OIG Memorandum

TO: J. M. White, CFO  
    T. P. Brown, CAO

FROM: D. J. Aubrey, Inspector General

SUBJECT: Audit of Payroll – Payroll Listing Verification

DATE: August 26, 2019

The Office of the Inspector General (OIG) has recently completed an audit of Payroll and the payroll listing verification process. This review was performed by Ron McReynolds, IT Auditor.

A. Objective / Scope

The audit objective was to assess the accuracy and integrity of the Authority’s payroll, specifically those on the Authority’s payroll, while confirming appropriate controls are in place to ensure accuracy.

The scope of this audit focused on 2018 payroll activity which involved the comparison of master data from both the Human Resource Services’ employee listing (active employees) and Finance’s payroll listing; in addition, a comparison to sampled payroll batch runs was performed. As part of this audit our Office also evaluated the following:

- evidence of appropriate segregation of duties and general IT controls;
- reconciliation process / procedures;
- change management process / procedures (i.e. additions, revisions, terminations); and,
- exception reporting / management oversight and monitoring.
Three randomly selected 2018 weekly payroll batches were reviewed, involving the comparison of master data within the Authority’s Human Resource Services’ active employee listing versus the Finance Payroll listing; in addition our testing included:

- documenting and communicating any differences determined from the file comparison to Payroll management for explanation and/or resolution;
- identifying any observed gaps in the Payroll control process and providing recommendations for process improvement (if needed);
- reviewing current payroll processes with Human Resources Services management and Finance / Payroll management; and,
- reviewing the SAP user list, containing the system rights to add and modify employees, for appropriate application of segregation of duties and appropriate access rights (transaction code PA30).

The primary responsibilities for the Payroll department is to process the Authority’s payroll in a timely and accurate manner, while protecting the Authority’s financial assets and protecting the confidential personal employee information.

B. Analysis

Human Resource Services Process Review

Based on OIG’s review, the following Human Resource Services’ processes contribute to Payroll completion:

- the HRIS specialist (or her alternate) enters employee data into SAP to add, modify or separate employees based on signed forms (e.g. Personnel Placement, Temporary for Higher Classification, Position Detail Change or Notification of Separation).
- the HRIS specialist issues the following emails to employee’s Manager and Finance / Payroll group when SAP has been modified for the following conditions:
  - "New Hire(s) Entered in SAP" - distributed whenever a new hire is entered in SAP;
  - "Employee Separations Action(s) Completed" - distributed whenever an employee has been separated from SAP;
  - "Separation/Payout" - sent to the Payroll team as part of the separation process for full time employees; and,
  - SAP Data Changes - sent weekly which summarizes all changes (e.g. salary increases, salary changes/adjustments, tax impacts, temporary for higher classifications, promotions, position changes.).
- as part of the weekly payroll process, the HRIS Specialist or Lead Time Administrator reviews time entries to assure that all employees’ time has been entered and approved. Once the review is completed, the HRIS Specialist / Lead Time Administrator emails the Payroll group to start the payroll process.
- based on our discussion with the Lead Time Administrator:
  - the Lead Time Administrator role can enter and approve time for employees for the entire organization, but it is only completed when authorized by phone or email by appropriate management;
departmental time administrators can only enter time for employees in their department, but can’t approve time; and,
employee’s manager cannot enter time for their employees but can only approve time for their group’s employees.
• according to the Manager, ERP Applications, Information Services, the controls regarding the time entry process are not documented anywhere in the Manager Self Service (MSS) or Employee Self Service (ESS) modules in SAP.
• employees are not obligated to have direct deposit (paper checks are distributed at OPC, PATCO and the Authority’s bridges for employees without direct deposit).

Finance / Payroll Group Process Review

The following steps were identified by Finance / Payroll as processes contributing to Payroll completion:

**Pre-SAP Steps:**
- Email from HR - Handoff
- Email from Basis - payroll paused

**SAP Steps:**
- Step 1 - Zcostsplit
- Step 2 - Payroll control record
- Step 3 - Email from payroll that payroll/time entry is Locked
- Step 4 - Running Live Payroll
- Step 5 - Monitor Jobs - /nSMX or /Nsp01
- Step 6 - Output Controller
- Step 7 - Payroll Control Records - /nPA03
  - Identifying incorrect personnel Numbers
- Step 8 - Lock incorrect personnel numbers
- Step 9 - Release for Corrections
- Step 10 - Run the following reports to verify any changes:
  - W4 Summary
  - Work Tax - Vs- Unemployment
  - Employees Address Change log
  - Employees Bank Change Detail
  - Employee Salary Details - Change log
- Step 11 - Validate the following reports:
  - HR ZAllTime report - with - Hourly Hours report
  - Retro Identify report - with - Retro Detail report
  - Wage Type Report - with - Positive Deduction
  - Wage Type Reporter - with - Salaried Base
  - Wage Type Reporter - with - Net Pay
- Step 12 - FI Posting Simulation only
- Step 13 - DME Simulation
- Step 14 - DME Live - Review comment regarding replacing prior file
- Step 15 - Generate Payment Medium
- Step 16 - DME Management

The DRPA is an Equal Employment Opportunity Employer
• Step 17 - Positive Pay - DRPA Only
• Step 18 - Spool Look Up
• Step 19 - Create Check Register
• Step 20 - Deferred Comp Voya file upload to share folder
• Step 21 - Payroll Reconciliation Report
• Step 22 - Exit Payroll Control Records
• Step 23 - Live FI Posting
• Step 24 - Third Party Posting
• Step 25 - Simulation - Third Party Remittance posting run
• Step 26 - Run Live - Third Party Posting Remittance posting run
• Step 28 - Sers Upload file (DRPA & PATCO)
• Step 29 - Email to IS - Restart the following jobs
• Step 30 - Retrieve ACH upload file (only if file was lost)
• Step 31 - PATCO - ACH Bank processing weekly
• Step 32 - DRPA - ACH & Check Processing weekly

**Post SAP Steps:**

• Email PATCO Finance ACH/Check/ Flex spending amounts weekly
• Email Authority employees for payroll/ time entry unlocking

**Weekly Payroll Listing Review**

Results from the review of the randomly selected weekly payroll batches indicated the following:

- Pay Period 11, checks issued 3/16/2018: 2 former employees had payroll adjustments; 1 person was retired, 1 person was withdrawn (separated from the Authority).
- Pay Period 33, checks issued 8/17/2018: 4 former employees had payroll adjustments; 3 people were retired, 1 person was withdrawn (separated from the Authority).
- Pay Period 34, checks issued 8/24/2018: 3 former employees had payroll adjustments; 3 people were withdrawn (separated from the Authority).

All adjustments to former employees encountered during our review were identified by the Payroll staff as insurance overpayments, payroll corrections, tax adjustments, and employee separation vacation payouts. Documentation in support of the adjustments was difficult to locate, and, in some cases, non-existent.

**SAP System Access Review**

Results from OIG’s review of system access management and segregation of duties for the payroll process indicated the following:

- as of 3/25/2019, 60 users had executable access to the SAP transaction code PA30, this transaction code allows users to add, modify and delete employees from SAP. Of the 60 users identified, 36 users were IT contractors, 5 users were HRS employees and 1 Chief Administrative Officer, 1 Benefits employee, 1 DBD EEO employee, 1 Benefits temporary worker, 6 Finance employees, 3 operational PATCO employees
(including a Manager, Mechanical & Custodial, Director, Equipment, and an Assistant General Manager), 4 Information Services employees, 1 IT Auditor, and 1 unknown user “ps3test”.

- based on discussion with the Authority’s Payroll Manager:
  - all Payroll employees have the user rights to run the payroll process;
  - the payroll process does not require a management review and an approval step is not embedded in the process; and,
  - the payroll output to the general ledger does not have a documented Manager approval process, to assure the accurate value per each payroll run is correctly applied to the Authority’s financial records.

C. Conclusions

The Finance / Payroll group is very efficient in assuring that employees are paid in a timely manner. Only authorized former employees and authorized employees reflected on the Human Resource Services’ active employee listing were on the executed payroll listings tested; no fraudulent or “ghost employees” were detected in the audit. Opportunities for improvement were observed in the manner of protecting sensitive employee data and documenting the accounting for the Authority’s payroll process.

- In the three-week payroll sampling, 9 former employees had payroll adjustments / payments where formal standardized documentation was not readily accessible. While none of these transactions were considered fraudulent, the lack of formal management approval documentation is considered a control weakness that may allow fraudulent activity since the Finance / Payroll group has system access to add / change employee data in SAP.

- The Finance / Payroll group does not have documented management approval for the weekly payroll and the task is usually performed by one individual. This is considered a control weakness because the payroll disbursement is not documented by a requester and approver (standard accounting guidelines for limiting fraud).

- The Finance / Payroll group does not have documented management approval for the posting of payroll to the general ledger. Having management review and approve the posting to the general ledger will lessen the possibility that payroll transactions could be posted inaccurately or to the wrong funds or accounts.

- The Finance / Payroll group does not have documented requester / management approval for transactions processed outside of the normal time reporting process, i.e. insurance adjustments, vacation payouts (standard accounting guidelines for limiting fraud).

- The Human Resources Service group does not have control over the individuals that have access to add / change / delete employee data in SAP. Human Resource master data is most effectively administered when record modification access is limited to a few key HRS personnel. This process will limit fraud risk and provide consistency for
data entry. The HRS master data should be segregated from the Payroll department to limit any fraud potential. All requests to change HRS master data should be formally documented (i.e. standard forms, emails, etc.) to authorize modifications. Information Services and IS contractors should not have permanent access to change HRS master data. HRS master data modification access should only be granted to Information Services on a limited, documented, case by case basis (i.e. firefighter role).

D. Audit Recommendations

As a result of our audit, OIG recommends the following:

**Audit Recommendation #1 (Finance / Payroll):**
Finance / Payroll management should create and implement a documented management approval process for reviewing variances in the payroll weekly batch. This review / approval should be completed prior to processing payroll to allow for corrections. The process should document and explain any payments / adjustments to employees no longer with the Authority, and also document and explain any non-timekeeping payments / adjustments to any current employees. This process will demonstrate that management was aware of these unusual activities and approved the transactions. Management approval should be documented, and the documentation should be retained electronically for upper management or audit review. At a minimum, this documentation should be retained until the successful completion of the Authority’s Annual Financial Audit.

**Management Response #1 (Finance / Payroll):**
Finance / Payroll management agrees with Audit Recommendation #1.

Payroll maintains weekly files on the shared drive DRPA-PATCO Payroll. The drive contains folders for DRPA and PATCO with excel downloads by pay period. On a weekly basis, payroll will supply a list of employees paid by name and personnel number and on no pay status for both DRPA and PATCO. This will be compared to SAP report “Flexible Employee Data” on a weekly basis and any employee appearing on the payroll list and not included in the Flexible Employee Data report will be investigated immediately. Estimated completion date October 31, 2019.

This analysis will eventually be performed by the Manager of Payroll. Payroll SOPs will be updated to include this approval.

**Audit Recommendation #2 (Finance / Payroll):**
Finance / Payroll management should create a documented management approval process for reviewing the weekly payroll batches to assure Payroll accounting will be accurately applied to the general ledger. The documentation should include documented management approval and it should be completed prior to posting to the general ledger. Management approval should be documented, and the documentation should be retained electronically for upper management or audit review. At a
minimum, this documentation should be retained until the successful completion of the Authority’s Annual Financial Audit.

**Management Response #2 (Finance / Payroll):**
Finance / Payroll management agrees with Audit Recommendation # 2.

Payroll posting approval - Final FI Simulation for DRPA and PATCO will be submitted to the Director of Finance DRPA by Payroll weekly for review and documented approval prior to posting. Estimated completion date October 31, 2019. This process will eventually be performed by the Senior Accountants of DRPA and PATCO. Payroll SOPs will be updated to include this approval.

**Audit Recommendation #3 (Finance / Payroll):**
All access to add / delete / modify HRS master data should be removed for all Finance / Payroll employees. This change will limit the potential for payroll fraud. HRS master data changes needed to process payroll should be forwarded via email to the HRS master data administrator and / or their backup (cc. Director, HRS).

**Management Response #3 (Finance / Payroll):**
Finance / Payroll management’s does not agree with Audit Recommendation # 3.

Under the current configuration, the Finance / Payroll group still requires access to PA30 in order to process weekly payroll because payroll responsibilities still exist to process certain information which is not processed by Human Resources Service group. This may change when the Authority moves to S4 HANA. Some of the information processed by Finance / Payroll group is as follows:

1) Union Dues Deductions  
2) Wage Garnishments  
3) Vacation Advances  
4) FOP Clothing Allowances  
5) CDL Class A Bonuses  
6) Employee Medical Contributions.

The DRPA Director of Finance is now copied on all emails on actions relating to PA 30 changes. Current employee capacity levels will not allow a complete segregation of duties. The additional controls explained in response 1 and 2 will minimize this risk.

**Management Response #3 (Human Resource Services):**
While this recommendation is directly addressed to Finance/Payroll, Human Resource Services’ management concurs with the recommendation, but advises that currently, Payroll/Finance performs certain functions that requires its access to SAP Master Data through PA-30, which gives one the ability to view, add, delete and modify the data. Specifically, Payroll handles the “wage types” functions in the current SAP system. It is our understanding that in the new SAP system (“SAP Enhanced”), this function will be the responsibility of Human Resource Services. Presently, we are still discussing with SAP consultants specifically what that responsibility will entail.
Management does, however, believe that currently, Payroll/Finance access to SAP Master Data through “PA-30” can be limited to the following individuals:

1) Robert Gorman-Manager, Payroll
2) Al Green-Payroll Administrator
3) Mary Stires-Accounting Clerk, Payroll

All other Payroll/Finance employees, including but not limited to James White, Chief Financial Officer and John Lotierzo, Director, Finance should be removed immediately from access to Master Data through “PA-30”. We do not object to those who need to review information to having “view only” access to Master Data through “PA-20” and have confirmed that all information that is available in PA-30 can be viewed in PA-20. However, we recommend that anyone requesting access to PA-20 must provide written justification to the CAO and Director, HRS. Management hereby requests from the Inspector General a copy of the current list of users with access to PA-20 so that we can determine who should be removed from same.

Once we understand our role with regard to “Pay Components” (otherwise known as “wage types” in the current SAP system), we will be able to determine Payroll’s need for access to Master Data through PA-30.

**Audit Recommendation #4 (Human Resource Services):**

As the owner of the HRS SAP employee master data, HRS management should work with information Services (IS) management to remove all access to add, delete, and change this very sensitive data (over 60 users have access now) and limit access to a primary HRS master data administrator, a backup administrator, and an HRS management representative. We recommend removal of all inappropriate access to PA30, including ZZ:PR_ALL_Developer and “ps3test”, and creating a temporary “firefighter role” for IS and IS contractors to use as needed, and document when access is authorized, who is granted the access, and when access should be terminated. HRS management should also coordinate with Information Services management to require HRS management pre-authorization for all access to the SAP transaction code PA30. These changes will limit the breach and fraud risk posed by existing Information Services, Finance / Payroll, and contractor access.

**Management Response #4 (Human Resource Services):**

Recently, the Chief Administrative Officer (CAO) met with Payroll/Finance representatives to discuss their access to HRS Master Data through PA-30. The CAO was provided with a description of the activities/functions Payroll performs that they believe requires access to Master Data through PA-30 (see list of functions/responsibilities provided by Payroll).

As we stated in our response to Recommendation #3 above, until we get more direction from SAP consultants as to what role HRS will have with regard to Pay Components (currently “Wage Types”), we believe that the three Payroll employees listed above (Gorman, Green and Stires), should maintain access to PA-30. However, HRS will contact Information Services (IS) immediately to request that by close of business August 16, 2019, all individuals on the list provided by the Inspector General’s Office with the exception of those highlighted (i.e., CAO, Director, HRS, CAO, Director, HRS,
HRS Staff-Sonia Inman, Sandra Thompson, Tamika Espino, and Payroll Staff-Robert Gorman, Al Green and Mary Stires) be removed from access to PA-30. We will copy the Inspector General’s Office (David Aubrey, Inspector General and Ron McReynolds, IT Auditor) on our communication to IS. We will ask that IS confirm that those individuals have in fact been removed from access and going forward, anyone requesting access to PA-30 must send a request with a justification for such access to the CAO and Director, HRS.

With regard to the consultants who currently have access, we agree with the recommendation that HRS should work with Information Services (IS) on a policy which upon approval, provides them with access for a limited period of time after which access is terminated or continued upon specific authorization. These changes will limit the breach and fraud risk posed by existing Information Services, Finance / Payroll, and contractor access.

Improving the SAP payroll process through the implementation of the suggested recommendations will lower the Authority’s risk of a system breach and payroll fraud, as well as, improve the consistency and privacy of the SAP employee master data.

OIG wishes to thank J. White, CFO, T. Brown, CAO, J. Lotierzo, Director - Finance, K. Forbes, Director Human Resource Services, S. Inman, HRIS Specialist, Human Resource Services, R. Gorman, Payroll Manager, K. LaMarca, Director, Information Services, and L. Pavlik, Manager ERP Applications for their cooperation and assistance during the completion of this review.

cc: R. Boyer
    J. Nash
    E. DePasquale
    R. Taylor
    S. Murphy
    A. Nelson
    J. Hanson
    R. Santarelli
    M. Wing
    J. Lotierzo
    K. Forbes
    K. LaMarca
    R. Gorman
    S. Inman
    L. Pavlik
    E. Preston
    R. McReynolds