

# INTERNAL AUDIT DEPARTMENT

Internal Audit has assessed the control condition of the key Sarbanes-Oxley (SOX) controls within Human Resources (HR) Payroll Operations for the period January 1, 2023 to September 30, 2023. A control condition audit is designed to provide reasonable assurance as to the design and effectiveness of the system of internal control implemented by management. Internal Audit's testing resulted in the identification of 4 low risk issues. The details of the issues identified and management's action plans can be reviewed in the attached PDF.

**Control Condition:** Satisfactory with Limited Exceptions

**Control Environment:** Unrated

## Rating Rationale:

Based on the results of the work performed, Internal Audit has concluded that the system of internal controls implemented by management is adequately designed and operating as intended to mitigate the risks of the function. The identified issues have limited impact on the ability of controls to mitigate business risks. However, the low risk issues reported do highlight the need for enhancements in certain areas of risk surrounding Operations, Information Technology and Information Security. Particularly, the review identified the need for enhancements to the payroll suspense accounting review controls to ensure this operational risk does not increase and is adequately addressed to ensure timely and proper resolution of suspense items. As a result, Control Condition has been rated Satisfactory with Limited Exceptions.

## Scope:

The HR Payroll Operations team is responsible for the oversight and monitoring of payroll reporting for U.S. employees including PGIM. ABC Company utilizes third party vendors, Alight and Workday, for payroll and technology support services and Human Capital Management Software as a Service (SaaS), respectively.

The scope included an assessment of the design and effectiveness of the key SOX controls related to HR Payroll Operations. Internal Audit's testing supports management's assertion of key SOX 404 controls during the period under review.

The audit focused on certain key risks including:

- Product, Operations and Trading - Customer Transactions - Payroll Accounting Suspense
- Product, Operations and Trading - Customer Transactions - Inappropriate Fluctuations in Payroll
- Information Security – Unauthorized Data Access - Inappropriate Access to Payroll Applications
- Information Technology – Inadequate System Performance and Availability

Testing focused on controls in certain key processes including:

- PR- 001326: Payroll Administration
- PR – 001287: General Application Controls (GAC) – Workday Change Management/SLDC and Interfaces

The following controls were excluded from the scope of the review:

- PR- 001326: Payroll Administration
- CO-003475 - SOC1 Review and Complementary User Entity Controls Mapping

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This in an annual control and did not fall within the scope period of this review.

Furthermore, this review focused on financial reporting controls over payroll activities performed by ABC Company and did not cover the controls designed to provide for the accuracy of payroll calculations and those associated regulatory risks, which would be covered under the SOC-1 report. As such, recent risk events related to employee payroll tax withholdings were not included in the assessment of this report.

Any questions regarding this report should be directed to the Group Vice President or Vice President responsible for the audit, John Koskoski and Edward Colville, respectively.

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## INTERNAL AUDIT DEPARTMENT

Issue #: IS-001149

Issue Name: Additional reviews and role clarifications are required for the user access recertification control for the Workday application.

### Issue Description:

Workday Human Resource (HR) application is the global Human Capital Management Software as a Service (SaaS) integrated portfolio for employee management, including payroll services. HR Payroll Operations management is responsible for recertifying the user security access to the Workday HR application for payroll related security and role-based groups (e.g., Payroll Reporting Leadership Team, Payroll Partner). Internal Audit's testing of the recertification control noted the following:

- The HR Operations Payroll role owner recertified their own Workday access with no secondary review. Security best practice indicates that a reviewer of a user access recertification should not be assigned to review their own access rights. Rather, their access should be reviewed by someone else or there should be a secondary review to ensure access rights are appropriate.
- The recertification of the Payroll Auditor enterprise payroll security group, which allows the user view access to payroll setup, business processes, and operational data regardless of organization, was incorrectly owned by GT. This should be owned by the HR Operations group due to the group privileges.

### Root Cause Explanation:

Lack of awareness related to certain company standards regarding set up of security groups and the user access recertification practices.

### Rating Rationale:

Lack of adequate recertification reviews could lead to unauthorized or unnecessary access that could result in unauthorized transaction processing or inappropriate access to personal information. The likelihood of this risk occurring is medium given the various security group roles and number of users with access to Workday. The significance of this risk is low, given the risk is mitigated by the control provided by the initial access request approval. Internal Audit reviewed the current user access membership for the noted groups and did not identify any exceptions. As such, this issue is rated low.

Audit Risk Taxonomy Level 1: 8. Information Security

Issue Rating: Low

Repeat Issue: No

Status: Open

Issue Target Date: 02/29/2024

Operating Division: HR-Operations

Business Group: Human Resources

Reportable Segment: Corporate Groups

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## INTERNAL AUDIT DEPARTMENT

Action Plan ID: AC-001096

Action Plan Description: Set up Workday to be subject to a final application owner review.

Action Plan Owner:  
Kenneth Nevola

Action Plan Closure Target Date:  
01/31/2024

Action Plan Status:  
Open

Action Plan ID: AC-001097

Action Plan Description: Review all Workday Security Groups and determine the appropriate owners.

Action Plan Owner:  
Patrick Lynch

Action Plan Closure Target Date:  
01/31/2024

Action Plan Status:  
Open

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## INTERNAL AUDIT DEPARTMENT

**Issue Name:** Enhancements to the payroll cycle monitoring and variance analysis control are needed to ensure adequate segregation of duties exists between the preparer and reviewer of the information.

### Issue Description:

On a monthly basis, the Human Resources (HR) Director generates bi-weekly trend analysis reports from the Workday application to detect any significant fluctuations between payroll payments issued during the pay-cycles. The trend analysis report is a standard Workday production report that is subject to general application controls. However, the Director performing the review also inserts a minor calculation of the gross and net pay variances and there is no additional review of the variance report after the Director's preparation and review is completed. While the variance computation is not complex, this variance analysis is used to review the reasonability of payroll payments and it is important that a clear segregation of duties exists between the preparer and reviewer of the variance report.

### Root Cause Explanation:

The root cause stems from the fact that the standard report from Workday does not provide sufficient analytical support and reliance on the subject matter expertise of the HR Director to modify the report in addition to performing the review.

### Rating Rationale:

A lack of segregation of duties between a preparer and reviewer increases the likelihood of management not investigating certain significant variances when they occur in a timely manner, which might result in errors from inaccurate payroll processing being undetected. The likelihood of this risk occurring is low given that the calculation is simple, and IA confirmed that all variances were accurately calculated. The significance is low as all variances were adequately explained by management and no exceptions were identified by IA's testing. As a result, the issue is rated low.

**Audit Risk Taxonomy Level 1:** 12. Product, Operations and Trading

**Issue Rating:** Low

**Repeat Issue:** No

**Status:** Open

**Issue Target Date:** 05/31/2024

**Operating Division:** HR-Operations

**Business Group:** Human Resources

**Reportable Segment:** Corporate Groups

**Action Plan ID:** AC-001157

**Action Plan Description:** Include a reviewer going forward to ensure segregation of duties or adjust the Workday report to include a systematic calculation of the variances

**Action Plan Owner:**  
Karine Lewis

**Action Plan Closure Target Date:**  
04/30/2024

**Action Plan Status:**  
Open

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## INTERNAL AUDIT DEPARTMENT

**Issue Name:** Data interface documentation for the Workday application has not been completed.

### Issue Description:

Global Technology (GT) Enterprise Workforce Solutions team is responsible for supporting the Workday Human Resource (HR) application, which includes providing maintenance of payroll related data transfers to and from Workday and several internal and external data sources (e.g., Enterprise Accounting Facility - EAF, ABC Company Advanced Compensation Engine – PACE, E-TRADE). Currently, the Workday application has 38 production data transfers in place.

A standard Interface Control Document (ICD) is a key artifact for data transfers and is used to document key details for various types of data exchanges such as file transmission. The intent of ICD documentation is to ensure that the information is being transmitted in an accurate, secure, and complete manner. An ICD includes the design of the interface, the required approvals from the business and technology owners of the sending and receiving systems, and other key information (e.g., transmittal procedures, security, error handling, recovery).

Internal Audit's review of the documentation supporting a sample of Workday data interfaces (i.e., PACE, E-TRADE, WorkHuman, MSS) identified that the ICDs were not finalized or approved by management of the receiving and sending applications.

### Root Cause Explanation:

The root cause can be attributed to the transition during the Workday application implementation in 2020 from the consulting deployment team to the Alight vendor, which currently provides system support to the application, and the documentation was not finalized during the transition.

### Rating Rationale:

Although documentation of the data interfaces is incomplete, IA sampled four data interfaces and verified that the features of the interfaces (e.g., completeness and accuracy checks, error handling) are operating effectively in line with the System Development Life Cycle controls. Given these mitigating factors, the significance of this issue is low. As a result, the issue is rated low.

**Audit Risk Taxonomy Level 1:** 9. Information Technology

**Issue Rating:** Low

**Repeat Issue:** No

**Status:** Open

**Issue Target Date:** 07/31/2024

**Operating Division:** HR-Operations

**Business Group:** Human Resources

**Reportable Segment:** Corporate Groups

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## INTERNAL AUDIT DEPARTMENT

Action Plan ID: AC-001116

Action Plan Description: Update Workday ICD Template

Enterprise Workforce Solutions team will be reviewing SOX impacted ICDs starting in Q1 2024 in partnership with our Workday AMS consulting team. EWS will design and share an updated ICD template format for Workday data integrations and validate the document design with EWS's internal risk and control partners.

Expected Evidence: Workday ICD standard template, consistent with NWoW ICD standards. Evidence of communication to EWS's internal risk and control partners.

Action Plan Owner:  
Sathvik Kanam

Action Plan Closure Target Date:  
02/29/2024

Action Plan Status:  
Open

Action Plan ID: AC-001117

Action Plan Description: Complete Critical Payroll-related Workday ICDs

Once the Workday-specific data integration ICD is designed, the Enterprise Workforce Solutions team will complete and approve the ICDs for 38 critical Payroll-related Workday data integrations.

Expected Evidence: Approved ICDs for the critical Payroll-related Workday data integrations.

Action Plan Owner:  
Sathvik Kanam

Action Plan Closure Target Date:  
06/28/2024

Action Plan Status:  
Open

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## INTERNAL AUDIT DEPARTMENT

Issue #: IS-001237

Issue Name: Execution of review controls supporting certain payroll suspense accounts require improvement to ensure suspense items are appropriately identified, aged, and remediated in a timely and accurate manner.

### Issue Description:

On a monthly basis, Alight Accounting Operations reconciles Workday and Oracle payroll suspense accounts, which are utilized to handle accounting activity associated with employee deductions, employee stock options, employee wages and employee tax withholdings. Any open items that are not cleared from suspense immediately or within a short period of time should be aged appropriately with a target to clear items within 30 days. If suspense items remain in the accounts for longer than 30 days, HR Payroll Operations works with Alight (Third Party Payroll Vendor) and other internal stakeholders to determine the cause and then are expected to track the age of remaining items, document rationale and track them to resolution.

Internal Audit noted that certain suspense items are not being appropriately documented, tracked and cleared in accordance with the process described above for 1 of the 20 payroll suspense sub-accounts. Internal Audit's testing of a sample of Month End Suspense Packages identified the following in regard to the 1 sub-account:

- Suspense item balances are netted, and some items are not aged accurately. Certain suspense items associated with employee tax withholdings for Restricted Stock Unit (RSU) compensation for 47 employees were changed by adding them to different suspense reconciling items prior to final resolution. These suspense items were then included as a new item with a new date during the creation of the June 2023 monthly package. This caused the item's aging to incorrectly start in June 2023 rather than the initial dates identified in February 2023.

Upon inquiry by Internal Audit, management researched these items and identified that 28 of the 47 employees had more shares than necessary withheld due to an incorrect payroll withholding calculation by E\*TRADE. While the payroll records and tax withholdings were correct in Workday, the E\*TRADE accounts for those 28 employees showed less shares in their accounts and the impact to ABC Company was recorded through Treasury Stock. For reference, the total reconciling item associated with these employees was a credit balance of ~\$100,000 when compared to the original suspense item of \$40M.

- Suspense items are aged longer than 30 days without adequate documentation of the rationale and without having timely resolution plans in place. As of 3Q23, there were 6 suspense items associated with employee tax withholdings for RSUs from prior to 2023 (5 from 2022 and 1 from 2020). As the Service Delivery Manager at ABC Company had not yet been able to resolve, Internal Audit requested further information and management researched these items and were able to determine that 4 of the 6 were de minimis adjustments. It was identified that 2 items were related to RSUs for 10 employees with the impact totaling \$70,000.

**Root Cause Explanation:** The root cause is due to the manual process associated with aging suspense items and resource turnover within the function which resulted in failure to obtain the necessary details for each item in order to adequately understand them and track them to resolution.

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### Rating Rationale:

Failure to fully execute reconciliation controls may result in balances not being adequately monitored, researched and cleared. As a result, downstream impacts related to employee compensation, tax withholding and tax reporting may not be detected. The likelihood of this error occurring is medium given the number of employees at ABC Company that receive RSUs and the large number of shares that vest during compensation season. The significance is considered low due to the limited impact to the operational process of maintaining suspense items since these exceptions were identified for 1 of the 20 sub-accounts. The reconciling items overall were low in volume, low in amount and typically cleared within 30-60 days. In addition, the reconciling items and potential risk for them to grow significantly were immaterial in regard to financial loss, regulatory and financial reporting risks. As such, this issue is rated a low.

### Audit Risk Taxonomy Level 1: 12. Products, Operations and Trading

Issue Rating: Low

Repeat Issue: No

Status: Open

Issue Target Date: 05/31/2024

Operating Division: HR-Operations

Business Group: Human Resources

Reportable Segment: Corporate Groups

Action Plan ID: AC-001170

Action Plan Description: Payroll Suspense Action Plan

1. Alight, with oversight from ABC Company Service Delivery Manager, will reconcile items in conjunction with other stakeholders in HR who then ensure employee compensation and RSU balances at E\*TRADE are accurate, and any corrective actions are taken and communicated to impacted
2. Alight Accounting Operations will improve the tracking of suspense items to ensure items are aged appropriately on the monthly report shared with ABC Company Service Delivery Manager.

Action Plan Owner:

Action Plan Closure Target Date:

Action Plan Status:

Hallie Donovan

04/30/2024

Open

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