

AUDITOR'S REPORT

AUDITOR'S OFFICE PAYROLL TAX TABLE UPDATE



August 1, 2014

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HARRIS COUNTY AUDITOR

August 1, 2014

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Houston, Texas 77002

Mr. Bruce High
Chief Information Officer
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406 Caroline, 4th Floor
Houston, Texas 77002

RE: Auditor's Office Payroll Tax Table Update

The Audit Services Department performed procedures relative to the Auditor's Office Payroll Tax Table Update. The objective of the engagement was to determine whether the controls of this project are adequate, and that acceptance testing by the Information Technology Center (ITC) and the Auditor's Office Payroll provides assurance that the Payroll Tax Table Update Project is properly implemented. Our procedures included the following:

- Evaluated the reasonableness of the test plan and test results, reviewing the completed acceptance testing to evaluate whether Payroll's testing agreed that withholding calculations are using the 2014 tax brackets and rates.
- Reviewed implementation procedures for reasonableness.
- Determined if the project methodology is in compliance with County application change request policies and procedures.
- On a sample basis, independently calculated employee payments for the period ended January 10, 2014, and verified that the results match to the actual distributions.

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to

Mr. Mike Post
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Mr. Bruce High
Chief Information Officer

implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,

A handwritten signature in blue ink that reads "Barbara J. Schott". The signature is fluid and cursive, with a long horizontal line extending to the right.

Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
 R. Jack Cagle
 El Franco Lee
 Jack Morman
 Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

Payroll information originates in each County department. Payroll verifies and processes payroll disbursements each pay period by using information such as salaries, hourly rates, changes of employee's status, deductions, etc., already stored in the County's financial system (IFAS). Computer generated payroll reports, deduction and contribution registers, as well as exception reports are reviewed by Payroll before funds are disbursed by the County Treasurer. Payroll is also responsible for preparing the federal payroll tax deposits and related payroll reports.

As part of the Payroll process, Federal Income Taxes are withheld for each employee based on the tax tables published by the Internal Revenue Service. Payroll receives tax updates for these tables from the developer of IFAS. The tax brackets and rates are applied to the test environment and test calculations are verified before they are moved to the production environment. The updated tables must be moved to production prior to the first payroll run of the year or adjustments will have to be made.

RESULTS

Based on our procedures, the test plan, the test results, and the controls related to the implementation procedures of this project appeared to be adequate; however, as the accounting procedures related to program changes were not followed for this project, controls related to this area require improvement as explained below and in the Issues and Recommendation matrix on page 6. Audit Services communicated to Payroll and ITC on December 20, 2013, that there appears to be no issues noted that would prevent the implementation from going forward.

Exceptions were noted with the following audit objective:

- Determined if the project methodology is in compliance with County application change request policies and procedures. Payroll and ITC follow an informal process for changes that includes testing and approvals; however, the process being followed is not in compliance with all of the requirements of Harris County Accounting Procedures O.9, *IFAS Program Changes*, O.10, *IFAS System Settings Service Request*, and O.12, *Financial System Testing Guidelines*. This issue is presented in the attached Issues and Recommendations matrix.

The following scope objectives had no exceptions:

- Evaluated the reasonableness of the test plan and test results, reviewing the completed acceptance testing to evaluate whether Payroll's testing agreed that withholding calculations are using the 2014 tax brackets and rates.
- Reviewed implementation procedures for reasonableness.
- On a sample basis, independently calculated employee payments for the period ended January 10, 2014, and verified that the results match to the actual distributions without exception.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>Compliance with IFAS Change Control Policy</p>	<p>Harris County Accounting Procedure O.10, <i>IFAS System Service Settings Requests</i>, details the actions that are to take place to request, plan, and approve changes to system settings in IFAS. It details which forms to submit and the actions to be taken by the data owners and ITC.</p> <p>Per County Accounting Procedures O.12, <i>Financial System Testing Guidelines</i>, the module owner is responsible for approval of acceptance testing. Additionally, the policy states that the module owner performs this approval of the test plan document, with one copy to be retained in the Payroll department, and a copy forwarded to ITC.</p>	<p>Payroll does not comply with Harris County Accounting Procedures O.9, O.10, or O.12 as guidance for IFAS application and system setting changes. The Payroll has an informal process that includes acceptance testing and documentation consisting of e-mails between participants stating requirements, outcomes, and approvals; however, the informal process does not include documentation for testing and authorizations that are required by the Harris County Accounting Procedures.</p> <p>Without following the requirements set forth in Policies O.9, O.10, and O.12, there is an increased risk of misunderstood requirements or incomplete</p>	<p>ITC and Payroll management should review implementation requirements as outlined in Harris County Accounting Procedures O.9, O.10, and O.12, ensure that they are still current, and follow the guidance provided in the future. Additionally, ITC management should enforce the policy and not initiate any application or system setting changes into production without required documentation and authorization forms.</p>	<p>ITC FHRA management will meet with Payroll management to review the implementation requirements outlined in Procedures O.9, O.10, and O.12, make recommendations if needed to Auditor Systems and Procedures, and follow the policies outlined in these Procedures.</p> <p>The Payroll Department will ensure compliance with all requirements delineated in these procedures. This includes implementation of a formal testing process that will provide documentation of the outcome for all tests conducted. The Payroll Department will document signoff of the individual conducting the test and the manager approving the determination of the results.</p> <p>Accounting Procedure O.9 may not apply to this</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Compliance with IFAS Change Control Policy (Continued)		testing leading to the implementation of changes that could cause errors in payroll disbursements.		situation since the tax tables are provided annually by Bi-Tech as an IFAS upgrade and the first sentence of page 2 of the procedure states that the procedure does not relate to Bi-Tech HFS or Third-Party software vendor program changes.