

# Internal Audit Department

O R A N G E C O U N T Y C A L I F O R N I A

## INTERNAL CONTROL REVIEW OF PROBATION DEPARTMENT BI-WEEKLY PAYROLL PROCESS

For the Period:  
July 1, 2006 through June 30, 2007

An evaluation of the adequacy and integrity of internal controls; compliance with applicable rules and County policies; and process efficiencies and effectiveness over Probation Department's processing of over **\$128 million** in bi-weekly payroll during our audit period.

AUDIT NO: 2725  
REPORT DATE: JANUARY 23, 2008

Audit Director: [Peter Hughes, Ph.D., CPA](#)  
Deputy Director: [Eli Littner, CPA, CIA](#)  
Sr. Audit Manager: [Michael Goodwin, CPA, CIA](#)  
Senior Auditor: [Abdul Khan, CPA](#)



**Internal Audit Department**

Serving the OC Board of Supervisors since 1995

*2005 Recipient of the Institute of Internal Auditor's Award for Recognition of Commitment to Professional Excellence, Quality & Outreach*



**Internal Audit Department**

*Providing Facts and Perspectives Countywide*

**Dr. Peter Hughes** Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE  
Office of The Director Certified Compliance & Ethics Professional (CCEP)  
Certified Information Technology Professional (CITP)  
Certified Internal Auditor (CIA)  
Certified Fraud Examiner (CFE)  
E-mail: peter.hughes@iad.ocgov.com

---

**Eli Littner** CPA, CIA, CFE, CFS, CISA  
Deputy Director Certified Fraud Specialist (CFS)  
Certified Information Systems Auditor (CISA)

**Michael J. Goodwin** CPA, CIA  
Senior Audit Manager

**Alan Marcum** MBA, CPA, CIA, CFE  
Senior Audit Manager

**Autumn McKinney** CPA, CIA, CISA, CGFM  
Senior Audit Manager Certified Government Financial Manager (CGFM)

**Hall of Finance & Records**

12 Civic Center Plaza, Room 232  
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: [www.ocgov.com/audit](http://www.ocgov.com/audit)



**OC Fraud Hotline (714) 834-3608**

# Letter from Director Peter Hughes

## Transmittal Letter



**AUDIT NO. 2725** January 23, 2008

**TO:** Colleene Preciado  
Chief Probation Officer

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** Internal Control Review of  
Probation Department Bi-Weekly  
Payroll Process

We have completed our Internal Control Review of the Probation Department's bi-weekly payroll process for the period July 1, 2006 through June 30, 2007. The final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will now begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will now begin at 12 months from the release of the original report, by which time **all** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

# Letter from Director Peter Hughes

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

## ATTACHMENTS

Other recipients of this report listed on the Internal Auditor's Report on page 2.

# Table of Contents



***Internal Control Review of Probation Department  
Bi-Weekly Payroll Process  
Audit No. 2725***

For the Period  
July 1, 2006 through June 30, 2007

Transmittal Letter	i
<b>INTERNAL AUDITOR'S REPORT</b>	<b>1</b>
<b>EXECUTIVE SUMMARY</b>	<b>3</b>
<b>OBJECTIVES</b>	<b>3</b>
<b>BACKGROUND</b>	<b>3</b>
<b>SCOPE</b>	<b>4</b>
<b>RESULTS</b>	<b>4</b>
<b>DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES</b>	<b>6</b>
Supervisory Review and Retention of Payroll Documents	6
VTI Timecard Audit Report	7
Manual Timecards	8
<b>ATTACHMENT A: Report Item Classifications</b>	<b>9</b>
<b>ATTACHMENT B: Probation Department Management Responses</b>	<b>10</b>



## INTERNAL AUDITOR'S REPORT

AUDIT No. 2725

JANUARY 23, 2008

TO: Colleene Preciado, Chief Probation Officer

SUBJECT: Internal Control Review of Probation Department  
Bi-Weekly Payroll Process

### Audit Highlight

During the audit period, the total gross bi-weekly pay for approximately 1,600 Probation employees was **\$128,188,700.**

### Scope of Review

We have completed our Internal Control Review of the Probation Department bi-weekly payroll process for the period from July 1, 2006 through June 30, 2007. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

### Results

Based on our audit, **no material weaknesses or significant issues were identified.** However, we did identify **one Control Finding and two Efficiency/Effectiveness Issues** resulting in **three (3) recommendations** to enhance controls and processes as discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of Report Item Classifications.

### Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 - Internal Control Systems, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Internal Audit's review enhances and complements, but does not substitute for the Probation Department's continuing emphasis on control activities and self-assessment of control risks.

# OC Internal Auditor's Report



## **Inherent Limitations in Any System of Internal Control**

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment.

Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the purpose described above would not necessarily disclose all weaknesses in the Probation Department's operating procedures, accounting practices and compliance with County policy.

## **Acknowledgment**

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of the Probation Department Administrative and Fiscal Division. If we can be of further assistance, please contact me, or Eli Littner, Deputy Director, at (714) 834-5899, or Michael Goodwin, Senior Audit Manager, at (714) 834-6066.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA, Director  
Internal Audit Department

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Steve Dunivent, Deputy CEO, Government/Public Services  
Greg Ronald, Chief Deputy Probation Officer, Special Services  
Frank Kim, Director, Probation/ Administrative and Fiscal Division  
Lorna Winterrowd, Administrative Manager II, Probation/Fiscal Services  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors



## EXECUTIVE SUMMARY

AUDIT No. 2725

JANUARY 23, 2008

### OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of the bi-weekly payroll process at the Probation Department (Probation), which included an evaluation of the adequacy and integrity of internal controls; compliance with applicable rules, regulations and department policies; and evidence of process efficiencies and effectiveness. The objectives of our audit were to evaluate bi-weekly payroll processes and controls to ensure:

#### Audit Highlight

About half of Probation's staff uses manual timecards, and the other half uses the VTI automated timekeeping system. Probation is working to have all employees use the VTI for payroll.

- ▶ Bi-weekly payroll is processed completely, accurately, timely, and in accordance with department procedures and management's authorization.
- ▶ Auditor-Controller core business processes are effective through accurate recording, reporting, and system output for payroll transactions initiated by Probation as determined through our testing of payroll transactions.
- ▶ Business processes are efficient and effective as related to the Probation's bi-weekly payroll. We will observe for unnecessary and significant duplication of work and/or backlogs in payroll processing.

### BACKGROUND

The mission of Probation is to protect the community by conducting investigations for the court, enforcing court orders, assisting victims, and facilitating the re-socialization of offenders. Probation assists the criminal court system in Orange County, and supervises about 23,000 adult and juvenile offenders on court-ordered probation or in diversion programs.

Bi-weekly payroll for Probation's approximately 1,600 employees is recorded using both *Virtual Timesheet Interface* (VTI) and manual timecards. VTI is an automated timekeeping and reporting system supported by Auditor-Controller/Information Technology and used by nearly all County departments/agencies. About half of the Probation employees' timecards are recorded in VTI and the other half use manual timesheets for specific pay codes and work situations that VTI does not record. Probation is working towards having all employees use VTI and eliminate the use of manual timecards.



On a bi-weekly basis, Probation employees input their time into a VTI timecard or manual timecard, which is submitted to the employee's designated supervisor. Supervisors review and approve employee timecards and submit them to the Probation/Payroll Unit within Probation/Accounting. The Probation/Payroll Unit reviews submitted timecards; adjusts employees' timecards, when necessary; and uploads or hand delivers the approved timecards to Auditor-Controller's Claim and Disbursing Unit (Central Payroll) for payroll processing and issuance of paychecks.

**During the audit period, the total gross bi-weekly pay for approximately 1,600 Probation employees was \$128,188,700.**

## SCOPE

Our audit was limited to evaluating controls and processes over bi-weekly payroll processes starting from Probation/Payroll's receipt of employee timecards to submission of timecards to Central Payroll for the period July 1, 2006 through June 30, 2007. We did not review processes pertaining to withholdings; retro-pay calculations; check printing; and VTI information system controls. Our methodology included inquiry, observation and examination, and testing of relevant documentation.

## RESULTS

Based upon the objectives of our audit, we noted the following:

- ▶ **Objective:** *Bi-weekly payroll is processed completely, accurately, timely, and in accordance with department procedures and management's authorization.*
- ▶ **Results:** Controls and processes are in place to ensure bi-weekly payroll is processed completely, accurately, timely, and in accordance with Probation's procedures and management's authorization. We note in our report where enhancements can be made in the area of supervisory reviews and document retention of various payroll processing reports. This is considered a **Control Finding**, and is discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of Report Item Classifications.



- ▶ **Objective:** Auditor-Controller core business processes are effective through accurate recording, reporting, and system output for payroll transactions initiated by Probation as determined through our testing of payroll transactions.
- ▶ **Results:** We performed testing of bi-weekly payroll transactions originating in Probation through the Auditor-Controller's financial reporting system without noting any exceptions concerning Probation's payroll processing.
- ▶ **Objective:** Business processes are efficient and effective as related to Probation's bi-weekly payroll process.
- ▶ **Results:** No inefficient or ineffective procedures concerning backlogs or duplication of work in bi-weekly payroll processing were noted or came to our attention. However, we note in our report two observations where payroll process effectiveness can be enhanced in the areas of monitoring for unauthorized pay code changes using VTI *Timecard Audit Reports*, and in manual timecard processing. These are discussed in the Detailed Observations, Recommendations and Management Responses section of this report.



## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### Supervisory Review and Retention of Payroll Documents

Probation/Payroll staff has procedures in place to identify and review all employee timecards and ensure all errors are cleared before upload/delivery to Central Payroll. However, we noted instances where there were no documented supervisory reviews and retention of various payroll processing reports as discussed below.

Prior to delivery of manual and VTI timecards to Central Payroll, Probation/Payroll staff reviews the *Employee Biweekly Time Sheet Transmittal* that lists employee count per pay location and matches employee count to both the *Pay Location Batch Header* (manual) or the *Upload Summary* (VTI) to verify employee counts to be delivered to Central Payroll. We noted the Probation/Payroll Supervisor does not review and sign the *Employee Biweekly Time Sheet Transmittal*, *Pay Location Batch Header* or the *Upload Summary* to accomplish a supervisory review.

Prior to delivery of VTI timecards to Central Payroll, the Probation/Payroll Supervisor reviews the last *Missing Timecards Report* and last *Errored Timecard Report* to account for all missing timecards and to ensure all errors are cleared before uploaded to Central Payroll; however, the supervisor's review is not documented to provide evidence of a review.

We also noted that Probation/Payroll maintains documentation to support the bi-weekly payroll process; however, they did not retain copies of the VTI generated *Pay Location Batch Header*, and the final *Missing Timecards Reports* and *Errored Timecard Reports*. Retention of these documents will provide accountability of work performed. **(Control Finding)**

### Recommendation No. 1

We recommend Probation/Payroll management ensure payroll reports are reviewed and signed by the Probation/Payroll Supervisor and copies of all payroll related documents are retained.

### Probation Management Response:

**Concur.** Probation/Payroll supervisor will review and sign the *Employee Biweekly Time Sheet Transmittal*, *Pay Location Batch Header* and the *Upload Summary* to authenticate the review process. In addition, the Probation/Payroll supervisor will continue to review the last *Missing Timecards Report* and last *Errored Timecard Report* to guarantee all errors are cleared before the upload to Central Payroll, and copies of all payroll related documents will be retained in accordance with the County's retention policy.



## EFFICIENCY/EFFECTIVENESS OBSERVATIONS

One of our audit objectives was to identify areas where efficiency and effectiveness can be enhanced in the bi-weekly payroll process. Our audit noted the following observations:

### VTI Timecard Audit Report

The VTI system has eight different user roles. Each role has different rights, with different levels of access. Probation/Payroll staff is given "Payroll Clerk" access by Auditor-Controller/Information Technology.

"Payroll Clerk" access enables Probation/Payroll staff to complete and/or update employee timecards, including the ability to change pay codes (e.g., from Regular Hours to Annual Leave) for absent employees. Also, this access also allows Probation/Payroll staff to make changes and corrections after the designated supervisor has reviewed and authorized the employee's timecard. Because of this access, these subsequent changes do not require management review or final approval prior to upload to Central Payroll. As a result, a risk of processing unauthorized changes exists with this user role.

VTI generates a *Timecard Audit Report* that can assist management in reviewing all subsequent changes to timecards after submitted by the employee. This tool is a comprehensive report displaying the actions taken, the changes made, the person who made the changes, and the date and time of the changes. For a large agency such as Probation, there can be numerous transactions shown in the *Timecard Audit Report*. As a result, Probation/Payroll does not review the *Timecard Audit Report* to identify unauthorized changes.

On a separate payroll audit conducted at the Health Care Agency, this issue came to our attention and a recommendation was made to consult with Auditor-Controller/Information Technology to evaluate modifying the *Timecard Audit Report* to include query capabilities to target specific research that would assist in providing a tool to monitor unauthorized changes to pay codes. An evaluation was conducted and appears that the report can be modified for such a purpose. Probation should consult with Auditor-Controller/Information Technology and establish a process for reviewing the *Timecard Audit Report* when this modified report access is finalized.

### Recommendation No. 2

We recommend Probation/Payroll, in consultation with Auditor-Controller/Information Technology; utilize the modified VTI *Timecard Audit Report* as a tool to monitor unauthorized changes to pay codes, such as modifying leave hours to regular hours.



## **Probation Management Response:**

**Concur.** Probation/Payroll supervisor consulted with Erica Lin of the Auditor-Controller Information Technology to have the *VTI Timecard Audit Report* be modified to fit Probation/Payroll needs. We were advised that the report is undergoing modifications and will be notified of its completion. As soon as the report becomes available to VTI users, Probation will incorporate into its processes and utilize.

## **Manual Timecards**

Probation Payroll processes approximately 700 manual timecards for 34 pay locations on a bi-weekly basis. Manual timecards are still used at certain locations due to specific job codes and work situations that could not be recorded using VTI. Before submitting the manual timecards to Central Payroll, a team of ten Probation/Accounting staff audits the timecards for verification of time worked and errors. This is done only for manual timecards, not VTI timecards, which are reviewed and approved by individual supervisors and electronically transmitted.

Additionally, we noted that complete employee social security numbers are preprinted on manual timecards for identification purposes and input into CAPS for payroll processing. Pre-printed, manual timecards are obtained from Auditor-Controller Claims & Disbursing with this information. While VTI also requires employee Social Security numbers for processing and uploading to CAPS, VTI now restricts access to employee Social Security numbers to preserve their confidentiality.

We were informed Probation is currently working on converting all employees to VTI. We encourage the efforts to transition all staff to VTI which will eliminate the need for resources to audit timecards, and will help maintain confidentiality of employee Social Security numbers.

## **Recommendation No. 3**

We recommend Probation management continues its efforts to transition manual timecards to the automated VTI system.

## **Probation Management Response:**

**Concur.** Probation is committed to bring the remaining Probation staff on board VTI and eliminate manual processing of paper time sheets.



## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

▶ **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

▶ **Control Findings and/or Efficiency/Effectiveness Issues:**

Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.



## ATTACHMENT B: Probation Department Management Responses

 **COUNTY OF ORANGE**  
**MEMORANDUM**

**TO:** Dr. Peter Hughes, CPA  
Director  
Internal Audit Department

via: Thomas G. Mauk  
County Executive Officer

**FROM:** Colleene Preciado, Chief Probation Officer 

**DATE:** January 8, 2008

**SUBJECT: Responses to Internal Audit Findings of Probation Department Bi-Weekly Payroll Process**

Attached are Probation's draft responses to the Internal Audit findings discussed in your draft report dated November 20, 2007 (also attached). This report is being routed to you through the County Executive Officer for his review and comment.

If you have any questions, please contact Loma Winterrowd at 714.937.4746. Thank you.

CP: lw  
Attachment

cc: Steve Dunivent, Deputy CEO  
Greg Ronald, Chief Deputy Probation Officer  
Frank Kim, Director, CEO Budget  
Brian Wayt, Manager, CEO Budget  
Loma Winterrowd, Fiscal Manager, Probation

RECEIVED  
INTERNAL AUDIT DEPARTMENT  
2008 JAN 17 PM 2:12

Colleene Preciado, Chief Probation Officer  
Orange County Probation Department  
Santa Ana, California



## ATTACHMENT B: Probation Department Management Responses (continued)

### PROBATION PAYROLL INTERNAL AUDIT #2725

Draft Report of Audit Findings and Management Responses

#### **Recommendation No. 1**

We recommend Probation/Payroll management ensure payroll reports are reviewed and signed by the Probation/Payroll Supervisor and copies of all payroll related documents are retained.

#### **Probation Management Response:**

*Concur.* Probation/Payroll supervisor will review and sign the *Employee Biweekly Time Sheet Transmittal, Pay Location Batch Header and the Upload Summary* to authenticate the review process. In addition, the Probation/Payroll supervisor will continue to review the last *Missing Timecards Report* and last *Errored Timecard Report* to guarantee all errors are cleared before the upload to Central Payroll, and copies of all payroll related documents will be retained in accordance with the County's retention policy.

#### **Recommendation No. 2**

We recommend Probation/Payroll, in consultation with Auditor-Controller Information Technology, utilize the modified VTI *Timecard Audit Report* as a tool to monitor unauthorized changes to pay codes, such as modifying leave hours to regular hours.

#### **Probation Management Response:**

*Concur.* Probation/Payroll supervisor consulted with Erica Lin of the Auditor-Controller Information Technology to have the VTI *Timecard Audit Report* be modified to fit Probation/Payroll needs. We were advised that the report is undergoing modifications and will be notified of its completion. As soon as the report becomes available to VTI users, Probation will incorporate into its processes and utilize.

#### **Recommendation No. 3**

We recommend Probation Management continues its efforts to transition manual timecards to the automated VTI system.

#### **Probation Management Response:**

*Concur.* Probation is committed to bring the remaining Probation staff on board VTI and eliminate manual processing of paper time sheets.

C:\Documents\Docs\_lm\Words\Internal Audit Reports\Payroll Draft Report of Audit Findings.doc