



## INTERNAL AUDIT REPORT

DATE: June 20, 2016

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
William O'Mara, Commissioner of Finance  
Phyllis Cooper, Director of Accounting  
Phillip Stiefel, Director of Enterprise Solutions  
Susan Straub, Communications Director  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Jasie Curtis, CFE, Internal Auditor

RE: Journal Entry Controls Audit

### Background

The Division of Accounting utilizes PeopleSoft to manage journal entries for all their financial reporting needs. Numerous individuals within LFUCG have the capability to create journal entries in their daily duties as an employee. However, only the Director of Accounting and four Senior Accountants have the ability to post journal entries to the General Ledger. The most recent audit of this function occurred in 2008, and a variety of process changes have occurred since that time. For example, vouchers are no longer used in posting journal entries, and each journal entry is posted separately. Journal entries are no longer grouped together, thereby making them easier to distinguish and understand.



Although some journal entries may have hundreds of entry lines, the entry lines all relate to the specific journal entry being posted for a specific purpose. The Director of Accounting stated she did not have any concerns regarding the reliability of the creation and posting of journal entries, and stated that journal entries are carefully reviewed by herself, LFUCG Senior Accountants, and the external auditors.

### **Scope and Objectives**

The general control objectives for the audit were to determine the:

- Effectiveness of controls relating to journal entries
- Consistency and timeliness of journal entry approvals
- Accuracy of descriptions and existence of supporting documentation for journal entries
- Adequacy of policies and procedures to ensure proper processing and oversight of journal entries

The scope of the audit included activity for the period January 1, 2013 through December 31, 2015.

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

### **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.



## **Audit Opinion**

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

## **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

## **SUMMARY OF AUDIT FINDINGS**

### **Finding #1: Journal Entry Audit Trail Not Available**

**Priority Rating: High**

#### **Condition:**

During a review of the PeopleSoft journal entry controls, we determined that there is no option available to view any edits of journal entries (typically referred to as “journaling”). Therefore, it is not possible to determine if the journal entry being viewed is the original or to what extent it may have been edited. This includes not being certain of the journal entry originator, or of the date and time the journal entry was created.

#### **Effect:**

The absence of a journaling feature makes it impossible to monitor changes to journal entries. Without such monitoring, unauthorized changes to original entries may go undetected.



**Recommendation:**

Accounting should work with Enterprise Solutions to determine if a journaling feature can be implemented in the PeopleSoft financials module.

**Director of Accounting Response:**

Per DES, functionality in the upgraded version of PeopleSoft will include the ability to log all actions (i.e. create, edit, post, and unpost) related to journal entries. The system will document the action taken, the user that took the action, and the date/time the action was taken.

**Commissioner of Finance & Administration Response:**

I concur with the Director of Accounting's response.

**Finding #2: Excessive Number of Employees with Journal Entry Capabilities**  
**Priority Rating: High****Condition:**

During a review of the PeopleSoft journal entry controls in cooperation with Division of Enterprise Solutions personnel, we determined that 199 employees may have the capability to create journal entries. It is questionable whether there is a valid business reason for so many employees to have this capability. While only the Director of Accounting and four Senior Accountants have the ability to actually post journal entries to the General Ledger, control over the process is increased when users with the ability to create journal entries is limited to those individuals having a clear business need.

**Effect:**

An excessive number of employees having the ability to create journal entries increases the risk of inappropriate entries.

**Recommendation:**

Accounting should reevaluate the list of users having the ability to create journal entries, and request that the Division of Enterprise Solutions remove those users who do not have a valid business need.



**Director of Accounting Response:**

Beginning in January, and annually thereafter, Accounting will request a report from DES containing users with access in PeopleSoft to create journal entries. Accounting will review the list and communicate with users whose access is questionable for an explanation. The communication will include a deadline for response and indicate removal of access if there is no response within the timeframe given. Accounting will generate a final list of those users whose access should be removed and forward to DES for follow up.

**Commissioner of Finance & Administration Response:**

I concur with the Director of Accounting's response.

**Finding #3: Locked User Accounts****Priority Rating: Moderate****Condition:**

During our review of all PeopleSoft users with the capability to create and post journal entries, we identified numerous user accounts that were "locked". User accounts are "locked" when someone leaves their employment with the LFUCG. The "unlocking" of user accounts can be performed by IT personnel for reasons such as someone returning to LFUCG employment. These "locked" accounts are never removed from the PeopleSoft User table.

**Effect:**

If an employee returns to LFUCG in a role different from their original job, their journal entry creation rights could be inappropriately reinstated. A terminated user or existing "locked" user could also be inappropriately "unlocked" by IT personnel, creating the risk of unauthorized journal entry creation.

**Recommendation:**

The Division of Enterprise Solutions should delete PeopleSoft user accounts when their employment ends or when their job duties no longer require them to have PeopleSoft access. This process should occur as soon as Enterprise Solutions is notified that someone has left LFUCG employment, or that an existing employee no longer needs the access rights. In the case of a role that is held by only one individual within LFUCG, or no other employees are currently retained in this role, it is recommended to save this role's user



capabilities into a sample user ID named after the position so that if/when this position is filled in the future, the correct access rights are already defined for the new employee.

**Director of Enterprise Solutions Response:**

DES recommends that PeopleSoft accounts not be deleted, but security associated with accounts be removed. Maintaining accounts is required for analyzing history of transactional entries. DES supports the recommendation that Divisions review and notify DES for changes in security. DES suggests the creation of a report, detailing security roles for a user when change for the user is required. This report(s) would be available to hiring Divisions and DES to provide a baseline security for new employees in the same position. DES does not support the creation of sample user profiles to be saved and/or applied to future hires. Security for new hires should be evaluated by the hiring Division. Over time, roles and responsibilities within a position change. Best practices dictate that security roles be reviewed, identified and assigned during these transitions.

**Chief Information Officer Response:**

I concur with the remediation steps outlined by the Director of Enterprise Solutions.

**RISK OBSERVATION**

Standards for the professional practice of internal audit stipulate that it is the Office of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a risk associated with Journal Entry controls but does not represent a violation of statutes, policies, or procedures. It is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

**Communication Regarding Changes in Employment Status Recommended**

During our review of employee capabilities in PeopleSoft, we were informed that the Division of Enterprise Solutions is not consistently notified of changes in employee status such as termination or duty changes. If such changes are not communicated to Enterprise Solutions in a timely manner, employees may retain PeopleSoft access that no longer aligns with their job duties or when they are no longer employed by the LFUCG.

The Division of Enterprise Solutions has a User Request/Modification for Access to PeopleSoft form on the R: Drive under Forms/Infotech. This form should be completed



by the responsible hiring/transferring/terminating manager and sent to Enterprise Solutions whenever these types of events occur so that necessary changes to PeopleSoft access can be made in a timely manner. We recommend that the Chief Administrative Officer send an LFUCG-wide reminder to all Commissioners and Directors of this requirement to ensure consistent application of this important process.

**Chief Administrative Officer Response:**

I agree and will issue the reminder.

