



Seattle Public Schools The Office of Internal Audit

Internal Audit Follow-Up Report Segregation of Duties – Human Resources

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Internal Audit Report Segregation of Duties Follow-Up Audit – Human Resources

Executive Summary

Background

On September 11, 2012, the Office of Internal Audit issued an audit report for Human Resources as part of its evaluation of the District's overall system of internal controls. There were four audit findings, and one of the findings was related to segregating system access for employees. This finding indicated that all employees in the Human Resources Department and the Payroll Department had system access that allowed them to change employee payrates in SAP.

On December 13, 2016, the Office of Internal Audit issued an audit report which followed up on the 2012 audit report. This follow-up audit was performed to see what improvements were implemented by the District and if they addressed our concerns. The 2016 audit report recognized improvements, but there were still too many employees with system access to change employee payrates. We recommended that District management address this finding since segregation of duties is an essential internal control designed to help prevent fraud and errors.

In accordance with the 2019-2020 Annual Risk Assessment and Audit Plan, we completed a follow-up audit to assess the corrective action plans for the segregation of duties audit finding from 2016:

Audit Finding: Access to data that can impact an employee's salary is still provided to more employees than is necessary, including members of the Payroll Department. Since the Payroll Department is responsible for processing payments to employees, they should not have access to change employee pay.

Internal Audit recommended that District management segregate payroll and human resources functions in SAP so that employees only have system access that is applicable to their job duties. Segregating these duties reduces the risk of inappropriate employee compensation.

Roles and Responsibilities

District management is responsible for follow-up and corrective action to address audit findings. To fulfill this responsibility, the District has a process in place to track the status of audit recommendations and ensure that audit issues are resolved.

Approach and Methodology

The objective of this audit was to determine if District management properly segregated duties between payroll and human resources responsibilities in SAP to mitigate the risk of inappropriate employee compensation.

To complete this follow-up audit, we performed the following procedures to address the audit objective:



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- Reviewed the prior audit reports and supporting documentation to gain an understanding of the issues related to segregation of duties in human resources processes.
- Inquired with department staff to gain an understanding of what changes were implemented to address segregation of duties issues in human resources and payroll processes.
- Worked with the Department of Technology Services (DoTS) to retrieve user access data and data for changing payrates in the system.
- Extracted data from organization charts to supplement data provided by DoTS to match SAP access to job functions.
- Analyzed data to determine if the changes implemented by District management match the corrective action plans communicated to Internal Audit, and if the implemented corrective action plans sufficiently address the prior audit findings.

Conclusion

The District appears to have initially implemented corrective actions to restrict the number of employees with access to change payrate information. However, our analysis of SAP access data from August 2020 revealed that the number of Payroll Department employees who can change payrate information has increased since 2017. This report contains recommendations that are intended to address process improvement opportunities and reduce the risk of inappropriate employee compensation.

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Findings and Recommendations

1) Employee Payrates

Changing payrates is typically not performed by the payroll function and is not compatible with their primary responsibility of processing employee pay. When Payroll Department employees can make changes to payrates, there is a risk of making unauthorized or inappropriate payments because they also process payroll. Mitigating this risk is typically accomplished by only allowing select Human Resources Department employees access to change payrates and only allowing Payroll Department employees access to process payroll.

Currently, District employees in the Payroll Department can change payrates in the system. District staff indicated that this level of access is by design and is in place to prevent paying employees if incorrect information is entered into the system. On occasion, the Human Resources Department may identify erroneous data for an employee. Human Resources will then contact the Payroll Department to verify that no payments were made to that employee. Once Payroll verifies that no payments were made, they will delete personnel data from the system without delaying the processing of employee paychecks. However, having the ability to delete erroneous entries also means that Payroll Department employees have the ability to change employee payrates.

Despite the District's desire to have Payroll Department employees serve as an additional control to detect and correct incorrect data without delaying payroll payments, we believe that mitigating the risk of inappropriate payroll payments should be a higher priority. To accomplish this, we recommend segregating system access so that only the Human Resources Department can make changes to payrate information, and only the Payroll Department can process employee paychecks. Current system access does not reflect this design.

Alternatively, if the District determines that the current process design is needed, we recommend that the District implement stronger compensating controls to detect inappropriate payroll payments in a timely manner. Currently, there are too many Payroll Department employees with the ability to change payrates in SAP. Nine out of the sixteen employees in the Payroll Department have access to change payrates in the system, but only two require this level of access under the current system. Additionally, there should be more robust and systematic monitoring controls in place to alert management when Payroll Department employees update payrates in the system. Any such instances should be reviewed by management for appropriateness in a timely manner.

Recommendations

We recommend the District completely segregate the payroll and human resources duties associated with changing employee payrates. System access should be segregated so that only employees of the Human Resources Department can make changes to payrate information and only employees of the Payroll Department can process paychecks.

Alternatively, if implementing this change would significantly impact either department's operations, we recommend updating current processes to include more robust compensating controls to timely detect and correct any instances of inappropriate payrate changes. Possible



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steps to accomplish this include, but are not limited to:

1. Reducing the number of Payroll Department employees with SAP access that allows them to make changes to payrate data.
2. Implementing a robust and systematic monitoring control in SAP or another technology that notifies management when Payroll Department employees make changes to private information such as payrates. Any such instances should be reviewed by management for appropriateness in a timely manner.
3. Performing an annual review of SAP access to ensure only necessary employees have access to make changes to payrate data.



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Management Response

The Human Resources Department has reviewed the audit report and concur with the recommendations to further segregate the payroll and human resources transactions in the SAP system. We are working with the Department of Technology Services and Payroll teams to scope out solutions.