O C Board of Supervisors'

Internal Audit Department

ORANGE COUNTY

INTERNAL CONTROL AUDIT:

SHERIFF-CORONER PAYROLL PROCESS

For the Year Ending
April 30, 2009

We audited internal controls over the Sheriff-Coroner's bi-weekly payroll process where over $491 million was paid to employees between May 1, 2008 and April 30, 2009 using an in-house developed Sheriff Timekeeping System (STS). We audited payroll processing controls, information technology (IT) general controls over STS, and reviewed for overall efficiency and effectiveness of the payroll process.

We found that: (1) controls are in place to ensure payroll is processed completely, accurately and timely; (2) STS IT general controls are in place but need improvement; and (3) the payroll process requires extensive manual inputting of employee hours into STS, and further automation of the process would significantly reduce payroll data input time. The Sheriff-Coroner is currently evaluating the costs/benefits of their planned STS upgrade with the Countywide Virtual Timekeeping Interface (VTI) system to reduce payroll processing time.

AUDIT NO: 2825
REPORT DATE: DECEMBER 2, 2009

Director: Dr. Peter Hughes, MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Michael Dean, CPA, CIA, CISA
Senior Auditor: Abdul Khan, CPA, CIA, CISA

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Dr. Peter Hughes — **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE**
Director — Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner — **CPA, CIA, CFE, CFS, CISA**
Deputy Director — Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin — **CPA, CIA**
Senior Audit Manager

Alan Marcum — **MBA, CPA, CIA, CFE**
Senior Audit Manager

Autumn McKinney — **CPA, CIA, CISA, CGFM**
Senior Audit Manager — Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter

Audit No. 2825 **December 2, 2009**

TO: Sandra Hutchens
Sheriff-Coroner

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

SUBJECT: Internal Control Audit:
Sheriff-Coroner Payroll Process

We have completed an Internal Control Audit of Sheriff-Coroner's payroll process for the year ending April 30, 2009, in which Sheriff-Coroner paid over **$491 million** in payroll. We performed this audit in accordance with our *FY 2008-09 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will 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 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.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

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 document to facilitate our review.

Letter from Dr. Peter Hughes, CPA

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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

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

ATTACHMENTS

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

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OC Internal Auditor's Report

Audit No. 2825 **December 2, 2009**

TO: Sandra Hutchens
Sheriff-Coroner

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

SUBJECT: Internal Control Audit: Sheriff-Coroner Payroll Process

Audit Highlight

We audited internal controls over the Sheriff-Coroner's bi-weekly payroll process where over $491 million was paid to employees between May 1, 2008 and April 30, 2009 using an in-house developed Sheriff Timekeeping System (STS). We audited payroll processing controls, information technology (IT) general controls over STS, and reviewed for overall efficiency and effectiveness of the payroll process.

We found that: (1) controls are in place to ensure payroll is processed completely, accurately and timely; (2) STS IT general controls are in place but need improvement; and (3) the payroll process requires extensive manual inputting of employees hours into STS, and further automation of the process would significantly reduce payroll data input time. The Sheriff-Coroner is currently evaluating the costs/benefits of their planned STS upgrade with the Countywide Virtual Timekeeping Interface (VTI) system to reduce payroll processing time.

OBJECTIVES

The Internal Audit Department conducted an Internal Control Audit of Sheriff-Coroner payroll process, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies; and evidence of process efficiencies and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The three objectives of our audit were:

1. **Accuracy and Propriety of Payroll Process:** Evaluate internal controls, processes and systems to ensure payroll is processed accurately, completely, timely, and has appropriate supporting documentation and management approval. Included is an assessment of segregation of duties, supervisory reviews and approvals, changes to payroll, and key reconciliations.

2. **Review of IT General Controls**: Perform a high-level review of IT general controls over the Sheriff Timekeeping System for:

   - Password and Access Controls
   - Change Management
   - Activity Logging and Audit Trails
   - Data Back-Up/Business Continuity

3. **Payroll Process Efficiency/Effectiveness:** Evaluate the efficiency and effectiveness of Sheriff-Coroner payroll process to determine if there are backlogs, duplication of work, or manual processes that could benefit from automation.

BACKGROUND

The Sheriff-Coroner Department employs approximately 4,000 sworn and professional staff. Payroll Operations within Financial/ Administrative Services Division is responsible for processing payroll. Payroll Operations consists of one Payroll Manager, one Payroll Supervisor and eight Payroll Specialists who process payroll on a daily basis using manual *Daily Sign-In Sheets* submitted from each pay location and then input this timekeeping data into the automated *Sheriff Timekeeping System* (STS).

Sheriff Timekeeping System
STS is an automated timekeeping and reporting system that was developed in-house by the Sheriff-Coroner Department. They do not utilize the **Virtual Timecard Interface (VTI)** automated timecard recording and validation application that is used Countywide. We were informed by the Sheriff-Coroner they chose their in-house developed STS because their evaluation of VTI found it was not capable of processing their unique timekeeping issues, such as numerous special pay codes and 24-hour operations involving shift differential pay issues. As such, the Sheriff-Coroner is planning to upgrade STS to STS-II. The current version of STS has been in existence for 19 years, is labor intensive, and has limitations in pay codes that can be used.

Payroll Process
On a daily basis, timekeepers at **105 pay locations** prepare and submit manual *Daily Sign-In Sheets* to Payroll Operations for input of hours worked for **over 4,000 Sheriff-Coroner employees.** The *Daily Sign-In Sheets* are signed and approved by supervisors at each of the pay locations. Approval of overtime is also documented on the *Daily Sign-In Sheets*. The *Daily Sign-In Sheets* are sent to Payroll Operations via fax, emails, pony mail, or hand delivered. Original *Daily Sign-In Sheets* are required in all instances when faxes or copies are sent.

Upon receipt, the *Daily Sign-In Sheets* are sorted by pay location. Each Payroll Specialist is assigned a number of pay locations and reviews *Daily Sign-In Sheets*, inputs hours and adjusts time as necessary. Because of the volume of staff, each Payroll Specialist inputs hours daily for approximately 500 employees.

After STS input is complete for the two week pay period, Payroll Specialists perform a procedure in STS called "spreading" that shows any hours input greater than or less than 80 hours. If errors are found, they are investigated and Pay Location Timekeepers are contacted as necessary to obtain clarification. Once all errors and exceptions are resolved, Payroll Information Technology (IT) converts the data into a compatible data format (text file) for upload to Auditor-Controller Central Payroll for payroll processing and issuance of paychecks. During the audit period, total gross pay for Sheriff-Coroner employees was **$491 million**.

SCOPE
Our audit evaluated internal controls and process over the Sheriff-Coroner payroll process for the period from May 1, 2008 through April 30, 2009. We evaluated the payroll process starting with the receipt of *Daily Sign-In Sheets* in Payroll Operations to the uploading of STS information to Auditor-Controller Central Payroll. Specifically, we evaluated for proper segregation of duties; supervisory or management authorization of employee hours and premium pay/overtime; accuracy of input into STS; existence of supporting documentation for changes to payroll after being submitted to Payroll Operations; and key reconciliations between STS and Auditor-Controller CAPS/AHRS to ensure completeness of payroll.

We also performed a high-level review of IT general controls over STS that included access controls, change management, activity logging and audit trails, and data back-up/business continuity. In addition, we evaluated the efficiency/effectiveness of the payroll process by observing for backlogs, duplication of work, and manual processes that could be automated.

SCOPE EXCLUSIONS

Our audit did not include payroll processes pertaining to withholdings, retro-pay calculations, check printing, or payroll distribution. We did not audit Sheriff-Coroner Communications, where approximately 90 employees have payroll processed using an automated financial software application independent of STS. We also limited our work in addressing specific overtime issues in the Sheriff-Coroner because these issues were addressed in an audit by the Office of the Performance Auditor in October 2008. Our review of IT general controls was high-level and limited to STS and did not include application controls or other Sheriff-Coroner information technology systems.

RESULTS

We found that: (1) controls and are in place to ensure payroll is processed accurately, completely, and timely; (2) STS IT general controls are in place but need improvement; and (3) the payroll process requires extensive manual inputting of employees hours into STS, and further automation of the process would significantly reduce payroll data input time. The Sheriff-Coroner is currently evaluating the costs/benefits of their planned STS upgrade with the Countywide Virtual Timekeeping Interface (VTI) system to reduce payroll processing time.

We identified **eight (8) Control Findings** resulting in **eight (8) recommendations** for additional controls and processes over the payroll process as discussed in the *Detailed Observations, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications. Based on our audit, we noted the following:

- **Objective #1 – Accuracy and Propriety of Payroll Process:** *Evaluate internal controls, processes and systems to ensure payroll is processed accurately, completely, timely, and has appropriate supporting documentation and management approval.*

- **Results:** We found internal controls, processes and systems in place to ensure payroll is processed accurately, completely and timely. No errors were noted in the payroll transaction we tested. We noted **two (2) Control Findings** in areas of certifying employee hours reported and approving *Daily Sign-In Sheets* to enhance payroll processing controls. (See Observation Nos.1 and 2 below)

- **Objective #2 – Review of IT General Controls:** *Perform a high-level review of IT general controls over the Sheriff Timekeeping System.*

- **Results:** We found STS IT general controls are in place but need improvement in the areas of password and access controls. Controls need to be established for change management, activity logging and audit trails, and data back-up. We noted **five (5) Control Findings** to enhance IT general controls over STS. (See Observation Nos. 3 through 7 below)

- **Objective #3 – Process Efficiency/Effectiveness:** *Evaluate the efficiency and effectiveness of Sheriff-Coroner payroll process to determine if there are backlogs, duplication of work, or manual processes that could benefit from automation.*

- **Results:** Sheriff-Coroner's payroll process requires extensive manual inputting of hours that would benefit from further automation to significantly reduce payroll inputting and processing time. This primarily involves eliminating the daily submission of *Daily Sign-In Sheets* from 105 pay locations to Payroll Operations, where eight payroll staff input hours worked into STS for over 4,000 employees. We noted **one (1)** **Control Finding** to compare the benefits and costs of implementing VTI with the STS-II upgrade for purposes of automating the payroll process to reduce payroll processing time. (See Observation No. 8 below)

Management's Responsibilities for Internal Controls

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 and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for Sheriff-Coroner'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 controls, 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 Sheriff-Coroner's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by Sheriff-Coroner Payroll Operations, Information Technology and Financial/Administrative Services. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Rick Dostal, Executive Director, S-C Administrative Services Command
Jane Reyes, Director, S-C Financial/Administrative Services
Tricia Bello, Assistant Director, S-C Financial/Administrative Services
Sharon Tabata, Financial Officer, S-C Financial/Administrative Services
Noma Crook-Williams, Revenue/Audit Manager, S-C Financial/Administrative Svcs.
Nasrin Soliman, Audit Manager, S-C Financial/Administrative Services
Diane Ramos, Payroll Manager, S-C Financial/Administrative Services
Tony Tran, Senior Systems Program Analyst, S-C Information Technology
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

Audit Objective #1 – Accuracy and Propriety of Payroll Process

Our objective was to evaluate internal controls, processes and systems to ensure payroll is processed accurately, completely, timely, and has appropriate supporting documentation and management approval. Included is an assessment of segregation of duties, supervisory reviews and approvals, changes to payroll, and key reconciliations.

We audited the payroll process from when Payroll Operations receives *Daily Sign-In Sheets* from the pay locations to the processing of payroll by Auditor-Controller Central Payroll. Our audit sample consisted of **75 employees** selected from three different pay periods from five pay locations: Newport Harbor, North Investigation, Central Justice Center, Narcotics South, and Inmate Programs.

Payroll Process and Control Strengths

Based on our testing of 75 employees, 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 our sample. Process and control strengths noted during our audit include:

- ✓ Payroll and Payroll IT staff are knowledgeable of payroll process.
- ✓ Additions, deletions and changes to payroll are approved and supported.
- ✓ Supplemental/premium pay is properly authorized per department procedures.
- ✓ Authorized individuals (supervisors) from each pay location sign and approve *Daily Sign-In Sheets.*
- ✓ Payroll Operations maintains an *Authorized Signature List per Pay Location* to ensure appropriate authorization is obtained.
- ✓ Original *Daily Sign-In Sheets* are required when faxes or copies are initially received.
- ✓ Payroll exceptions (hours input into STS less than or exceed 80 hours) are identified.
- ✓ A-C Central Payroll validates employee payroll information received from STS with AHRS to ensure completeness and accuracy of payroll.

The following are our observations where we believe payroll processes and controls could be enhanced in the areas of certifying hours worked and approval of *Daily Sign-In Sheets*:

Observation No. 1 – Certification of Hours Worked By Employees (Control Finding)

At each pay location, a designated Timekeeper completes a *Daily Sign-In Sheet* that indicates the Employee Name, Unit, Shift, Regular Hours Worked (in/out time and total hours), Hours Off, Overtime, Overtime Coding, Overtime Approval, and Comments. These documents are approved and signed by authorized individuals (supervisors) and are submitted daily to Payroll Operations for input into STS. We noted this process does not require employees to certify to the best of their knowledge the information is true and correct regarding the payroll hours worked and reported.

Although we found no specific County procedure or Government Code requiring employees to "certify" their timesheets, this appears to be a best practice for automated payroll processes. We noted that Sheriff-Coroner Communications' payroll includes employee certification of payroll hours, as well as the VTI system used Countywide where both the employee and supervisory "certify" their hours. One suggestion is to develop a procedure to have employees initial/sign on a "sign in/sign out" log that indicates by signing the logs, employees are certifying their hours reported as "true and accurate."

Recommendation No. 1

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.

Sheriff-Coroner Management Response:

Concur. The department is currently redesigning the timesheets to reflect the implementation of suggested changes. Adjustments are being made to the existing timesheets currently used, to include a designated area for employee's certification initials. All employees, where practical, will be required to certify their work hours as "True and Accurate" via their initials. In those areas where it is not practical for each employee to certify his or her hours, then the supervisor will be the designee to certify the employee's hours. It is anticipated that this new procedure will be implemented and in effect as of February 2010.

Observation No. 2 – Approval of Daily Sign-In Sheets (Control Finding)

Our testing noted that some authorized supervisors who sign the *Daily Sign-In Sheets* are approving their own time. This occurs when the authorizing signer works at the same pay location. In other instances, authorized signers approving *Daily Sign-In Sheet* are stationed at different pay locations and have the authority to approve timesheets for multiple pay locations. We also found one pay location where the *Daily Sign-In Sheets* contained the typed name of the authorized signer.

Employees approving their own time could result in hours being altered without being detected in the event employees have insufficient paid leave balances or want to avoid using their paid leave. This could also occur when supervisory approvals are done by authorized employees not stationed at the pay locations. Also, electronic or typed signatures do not provide sufficient evidence a review was performed.

Discussions with Financial/Administrative Services Division indicated that it may not be feasible to have the authorized supervisor's time approved by another individual at a higher level, especially for upper level management. While it may not be practical to obtain approval in all instances, management should evaluate current payroll policy and determine if additional reviews should be instituted in this area. Also, when approving *Daily Sign-In Sheets*, authorized signers ideally should be on-site supervisors that are familiar with their employees' work schedules.

Recommendation No. 2

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*.

Sheriff-Coroner Management Response:

Concur. The department will make the designated change on the timesheets in regards to this finding. As part of this change we will begin to require a secondary approver on the timesheet when "Authorized Signers" are approving their own time on daily timesheets. A secondary signature line will be added to timesheet. We will also prohibit any signers from using stamped, electronic or typed signatures. This will be in effect as of February 2010.

Audit Objective #2 – Review of IT General Controls

Our objective was to perform a high-level review of IT general controls over the Sheriff Timekeeping System (STS) in the areas of:

- Password and Access Controls
- Change Management
- Activity Logging and Audit Trails
- Data Back-Up//Business Continuity

We performed this high-level review to assist the Sheriff-Coroner in identifying where controls can be enhanced in the current system and/or consideration for planned STS-II upgrade. Our approach and methodology in auditing general IT controls is consistent with audit guidelines established by the *Control Objectives for Information and Related Technology* (*COBIT*). *COBIT* is a set of best practices for information technology management created by the Information Systems Audit and Control Association (ISACA), and the IT Governance Institute. *COBIT* provides managers, auditors, and IT users with a set of generally accepted measures, indicators, processes and best practices to assist in maximizing the benefits derived through the use of information technology and developing appropriate IT governance and control. We also used VTI as a benchmark for a timekeeping system because it performs the same function as STS. We noted the following observations during our audit:

Observation No. 3 – Password Policy and Controls (Control Finding)

Access controls include password management. Our audit noted that the password policy for STS needs to be enhanced in the following areas:

- The minimum and maximum password length should be reviewed, established and communicated to users because the current policy requirement is unclear.
- There are no specific password requirements, such as letters or symbols.
- There is no password aging (passwords do not expire).
- There is no reuse requirement (same password can be reused).

We were informed that STS can have these features and controls incorporated. VTI currently has these password management features and controls in place to allow only authorized access to the timekeeping system.

Recommendation No. 3

Sheriff-Coroner enhance their STS password policy and access controls to establish and address password length, specific character requirements, password aging and reuse.

Sheriff-Coroner Management Response:

Concur. We are currently addressing this issue in the following ways: We will configure the STS system to enforce the minimum password length to be 5 alpha-numeric characters, with the maximum being 8. There will be a 30 day expiration of passwords and passwords cannot be re-used within a twelve month period. This procedure will be implemented by March 2010.

Observation No. 4 – Access Controls (Control Finding)

Other access controls in addition to password management that help prevent unauthorized access to critical systems include:

- Lockout after a certain number of incorrect log-on attempts.
- Automatic time-out features so that the system is automatically locked after a certain amount of inactivity.
- Adding and removing system users based on written documentation from authorized individuals.

We noted that STS does not currently have these access controls in place. STS users are added and removed based on verbal authorization. As a reference, VTI has these access controls in place.

Recommendation No. 4

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.

Sheriff-Coroner Management Response:

Concur. The Financial IT Systems group will redesign the current STS system to trigger an automatic lockout after three incorrect log-in attempts and configure the system to automatically "time-out" after 30 minutes of inactivity. Additionally we are creating a *Systems Access Request Form* for the purpose of adding authorized users or deleting unauthorized users from the STS system. This procedure will be in place as soon as possible and prior to the follow-up review.

Observation No. 5 – Change Management Controls (Control Finding)

Change management controls help ensure system changes are properly authorized and are implemented. We noted that STS system changes are requested in writing by the Payroll Manager or Payroll Supervisor and are made by the Senior Systems Programmer/Analyst. However, the changes are not recorded within STS and no change log is generated because STS does not have the capability.

Recommendation No. 5

Sheriff-Coroner enhance their STS change management controls in order to monitor system changes and security.

Sheriff-Coroner Management Response:
Concur. The Financial IT Systems group is creating a "change log" for our Change Management Control System that will enable us to track all change requests, program modifications and program's impact. All document attachments will be stored as part of the permanent record for each change to STS. These attachments will include the name of person requesting changes and the effective date of change. This new procedure will implemented by May 2010.

Observation No. 6 – Activity Logs and Audit Trails (Control Finding)

Audit or activity logs provide a means for management to review system activity, including failed log-on attempts. There are no system activity logs or audit trails activated in STS to monitor security and operation of the system. Errors messages are given when payroll hours input are above or below a certain threshold. However, no system exception/error reports are generated regularly. As a reference point, VTI has activity logs and audit trails in place, and generates various error and exception reports used in processing payroll and for detecting payroll errors and exceptions, such as the *Timecard Audit Report*, which can be used as a tool to monitor payroll changes.

Recommendation No. 6
Sheriff-Coroner ensure system activity logs and audit trails are established in STS.

Sheriff-Coroner Management Response:
Concur. The Financial IT Systems group will activate the STS system activity log to effectively track system usage. This will enable Management to monitor usage of the STS. In essence this will give us the means to review activities such as failed logged-on attempts and track who is logged in or out at any given time. This procedure will implemented by January 2010.

Observation No. 7 – Data Back-Up (Control Finding)

STS data backup is performed every two weeks at the end of every pay period. More frequent back-ups of STS data, at least weekly, will help restore payroll data and minimize the risk of data loss in the event of a disaster or fire.

Recommendation No. 7
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.

Sheriff-Coroner Management Response:
Concur. Our department will change our back-up procedures for our STS data to include a weekly off-site data backup for disaster recovery. We will implement this new procedure by March 2010.

Audit Objective #3 – Payroll Process Efficiency/Effectiveness

Our audit included an efficiency and effectiveness review of the Sheriff-Coroner payroll process, such as backlogs, duplication of work, and manual processes that could be automated. Our audit of the payroll process and STS disclosed the following:

Observation No. 8 – Manual Payroll Process Can Benefit From Automation (Control Finding) Although we did not detect any backlogs or errors in our audit sample, we found the current payroll process requires extensive manual processing with the daily input of hours worked for over 4,000 employees by eight Payroll Specialists in Payroll Operations. At the onset of our audit, we were informed that management was upgrading to STS-II instead of implementing the Countywide Virtual Timekeeping Interface (VTI) system because their assessment found VTI was not able to address certain concerns specific to their 24 hour operations and numerous premium pay codes.

During our audit, however, we found that the County VTI can be modified to meet the Sheriff-Coroner payroll needs and transitioning to VTI could result in significant reductions in input and processing time by reducing the amount of inputting and processing currently required in Payroll Operations (e.g., daily input of hours by Payroll Specialists in Payroll Operations would be discontinued). Given the current environment with budget reductions and layoffs, we believe the Sheriff-Coroner should research the costs/benefits of implementing the County VTI compared with the planned in-house STS-II upgrade costs and determine which timekeeping system best meets their operational needs and reduces payroll processing time and costs.

Operationally, it should be noted the Probation Department had similar payroll needs as the Sheriff-Coroner. Probation recently implemented VTI for their remaining staff, and reported that VTI is addressing their payroll needs involving 24 hour operations, overlapping shifts, and use of premium/supplemental pay codes and/or job codes.

We were informed that VTI can process unlimited premium pay codes; has "timekeeper" and "start-stop" functions that would enable Sheriff-Coroner to report time in 24 hour shifts from its 105 pay locations; and that job codes can be used to report time. They can still maintain the *Daily Sign-In Sheets* as supporting documentation for payroll.

Moreover, VTI could address several of the recommendations made in this report in the areas of certifying hours by employees, supervisory reviews/approvals of payroll, and IT general controls involving password and access controls, change management, activity reports and audit logs, and data back-up/business continuity.

We were informed by Sheriff-Coroner management that the STS-II upgrade can also incorporate several of the recommendations made in this report, with the goal being to increase efficiency and reduce manual processing in Payroll Operations.

We found no compelling reason why the Sheriff-Coroner could not transition to VTI, and believe they should analyze the cost/benefits of implementing VTI compared to the STS-II upgrade with the goal being a reduction of payroll input and processing costs. Based on our audits of VTI in Auditor-Controller Central Payroll and in various departments/agencies, we found VTI to be an effective, automated payroll timekeeping system with proper controls in place for safeguarding data and ensuring accuracy and completeness in reporting payroll hours.

Recommendation No. 8

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.

Sheriff-Coroner Management Response:

Concur. Our department is currently performing a cost/benefit analysis of the planned STS II upgrade versus the VTI system. Our analysis includes ongoing licensing and technical support costs. We have met with IntelliTime, the VTI vendor, and are in the process of rigorous testing of the most up-to-date version of the VTI system to ensure it will meet the Sheriff Department's needs.

ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:**
  Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.

- **Significant Issues:**
  Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**
  Audit findings concerning internal controls, compliance, 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.

ATTACHMENT B: Sheriff-Coroner Management Responses

550 N. FLOWER STREET
P.O. BOX 449
SANTA ANA, CA 92702-0449
(714) 647-7000

SHERIFF-CORONER DEPARTMENT
COUNTY OF ORANGE
CALIFORNIA

OFFICE OF SHERIFF-CORONER

SANDRA HUTCHENS
SHERIFF-CORONER

UNDERSHERIFF
JOHN L. SCOTT

EXECUTIVE COMMAND
RICK DOSTAL
MICHAEL R. HILLMANN
MIKE JAMES

COMMANDERS
TIM BOARD
JAY LEFLORE

November 23, 2009

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INTERNAL AUDIT DEPARTMENT

Dr. Peter Hughes, CPA, Director
Internal Audit Department
12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Dear Dr. Hughes,

Thank you for the opportunity to review and comment on the draft report of Payroll Audit #2825. Enclosed is the draft report with our suggested changes and our responses to the eight control findings.

We appreciate your staff's cooperation and professionalism displayed during this audit.

If you have any questions, you may contact Nasrin Soliman, Audit Manager, at (714) 834-3201.

Sincerely,

Sandra Hutchens
Sheriff-Coroner

Enclosure

Cc: Rick Dostal, Executive Director, Administrative Services Command
Jane Reyes, Director, Financial/Administrative Services
Tricia Bello, Assistant Director, Financial/Administrative Services
Noma Crook-Williams, Revenue/Audit Mgr., Financial/Administrative Services
Sharon Tabata, Financial Officer, Financial/Administrative Services
Diane Ramos, Payroll Manager, Financial/Administrative Services
Tony Tran, Sr. System Program Analyst, Financial/Administrative Services
Mike Goodwin, Senior Audit Manager, Internal Audit Department
Michael Dean, Audit Manager, Internal Audit Department
Abdul Khan, Senior Internal Auditor, Internal Audit Department

PROUDLY SERVING THE UNINCORPORATED AREAS OF ORANGE COUNTY AND THE FOLLOWING CITIES AND AGENCIES:

ALISO VIEJO • DANA POINT • LAGUNA HILLS • LAGUNA NIGUEL • LAGUNA WOODS • LAKE FOREST • MISSION VIEJO
RANCHO SANTA MARGARITA • SAN CLEMENTE • SAN JUAN CAPISTRANO • STANTON • VILLA PARK
OC PARKS • DANA POINT HARBOR • JOHN WAYNE AIRPORT • OCTA • SUPERIOR COURT

DRUG USE IS LIFE ABUSE

ATTACHMENT B: Sheriff-Coroner Management Responses (continued)

AUDIT FINDINGS RESPONSES #2825

Finding #1: Certification of hours worked by employee
Response: Concur. The department is currently redesigning the timesheets to reflect the implementation of suggested changes. Adjustments are being made to the existing timesheets currently used, to include a designated area for employee's certification initials. All employees, where practical, will be required to certify their work hours as "True and Accurate" via their initials. In those areas where it is not practical for each employee to certify his or her hours, then the supervisor will be the designee to certify the employee's hours. It is anticipated that this new procedure will be implemented and in effect as of February 2010.

Finding #2: Authorized signers approving their own time
Response: Concur. The department will make the designated change on the timesheets in regards to this finding. As part of this change we will begin to require a secondary approver on the timesheet when "Authorized Signers" are approving their own time on daily timesheets. A secondary signature line will be added to timesheet. We will also prohibit any signers from using stamped, electronic or typed signatures. It is expected that this will be in effect as of February 2010.

Finding #3: Password Policy and Controls
Response: Concur. We are currently addressing this issue in the following ways: We will configure the STS system to enforce the minimum password length to be 5 alpha-numeric characters, with the maximum being 8. There will be a 30 day expiration of passwords and passwords cannot be re-used within a twelve month period. This procedure will be implemented by March 2010.

Finding #4: Access Controls
Response: Concur. The Financial IT Systems group will redesign the current STS system to trigger an automatic lockout after three incorrect log-in attempts and configure the system to automatically "time-out" after 30 minutes of inactivity. Additionally we are creating a *Systems Access Request Form* for the purpose of adding authorized users or deleting unauthorized users from the STS system. This procedure will be in place as soon as possible and prior to the follow-up review.

Finding # 5: Change Management Controls
Response: Concur. The Financial IT Systems group is creating a "change log" for our Change Management Control System that will enable us to track all change requests, program modifications and program's impact. All document attachments will be stored as part of the permanent record for each change to STS. These attachments will include the name of person requesting changes and the effective date of change. This new procedure will implemented by May 2010.

Finding #6: Activity Logs and Audit Trails
Response: Concur. The Financial IT Systems group will activate the STS system activity log to effectively track system usage. This will enable Management to monitor usage of the STS. In essence this will give us the means to review activities such as failed logged-on attempts and track who is logged in or out at any given time. This procedure will implemented by January 2010.

Finding #7: Data Back Up
Response: Concur. Our department will change our back-up procedures for the STS data to include a weekly off-site data backup for disaster recovery. We will implement this new procedure by March 2010.

Finding #8: Manual Process can benefit from automation
Response: Concur. Our department is currently performing a cost/benefit analysis of the planned STS II upgrade versus the VTI system. Our analysis includes ongoing licensing and technical support costs. We have met with IntelliTime, the VTI vendor, and are in the process of rigorous testing of the most up-to-date version of the VTI system to ensure it will meet the Sheriff Department's needs.