David G. Elledge
Controller-Treasurer

Bill Perrone, CIA
Supervising Internal Auditor

September 21, 2007   Assignment 10111

To: Distribution List

Subject: Internal Audit Report - Employee Existence Audit

We have completed a data analysis audit of the data that resides in the payroll timekeeping systems. We conducted the audit during April 2006 through April 2007 covering payroll data as of October 17, 2006.

We thank both the Payroll Division of the Controller-Treasurer's Department and the Employee Services Agency for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signatures on file

David G. Elledge   Bill Perrone, CIA
Controller-Treasurer   Supervising Internal Auditor

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INTERNAL AUDIT REPORT

Employee Existence Audit

Assignment 10111
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Table of Contents

Executive Summary

Conclusion   Based upon the results of our testing, the payroll data tested from the payroll timekeeping systems properly assured that all listed employees are actual employees. The reviewed departments, the Disbursement Division of the Controller-Treasurer's Department and the Employee Services Agency (ESA), have established a satisfactory control environment over the listed employees. There is one minor opportunity for improvement.

Both the Controller-Treasurer's Disbursement Division and the Employee Services Agency are in agreement with this report.

Audit Objective   The objective of the audit was to determine the adequacy of internal controls existing in the PeopleSoft and payroll timekeeping systems to assure that all listed employees are actual employees.

Audit Scope   The scope consisted of two parts: 1) Macro data analysis and 2) Random detail verification. Data analysis was performed on 100% of the payroll data to identify abnormal data combinations. The abnormal data combinations were researched for proper supporting documentation. The data analysis included:

- Analyzing duplicate employee bank account numbers (direct deposit) to determine that if there is more than one paycheck going to a bank account number, and if so, the payees are actual employees.
- Reviewing for employees without the usual deductions such as pension, medical or low-tax withholding.
- Comparing the payroll timekeeping systems to PeopleSoft and identifying any established employees with no employment history, no previous positions or evaluations, and no type of personnel action on file.
- Analyzing invalid or blank Social Security Numbers through filtering.
- Evaluating duplicate Social Security Numbers to determine that if more than one employee identification number is assigned to an employee, it follows the known and allowable process.
- Reviewing zip codes for reasonable distance from the County of Santa Clara.

In addition, the scope of the audit included a random detail verification sample of 52 employees. The random quantity of 52 translates to an 80% confidence level that the sample is representative of the overall population. Internal Audit has found this to be a reliable sample level. The random sample was verified to an independent source for physical existence.

Audit Background   We conducted this audit based on the results of our Macro Risk Assessment for FY 06. We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Details about our findings and recommendations are provided below.

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David G. Elledge   Bill Perrone, CIA
Controller-Treasurer   Supervising Internal Auditor

Finding and Recommendations

Finding 1   **Dependent contractor and extra-help employee identification numbers (ID) that have not been used in over one year show as available in SAP, PeopleSoft and the payroll timekeeping systems.**

Employee numbers are assigned through PeopleSoft to each and every employee in the County whether they are a regular, dependent contractor or extra-help employee. Because an employee may fill two different types of positions, the County permits employees to have more than one identification number. An employee may have an employee identification number as a regular employee, a temporary employee (extra-help), and/or as a dependent contractor.

Internal Audit randomly selected 50 employees from a total of 149 who had more than one employee identification number for detail testing. Thirty five of the 50 regular employees had at least one dependent contractor employee identification number. Dependent contractor identification numbers are employee identification numbers with a lead character of "C". Twenty-nine of the 35 dependent contractor employee identification numbers, where the employee's contract term had expired or they were no longer active in that position, showed as active or available for use in SAP, PeopleSoft and therefore, the payroll timekeeping systems. Seven of the 35 dependent contractor employee identification numbers had contracts that expired in 2003, four in 2004, nine in 2005 and nine in 2006.

Through discussions with the Employee Services Agency, we agreed that extra-help employee identification numbers that have not been used in over one year were being left as available in the PeopleSoft system. Of the 50 employees tested, as mentioned in the above paragraph, who had more than one employee identification number for detail testing, two of the 50 regular employees had at least one extra-help employee identification number. Both extra-help employee identification numbers had not been paid since August and September 2005, respectively.

The Employee Services Agency periodically notifies the departments of dependent contractor and/or extra-help employee identification numbers that have not been used in over a year and that their corresponding service center should deactivate the dependent contractor and/or extra-help employee identification number.

Internal Audit did not find any additional payments made to the dependent contractors; however, employee identification numbers for dependent contractors when left on the system as "active" expose the

County to possibly paying the contractor beyond the contract period.

Recommendation 1.1   The Employee Services Agency should establish a policy that addresses deactivating dependent contractor and extra help identification numbers in PeopleSoft with no activity in a year, with consideration given for departments with special needs, such as the Registrar of Voters, for schedules longer than one year. [Priority 3]

Recommendation 1.2   The Employee Services Agency should continue to monitor and notify the County departments of all dependent contractor and extra-help identification numbers that are active in the PeopleSoft system but have not had any activity in a year. [Priority 3]

Recommendation 1.3   The Controller-Treasurer's Department should incorporate as part of its year-end training a reminder that when a dependent contractor contract expires or the contractor has finished work, their employee identification number should be "deactivated," In addition, extra-help employees who have not been paid in a year should also have their employee identification number "deactivated." [Priority 3]