costs and VTI implementation costs, including on-going licensing and technical support costs for each. The final outcome should be documented and approved by management.

   Current Status: **Implemented.** We obtained documentation showing that the Sheriff-Coroner performed a detailed cost/benefit analysis between the STS-II upgrade and VTI. They also evaluated another timekeeping system offered by InTime Solutions ISE, the vendor for the Sheriff-Coroner's scheduling system. The analysis included a definition of user needs, an implementation plan/scope of work; meetings and correspondence with IntelliTime regarding VTI; discussions with the Auditor-Controller, the Probation Department, and Solano County about VTI usage and functionality; a VTI demo meeting; proposed cost schedules for STS-II and VTI; and Sheriff-Coroner access to a VTI test site.

   The outcome of the analysis was that both VTI and InTime Solutions ISE in their current form need further development before the Sheriff-Coroner can select one or the other. They are interested in considering one of the options, but indicated both systems need to meet their needs substantially before they make a decision. The current payroll system is meeting their needs, but they agree that additional automation of the process is important. They are waiting until after the implementation of CAPS+ HR/Payroll until they make a decision. Although a final decision has not been made, the Sheriff-Coroner performed and documented a detailed cost/benefit analysis in this area. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of Sheriff-Coroner Financial/Administrative Services, Payroll Operations, and Financial IT Systems during our First Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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