

# Audit Report

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## **Comptroller of the Treasury Central Payroll Bureau**

May 2009

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**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

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Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

May 4, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Comptroller of the Treasury – Central Payroll Bureau (CPB) for the period beginning January 1, 2006 and ending January 13, 2009. CPB is primarily responsible for processing and issuing payroll checks and direct deposit advices for the regular State payroll and the payrolls of the Maryland Department of Transportation and the University System of Maryland.

Our audit disclosed that CPB's procedures and controls over the State payroll system needed improvement. Specifically, we noted that a number of employees had access to a critical automated payroll processing function that could allow them to process unauthorized adjustments to direct deposit data.

The Office of the Comptroller's response, on behalf of CPB, to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by CPB.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Central Payroll Bureau (CPB), a unit of the Comptroller of the Treasury, is primarily responsible for processing and issuing payroll checks and direct deposit advices on a bi-weekly basis for the regular State payroll, and the payrolls of the Maryland Department of Transportation and the University System of Maryland. According to CPB's records, the payrolls collectively totaled approximately \$6.4 billion during calendar year 2008. CPB is also responsible for processing payroll deductions, employee withholding statements for certain employees, and other payroll reports for State government. According to the State's accounting records, CPB's operating expenditures totaled approximately \$2.3 million during fiscal year 2008.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated June 9, 2006. We determined that CPB satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

## **Findings and Recommendations**

### **State Payroll System**

#### **Finding 1**

**A number of CPB employees had access to a critical automated payroll processing function that could allow them to process unauthorized payroll transactions.**

#### **Analysis**

Improper access to a critical automated payroll processing function had been granted to a number of CPB employees that could allow them to initiate and process unauthorized payroll transactions. Specifically, we noted that 12 employees had the ability to initiate and approve adjustments to direct deposit payroll data. Furthermore, although these adjustments were manually reviewed and approved after being processed, the review and approval function was performed by three supervisors who could also initiate such adjustments.

### **Recommendation 1**

#### **We recommend**

- a. that CPB not grant employees user access privileges that allow them to both initiate and approve adjustments to direct deposit payroll data, and**
- b. that related supervisory review and approval of the adjustments be performed by independent employees.**

## **Computer Security**

### **Finding 2**

**Adequate access and logging controls were not established.**

#### **Analysis**

Adequate controls were not established over critical production data files. CPB uses the Comptroller of the Treasury's Annapolis Data Center to process the State's payroll. The Data Center's computer system contains a security software system capable of restricting and logging direct modification access to CPB's data files. However, numerous individuals had unnecessary but logged, direct modification access to critical production payroll data files. In addition, seven individuals had necessary but unlogged, direct modification access to critical payroll data files. These conditions could result in the improper modification of critical payroll data. Similar conditions were commented upon in our preceding audit report.

### **Recommendation 2**

#### **We recommend**

- a. that CPB restrict direct modification access to critical production data files to users who require such access (repeat), and**
- b. that all direct modifications of critical payroll files be logged by the security software and reviewed and approved by management (repeat).**

## **Audit Scope, Objectives, and Methodology**

We have audited the Comptroller of the Treasury – Central Payroll Bureau (CPB) for the period beginning January 1, 2006 and ending January 13, 2009. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine CPB's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of CPB's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to CPB by the Comptroller of the Treasury – Office of the Comptroller. These support services (such as processing of invoices, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Comptroller. Our audit also did not include certain support services provided to CPB by the Comptroller of the Treasury – Information Technology Division related to the procurement and monitoring of information technology equipment and services. These support services are included in the scope of our audits of the Information Technology Division.

CPB's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including the safeguarding of assets, and compliance with applicable laws, rules and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report include findings related to conditions we consider to be significant deficiencies in the design or operation of internal control that could adversely affect CPB's ability to maintain reliable financial records, operate effectively and efficiently and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

The Office of the Comptroller's response, on behalf of CPB, to our finding and recommendation is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise CPB regarding the results of our review of its response.



## APPENDIX



Peter Franchot  
*Comptroller*

Linda L. Tanton  
*Deputy Comptroller*

April 27, 2009

Bruce A. Myers, CPA  
Department of Legislative Services  
Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Myers:

This letter is in response to the draft audit report to the Comptroller of Maryland regarding the Central Payroll Bureau for the period beginning January 1, 2006 and ending January 13, 2009. The Central Payroll Bureau takes very seriously its responsibility for the management and integrity of the statewide payroll systems. Since the 2006 Audit, the Bureau has reworked employee access into functional groups, hoping to make the application of access rules an easier and more precise process. Under the direction of the Deputy Comptroller, the bureau has worked with the Comptroller's Internal Audit Division to review and address all prior audit findings and discussion notes. Because of the recent findings concerning CICS transaction and File access, new policies requiring an additional level of review by the Director have been implemented.

All recommendations received have been implemented and communicated to the appropriate audit team. The below findings and agency responses are in order as presented in the Audit report.

### **Finding Number 1**

*A number of CPB employees had access to a critical automated payroll processing function that could allow them to process unauthorized payroll transactions.*

### **Response**

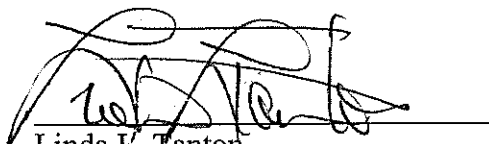
Immediately upon notification, the Central Payroll Bureau removed all access deemed excessive/unauthorized. Future access requests representing occasional backup to responsible team members will now become a "special request", one that would be monitored and removed when no longer needed. Responsible team supervisor and team members of the Direct Deposit Unit have all had their access rules reviewed and modified to eliminate privileges allowing both "initiate" and "approval". Other supporting ACF2 rules have been deleted/modified that will necessitate the requirement for independent supervisor review and approval for all Direct Deposit adjustments. All actions were documented to the audit team for their approval prior to implementation.

## Finding Number 2

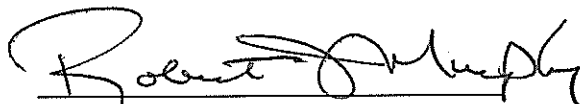
*Adequate access and logging controls were not established.*

Unnecessary access that could have allowed, although none was detected, direct modification to critical production data files was immediately removed after receipt of the audit discussion notes. In addition, ACF2 rules for all individuals with necessary but not "logged" access have now been modified to include logging. Logging will now generate entries on the ACF2 report for daily review by the Central Payroll Bureau's security officer and the Director. All actions were documented to the audit team for their approval prior to implementation.

Very truly yours,

A handwritten signature in black ink, appearing to read "Linda L. Tanton", written over a horizontal line.

Linda L. Tanton  
Deputy Comptroller

A handwritten signature in black ink, appearing to read "Robert J. Murphy", written over a horizontal line.

Robert J. Murphy  
Director, Central Payroll Bureau

AUDIT TEAM

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