

# Audit



## Highlights

Highlights of Legislative Auditor report on the Integrated Financial System-Payroll Process, issued on March 14, 2001. Report # LA02-03.

### Purpose of Audit

The purpose of this audit was to determine if the payroll component of the state's Integrated Financial System has sufficient controls to provide reasonable assurance that payroll transactions are processed correctly. It included online payroll transactions processed during May, June, and July 2000 by the Real Estate Division and the Office of State Controller—two agencies involved in the pilot phase of the project.

### Audit Recommendations

This audit report contained eight recommendations to improve controls over the processing of payroll transactions using the state's Integrated Financial System. Specifically, the Department of Personnel needs to review existing time recording conventions for cost-effective alternatives, revise system reports, and develop procedures for payroll reconciliation. Further, the system's capability to apportion rate changes occurring during a payroll period needs to be addressed. Additional controls also need to be developed to ensure timesheets are properly completed. Furthermore, all system security features outlined in the system design documents should be implemented. Finally, written policies and procedures related to the processing of payroll transactions should be developed.

The Department of Personnel accepted all eight audit recommendations.

### Status of Recommendations

The Department of Administration submitted the six-month report on the status of audit recommendations on December 6, 2001. The report indicated substantial progress had been made on all eight recommendations.

The Department of Administration found the Department had evaluated alternatives to the existing "hours and minutes" convention but none were cost effective to implement. As a result, the convention was retained but additional training was to be provided.

The Department of Personnel has developed a biweekly timesheet, new reports, and additional procedures to facilitate the processing and reconciliation of payroll. Related training was also provided. Finally, the Department reported that all security features outlined in the system design

## Integrated Financial System Payroll Process

### Results in Brief

Internal controls associated with the state's new payroll system do not always provide reasonable assurance that transactions are input and processed correctly. For example, the time recording process is confusing and cumbersome; agency payroll reconciliation is difficult; payroll errors occur; and the system is vulnerable to unauthorized access.

Contributing to these problems is a lack of documented procedures related to the system's use. As a result, aspects of the state's payroll system are inefficient and the cost and complexity of some processes have increased when compared to the previous system.

Internal controls are intended to promote the achievement of management objectives and the minimization of operational problems. The new payroll/personnel system, which involves an initial public investment of over \$20 million, should properly reflect these control principles. Despite this, certain processes and controls in the new system need improvement and should be reevaluated.

### Principal Findings

The new payroll system uses a new convention that requires the recording of employee time in "hours and minutes". This convention is complex to use and interpret and is still misunderstood by many users 1½ years after implementation.

The new payroll system uses a weekly timesheet to record employee time rather than the biweekly approach used under the old system. As a result, the flow of paperwork has increased requiring additional staff time to prepare, review, and process the additional timesheet.

Reports used for payroll reconciliation under the new system are difficult to understand and use with no written procedures developed to explain their application. In addition, these reports are insufficient to accomplish the reconciliation process. Consequently, using agencies developed additional schedules to accomplish a detailed payroll reconciliation.

The new payroll system cannot adjust fringe benefit rates when changes occur during a payroll period. Consequently, rate changes are not always adjusted on their actual effective date. This routinely generates processing errors that must be corrected, generating additional work for agency and central payroll staff.

We noted 3 of the 20 timesheets tested were not entered into the payroll system or not entered correctly. This resulted in errors affecting gross pay, employee withholdings, fringe benefits, and leave accruals. These errors could have been avoided had controls been in place to ensure timesheets were processed correctly.

Key system security features outlined in the IFS system design documents have not been implemented. Consequently, sensitive personnel and payroll information is vulnerable to unauthorized access.

The implementation of the IFS payroll component has resulted in changes to payroll controls and processes that need to be better documented. Only a few procedures specific to the handling of payroll transactions in the State of Nevada have been developed. As a result, agencies have used the system for over 1½ years with minimal procedural documentation.