



# **Payroll Review and Approval Process – Part 2**

**January 7, 2014**

The City Auditor's Office completed this project in  
*Conformance with the International Standards for the  
Professional Practice of Internal Auditing.*

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## Executive Summary

The City of Calgary has more than 15,000 employees across 11 collective agreements and an exempt employee policy. The audited salary, wages and benefits from the annual report for 2012 for the City of Calgary was \$1,571,476<sup>1</sup>.

A PeopleSoft Time and Labour module is the official system of record for time and attendance at the City. There are a number of Business Units at the City that have applications that capture time and labour data. This time and labour data is then transferred into PeopleSoft via a payroll interface.

The objective of this audit was to assess the effectiveness of payroll interface controls and processes which ensure the accuracy and completeness of pay information received from the Business Units. Specifically, the audit assessed:

1. Whether the time and labour data is transferred across the interface accurately and completely.
2. Whether the time and labour data is monitored by both the Business Units and Pay Services to ensure the data transferred accurately and completely across the interface.

The audit focused on the payroll processes in place and operating from January 2013 to October 2013. We reviewed two Business Units (Parks & Water Services) with direct interfaces into the PeopleSoft environment.

Both Parks and Water Services use the Oracle Work Order and Asset Management System (Oracle WAM) to record time.

Through our review we identified that time and labour batch data transfer risks were being mitigated. Our review confirmed that there is an automated batch transfer process in place to transfer data from Oracle WAM into PeopleSoft on a weekly basis. The batch process is monitored by IT for success or failure. Access to directories where intermediate files are placed are also restricted to authorized personnel. In conclusion, controls are in place and operating effectively to transfer time and labour data accurately and completely across the interface.

We noted that time and labour data is monitored by Business Units and Pay Services. However, role expectation for monitoring and reconciling data transferred is inconsistent between Parks and Water Services. Both Business Units place reliance on Pay Services to identify errors and omissions in data transferred. Inconsistency in process and lack of clarity regarding roles creates risk that payroll is inaccurate. We have raised one recommendation to address this point.

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<sup>1</sup> The City of Calgary 2012 Annual Report Note 21 on page 71.

An annual process is in place whereby the Business Units provide a high level sign off to Pay Services indicating that they are responsible for controls. The Payroll Review & Approval audit in June 2013 recommended that the Manager Pay Services revise the annual payroll sign-off to include a checklist of the controls that should be in place prior to an employee signing the form. Management has taken steps to provide clarity through a revised checklist; however, we feel that additional clarity around role expectation is required.

## **1.0 Introduction**

This audit was undertaken as part of the City Auditor's 2013 approved Audit Plan.

### **1.1 Audit Objectives**

The objective of this audit was to assess the effectiveness of payroll interface controls and processes which ensure the accuracy and completeness of pay information received from the Business Units. Specifically, the audit assessed:

1. Whether the time and labour data is transferred across the interface accurately and completely:
  - Time and labour data is automatically transferred across the interface via a scheduled batch process.
  - The batch process is monitored to determine if it successfully completed.
  - Time and labour data is adequately secured by restricting access to intermediate files placed in directories.
2. Whether the time and labour data is monitored by both the Business Units and Pay Services to ensure the data transferred accurately and completely across the interface:
  - The Business Units and Pay Services monitor exception/deviation reports and/or perform reconciliations to ensure that all data is transferred accurately and completely.
  - Time and labour errors are resolved.

The audit focused on the payroll processes in place and operating from January 2013 to October 2013.

### **1.2 Scope and Approach**

We scoped the project to focus our review on the Business Units with direct interfaces into the PeopleSoft environment. The prior Payroll Review & Approval audit completed in June 2013 reviewed two Business Units (Fire and Roads) that do not have a direct time and labour interface into PeopleSoft. This audit focused on Business Units that use additional systems to record time and attendance and that have large volumes of time and labour activity with a direct interface into PeopleSoft. Two Business Units that met our initial scoping criteria based on direct interfaces were:

- Water Services
- Parks

Our audit approach also included the following:

- Conducting interviews with staff in Information Technology (IT), Water Services, Parks and Pay Services;
- Reviewing relevant policies, procedures, guidelines, reports, business and strategic plans;
- Reviewing and analyzing time and labour data, procedures, access lists, and
- Reviewing other files and documents as required.

Where we examined individual time and labour data transfers, we selected 2 time and labour data transfers from both Parks and Water Services to test if all data transferred accurately and completely and all errors were resolved. Two data transfers were selected as automated and manual processes were in place and it was felt that a sample size of two would be sufficient to test the data transfer controls.

## 2.0 Background

The City of Calgary has more than 15,000 employees across 11 collective agreements and an exempt employee policy. The audited salary, wages and benefits from the annual report for 2012 for the City of Calgary was \$1,571,476<sup>2</sup>.

Payroll responsibilities are shared across Business Unit management, Human Resources (HR) staff, and senior management who make up the Administrative Leadership Team (ALT). ALT approved an HR Governance Statement in 2012 that outlines the areas of people management delegated to the Business Units, and those areas delegated to HR. The Business Units have the flexibility to develop complimentary HR policies, practices and/or programs unless they conflict with the Corporate ones.

A PeopleSoft Time and Labour (T&L) module is the official system of record for time and attendance at the City. There are a number of Business Units at the City that have applications that capture time and attendance information along with other operational functions. These Business Unit applications fall into two categories: non-interfacing and interfacing. All Business Unit applications data coming into T&L by-passes the approval process in T&L as the time is considered reviewed and approved prior to being uploaded into T&L. HR Pay Services obtain an annual sign-off that the employees responsible for payroll functions in these Business Units understand the control requirements relating to payroll for their area.

Both Parks and Water Services systems integrate with the Oracle Work Order and Asset Management System (Oracle WAM). Oracle WAM is an integrated utility providing functionality such as managing and tracking assets as well as recording time and labour. On a weekly basis, the time and labour data from Oracle WAM is transferred automatically into PeopleSoft.

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<sup>2</sup> The City of Calgary 2012 Annual Report Note 21 on page 71.

After the data transfer both the Business Units and Pay Services review and monitor various error, status or deviation reports. Pay Services also conducts reasonability checks of the payroll registers. Time and labour errors are resolved between Pay Services and the Business Units.

The time and labour data transfer and the timely resolution of any issues surrounding the data transfer ensures employees are accurately paid in a timely manner.

## **3.0 Observations and Recommendations**

### **3.1 Time and Labour Data Transfer**

We examined whether the time and labour data is transferred across the interface accurately and completely. As part of our review we assessed whether:

- Time and labour data is automatically transferred across the interface via a scheduled batch process.
- The batch process is monitored to determine if it successfully completed.
- Time and labour data is adequately secured by restricting access to intermediate files placed in directories.

ISACA<sup>3</sup> mentions that “program interfaces are a key risk and if interfaces are not controlled effectively, there is a risk of inaccurate, incomplete, unauthorized or untimely information being fed into the Enterprise Resource Planning system or extracted from it.”<sup>4</sup> ISACA indicates that one of the controls that should be in place is the automated scheduled data transfer which helps to mitigate risk.<sup>5</sup> Batch jobs should be monitored to ensure normal completion; all processing incidents are reported and appropriate corrective actions taken. Directory access where intermediate result files are stored from the batch process should be restricted to authorized personnel in order to prevent intentional or unintentional changes.

During this review we observed that an automated scheduled batch process exists to transfer data weekly from Oracle WAM into PeopleSoft for both Parks and Water Services. We also observed that this automated batch process is monitored by Information Technology staff to ensure the automated process completes successfully.

We tested access to the directories by obtaining and reviewing a list of users who had access. We observed that access was restricted to authorized personnel required to perform job duties. We also noted that IT staff monitor access to these directories and are aware of who has access.

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<sup>3</sup> ISACA stands for Information Systems Audit and Control Association. ISACA is an international professional association focused on IT Governance.

<sup>4</sup> Security, Audit and Control Features, Oracle PeopleSoft 3<sup>rd</sup> Edition, ISACA 2012.

<sup>5</sup> Testing Controls Associated with Data Transfers, ISACA 2012.



In conclusion, controls are in place and operating effectively to transfer time and labour data accurately and completely across the interface.

### **3.2 Monitoring & Reconciliations of the Data Transfer**

We assessed whether the time and labour data is monitored to ensure the data transferred accurately and completely across the interface. Specifically our review included examining whether:

- The Business Units and Pay Services monitor exception/deviation reports and/or perform reconciliations to ensure that all data is transferred accurately and completely.
- Time and labour errors are resolved.

ISACA indicates that controls need to be implemented with the objective of ensuring that the data residing on the sending system are precisely the same data that are recorded on the receiving system<sup>6</sup>. Controls that should be in place include reconciliations and review of the data to identify exceptions. Any errors resulting from the data transfer should be corrected in a timely manner.

The responsibility to review and approve time and attendance entries and to validate the accuracy of the data resides with the Business Units. Pay Services stated during the audit that the data that is transferred via the interface systems to Pay Services is also the responsibility of the Business Units.

We reviewed the data transfer process including two specific data transfers and found:

#### Water Services

After the data has transferred, Water Services staff reconciles the total hours from an Oracle WAM report to the total hours shown on the PeopleSoft Interface report. If the reconciliation cannot be fully completed Water Services staff place reliance on Pay Services to catch any data errors or anomalies.

#### Parks

Parks staff monitor if the batch process completes successfully. Reconciliations of data transferred are not performed by Parks. Parks staff place reliance on Pay Services to catch any data errors or anomalies.

#### Pay Services

Pay Services perform a detailed review of the hours and time coding in the Employee Hours Summary report to ensure compliance to contractual agreements and standards. Any anomalies or errors found in these reports are communicated to the Water Services Business Unit and Parks for verification and/or approval.

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<sup>6</sup> Testing Controls Associated with Data Transfers, ISACA 2012.

A PeopleSoft Interface report is received by Pay Services which shows total hours transferred by time code. However, Pay Services do not determine if this report is correct and state that it is the Business Unit's responsibility to ensure totals match as they have responsibility for the data transfer.

In conclusion, role expectation for monitoring and reconciling data transferred is inconsistent between Parks and Water Services. Both Business Units place reliance on Pay Services to identify errors and omissions in data transferred. Inconsistency in process and lack of clarity regarding roles creates risk that payroll is inaccurate.

An annual process is in place whereby the Business Units provide a high level sign off to Pay Services indicating that they are responsible for controls. The Payroll Review & Approval audit in June 2013 recommended that the Manager Pay Services revise the annual payroll sign-off to include a checklist of the controls that should be in place prior to an employee signing the form. Management has taken steps to provide clarity through a revised checklist; however, we feel that additional clarity around role expectation is required.

### **Recommendation 1**

The City Auditor's Office recommends the Manager, Pay Services, in consultation with the Business Units:

- i. Further revise the annual payroll sign-off to provide clarity regarding role expectation for the data transfers.
- ii. Communicate the role responsibilities to the Business Units prior to an employee signing the form.

### **Management Response**

<b>Action Plan</b>	<b>Responsibility</b>
Agreed  Further revisions will be made to the annual payroll BU App sign off checklist to include the requirement for a reconciliation of data loads. The checklist will be sent out with the 2014 sign-off document (December 2013).  The routing information (coversheet) to the BU App Owners will include instruction that they are to contact Pay Services should they not be clear on their roles/responsibilities.  Pay Services will advise the BU App Owner of any rejected transaction (high exceptions) for	<u>Lead:</u> HR – Manager/Pay Services  <u>Support:</u> Pay Services- Training, Documentation & Audit Specialist  <u>Completion Date:</u> January 31, 2014 (on-going)

the purpose of reconciliation of data loads by the Business Unit.	
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## 4.0 Conclusion

Through our review we identified that time and labour batch data transfer risks were being mitigated. Our review confirmed that there is an automated batch transfer process in place to transfer data from Oracle WAM into PeopleSoft on a weekly basis. The batch process is monitored by IT for success or failure. Access to directories where intermediate files are placed are restricted to authorized personnel.

We also noted that time and labour data is monitored by the Business Units and Pay Services. However, responsibility for overseeing the accuracy and completeness of the data transfer is not clearly stated.

## Acknowledgement

We would like to thank the staff of Human Resources Pay Services, Parks, Water Services and Information Technology for their assistance and support throughout this audit.