CITY OF SAN ANTONIO

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July 11, 2016

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Mike Gallagher
Councilman, District 10

SUBJECT: Audit Report of Follow-Up Audit of Finance Department Payroll

Mayor and Council Members:

We are pleased to send you the final report of the Follow-Up Audit of Finance Department Payroll. This audit began in September 2015 and concluded with an exit meeting with department management in February 2016. Management's verbatim response is included in Appendix B of the report. The Finance Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Follow-Up Audit of Finance Department

Payroll

Project No. AU16-F06

July 11, 2016

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Audit of the Finance Department's payroll process. The audit objectives and conclusions follow:

To determine if action plans resulting from the prior audit have been effectively implemented.

Yes, Finance has made progress implementing adequate controls to address the recommendations; however, portions of the action plans have yet to be completed.

There were two recommendations made in the prior audit report. Finance has strengthened internal controls over the payroll check printing process successfully implementing one action plan. However, the following area has not been fully implemented.

Segregation of Duties / Access to SAP

Finance and Human Resources are in the process of removing and creating new roles within SAP that would allow for the appropriate segregation of duties between Payroll and Human Resource functions. However, this process has not yet been completed and as a result, SAP payroll duties were not properly segregated and access rights to modify employee master data, hours worked, and run payroll were not properly restricted.

Finance and Human Resource Management's verbatim response is in Appendix B on page 6.

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Background

In June of 2014, the Office of the City Auditor completed an audit of the Finance Department's payroll process. The objective of the audit was as follows:

Are controls over the City's payroll activities adequate?

The Office of the City Auditor issued a report that found controls over the City's payroll activities were in place and working effectively but did observe areas that could be improved. Specifically payroll duties were not properly segregated and access rights were not properly restricted within SAP's payroll function. In addition, controls over the physical check printing process required strengthening.

Audit Scope and Methodology

The audit scope was limited to the recommendations and corrective action plans made in the original report from the period of September 2015 through December 2015.

We interviewed Finance and Human Resources Department management and staff to gain an understanding of the payroll process. We reviewed users and roles within SAP with the ability to maintain/update employee data, approve hours worked, and process payroll. In addition, we reviewed the physical check printing and payroll disbursement process.

We relied on computer-processed data in the SAP System, the City's financial and accounting system of record. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Direct test included evaluating employee access rights and roles within SAP. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Prior Audit Recommendations and Status

A. Segregation of Duties/Access to SAP

The Director of Finance should complete the creation and implementation of rules within SAP for Payroll and HR user access roles so that proper segregation of duties is established. Additionally, access to modify employee master data, approve hours worked, and run payroll should be restricted to only those users who require such access to perform their job duties.

Status: Not Implemented

Finance and Human Resources are in the process of removing and creating new roles within SAP that would allow for the appropriate segregation of duties between Payroll and Human Resource functions. However, this process has not yet been completed and as a result SAP payroll duties were not properly segregated and access rights were not properly restricted.

Segregation issues between Human Resource and Payroll functions were identified. Specifically, 3 active users have the ability to maintain employee data[1], transfer and approve hours worked and process payroll. In addition, another 3 active users have access to maintain employee data and process payroll.

In addition, at least 46 users have inappropriate access rights to edit employee data and 2 active users have inappropriate access to process payroll.

Administrative Directive 7.8d, Access Control, states that a computer user be given only the level of access needed to perform their job duties and when appropriate access controls will enforce segregation of duties. Segregating work responsibilities helps mitigate an employee's ability to conceal errors and/or conduct fraudulent activities.

Recommendation

The Director of Finance and Human Resources should ensure completion of the removal and creation of new roles within SAP so that proper segregation of duties is established. Additionally, access to modify employee data, approve hours worked and run payroll should be restricted to only those users who require such access to perform their job duties.

[1] Employee data includes but is not limited to personal data, bank account information, address, and basic pay.

B. Physical Check Printing

The Director of Finance should strengthen internal controls over the payroll check printing process.

Status: Implemented

Finance management has developed and implemented a new check printing process that strengthened internal controls of payroll files and checks. The process is now performed at a secured location under video surveillance. Check stock is stored at Finance until printing begins and if a printing malfunction occurs only the files for the checks affected are resent to the printer.

Appendix A – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Maria Cristina Stavley, Auditor in Charge
Cecilia Gonzalez, Auditor

Appendix B – Management Response

CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 17, 2016

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Acknowledgment and Corrective Action Plan for Audit of Finance Department Payroll Follow - Up

☒ Fully Agree (provide detailed comments)

☐ Agree Except For (provide detailed comments)

☐ Do Not Agree (provide detailed comments)

Finance and Human Resource Departments have reviewed the audit report and have developed the Corrective Action Plan below corresponding to report recommendations.

Recommendation					
A	**Description**	**Audit Report Page**	**Accept, Decline**	**Responsible Person's Name/Title**	**Completion Date**
1	**Segregation of Duties/Access to SAP** The Director of Finance and Human Resources should ensure completion of the removal and creation of new roles within SAP so that proper segregation of duties is established. Additionally, access to modify employee data, approve hours worked and run payroll should be restricted to only those users who require such access to perform their job duties.	3	Accept	Civilian: Melanie Seale/ Assistant Finance Director & Natalie Balderrama/ HR Assistant Director Uniform: Dennis Rosenberry/ Administrative Services Officer (Police) & Noel T. Horan/ Assistant to the Director (Fire)	Civilian: August 31, 2016 Uniform: September 30, 2016

Recommendation					
A	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: The Finance Department has made significant improvements in strengthening internal controls throughout the City organization over the past several years to include the implementation of special software to assist in monitoring system user roles and system access as well as the implementation of Shared Services programs to support departmental functions for Human Resources and Time Administration. The implementation of the Shared Services program was completed in FY2014 and included the centralization and standardization of Human Resources (HR) and Time positions throughout the City. One of the goals of the Shared Services program was to create specialized positions such as Time Specialists and HR Business Partners. Through the implementation of Shared Services, position based controls were established by aligning system roles with positions therefore improving segregation of duties and limiting system access to functions needed by type of position. For example, prior to Shared Services, the City had over 140 employees across the City processing time for City personnel with duties in addition to time recording. Central Finance employees also possessed access to both time and payroll processing. The Shared Services program standardized time positions and segregated duties between the time and payroll groups, while consolidating the number of individuals entering and changing employee time to 40 time and attendance specialists. In addition to shared services, the Finance Department purchased software called Approva Infor to improve the provisioning of user system roles and to assist in indentifying instances where conflicts exist with users and access to the SAP system. The software was purchased in 2009 and has been steadily being expanded to monitor all functions and roles in SAP. Since that time, the Finance Department in cooperation with Information Technology Services Department (ITSD) has analyzed and redesigned system roles, and implemented corrective action for the following SAP modules: Accounts Payable, Purchasing, Inventory, Fixed Assets, Projects, Sales & Distribution, Accounts Receivable, General Ledger and Finance. The HR/Payroll module was held off until last in order to allow time for the Shared Services implementation to be completed and for Human Resources to evaluate and complete its departmental reorganization. In the interim, manual controls were put in place that mitigated further violation issues to include the review of new roles being provisioned as well as the review of user's roles to identify potential access and segregation of duties issues. The HR/Payroll module's analysis and redesign was recently completed with the creation of new roles to mirror process changes made as a result of HR's reorganization and reassignment of duties between Payroll and HR personnel that eliminated previous segregation of duties violations. These roles for civilian employees have been designed and testing is in progress with a completion date of August 31, 2016. Public Safety Departments administer the HR and Time Functions within each Fire and Police Department and require separate SAP roles in order to limit access between public safety and civilian master data (Structural Security). Finance and HR have coordinated with Fire and Police departments to conduct a review of their current roles to identify conflicts related to segregation of duties. Where resources do not permit such segregation within the Public Safety departments, Finance and HR will require the establishment and documentation of compensating controls for user violations. Finance, HR and ITSD are working with the Public Safety Departments to revise, validate and transition users to new Uniform roles by September 30, 2016.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott, CPA
Finance Director
Finance Department

6/17/16
Date

Lori Steward
Human Resources Director
Human Resources Department

6/22/16
Date

Ben Gorzell, Jr., CPA
Chief Financial Officer
City Manager's Office

6/22/16
Date