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

569

FROM: County Auditor-Controller

SUBMITTAL DATE:
January 15, 2013

SUBJECT: Internal Auditor's Report #2011-008 – Countywide Ghost Employees

RECOMMENDED MOTION: Receive and file Internal Auditor's Report #2011-008 – Countywide Ghost Employee.

BACKGROUND: The Internal Audit Division of the Auditor-Controller's Office has completed a countywide Ghost Employee Audit. Our objective was to evaluate the effectiveness of internal controls over entry of employee information into the (HRMS) Human Resources Management System of PeopleSoft; specifically, as it relates to the ability of preventing the creation of ghost employees. We conducted the audit for the period July 1 2008 through December 31, 2011.

Based upon the results of our audit, we determined the internal controls over entry and maintenance of employees information into the HRMS system are adequate to ensure fictitious employees are not being entered. However, certain areas were identified that would strengthen the existing internal controls.

Management concurs with the results and has already taken steps to implement the recommendations. We will follow-up within one year to verify that management took corrective action.

Paul Angulo

Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A

Positions To Be Deleted Per A-30	☐
Requires 4/5 Vote	☐

C.E.O. RECOMMENDATION:

APPROVE

BY: _____
Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Stone, seconded by Supervisor Benoit and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes:	Jeffries, Tavaglione, Stone, Benoit and Ashley
Nays:	None
Absent:	None
Date:	February 26, 2013
xc:	Auditor

Kecia Harper-Ihem
Clerk of the Board
By: _____
Deputy

2-11

Prev. Agn. Ref.:	District: ALL	Agenda Number:

County of Riverside

INTERNAL AUDIT REPORT

2011-008

Countywide Ghost Employees

January 15, 2013

Office of
Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

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P.O. Box 1326
Riverside, CA 92502-1326

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AC̀O|AUDITOR CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA-Mgmt
AUDITOR-CONTROLLER

January 15, 2013

Barbara Olivier
Assistant CEO/Human Resources Director
County of Riverside
4080 Lemon Street, 7th Floor
Riverside, CA 92502

Subject: **Internal Audit Report 2011-008: Countywide Ghost Employees**

Dear Ms. Olivier:

The Internal Audit Division of the Auditor-Controller's Office has completed a countywide Ghost Employee Audit. Our objective was to evaluate the effectiveness of internal controls over entry of employee information into the (HRMS) Human Resources Management System of PeopleSoft; specifically, as it relates to the ability of preventing the creation of personnel and payroll records to generate ghost employees. We conducted the audit for the period July 1 2008 through December 31, 2011.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to evaluate the internal controls.

The department's internal controls over entry and maintenance of employee information into the HRMS system are adequate to ensure fictitious employees are not being created and setup in the computer system. However, certain areas were identified that would strengthen the existing internal controls.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management. We thank the

Riverside County Human Resources Department's management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

By: Rachelle Román, MPA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Grand Jury

Table of Contents

Executive Summary

Overview

The Riverside County (HR) Human Resources Department, with a current general fund budget of over $16 million, is comprised of several divisions offering a variety of services. These services include employee recruitment, benefits administration, career development training, leadership development, workers compensation, safety, employee assistance programs, occupational health and wellness, rideshare, (TAP) Temporary Assignment Program, and risk management administration for all County departments. Overall, HR manages sensitive personnel data, such as social security numbers, birthdates, home addresses, and hiring dates for over 17,000 Riverside County employees utilizing HRMS.

In addition to HR, the other major stakeholders in maintaining data integrity of County employee information are the (ACO) Auditor-Controller's Office Payroll Division, the Enterprise Solutions Division, and County Departments. The ACO Payroll Division utilizes HRMS to fulfill their responsibility of issuing bi-weekly payroll checks for all County employees. The Enterprise Solutions Division provides maintenance and upgrades of HRMS and ensures the data is transferred from the departments and HR to the Auditor-Controller's Payroll module. County departments maintain the responsibility of submitting accurate data as changes with personnel occur. Each in their respective functions, have different roles that help ensure that personnel data is accurate and valid.

Based on the County of Riverside Fiscal Year 2012 Adopted Budget, expenditures for salaries & benefits represents 38% of the budget. Since salaries and benefits constitute a large amount of expenditures, it may be an area of interest to defraud the computer system for illicit gain. The Association of Certified Fraud Examiners 2010 statistics indicate that 8.5% of fraud committed in the workplace is committed within payroll processes. Implementing strong preventive measures in the payroll process is necessary to minimize the potential of fraud being committed.

Audit Objective

Our objective was to evaluate the effectiveness of internal controls over data entry and maintenance of employee information into the HRMS system; specifically, as it relates to the ability of preventing the creation of personnel and payroll records to generate ghost employees.

Audit Highlights

During our review of the HR, Payroll, and Enterprise Solutions processes, we found adequate internal controls have been implemented to mitigate the risk of payroll fraud from occurring. Notably are the controls HR and Payroll specifically strengthened as a result of a 2006 fraud instance.

These processes include the following:

- In the event a payroll check must be picked up instead of mailed, the employee is the only individual allowed to do so. (Payroll Division)

- A message identifying the payment delivery such as "an online check was issued" (off-cycle check), or "paper warrant issued" appears when employees view their paystub online. (Payroll Division)

- Verification for accuracy of retro-pay prior to processing. (Payroll Division)

- Two separate sign-offs (including a supervisor) are required to process retro-pay. (HR)

- System generated tracking mechanism to identify the user entering or modifying data involving pay. (HR-IT)

- Specific security logins are required to produce employee badges. (HR)

We did identify instances where payroll processes could be modified to be more efficient. Specifically, we found areas in the TAP Division of HR, as well as the overall process on how certain employee status' changes are initiated.

Areas of improvement identified during our audit are as follows:

- Improve on the data entry accuracy of TAP employee information; specifically, properly identify actual work locations/addresses;

- Systematically implement an audit trail of individuals who modify or make any changes to employee information in HRMS; and,

- Improve processing times of employees' status changes.

Details on these conditions are described in the body of the report.

Audit Conclusion

Based upon the results of our audit, we did not find existence of fictitious employees within HRMS. We identified internal controls over data entry and maintenance of employee information into the HRMS system are adequate to ensure fictitious employees are not being created and setup in the computer system. However, certain areas were identified that would strengthen the existing internal controls. These areas are discussed in this report.

Controls over HRMS

Background

A general overview of the hiring and data entry process starts when a department submits a request to fill a vacant position and hire a new employee. HR will process the request and will utilize the Job Match System, a state of the art technology system that captures and stores resumes in a database, to produce a list of qualified candidates. This certified list is forwarded to the department to conduct interviews.

After a candidate is selected and the candidate accepts the respective offer, the department will submit a completed Employee Transaction Form, along with a completed employee packet to HR. HR then enters the employee's information into HRMS; assigning employee numbers, pay rate, employee benefits information data, and other pertinent employee information that will populate into the payroll module.

The Payroll Division of the ACO is responsible for processing payroll. The Payroll Division processes the following transactions to produce the bi-weekly payroll checks and direct deposits: Short-Term Disability, Workers' Compensation, Health Insurance Adjustments, Union Dues, Savings Bonds, Terminated Employee Payments, Final Payments for Deceased Employees, Military Differential Pay, Earnings Withholding Allowance Certificates, and Garnishments.

As previously mentioned, the Enterprise Solutions Division provides maintenance and upgrades of HRMS and ensures processes are run to populate time and labor into the payroll module. The Division is also responsible for sending the direct deposit file to the bank and a print file to Printing Services for direct deposit advices and paper warrants. They are also the custodian for granting security access to certain individuals that need access to HRMS and the payroll module. Access to these systems must be requested by respective departments and approved by the departments' executive management.

Audit Objective

Evaluate the effectiveness of internal controls over data entry of employee information into HRMS; specifically, as it relates to the ability of preventing the creation of personnel and payroll records to generate ghost employees.

Audit Methodology

To accomplish our objective, we:

- Met with staff from HR and the Payroll Division to gain an understanding of the hiring processes and payroll processing functions;

- Queried HRMS and obtained employee information and pay period status for all County employees during the audit period;

- Requested confirmation from department heads regarding the existence of employees in their respective department that were hired from March 2007 through May 2011;

- Inquired on respective employees who were not confirmed by department heads; and

- Selected a small sample and physically verified the existence of employees throughout the county.

Results

Finding 1: Inefficient processing times for terminated employees

We selected 20 of the 158 employees confirmed by County departments as no longer employed within their areas to determine if they were still receiving pay. Of the 20, one employee had resigned from the department as of 6/22/11. Upon review of the records in HRMS and based on our queries, payroll cycles were still running for five more pay periods after the date of resignation. These cycles did not generate pay, but according to ACO Payroll Division, the system treated the employee as part of the County payroll since the system was not updated realizing the termination until 8/10/11 (seven weeks after resignation). Update of the system is completed by HR, but it does so at the request of the department that employs the individual. The departments must initiate the request to terminate an employee. According to HR, this can take time and the reasons vary of why processing may be delayed. In the case noted above, the employee resigned verbally while out of town and HR was not notified of the resignation until seven weeks later. The employee's record was updated in HRMS as is standard practice once HR was made aware of the resignation.

The inability to process the termination of an employee in the HRMS system in a timely manner has the risk of someone being able to manipulate information that could possibly generate pay for illicit gain. Standard Practice Manual 104 of the Auditor-Controller's Office states that County departments and agencies shall establish, document, and maintain an effective system of internal controls over their processes.

Recommendation 1:

A request should be made to add a "manager self-service" function to HRMS to allow the managers at the department level to initiate the termination process within the system, still allowing the close-out responsibility to HR. This would grant the department the ability to terminate the employee in a timely manner and allow HR to conduct close-out procedures on the HR side.

Management response: Concur
Estimated cost to complete: $25,000

"Human resources would have to collaborate with Enterprise Solutions to establish an actual/estimated date to implement the Manager Self-Service functionality. Enterprise Solutions maintains the HRMS System and has the responsibility for implementation of PeopleSoft modules and upgrades. The next anticipated PeopleSoft upgrade is expected to occur in the latter of 2013.

The implementation of the Manager Self-Service functionality would require a joint effort among Enterprise Solutions, Human Resources, and the Auditor Controller's Office to activate. Human Resources and the ACO departments would be the primary stakeholders with input on this functionality."

Auditor's Note:

We will conduct a desk review in one year to verify management took corrective action.

Finding 2: Incomplete Audit Trail in HRMS

Currently, there is no activated audit trail functionality to identify individuals who input changes into the HRMS payroll data fields. The audit feature for payroll related data maintained in HRMS Job Data panels was available in previous versions of HRMS, but was inadvertently disabled when Enterprise Solutions submitted an upgraded version of the HRMS application. Human Resources was not aware the HRMS Job Data audit trail functionality had been removed until September 2012. Upon notification of the audit trail functionality removal, Human Resources immediately requested Enterprise Solutions to incorporate the audit trail functionality for the payroll data back into HRMS. The audit trail functionality is available and activated in HRMS to identify individuals who input changes into HRMS for personal and address changes.

The lack of audit trail functionality within a personnel system weakens the controls that can assist in tracking questionable and/or unauthorized changes to employees' files. Best business practices ensure that internal controls are established to promote the safeguarding of assets, accuracy and reliability of information and provide the ability to audit the communication path.

Recommendation 2:

HR should request Enterprise Solutions to make the audit feature available for payroll related data in HRMS.

Management response: Concur
Estimated Cost: None

"Human Resources submitted a written request to Enterprise Solutions in September 2012 to have the audit capability functionality re-activated immediately.

Enterprise Solutions has confirmed that the audit functionality for Job Data and Personal Data within PeopleSoft was reactivated on November 26, 2012."

Auditor's Note:

We will conduct a desk review in one year to verify management took corrective action.

Finding 3: Inaccurate tracking of TAP employee assignments

TAP employee assignments are inaccurately being tracked. Ten of the 31 rehired employees we attempted to physically verify could not be located at the address provided by the HR Department. Further inquiries revealed the employees were on an assignment that had ended or were assigned to new departments. This information was not updated in the HRMS to

accurately identify the employee's current assignment or actual address where they were located; therefore, making the information unreliable. One cause is that addresses are populated in HRMS automatically when a position control number is entered. The addresses are generic addresses pertaining to all TAP employees. HRMS does have other screens where addresses can be entered specifically to where the employees are assigned, but it is currently not being used by HR TAP personnel. Best business practices of internal controls ensure the accuracy, reliability, and timeliness of records and information.

Recommendation 3:

Accurate department information and work addresses for TAP employees should be entered and reflected in the respective HRMS screen.

Auditor's Note:

HR implemented the recommendation subsequent to our discussion of the need to maintain accurate tracking of TAP employees work assignments. We consider the recommendation to be implemented and will conduct a desk review in one year to verify management took corrective action.

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DATE: November 26, 2012

TO: Auditor-Controller's Office
            Audits and Specialized Accounting Division

FROM: Barbara A. Olivier, Human Resources Department

SUBJECT: Reply to Draft Audit Report [2011-008]

BARBARA A. OLIVIER
Asst. County Executive Officer/
Human Resources Director

Shawn Atin
Asst. Human Resources Director

John Mooney
Asst. Human Resources Director

Michael Stock, Esq.
Asst. Human Resources Director

Nancy Taylor
Director of Leadership &
Organization Development

Recommendation 1:

A request should be made to Enterprise Solutions to activate and implement the "Manager Self-Service" functionality within the Human Resources Management System (HRMS). Implementing the Manager Self-Service functionality would allow managers at the department level to initiate the termination process in lieu of a written request. The functionality would also provide Human Resources with streamlined internal controls to finalize the termination process. Additionally, this recommendation would give County departments the ability to initiate employee terminations in HRMS in a more timely manner, while allowing Human Resources the ability to process terminating employees more efficiently.

Management position concerning the recommendation: Concur

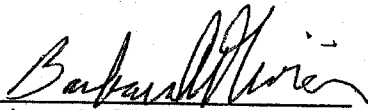**Actual/estimated Date of Corrective Action: TBD**
Human Resources would have to collaborate with Enterprise Solutions to establish an actual/ estimated date to implement the Manager Self-Service functionality. Enterprise Solutions maintains the HRMS System and has the responsibility for implementation of PeopleSoft modules and upgrades. The next anticipated PeopleSoft upgrade is expected to occur in the latter of 2013.

The implementation of the Manager Self-Service functionality would require a joint effort among Enterprise Solutions, Human Resources, and the Auditor Controller's Office to activate. Human Resources and the ACO departments would be the primary stakeholders with input on this functionality.

Estimated cost to implement recommendation (If material): $25,000

The cost provided is an estimate based on anticipated set-up, review, and testing time between Enterprise Solutions, Human Resources and the ACO, based on salaries including benefit cost of staff members from each teams needed to implement the functionality.

Barbara A. Olivier
Asst. County Executive Officer/HR Director
County of Riverside

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DATE: November 26, 2012

TO: Auditor-Controller's Office
            Audits and Specialized Accounting Division

FROM: Barbara A. Olivier, Human Resources Department

SUBJECT: Reply to Draft Audit Report [2011-008]

Recommendation 2:
Human Resources should request Enterprise Solutions to make the audit feature available for payroll related data in Human Resources Management System (HRMS).

Management position concerning the recommendation: Concur

Actual/estimated Date of Corrective Action:
Human Resources submitted a written request to Enterprise Solutions in September 2012 to have the audit capability functionality re-activated immediately.

Enterprise Solutions has confirmed that the audit functionality for Job Data and Personal Data within PeopleSoft was reactivated on November 26, 2012.

Estimated cost to implement recommendation (If material): None

Barbara A. Olivier
Asst. County Executive Officer/HR Director
County of Riverside

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DATE: November 26, 2012

TO: Auditor-Controller's Office
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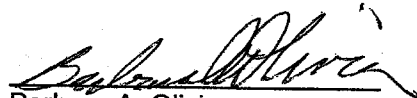

Recommendation 3:
Actual address of where TAP employees are being assigned should be entered in the respective HRMS screen.

Management position concerning the recommendation: Concur

Actual/estimated Date of Corrective Action:
Human Resources implemented the recommendation subsequent to our discussion of the need to maintain accurate tracking of TAP employee assignments. We consider the recommendation to be implemented.

Estimated cost to implement recommendation (If material): None

Barbara A. Olivier
Asst. County Executive Officer/HR Director
County of Riverside