

**AUDIT OF CONTROLS OVER
THE ADP PAYROLL PROCESS**

Report 08/09-02

TO: R. Kirk Landon, Chair, Finance and Audit Committee

FROM: Pyong Cho, Interim Audit Director



DATE: November 25, 2008

EXECUTIVE SUMMARY

We conducted an audit of Controls over the ADP Payroll Process from January 1, 2008 through August 31, 2008. Our audit scope and objectives appear on page two of this report; audit findings, recommendations, and management responses are discussed in detail on pages three through nine.

Our audit disclosed numerous control weaknesses over the time approval process and access controls. We noted that time approvers improperly approved: (a) their own time; (b) their employee's times without knowing actual hours worked; (c) their supervisor's time; (d) their relative's time; and (e) non-exempt employee's time. In addition, time approvers did not approve their employee's time by the established deadline. We also noted the following access control weaknesses: (f) employees had the ability to connect to ADP Enterprise Version 4 (ADP EV4) from outside the University, which could expose sensitive and/or confidential information to unauthorized persons; (g) there were inadequate controls over granting user access to ADP EV4; (h) there was no audit trail for changes made to users' classes; (i) employees had unnecessary access to sensitive and/or confidential information; and (j) Human Resources employees performed multiple incompatible functions.

We wish to express our appreciation for the cooperation and assistance extended to us by the Division of Human Resources, Controller's Office, and all other departments involved in this audit.

Audit conducted by Tenaye Arneson.

C: Yelenia Almarales, HRIS Coordinator, Human Resources
Leyda Benitez, University Compliance Officer
Idorys Calvo, Assistant Director, Payroll and Employee Records
Jorge Carvajal, Audit Liaison, Controller's Office
Sandra Fernandez, Assistant Director, University Operations, Business & Finance
Carlos Flores, Director of Operations and Systems, Human Resources
Jaffus Hardrick, Vice President, Human Resources
Modesto Maidique, University President
Cristina Mendoza, Vice President and General Counsel
John Miller, University Treasurer and Interim Controller
Vivian Sanchez, Chief Financial Officer and Senior Vice President of Administration

SCOPE AND OBJECTIVES

We conducted an audit of Controls over the ADP Payroll Process for the period from January 1, 2008 through August 31, 2008. The objectives of the audit were to determine whether internal controls over the ADP Payroll Process were adequate to provide reasonable assurance that: (a) time worked and leave taken were properly approved; (b) adding or removing employees from payroll and executing pay rate changes were limited to appropriate personnel; and (c) payroll expenditures were reconciled properly and timely.

Our audit was part of the approved work plan for the fiscal year 2008-2009. Audit fieldwork was conducted from August 4, 2008 through October 30, 2008.

Any audit is subject to inherent risk and may not detect all material errors and weaknesses if these should exist. Our examination of the Controls over the ADP Payroll Process was based on selected tests of the accounting and other records and related procedures; therefore, it would not necessarily disclose all instances of control weaknesses, noncompliance, or operational inefficiencies.

USE OF REPORT

We are employed by Florida International University (FIU or University). This report is intended solely for the internal use of the State University System and is not to be used for any other purpose. This restriction is not to limit the distribution of this report, which is a matter of public record.

BACKGROUND

The University uses the Automatic Data Processing (ADP) system for the administration of Human Resources and Payroll. The ADP system was implemented on July 1, 2007. Some of the services provided by the ADP system enable the FIU community to perform the following:

- Employee Self-Service allows employees to log in with a secure username and password and make changes to their personal information, such as address, number of dependents, direct deposit, and W-4 information.
- TimeSaver allows employees to manage their time and/or leave online and managers to approve the time and/or leave online.
- ADP Enterprise Version 4 (ADP EV4) allows the Division of Human Resources (HR) to maintain all personnel data, including payroll and benefits. The timekeeping information gathered in TimeSaver is transferred to ADP EV4 for payroll processing.

Prior to July 1, 2007, all employees were trained on time logging, and time approvers were trained on time approval by HR. The step-by-step training material is posted on the HR website for further reference. HR continues to provide training for new employees.

HR's Workforce Recruitment Department (Workforce Recruitment) validates new hire information and provides it to HR's Payroll Department (Payroll). Payroll is responsible for entering new

employee information, which is provided by Workforce Recruitment, into ADP EV4 and this information is passed to TimeSaver.

HR's Compensation Department (Compensation) updates the position information, such as salary range and shift differentials. Payroll then updates the employee in ADP EV4, such as reclassifying position, inputting pay rate changes and updating position changes. Compensation provides Payroll with the change request documentation that is approved by the requesting department and the HR Director or HR Vice President.

HR's Benefits Department is responsible for entering, maintaining and validating proper deductions for employees. All payroll deductions, which currently consist of 36 liability accounts, are then reconciled by the Controller's Office at the end of each month.

METHODOLOGY

Our examination included, but was not limited to, observation of actual practices and processing techniques, interviews with University personnel, and testing of selected transactions during the audit period, as considered necessary under the circumstances. We selected 24 cost centers out of the 1,045 cost centers where payroll was charged for the pay period ended August 7, 2008, encompassing 7,672 active employees. The 24 cost centers selected consisted of 790 employees (10%) of all active employees. We then reviewed the time approval process of the 24 cost centers for the 4 pay periods ended January 24, February 7, August 7, and August 21, 2008. The University's gross payroll expense for the 4 sampled pay periods was \$41,382,084. Sample sizes and transactions selected for testing were determined on a judgmental basis.

FINDINGS AND RECOMMENDATIONS

1. Time Approval Process

Our review of the time approval process in TimeSaver for the selected 24 cost centers, disclosed the following control weaknesses:

- **Time approvers approved their own time.** We noted that time approvers for 9 of the 24 cost centers (38%) approved their own time. This represented an internal control weakness because approving one's own time was a conflict of interest and an incompatible function.
- **Time approvers approved their employee's time without knowing actual hours worked.** Based on interviews with the time approvers and review of their vacation time used, we noted that time approvers for 4 of the 24 cost centers (17%) approved their employee's time while they were on leave. In one instance, the time approver approved time while she was on an extended leave for more than two months; she stated that she either approved at home or came in to the office briefly to approve time although she had a back-up time approver. In our opinion, it is difficult for a time approver who is on leave to determine whether hours worked and/or leave taken by their employees is

reported accurately, since he/she is not at the University to observe the employees and there is no one else (time keeper) to verify their hours.

- **Time approvers approved their supervisor's time.** Our review of the time approval process for the 24 cost centers reflected that in 6 of the cost centers (25%) time approvers approved their supervisor's time. This represented an internal control weakness because approvers were not independent and objective to review and approve their supervisor's time.
- **Time approvers approved their relative's time.** During our audit, we identified 164 employees with an identical address using the same bank account for payroll direct deposit. We then selected 15 employee pairs working in the same cost center to test. In addition, we selected 7 related employees from one cost center. We reviewed the 37 employees' personnel files and determined that 30 (81%) had not completed the Nepotism Disclosure form disclosing their relationship, as required by the University's Nepotism policy. In one instance, we noted that the time approver was approving her daughter and granddaughter's time. A conflict of interest exists when an employee approves/reviews time for a related employee whereby leave time taken may be under/un-reported and the employee may be paid for hours not worked.
- **Time approvers improperly approved non-exempt employee's time.** HR required non-exempt employees to approve/submit their time to their time approver at the end of each pay period. Our review of the time approval process for 39 non-exempt employees from 3 cost centers reflected that time approvers approved 25 (64%) of the non-exempt employee's time without the employees approving/submitting their time. Obtaining employee's approval/submittal would, at a minimum, indicate that the employee had reviewed his/her time and certified that it was accurate. Also, in the event that the time reported was found to be inaccurate, the employee would be accountable for the error.
- **Time approvers did not approve their employee's time by the established deadline.** HR approved time automatically in the event a designated cost center's time approver did not approve time and leave by the established deadline. However, HR did not notify the appropriate manager of the cost center so that necessary adjustments, if any, could be made the following pay period. HR did not review the reported time and had no knowledge of employees' hours worked. Therefore, the automatically approved time and leave were not reviewed by either the manager of the cost center or the HR staff. Our review of automatic time approval for the pay periods ended July 7, 2008 and August 21, 2008 indicated that HR automatically approved 860 (13%) and 766 (11%) employees, respectively, out of a total of 6,599 and 6,745 employees, respectively.

Recommendation No. 1 – Time Approval Process

- 1.1 We recommend that HR establish appropriate guidelines to prevent employees from approving their own time.
- 1.2 We recommend that HR provide training so that time approvers do not approve time or leave without verifying the accuracy of the actual hours worked.
- 1.3 HR should establish better controls so that the supervisor's time is approved by an independent employee or cost center rather than a subordinate employee.

- 1.4 We recommend that HR establish guidelines prohibiting time approvers/time keepers from approving/reviewing a related employee's time or leave.
- 1.5 We recommend that HR provide training so that non-exempt employees approve/submit their own time and time approvers approve time afterwards.
- 1.6 We recommend that HR coordinate with University departments to identify all related employees and complete the required Nepotism Disclosure form.
- 1.7 HR should communicate automatic approval of an employee's time/leave to the respective manager or time approver, so that necessary adjustments, if any, could be made by the manager or cost center time approver during the following pay period.

AUDITEE COMMENT/ACTION PLAN:

1.1 through 1.5

TimeSaver, the current system of record to track both worked and non-worked time for FIU Employees, is a Cost Center based system. Within TimeSaver there are three roles: Employee, Time Keeper (TK) and Time Approver (TA). Both the TK and TA are given review/sign-off access to a specific cost center or range of cost centers. Once you are given access to a specific cost center, both the TK and TA have the capability of reviewing/signing-off the Time Card for every employee who is paid from that specific funding source.

Our current business practice states that "Time Approver should not sign-off on their own time". This was communicated during Go Live, End User Training and is available as an on-line training guide at http://ptp.fiu.edu/training_guides.html under "TimeSaver - Time Keeper View".

Based on the audit findings and recommendations, HR will create, publish and communicate specific guidelines to address non-compliance scenarios which have been identified. The different guidelines will address:

- Time Approvers Signing-Off their own time.
- Time Approvers Signing-Off their employee's time without knowing actual hours worked.
- Time Approvers Signing-Off on their Supervisor's time.
- Time Approvers Signing-Off on their relative's time.
- Time Approves Signing-Off on non-exempt employees without employee's approval.
- Time Approvers not-signing off their employee's time by the established deadlines.

HR will use the following communication methods to reinforce guidelines:

- Post Guidelines on HR Website.
- Targeted Communication to Time Approvers quarterly.
- Information will be periodically presented in the monthly HR Liaison meetings.

Implementation dates for 1.1 through 1.5:

- Guidelines development and posting by January 1, 2009.
- First targeted communication sent by January 5, 2009.
- HR Liaison Meeting on January 15, 2009.

1.6 The Nepotism policy states:

Relationship to another individual employed by the University shall not constitute a bar to hiring, promotion or reappointment, provided that no employee shall be under the direct or indirect supervision or control of a related individual. The University retains the right to refuse to appoint a person to a position in the same department, division or facility, whereby his/her relationship to another employee can create an adverse impact on supervision, safety, security, morale, or involves a potential conflict of interest.

Individuals should not be employed in a department or unit, which will result in a subordinate-supervisor relationship between such individuals and any related individual as defined above through any "line of authority".

Related individuals, as defined by this policy, may not be supervised or work in the same division, department, or unit without prior approval from the Vice President for Human Resources or designee.

HR will coordinate with university departments to identify related employees and complete the required Nepotism Disclosure form. HRIS has developed a mechanism to identify individuals who are potentially related and will use this list to periodically audit the files and ensure that employees are disclosing this information.

HR has already begun to use the monthly HR Liaison meetings to create awareness of this requirement and get them to help us enforce this throughout the business units.

Implementation date:

- Recruitment Services Department will review and emphasize the Nepotism policy requirement for new hires during the On-boarding Process by January 5, 2009.
- Payroll will continue to do internal audit on a quarterly basis to determine the population to be reviewed by Employee & Labor Relations Department. The review process has begun and HR expects to have contacted everyone identified by January 5, 2009.
- Employee and Labor Relations will communicate this requirement periodically in the HR Liaison meeting to not only create awareness but to also continue the policy's reinforcement via formal communications.

1.7 HR will send each area Vice President the list of individuals that Time Approvers did not sign-off by the specified deadline and get them to assist with the enforcement of timely approvals for their respective areas. Department supervisors will be requested to review and validate reported work time and/or leave for accuracy during those pay periods in which the Payroll Department has signed-off their employees in order to process payroll in a timely manner.

Implementation date:

Starting January 5, 2009, the Payroll Department will send the list of Time Cards not signed-off to Department Heads on a bi-weekly basis, to create awareness and get needed support in order to accomplish these goals.

2. Access Controls

HR in collaboration with ADP established 16 different “classes” in ADP EV4 in order to provide users different levels of access to perform their job function. As of August 20, 2008, HR granted these classes to 197 employees from HR, departmental HR liaisons, and other authorized employees. We reviewed ADP EV4 access controls and noted the following conditions:

- **Employees had the ability to connect to ADP EV4 from outside the University.** Since ADP EV4 is a web client application without restriction to access from outside the University, employees had access to ADP EV4 from any computer with internet connection. ADP EV4 contained sensitive information, such as employees’ social security number, birth date, bank account information, name, address, and other employment related information that could be used for illegal/fraudulent activity. Logging in from a computer outside the University can potentially expose sensitive information to unauthorized individuals with access to the employee’s computer. In addition, accessing ADP EV4 from a computer with vulnerabilities, such as malware, spyware, and viruses could expose sensitive and/or confidential information to unauthorized persons resulting in potential liability for the University.
- **There were inadequate controls over granting user access.** Four HR employees had system administrator authority to grant users’ access to ADP EV4. Our review of access controls over ADP EV4 and interviews with HR personnel indicated that HR did not have formal request procedures for access authorization to ADP EV4 and did not periodically monitor access authorization. During the audit, we noted that HR granted users access via email requests and kept a log of authorized users without further verification. Without formal authorization procedures and periodic monitoring of the users’ access, unauthorized access to ADP EV4 may be granted and go undetected.
- **There was no audit trail for changes made to users’ classes.** During the audit, we were informed that there was no way of tracking changes made to the ADP EV4 user’s class. We noted that four HR employees with system administrator authority could change a user’s class without being detected. Changing a user’s class may elevate a user’s status, in some cases giving them more access than required by their job function. This could allow them to view and make changes to sensitive and/or confidential information compromising the integrity of ADP EV4 and potentially exposing the system to fraud.
- **Employees had unnecessary access to sensitive and/or confidential information.** For example, we noted that 25 HR employees had access to fields containing sensitive and/or confidential employee data, such as social security number, bank account number, bank routing number, and address, e.g., Benefits Department employees had access to view employee’s direct deposit information (bank account number and routing number), which was not required for their job function. Giving access to sensitive and/or confidential data to a large number of employees increases the risk of misuse of such data.

- **HR employees performed multiple incompatible functions.** Our review of access controls over ADP EV4 disclosed that employees were granted access to perform multiple incompatible functions. For instance, four employees in the Payroll department had access to add new employees, change pay rate, input termination date, change bank account number and routing number, and process payroll, among others. Such access provided the ability to create fictitious employees, pay increases or delay termination date that may not be prevented or detected in a timely manner.

Recommendation No. 2 – Access Controls

- 2.1 We recommend HR implement the necessary controls in ADP EV4 to limit the number of employees accessing the system from outside the University.
- 2.2 We recommend that HR establish authorization procedures for granting access to ADP EV4 and periodically review users' access to ascertain that they are authorized and have a business purpose for accessing the system.
- 2.3 We recommend that HR work with ADP to establish appropriate procedures to track changes made to user's ADP EV4 access level.
- 2.4 We recommend that HR evaluate and limit unnecessary user access to sensitive and/or confidential information.
- 2.5 We recommend that HR assign an appropriate level of ADP EV4 access in the Payroll Department in order to avoid incompatible functions.

AUDITEE COMMENT/ACTION PLAN:

- 2.1 The EV4 system is hosted in an ADP Data Center and the internet is used to access the application. There is a feature under EV4's Security Administration that will allow us to limit the days and times in which the user can login into the HR System. HR will enable this feature to non-essential security classes from 6:00 am–8:00 pm, Monday through Friday. The security classes will be created/updated by January 5, 2009 to reflect the new access timeframe described above.
- 2.2 Access to EV4 is limited to HR, Academic Affairs and approved list of HR Liaisons throughout the University Community. Today there are three ways to grant access to EV4. The Executive Budget Managers (EBM) approves access to HR Liaisons, the Associate Vice President of Academic Affairs and the Director of Operations for the Division of Human Resources. Currently there are seven EBM which control this access function for the University Community.

Based on the Internal Audit Recommendation, HR will implement an EV4 Access Request Form, similar to the current TimeSaver Access Request Form, to track access request to EV4. Additionally HR will periodically perform audits in order to assure that those employees with access to EV4 have an approved Access Request Form on file.

HR will expand the TimeSaver Access Request Form and include options to request EV4 access. The new revised form will be implemented by January 5, 2009.

2.3 Today there is an application limitation in keeping historical information on what the previous security class was, if any, for specific User ID's. As a work around, HRIS will implement a query to take monthly snapshots of security access and develop a mechanism to compare changes month over month to the EV4 security classes. The development of the query and comparison mechanism of month over month security changes on the EV4 System will be implemented by January 15, 2009.

2.4 through 2.5

With 1.5 years of experience on the new system, we now have a better understanding of not only how the system is being used by our staff, but also the specific functionality required by the different departments accessing the system. HRIS will review current security class and make necessary changes for the different departments within HR.

HR will make the necessary adjustment to the current security classes to not only address the access to sensitive and/or confidential information that is not necessary to current job function, but to also limit application access to avoid incompatible functions specified by specific departmental roles. The security changes will be implemented by January 15, 2009.

PRIOR AUDIT RECOMMENDATIONS

As part of our audit, we reviewed internal and external audit reports issued during the last three years and found no outstanding audit recommendations pertaining to the scope and objectives of this audit. Therefore, no report on prior audit recommendations was necessary.