

Office of the
Internal Auditor

ENGAGEMENT REPORT

October 2024

Payroll and Employee
Records Management



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Executive Summary

Background

Citizens' payroll and employee record management processes are overseen by various Human Resources (HR) departments. Payroll is administered by a dedicated team within the Total Rewards department, utilizing the company's custom-branded Human Capital Management (HCM) Oracle Fusion Cloud Application, Centerpoint. Centerpoint is the central repository for employee payroll details, including work hours, benefit deductions, and direct deposit information. Subsequently, data from Centerpoint is uploaded to the bank, the retirement benefits administrator, and Automatic Data Processing (ADP), which assists with the payroll process's regulatory and tax reporting components. The payroll process is executed bi-weekly and takes about one week to complete.

An effective and efficient payroll process is vital to Citizens as it ensures accurate and timely compensation, directly impacting employee satisfaction and retention. A robust payroll process also ensures compliance with regulatory requirements, including the accurate remittance of federal, state, and local taxes. Streamlined payroll processes also enhance budget accuracy and support strategic financial planning.

Employee records are managed by various HR teams, including Employee Experience, Total Rewards, and HR Business Partners (HRBPs). These records are maintained in an entirely digital format, eliminating the use of paper records. The various digital repositories of employee records include Oracle HCM (Centerpoint), ServiceNow (MyService), and third-party vendors such as Sterling which administers background checks on new employees.

Sound practices in employee records management are essential for ensuring data accuracy, protecting employee privacy, and maintaining compliance with internal policies and external regulations. Accurate and well-organized records support key HR functions, enabling timely and informed decision-making while safeguarding Citizens from potential legal liabilities. Additionally, effective records management helps maintain employee trust by ensuring that personal information is handled with care and confidentiality.

Objectives and Scope

The objective of this engagement was to assess the adequacy and effectiveness of the processes, procedures, and controls related to payroll and employee records management. This evaluation aims to ensure compliance, accuracy, and efficiency in payroll operations.

The scope of the engagement included a comprehensive review of the following areas:

- **Efficiency and Accuracy:** Evaluate the efficiency of the payroll process and the accuracy of compensation disbursement.
- **Oversight and Governance:** Assess the oversight mechanisms and governance structures in place for payroll processes.
- **Records Management:** Review the creation, storage, and maintenance practices for employee payroll records and personnel files.
- **Security and Access Controls:** Analyze the security measures and access controls implemented to safeguard confidential employee information.



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Audit Results

Results from our assessment noted the following favorable practices in place:

Payroll favorable practices

- The payroll process is well-documented through the Centerpoint Payroll Checklist, and these procedures are being consistently followed.
- Appropriate segregation of duties is in place to prevent and detect payroll errors effectively.
- Control and validation steps ensure the accuracy of data sent to third parties, including the bank, the retirement benefits administrator, and ADP.
- The Director of Total Rewards performs a thorough quality assurance review of payroll results every two weeks, providing strong oversight and accountability.

Employee Records Management favorable practices

- A significant portion of employee records, including benefit records, training records, performance evaluations, emergency contact information, resignations and termination notifications are maintained in Centerpoint, which provides an efficient and centralized platform for recordkeeping.
- Employee adjuster licenses, appointments, and continuing education (CE) requirements are regularly reconciled with the Florida Department of Financial Services (DFS) to ensure ongoing compliance
- The Employee Experience team maintains an organized inventory of required records in personnel files, aligning with the Florida Department of State's general records schedule for non-Florida Retirement System government agencies
- The company demonstrates sound judgment in leveraging third-party vendors, such as Sterling, for background checks when it is the most practical and efficient choice for managing specific employee records and processes

In addition to the favorable practices outlined above, Internal Audit also noted several concerns and opportunities for improvement in both the payroll and employee records management processes:

Payroll: Opportunities for improvement

- A third-party vendor SOC (Service Organization Control Report) report is an audit report that evaluates a service organization's controls and processes that management relies upon to perform critical financial controls. ADP is the company's payroll tax/garnishment remittance vendor and is currently classified by management as a sub-vendor of Oracle Fusion. Historically, management has not obtained and reviewed SOC reports for this sub-vendor. In September of 2023, the SOC report procedure was updated to include considering and obtaining SOC reports for sub-vendors as a result of a separate OIA engagement. While at that time, it was determined that management would consider sub-vendors on an ongoing basis, given the nature of reliance on ADP and the criticality of the data shared, OIA recommends that management obtain and review ADP's SOC report on a continuous basis.



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- The documentation of reconciliations on the Centerpoint Payroll Checklist requires more detail. Specifically, the document could clarify the data sources being compared to perform the reconciliation and clearly state whether variances were identified.
- The payroll activity 10% fluctuation analysis performed each pay period does not consistently provide clearly documented evidence that clearly indicates whether the person who conducted the analysis is separate from the individual who processed payroll for that period. Although the segregation of duties is in place, the documentation does not explicitly show this, leaving the process open to potential ambiguity.
- Several highly manual processes were identified within payroll, which increases the potential for errors and inefficiencies. For example, short-term disability relies on the manual rollback of pay based on calculations performed in a manually maintained spreadsheet, while the processing of catastrophe pay (CAT pay) requires data to be manually pulled from ServiceNow. Additionally, processes such as employee referral payments, hiring benefits, lump sum performance increases, and relocations depend on receiving an email with information from another HR department before they can be processed. These manual, email-based workflows represent areas where greater automation and integration could reduce risk and improve efficiency.
- A control is performed each pay period where the Human Resources Information Management (HRIM) Data Analyst checks if all active employees are being paid by comparing the active employee list to the EFT Payment file, and then sends the results to payroll for investigation of any exceptions. There is an opportunity to strengthen this process by adding a review step to ensure that everyone listed on the EFT Payment file is also on the active employee list. This provides an opportunity to detect and prevent a fictitious employee from being paid. When performing this fictitious employee check, the HRIM Data Analyst should notify payroll whether any fictitious employees are identified so that payroll can also investigate those exceptions.

Employee Records Management: There is a need to improve security over personal identifiable information (PII)

- The Division is retaining unmasked Social Security Numbers (SSN) for beneficiaries of ex-employees in Centerpoint. The SSN is not masked and is accessible to the Benefits Manager and potentially other users. Since the employee no longer works for the company, and there is no justifiable need to store this data, its continued retention poses an unnecessary risk of data exposure. Additionally, unmasked PII in any application is against policy. Immediate removal/data masking and stricter data retention controls are recommended.

Employee Records Management: Opportunities for improvement

- The management of employee adjuster licenses, appointments, renewal payments, and continuing education (CE) requirements rely on a manually maintained spreadsheet. The process of reconciling this information with the DFS website periodically is highly manual. Email is used to obtain approvals for the payment of appointment fees and to communicate that information to accounts payable. While this manual process functions, it is labor-intensive, prone to human error, and creates a risk of missed deadlines. Citizens can face penalties of \$250 per adjuster for non-compliance with appointment requirements.



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- Employee records and sensitive information are dispersed across various systems and manual processes within the organization, resulting in inefficiencies, data integrity risks, and potential non-compliance with data management best practices. Rather than being consolidated within Centerpoint, employee information is managed in multiple locations, making it difficult to ensure proper oversight, security and consistency in record-keeping. Records such as severance documents, compensation data, and corrective actions are managed and maintained via email or personal/departmental drives. Management should consider consolidating records into a central source/system.

We would like to thank management and teams for their cooperation and professional courtesy throughout this audit.



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The Honorable Ashley Moody, Attorney General
The Honorable Wilton Simpson, Commissioner of Agriculture
The Honorable Kathleen Passidomo, President of the Senate
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