INVESTIGATION REPORT

OF

PAYROLL IRREGULARITIES

DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES

REPORT NO. 10-205

City of Albuquerque
Office of Internal Audit and Investigations

Background: The Office of Internal Audit and Investigations (OIAI) conducted an investigation concerning possible undocumented and/or unauthorized changes made in the payroll system. This investigation was predicated upon test work conducted on another investigation. That test work provided sufficient information to initiate this investigation.

A review was conducted of all changes made in Empath (payroll system prior to January 2009) and PeopleSoft (payroll system after January 2009) by a management analyst in the Department of Finance & Administrative Services (DFAS), during the period July 24, 2006 through October 19, 2009. This resulted in the review of 58 employees' pay histories.

Objective: Is there evidence that undocumented and/or unauthorized changes were made in the payroll system?

- Four instances found of pay increases with documentation of an increase authorized by the Chief Administrative Officer (CAO); however, the memo did not specify an amount of the increase. OIAI was unable to verify the amount entered by the management analyst, as she was verbally given this information.
- One instance of no documentation for an employee who received a pay increase.
- Two instances found of HRD employees making a change in the payroll system, which was not documented or approved in the HRD personnel file.
- P-1s were not entered for any of the changes made by the management analyst. A P-1 is a personnel action form which is generated after a change has been routed through the approval process.
- The documentation for 57 of the employees was provided by the management analyst at the request of OIAI. It was not included in the Human Resources Department (HRD) personnel files.

Recommendations:

DFAS should provide HRD the supporting documentation for the changes that the management analyst made, so they can be included in the personnel files.

HRD should ensure personnel files are complete, including changes initiated by HRD staff.

Objective: Are there areas in which the DFAS could reduce the risk of undocumented or unauthorized changes in the payroll system?

The management analyst has citywide Human Resource (HR) Analyst access, which enables her to make changes in the payroll system, including pay rates. This is the same access level that an HR Analyst in HRD has, which is substantially greater than a normal department HR coordinator.

Recommendation: DFAS management should change the management analyst's security level in PeopleSoft to a department HR coordinator.

Management responses are included in the report.

City of Albuquerque

Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

December 15, 2010

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Investigation: Payroll Irregularities
Department of Finance & Administrative Services
10-205

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted an investigation concerning potentially undocumented and/or unauthorized changes made in the payroll system. This investigation was predicated upon test work conducted on another investigation. That test work provided sufficient information to initiate this investigation.

BACKGROUND AND EVENTS

While conducting test work on another investigation, OIAI noted a pay increase had been given to a former department director. Upon review of his personnel file maintained by the Human Resources Department (HRD), there was no supporting documentation for the 5% increase that had been granted. The change in the payroll system had been made by a payroll user who is a management analyst in the Department of Finance and Administrative Services (DFAS). The management analyst also functions as the department Human Resources (HR) Coordinator for DFAS and the Mayor's and CAO offices.

The management analyst did not have the standard department HR Coordinator access in either the Empath (prior to January 2009) or PeopleSoft (after January 2009) payroll systems. She has citywide Human Resource (HR) Analyst access, which enables her to make changes in the payroll system, including pay rates.

System	Position	Security Level/Role	Type of Activities Allowed
Empath	Department HR Coordinator	Timekeeper Inquiry Only	Primarily a view role, the user is able to modify an employee's contact information.
	HRD Analyst	HR Classification-Employment	User has the ability to enter pay rates for job codes, access to the compensation menu and access to mass updates menu.
	DFAS - management analyst	HR Classification-Employment	
PeopleSoft	Department HR Coordinator	HR Coordinator, HR View	Primarily a view role, the user is able to modify an employee's contact information.
	HRD Analyst	HR Class Comp Analyst HR Employment Analyst	User has the ability to enter pay rates for job codes, view and modify position data and has access to the compensation menu and mass updates menus.
	DFAS - management analyst	HR Class Comp Analyst HR Employment Analyst	

This level of access was authorized by two former CAOs and a former DFAS Director.

OIAI obtained reports that listed all changes that had been made in the payroll systems by the management analyst from July 24, 2006 through October 19, 2009, the most recent change entered by her. The Empath and PeopleSoft reports included pay rate changes made by the management analyst to 58 City employees.

OIAI analyzed all 58 employees' payroll system information to determine those increases which had been the result of a cost of living adjustment (COLA) or a manual change. OIAI reviewed the personnel files maintained in HRD to determine if documentation supporting the all pay rate changes was in the files. OIAI was unable to locate documentation for non-COLA changes made to 57 of these employees.

In OIAI's interview with the management analyst, she indicated that prior to December 2009; she had been instructed to make changes in the payroll system. Generally, she would receive a memo from the former Chief Administrative Officers (CAOs) or the department requesting the change. She would then prepare a memo which included the following information: date, employee name, employee ID, grade, type of change, effective date, current hourly rate, increase rate, a "change made by" line and an "entry verified by" line. The management analyst stated that she would verbally be given the amount of the increase by the CAO, in cases where the memo didn't specify a pay rate. The management analyst stated that P-1s were not prepared for these changes.

A P-1 is a personnel action form which is generated after a potential change has been routed through the approval process. It is generated from the mainframe system and is not integrated with PeopleSoft (or Empath prior to January 2009.) Consequently, a change can be directly entered into PeopleSoft, without going through the P-1 process. The P-1 provides the approval and documentation of a personnel action, including pay rate changes.

The management analyst provided supporting documentation for any changes she made relating to the 57 employees. The table below summarizes the exceptions noted as a result of the review of this documentation:

Employee	Date	Description	Result
A	8/30/08	A former CAO issued a memo to the employee approving a salary adjustment (no amount was given). The management analyst prepared a memo and entered a 5% increase.	Unable to verify the amount of the increase authorized by the CAO.
B	3/1/08	A former CAO issued a memo to the employee approving a salary adjustment (no amount was given). The management analyst prepared a memo and entered an 8.44% increase. The memo was prepared by the management analyst, but the entry was not verified by anyone else, as the process above described.	Unable to verify the amount of the increase authorized by the CAO. The entry was not verified by anyone else for accuracy.
	12/6/08	A former CAO issued a memo to the employee appointing her to a new position with a salary adjustment (no amount given). The management analyst prepared a memo and entered a 32.28% increase.	Unable to verify the amount of the increase authorized by the CAO.
C	1/14/08	A former CAO issued a memo to the employee approving a salary increase (no amount given). The management analyst prepared a memo and entered a 6.56% increase. This increase was subsequently rescinded by that CAO.	Unable to verify the amount of the increase authorized by the CAO.
D	3/31/07	The management analyst did not provide any documentation for a 21.56% increase she entered for the employee.	Unable to verify if the increase was authorized.
Management Analyst	10/27/07	The management analyst was able to enter a pay increase for herself in the Empath system. The increase was approved by a former CAO and the entry was verified by three other employees.	Empath would allow a user to change their own record. Peoplesoft does not allow a user to make changes to their own employment data, regardless of whether the user has been granted access to the pages necessary to make the change.

While OIAI was conducting test work on the 57 employees, it was noted that HRD staff had made changes in the payroll system that were not documented in the HRD files:

Employee	Date	Description	Result
E	10/10/09	Employee was transferred from an unclassified to a classified position. Change made by an HRD employee.	Unable to determine who authorized the transfer.
F	10/14/06	Employee was given a 10.2% pay increase. Change made by an HRD employee.	Unable to determine who authorized the pay increase.

Due to a lack of documentation for these changes made by both the management analyst and HRD personnel, OIAI could not verify the amount of pay increases and other employment actions. The personnel files maintained by HRD are incomplete.

OBJECTIVES

The objectives of the investigation were to determine:

- Is there evidence that undocumented and/or unauthorized changes were made in the payroll system?
- Are there areas in which the DFAS could reduce the risk of undocumented or unauthorized changes in the payroll system?

SCOPE

The scope of the investigation was limited to:

- Employees for which the management analyst had entered a change in the payroll system during the period July 24, 2006 through October 19, 2009, the date of the most recent change entered by the management analyst.
- Changes that would have required supporting documentation, which excludes cost of living adjustments (COLAs) or other mass changes affecting all City employees.

METHODOLOGY

The methodologies used during our investigation consisted of:

- Analysis and re-calculation of pay rate histories
- Interviews of HRD personnel and the management analyst
- Review of HRD personnel files
- Review of documents provided by the management analyst

FINDINGS

OIAI makes recommendations regarding areas noted during the investigation that we believe could improve the City's effectiveness, efficiency and compliance with administrative policies and applicable rules and regulations. These recommendations could prevent future fraud and provide controls that would detect fraud.

1.   SECURITY LEVEL IN THE PAYROLL SYSTEM IS NOT APPROPRIATE FOR SOMEONE NOT EMPLOYED IN HRD.

An employee outside of HRD should not have the ability to make payroll and employment changes citywide. While HRD is currently in the process of changing the role of department HR coordinators, this was not the practice during the time period these changes were made.

Control Objectives for Information and Related Technology (COBIT) is an authoritative set of generally accepted information technology control objectives for use by business managers and auditors. COBIT control practices recommend that the level of access granted be appropriate to the business purpose.

RECOMMENDATION

DFAS management should change the management analyst's security level in PeopleSoft to a department HR coordinator.

RESPONSE FROM DFAS

"DFAS concurs with the recommendation and we are in compliance."

RESPONSE FROM HRD

"The Human Resources Department agrees with the findings presented in Report No. 10-205. In December 2009, the Chief Administrative Officer (CAO) took affirmative action by requesting the Director of Human Resources and the City Attorney to identify all City employee personnel actions processed during the prior administration's last three (3) months. Based upon the analysis, the CAO directed corrective action.

"The actions and the timeframe for implementation were as follows:

- *"A review of security access to the PeopleSoft system by employees showed that the management analyst during this time period functioned at the direct order of the CAO. Records showed that she was allowed unrestricted access to all city employee records and the ability to make changes without review or knowledge by HRD. The HRD is initiating a complete review with the ERP team on control of security access to the PeopleSoft system.*
- *"Security access of employees to the PeopleSoft system have been reviewed with access being removed as needed.*
- *"All HR coordinators within City Departments are in process of being transferred/reassigned to the City's Department of Human Resources. This change will make HRD directly responsible for all personnel actions being entered/changed in the system. These employees will be directly supervised by HRD.*
- *"Oversight of all personnel action entry will be conducted by HRD on a frequent basis but no less than bi-weekly.*

"HRD has initiated action to ensure that the management analyst possesses only HR Coordinator and HR view access as deemed by HRD as being applicable based upon her reassignment from DFAS to HRD."

2.   HRD PERSONNEL FILES ARE INCOMPLETE.

The changes made to the payroll systems by the management analyst by-passed HRD and the City's established P-1 process. The two changes made by HRD personnel are also not documented in the personnel files. As a result, changes have been made in the payroll systems that are not documented in HRD personnel files.

City Personnel Rules and Regulations state:

Section 1000 Personnel and Medical Records

The personnel records maintained by HRD will be considered the official personnel record of City employees.

Section 1001 Personnel Records

HRD is responsible for maintaining required data in the employee's personnel record…..Employee information that should be maintained in the employee's personnel file and be accessible to the public with the exception of the confidential information contained therein:

B. Personnel Action Forms

RECOMMENDATION

DFAS should provide HRD the supporting documentation for the changes that the management analyst made, so they can be included in the personnel files.

HRD should ensure personnel files are complete, including changes initiated by HRD staff.

RESPONSE FROM DFAS

"DFAS concurs with the recommendation and all supporting documents have been submitted to HRD."

RESPONSE FROM HRD

"The supporting documentation for the changes initiated by the management analyst has been provided by DFAS to HRD.

"HRD has reviewed and is filing the actions as required."

CONCLUSION

Changes made by the management analyst

- Four employees (A, B, C and D) had exceptions due to a lack of documentation. OIAI was not able to verify the amount of the pay increase to A, B and C. The CAO's did authorize an increase in these cases, but the exact amount was verbally given to the management analyst. No documentation was provided for the pay increase to employee D.
- Of the four employees, only one is still employed by the City. Employee D is currently a department director. His position and payrate have been authorized by the current CAO.

Change made by an HRD Employee

- No documentation for the transfer of employee E from an unclassified to a classified position.
- Employee E is still employed by the City as a planner in the Parks and Recreation Department. His position and payrate have been authorized by the current CAO.

Change made by an HRD Employee

- No documentation for the pay increase to employee F.
- Employee F is no longer employed by the City.

Employment Status of the management analyst and HRD employees

- The management analyst currently works in DFAS.
- Neither of the HRD employees still work for the City.

DFAS should remove the management analyst's citywide HR Analyst access to ensure all payroll changes are authorized and documented.

HRD should ensure personnel files are complete, including changes initiated by HRD staff.

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Internal Auditor

APPROVED AND APPROVED: APPROVED FOR PUBLICATION:

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Carmen Kavelman, CPA, CISA, CGAP   Chairperson, Accountability in Government
Director   Oversight Committee
Office of Internal Audit & Investigations