

City of Edmonton Office of the City Auditor

Continuous Auditing – Employee Master Data & Payroll Transactions

June 4, 2019



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Objectives

To determine whether key controls over the City’s employee master data and the City’s payroll transactions are adequately designed, established, and operating as intended.

Scope

In scope
Employee master data and payroll data from PeopleSoft and payment data from SAP for the period January 6, 2019 to March 30, 2019 (pay periods 2 through 7).

Out of Scope
Employees of the Edmonton Public Library and the Edmonton Police Service.

Methodology

We used automated continuous auditing techniques to conduct our risk assessment and control testing. Automated continuous auditing enables us to test 100 percent of transactions and provide near real-time information to the affected program areas.

We reviewed processes and documentation, then we tested electronic employee and payroll data to determine if it was:

- Properly authorized
- Complete
- Accurate
- Valid
- Safeguarded

This project does not conclude on the total control environment for the employee data and payroll processes, only on the selected key controls tested.

Statement of Professional Practice

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.



Report Summary

Introduction

The City of Edmonton has a workforce of approximately 14,000 employees in peak season.

The City spends approximately \$1.4 billion, which represents 60 percent of the operating budget, on personnel expenses.

As an integral component to any organization, the payroll process governs the financial stability of the organization. Poorly regulated controls in the payroll process can create opportunities for error, mismanagement, or fraud.

What did we find?

Key controls over employee master data and the City's payroll transactions are adequately designed, established, and operating as intended.

To support the continuous improvement of some controls, we have identified opportunities to

- Improve process documentation,
- Strengthen control over completeness of data, and
- Enhance the safeguarding of data.

What do we recommend?

Recommendation 1

Update dependent eligibility process documentation

Update the dependent eligibility process documentation to reflect the current practices.

Recommendation 2

Restrict super user access

Collaborate with the Open City and Technology Branch to develop separate roles for employees outside of Employee Services that currently hold the "super user" role.



Background

Employee Service Centre

The Employee Service Centre manages the employee master data and payroll transactions. It is one of four business areas in the Talent Acquisition, Services, and Solutions Branch of the City's Employee Services Department.

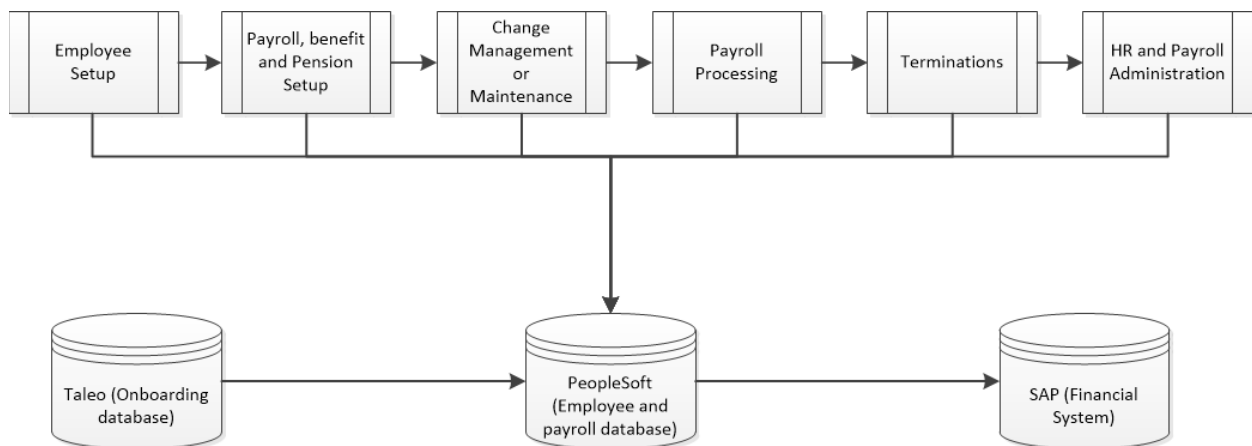
The Employee Service Centre ensures all City employees are paid, benefit coverages are in place, and pension plans are administered in accordance with related collective agreements, legislation, and policies. The Employee Service Centre also manages the retention of employee records.

Employee Service Centre is made up of the following teams:

- Benefits
- Employee Records
- Human Resources Transactions
- Payroll
- Pensions

Payroll is produced bi-weekly for all City employees.

Key processes for maintaining the City's Employee Master File and managing the City's payroll transactions





Control Testing Results

We used a risk-based approach to determine which controls to test and then performed the tests continually over several months.

The results of the tests were positive for all but one of the tests.

Tests Performed To:	Audit Criteria Tested	Result
Identify duplicate employees	Properly Authorized and Valid	✓ Passed
Identify ghost employees	Properly Authorized and Valid	✓ Passed
Identify employees with missing information (e.g., SIN, bank account information)	Complete, Accurate, and Valid	✓ Passed
Identify employees with inaccurate or false information (e.g., invalid SIN, missing or wrong address)	Complete and Accurate	✓ Passed
Identify employees with same information (e.g., bank account)	Accurate, Properly Authorized and Valid	✓ Passed
Identify employees with ineligible dependents	Accurate and Valid	✓ Passed
Identify employees who received incorrect pay	Accurate, Properly Authorized, and Valid	✓ Passed
Identify employees who received pay but had zero deductions	Accurate	✓ Passed
Match employees weekly hours to their standard hours	Complete, Accurate, and Valid	✓ Passed
Match employees actual pay rate to their standard rate of pay	Properly Authorized and Valid	✓ Passed
Determine that only authorized employees can enter, change and delete employee master data	Properly Authorized and Safeguarded	 Recommendation 2



Process Documentation

Summary

Generally, we found that documented procedures exist and are followed. However, we also found a few instances where they should be updated to reflect current practices.

Documented procedures are a key control because:

- They help ensure consistency and efficiency in an organization's day-to-day operational activities.
- They provide clarity to employees when dealing with accountability issues or activities that are of critical importance to an organization.
- They are used to ensure compliance, to address operational needs, to manage risk, for continuous improvement, and as a training media for staff.

Documented process for new hire/rehire data entry



The payroll team has well-documented process for new hire/rehire data entry:

- Once staff completes a change in the system, they stamp and initial the supporting paper documentation. This ensures an appropriate audit trail.
- Supervisors conduct bi-weekly reviews.

Opportunities for Improvement – Update Documentation

During the review of documentation and process walkthroughs we observed that process documentation did not always reflect current practices.

Without accurate process documentation there is a risk that employees are not following proper processes, are recording information inconsistently, and not complying with internal controls.

There is an opportunity to update process documentation to ensure it reflects the current operating environment and is consistent between the various teams.

Management has updated most of the documentation during our audit. However, one process documentation issue is still outstanding. The process documentation for the management of dependent eligibility needs to be updated to be consistent with current practices.

Recommendation 1

Update dependent eligibility process documentation

Recommendation

Update the dependent eligibility process documentation to reflect current practices.



Responsible party:

Branch Manager, Talent Acquisition, Services, and Solutions



Accepted by Management

Management Response

Management agrees to ensure that required revisions to the process documentation are updated and consistent with current practices. Details will specifically include the response tracking tools used as well as specific points of system and decision controls for the process maps.



Implementation:

June 28, 2019



Employee and Payroll Transaction Data

Summary

Overall, we determined that key controls over employee master data and the City's payroll transactions are adequately designed, established, and operating as intended.

However, we did identify a few opportunities to improve the effectiveness of key controls.

Proper Authorization



The payroll team appropriately reviews and approves all employee and payroll data.

- The Director, Payroll, Pensions and Benefits reviews and approves all employees requesting access.
- Annually, a listing of all employees and their user roles within PeopleSoft is provided to the Director, Payroll, Pensions and Benefits who investigates and removes any users or access that is no longer required.

We are making no recommendations related to proper authorization.

Properly Processed



Proper processing of data helps to ensure that all required employee and payroll data is complete. It also reduces the risk of data errors by ensuring the information is accurate and valid.

Completeness of data

We assessed if all transactions are recorded in the City's payroll system. We made one observation related to the processing of employment notices.

The payroll team receives an email notice through the City's off-boarding system when an employee leaves their employment with the City. The payroll team will record the end of employment in PeopleSoft. A second payroll staff member will review the information to ensure it was entered correctly. We found that there was no tracking mechanism in place for the payroll team to ensure staff had entered all notices.

Management has since addressed this issue by implementing a review procedure. Open City and Technology Branch maintains a spreadsheet that is automatically updated when an end of employment notice is received through the off-boarding system. At pay period close the payroll team now obtains a copy of the spreadsheet and traces all the end of employment notices listed to PeopleSoft to ensure they have been recorded.

As a result, we are making no recommendations related to completeness of data.

Accuracy of data

We assessed if transactions are correct in all details and information is recorded in a timely manner. We found no issues; therefore we are making no recommendations related to the accuracy of data.

Validity of data

We assessed if employee and payroll data fairly represent the events that actually occurred. We found no issues; therefore we are making no recommendations related to the validity of data.

Safeguard Data



Proper safeguarding of data helps to ensure that the privacy of employees is protected. It also reduces the risk of data errors, misuse, and fraud by restricting access to data to only those employees who need it to perform their job duties.

Opportunity for Improvement - Restrict “super user” access

There is an opportunity to better safeguard data by reviewing and revising the access for “super users”. Super users have extensive system access and the ability to make significant changes to employee and payroll data.

There are 42 employees that have super user access, of which 37 are within the Employee Service Centre. The Employee Service Centre employees require this access to perform their duties. However, there are 5 employees outside of the Employee Service Centre who have access to some data and functions that they do not require.

Although this risk is limited due to the small number of employees with extensive access and other mitigating controls, the impact of error or misuse is high. For example, employees with this access can update employee banking information and create employees.

By reviewing and revising system access to restrict employees to only the data and functions they require, Management can further reduce the risk of mismanagement, error, or fraud.

Recommendation 2
Restrict super user access

Recommendation

Ensure separate roles are developed and used for employees outside of the Employee Service Centre that currently hold the “super user” role.



Responsible party:

Branch Manager, Talent Acquisition, Services, and Solutions



Accepted by Management

Management Response

Management agrees to work with the affected users and OCT PeopleSoft Team to create a new security access role that is separate from HR/ESC correction access and limits access accordingly.



Implementation:

June 28, 2019