



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
District Attorney-Public Administrator -
Payroll

For the Year Ended
December 31, 2016

Audit Number 1629
Report Date: August 31, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

| | |
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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1629

August 31, 2017

TO: Tony Rackauckas
District Attorney-Public Administrator

SUBJECT: Internal Control Audit:
District Attorney-Public Administrator – Payroll

We have completed our audit of internal controls over payroll in the District Attorney-Public Administrator's Office (OCDA) for the year ended December 31, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Jenny Qian, Director of Administrative Services, OCDA
- Kenneth Brockbank, Payroll Supervisor, OCDA
- Phillip Daigneau, Director of Information Technology, Auditor-Controller
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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District Attorney-Public Administrator – Payroll
Audit No. 1629*

For the Year Ended December 31, 2016

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Internal Auditor's Report

Audit No. 1629

August 31, 2017

TO: Tony Rackauckas
District Attorney-Public Administrator

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Internal Control Audit:
District Attorney-Public Administrator – Payroll

OBJECTIVES

We have completed our audit of internal controls over payroll in the District Attorney-Public Administrator's Office (OCDA) for the year ended December 31, 2016. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (BOS). Our audit was conducted in conformance with the International Standards of the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Our audit objectives were to ensure:

1. Payroll is processed completely, accurately, timely, and in accordance with department procedures and management's authorization.
2. Changes to payroll are appropriate, approved, and supported.
3. Premium pay is properly supported, approved, and accurately calculated.
4. Business processes are efficient and effective as related to the payroll process.

RESULTS

Objective #1: We found that controls and processes are in place to ensure that payroll is processed completely, accurately, timely, and in accordance with department procedures and management's authorization; however, we identified **two (2) Control Findings** regarding supervisory review of payroll reports and periodic reviews of payroll permissions in the Auditor-Controller's Virtual Timesheet Interface (VTI) system.

Objective #2: We found that controls and processes are in place to ensure that changes to payroll are appropriate, approved, and supported.

Objective #3: We found that premium pay was properly supported, approved, and accurately calculated.

Objective #4: Business processes are efficient and effective; however, we identified **(1) Control Finding** for utilizing the VTI *Timecard Audit Report* to monitor for unauthorized changes to payroll; and **one (1) Efficiency/Effectiveness Finding** regarding manual computations of overtime and straight overtime.



Internal Auditor's Report

BACKGROUND

The mission of OCDA is to enhance public safety and welfare and create a sense of security in the community through the vigorous enforcement of criminal and civil laws in a just, honest, efficient and ethical manner. The department is headed by the elected District Attorney-Public Administrator and consists of the following divisions: Administrative Services, Bureau of Investigation, Branch Court Operations, General Felonies/Economic Crimes, Special Projects and Vertical Prosecutions/Violent Crimes.

OCDA consists of approximately 800 employees. The Payroll Unit within the Administrative Services Division is responsible for processing payroll. Payroll is processed on a bi-weekly basis using the Auditor-Controller's Virtual Timesheet Interface (VTI) system. VTI is an automated timekeeping and reporting system supported by the Auditor-Controller Information Technology Division and is used by nearly all County departments. VTI records hours and interfaces with CAPS+ every two weeks which computes actual payroll amounts and issues payroll.

During the audit period, total gross pay for OCDA employees was approximately **\$128 million**.

Prior Audit Coverage

There have been no audits with this scope at OCDA within the last ten years.

SCOPE AND METHODOLOGY

Our audit scope was limited to internal controls and processes over payroll for the year ended December 31, 2016. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

Scope Exclusions

Our audit scope did not include payroll processes and calculations related to withholdings, check printing, or payroll distribution. We did not audit any activities in Auditor-Controller (A-C) Payroll. While we reviewed certain information technology controls, we did not perform an audit of the VTI application.

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will generally begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues will appear on the AOC agenda at their next scheduled meeting for discussion.



Internal Auditor's Report

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for OCDA's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the OCDA's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of OCDA during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director, at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Business Process and Internal Control Strengths

We found payroll was processed completely, accurately, timely and in accordance with department procedures and management's authorization. No errors or exceptions to payroll were noted in testing. Process and internal control strengths noted during our audit include:

- ✓ Payroll staff are knowledgeable of the payroll process.
- ✓ Additions, deletions, and changes to payroll are approved and supported.
- ✓ Premium pay is properly authorized per department procedures.
- ✓ Payroll staff are granted appropriate access in VTI.
- ✓ Personnel, timekeeping, and payroll processing duties are properly segregated.
- ✓ The *Missing Timecards Report* in VTI is run to track missing timecards. A final *Missing Timecards Report* is run to ensure all timecards are submitted prior to final upload to A-C Central Payroll.
- ✓ An *Upload Summary Report* is reviewed prior to final upload that lists the count of all employees from all pay locations and type of pay codes used.
- ✓ The *Errored Timecard Report* in VTI is run throughout the day to account for timecard errors automatically detected by VTI. A final *Errored Timecard Report* is run to ensure all errors are resolved prior to final upload to A-C Central Payroll.
- ✓ The *Hours By Pay Code Report* is reviewed regularly for several pay codes.
- ✓ Reminder e-mails are sent to supervisors in cases of missing timecards to meet payroll deadlines.
- ✓ OCDA follows A-C policies and procedures, as well as internal procedures for processing payroll.
- ✓ New or separating employees have user roles granted or removed in VTI based on notification from OCDA Human Resources.
- ✓ Timecard errors are investigated and resolved either by previously submitted documentation or through contact with employee supervisor and written authorization.
- ✓ A *Check Distribution List* is maintained for employees that pick up checks. Employees are required to show ID and provide a signature.
- ✓ Undistributed checks are kept in a locked cabinet with limited access.



Detailed Findings, Recommendations, and Management Responses

The following areas are where we believe payroll processes and controls should be enhanced:

Finding No. 1 – Supervisory Review of Payroll Documents Was Not Documented (Control Finding)

The Payroll Unit has procedures in place to identify and review all employee timecards and ensure all errors are cleared before upload to A-C Payroll; however, we noted that supervisory review of payroll processing and exception reports was not documented to show payroll had been reviewed and approved as discussed below.

Documentation of supervisory review will establish accountability for the reviews performed.

Prior to upload of timecards to A-C Payroll, OCDA Payroll Unit staff review the final *Missing Timecards Report* and final *Errored Timecard Report* to account for all missing timecards and to ensure all errors are cleared before upload to A-C Payroll. After upload of VTI to A-C Payroll, the Payroll Unit reviews the *Upload Summary* to verify successful upload. The Payroll Supervisor also reviews the *Hours by Pay Code Report* for various pay codes, such as OT (overtime), WHPAY (working holiday pay), and SOT (straight overtime). We noted the Payroll Supervisor does not initial/sign and date the last *Missing Timecards Report*, the last *Errored Timecard Report*, *Upload Summary*, or *Hours by Pay Code Report* to document supervisory review.

Recommendation No. 1:

We recommend OCDA ensure reviewed payroll reports are initialed/signed and dated by the Payroll Supervisor.

OCDA Management Response:

Concur. The OCDA has already changed its procedure from check-marking to initialing and dating reviewed payroll reports by the Payroll Supervisor.

Finding No. 2 – Some VTI Users Retained Access When No Longer Required (Control Finding)

We noted two employees were granted “Payroll Clerk” user access in VTI in 2015 for temporary training purposes; however, their access was not removed upon training conclusion.

Not updating user roles when employees no longer require access increases the risk of unauthorized access to VTI, which can result in unauthorized changes to payroll and access to sensitive data such as employee information, leave balances, etc.

Upon notification from Internal Audit, OCDA has removed “Payroll Clerk” access from these two employees.

Recommendation No. 2:

We recommend that OCDA perform periodic reviews of VTI user access and maintain access to only authorized personnel.



Detailed Findings, Recommendations, and Management Responses

OCDA Management Response:

Concur. The OCDA has already implemented Recommendation No. 2. The Payroll Supervisor periodically generates VTI Role/Range Assignments report to verify and ensure “Payroll Clerk” access to only authorized personnel.

Finding No. 3 – The Timecard Audit Report Was Not Reviewed (Control Finding)

The *Timecard Audit Report* was not reviewed by OCDA as part of the payroll process.

Without proper review of this report, unauthorized changes to payroll could be made and not detected resulting in misappropriation of County funds.

VTI has the capability to generate a *Timecard Audit Report*, a comprehensive report displaying actions taken or changes made to payroll entries, the person who made the changes, and the date and time of the changes. This report helps departments monitor for unauthorized changes to payroll after the designated supervisor has authorized and submitted the timecards to the Payroll Unit. This detective control was developed as a direct result of unauthorized payroll changes.

The *Timecard Audit Report* is important because VTI has different roles. Payroll staff are generally assigned a “Payroll Clerk” access. “Payroll Clerk” access enables Payroll staff to complete and/or update employee timecards, including the ability to change pay codes (such as changing from Annual Leave to Regular Hours) for absent employees. This access also allows Payroll to make changes and corrections after the designated supervisor has reviewed and authorized the employee’s timecard. Because of this access, these subsequent changes do not require management review or final approval prior to upload to A-C Payroll. As a result, a risk of processing unauthorized changes exists within this user role.

Recommendation No. 3:

We recommend OCDA utilize the *Timecard Audit Report* as a tool to monitor unauthorized changes to pay codes.

OCDA Management Response:

Concur. Immediately following the auditor’s completion of the audit fieldwork, OCDA has implemented Recommendation No. 3. After each payroll upload, the Payroll Clerk generates a Timecard Audit Report and compiles all documents supporting changes made to payroll entries. The Payroll Supervisor reviews and verifies supporting documents against entries on the Timecard Audit Report. The Payroll Supervisor then initials and dates the reviewed Timecard Audit Report.

Finding No. 4 – Manual Computation of Overtime and Straight Overtime (Efficiency/Effectiveness Finding)

Overtime (OT) and straight overtime (SOT) are manually calculated on employee timecards. The Payroll Unit reviews pay code calculations to ensure accuracy. Any errors found are either fixed on the employee’s timecard or adjusted via payback agreement. The manual calculation of OT and SOT results in additional labor hours spent processing payroll.



Detailed Findings, Recommendations, and Management Responses

In addition, calculation errors that are found result in increased timecard adjustments and additional labor hours. Overtime is recorded when 40 regular hours are exceeded in a work week and is paid at the rate of 1 ½ of the employee's salary. Straight overtime is recorded when an employee uses leave within a work week, records over 40 total hours, and is not paid the additional ½ time.

We were informed a modification to VTI has been developed for implementation at other County departments that includes automated OT and SOT calculations. Automating the OT and SOT calculation would save staff hours every pay period. According to A-C Payroll, approximately 100 hours are spent per pay period countywide by Payroll staff performing these manual calculations, or about 2,600 hours per year. At an estimated salary and employee benefit cost of \$31.75 per hour, this could result in annual savings of approximately \$83,000.

Recommendation No. 4:

We recommend the Auditor-Controller work to implement the VTI modification that allows for automated OT and SOT calculations.

Auditor-Controller Management Response:

Concur. ACIT is currently working with the vendor of VTI to automate the SOT/OT calculation process. The plan will be to leverage the Rule Engine build within VTI. The rules will be developed and approved through discussions with the core project team and implemented based on applicable MOUs.

After implementation, County Employees will be trained to only report hours worked. The system will perform analysis, based on the regularly scheduled hours, when the reported time falls during FLSA periods. If any leave has been used, how many hours were worked will be used to determine what time should be paid as straight overtime or overtime (time and a half).



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

| Critical Control Weaknesses | Significant Control Weaknesses | Control Findings |
|---|--|--|
| <p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p> | <p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p> | <p>These are audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p> |



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: District Attorney-Public Administrator Management Responses



TONY RACKAUCKAS
ORANGE COUNTY DISTRICT ATTORNEY

ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE
401 CIVIC CENTER DRIVE WEST • SANTA ANA, CA 92701 (714) 834-3636

August 17, 2017

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division
ATTN: SCOTT SUZUKI, Assistant Director
12 Civic Center Plaza #200
Santa Ana, CA 92701

RE: Internal Control Audit: District Attorney-Public Administrator – Payroll For the Year ended December 31, 2016

This letter is in response to the Internal Control Audit of payroll in the District Attorney-Public Administrator's Office (OCDA) for the year ended December 31, 2016.

Finding No. 1 – Supervisory Review of Payroll Documents was not Documented (Control Finding)

Recommendation No. 1:

We recommend OCDA ensure reviewed payroll reports are initialed/signed and dated by the Payroll Supervisor.

OCDA Management Response:

Concur. The OCDA has already changed its procedure from check-marking to initialing and dating reviewed payroll reports by the Payroll Supervisor.

Finding No. 2 – Some VTI Users Retained Access When No Longer Required (Control Finding)

Recommendation No. 2:

We recommend that OCDA perform periodic reviews of VTI user access and maintain access to only authorized personnel.

OCDA Management Response:

Concur. The OCDA has already implemented Recommendation No. 2. The Payroll Supervisor periodically generates VTI Role/Range Assignments report to verify and ensure "Payroll Clerk" access to only authorized personnel.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: District Attorney-Public Administrator Management Responses (cont.)

Toni Smart, CPA
ATTN: Scott Suzuki
Page 2 of 2
August 17, 2017
Re: Audit of District Attorney-Public Administrator Payroll

Finding No. 3 – The Timecard Audit Report Was Not Reviewed (Control Finding)

Recommendation No. 3:

We recommend OCDA utilize the Timecard Audit Report as a tool to monitor unauthorized changes to pay codes.

OCDA Management Response:

Concur. Immediately following the auditor's completion of the audit fieldwork, OCDA has implemented Recommendation No. 3. After each payroll upload, the Payroll Clerk generates a Timecard Audit Report and compiles all documents supporting changes made to payroll entries. The Payroll Supervisor reviews and verifies supporting documents against entries on the Timecard Audit Report. The Payroll Supervisor then initials and dates the reviewed Timecard Audit Report.

I would like to take this opportunity to thank your office for the courtesy and professionalism displayed by your staff during this audit. If you have any questions regarding our response, please contact Jenny Qian at (714) 347-8443.

Sincerely,


Tony Rackauckas
District Attorney



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT C: Auditor-Controller Management Responses



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



August 24, 2017

TO: Toni Smart, Auditor-Controller Internal Audit Division
FROM: Phillip Daigneau, Director Information Technology
SUBJECT: Audit No. 1629 / 1630

The Auditor-Controller's Information Technology unit (ACIT) is taking action on the Internal Audit unit's request for information on the manual computation of overtime (OT) and straight overtime (SOT) and how this will be addressed with the Intellitime VTI upgrade. Currently the payroll unit reviews pay code calculation to ensure this accuracy. It's understood that the manual calculation of OT and SOT which is labor intense and present a level of risk which results in additional adjustments and labor hours. The current version of the VTI solution is outdated and doesn't provide an accurate means for these calculations.

The following provides a response to the recommendation contained within the Internal Audit findings in audit 1929 / 1630 by Auditor-Controller Information Technology (ACIT).

Recommendation

We recommend the Auditor-Controller work to implement the VTI modification that allows for automated OT and SOT calculations.

Auditor-Controller Information Technology Management Response:

Concur. ACIT is currently working with the vendor of VTI to automate the SOT/OT calculation process. The plan will be to leverage the Rule Engine build within VTI. The rules will be developed and approved through discussions with the core project team and implemented based on applicable MOUs.

After implementation, County Employees will be trained to only report hours worked. The system will perform analysis, based on the regularly scheduled hours, when the reported time falls during FLSA periods. If any leave has been used, how many hours were worked will be used to determine what time should be paid as straight overtime or overtime (time and a half).

Should you have any questions please contact me directly at (714)834-6277.

CC: Eric Woolery, Auditor-Controller
Michael Dean, Audit Manager II

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