

**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**FROM:** Executive Office

**SUBMITTAL DATE:**  
January 20, 2010

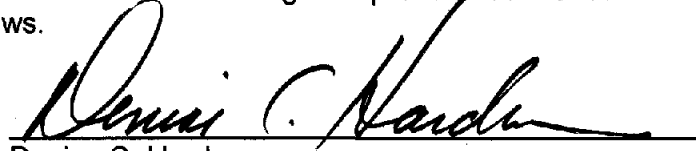
**SUBJECT:** Report on Payroll 22-2009 Direct Deposit Error

**RECOMMENDED MOTION:** That the Board of Supervisors receive and file this report.

**BACKGROUND:** On November 2, 2009, an error occurred processing payroll for pay period 22-2009 that doubled direct deposit payments to 18,106 county employees. The error totaled \$23.6 million, nearly all of which was reversed and/or recovered from employee accounts the same day. The County Auditor-Controller has accounted for all of the erroneously paid amount, and is working with financial institutions and employees to recover the remainder, which as of this writing is \$68,826.73.

The OASIS Director, County Information Security Officer (CISO), and Auditor-Controller all reviewed the incident. Each identified procedural weaknesses, and recommended changes to prevent recurrence. A summary of their findings and recommendations follows.

(continued)

  
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 Denise C. Harden  
 Principal Management Analyst

Departmental Concurrence

**FINANCIAL DATA**

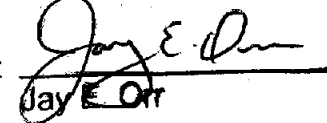
Current F.Y. Total Cost: \$  
 Current F.Y. Net County Cost: \$  
 Annual Net County Cost: \$

In Current Year Budget:  
 Budget Adjustment:  
 For Fiscal Year:

**SOURCE OF FUNDS:**

Positions To Be Deleted Per A-30	<input type="checkbox"/>
Requires 4/5 Vote	<input type="checkbox"/>

**C.E.O. RECOMMENDATION: APPROVE**

BY:   
 Jay E. Orr

**County Executive Office Signature**

- Consent
- Policy
- Consent
- Policy

Dept Recomm.:  
Per Exec. Ofc.:

**Prev. Agn. Ref.:**

**District:**

**Agenda Number:**

**3.67**

The underlying cause of the error identified by the OASIS Information Security Officer was software code received from Oracle Corporation packaged with a routine payroll tax update. OASIS staff mistakenly relied on Oracle documentation indicating the files containing that code would not affect the county's payroll application. Consequently, when staff installed the tax update, they failed to test certain files, despite existing departmental policy, procedures and protocols that include testing in OASIS' change control framework. Furthermore, the updated payroll process was not functionally tested end to end by OASIS staff, nor was the resulting output completely validated. Consequently, OASIS staff did not detect the anomaly that generated the duplicate payment entries in the direct deposit file. In addition, OASIS staff failed to engage Auditor-Controller payroll staff to perform end user acceptance testing and output validation.

As part of the checks and balances of County's internal control system, the Auditor-Controller's Office is responsible for completing, signing, and submitting the transmittal register authorizing Union Bank to distribute the direct deposit payments. According to Union Bank's transmittal instructions, in addition to other information, completing the transmittal register requires entering both the transaction count and total amount. The Auditor-Controller's Office did not typically reconcile payroll in advance of distribution, and they did not do so in this case. Nor did they independently validate the total amount on the direct deposit remittance report used to complete the transmittal register against separate payroll reports prior to authorizing the bank to distribution direct deposits. Either comparing the direct deposit total to payroll records, or reconciling payroll prior to authorizing distribution of the direct deposits, would have caught the error.

OASIS has written departmental policies and procedures pertaining to change management, system maintenance, and testing, some of which were revised and distributed to OASIS staff as recently as September. In his review, the OASIS Information Security Officer identified several areas in which OASIS management and staff did not follow those policies and procedures, and provided recommendations to remediate recurrence of this type of event. His recommendations include:

- Ensuring staff handling critical tasks have sufficient depth of experience and adequate management oversight;
- Revoking systems developers' emergency authority to unilaterally modify applications;
- Substantially tightening the change control management system's internal controls and management approval;
- Requiring greater management oversight and approval of end user testing;
- Developing an OASIS records retention schedule compliant with Board Policy A-43;
- Additional protocols to document the Auditor-Controller's validation of the transmittal amount with appropriately signed authorization to proceed with direct deposit distribution; and,
- Holding transmittal of the direct deposit file to the bank until OASIS receives that signed authorization to proceed from the Auditor-Controller's Office.

The OASIS Director implemented and put into effect several of these recommendations immediately, and will oversee development and implementation of the remainder. As a result of his ISO's internal review, he referred the matter to Human Resources for disciplinary review, which is currently ongoing.

70.2

In addition to concurring with the need for more complete testing and improved records retention, the CISO further recommends developing emergency change control procedures to ensure appropriate coordination and controls occur during critical incident response.

The Auditor-Controller concurs with the findings and recommendations made by the OASIS Information Security Officer. In addition, he identified two key deficiencies in management oversight of this process within his own office. Chiefly, he noted it was standard practice for his Payroll Division to validate the amount of the direct deposit file the day after authorizing Union Bank to distribute the direct deposits, and that this task was completed and authorization signed by line staff without management review or sign off.

To correct these deficiencies, the Auditor-Controller immediately moved validation of the direct deposit file up one day so it occurs prior to authorizing distribution of payments. Going forward, the Auditor-Controller also intends to institute management-level review and signature of the transmittal register sent to Union Bank authorizing distribution of the direct deposits.

The Executive Office concurs with the findings and recommendations of the OASIS Information Security Officer, the Auditor-Controller, and CISO. While we concur OASIS' policies and procedures need to be strengthened and vigilantly followed, neither the CISO's report, the OASIS ISO's report, nor the Auditor-Controller's report provide evidence of error in employee pay, retirement benefits, or income tax reporting. The Executive Office will continue to work with OASIS and the Auditor-Controller to ensure all recommendations are implemented expediently to mitigate the potential for recurrence of a similar incident.

In addition, the CEO referred this matter for further discussion and review by the recently established OASIS Governance Committee, co-chaired by the Assistant CEO and Finance Director and comprised of executives from OASIS, Auditor-Controller, Human Resources, and Purchasing departments.