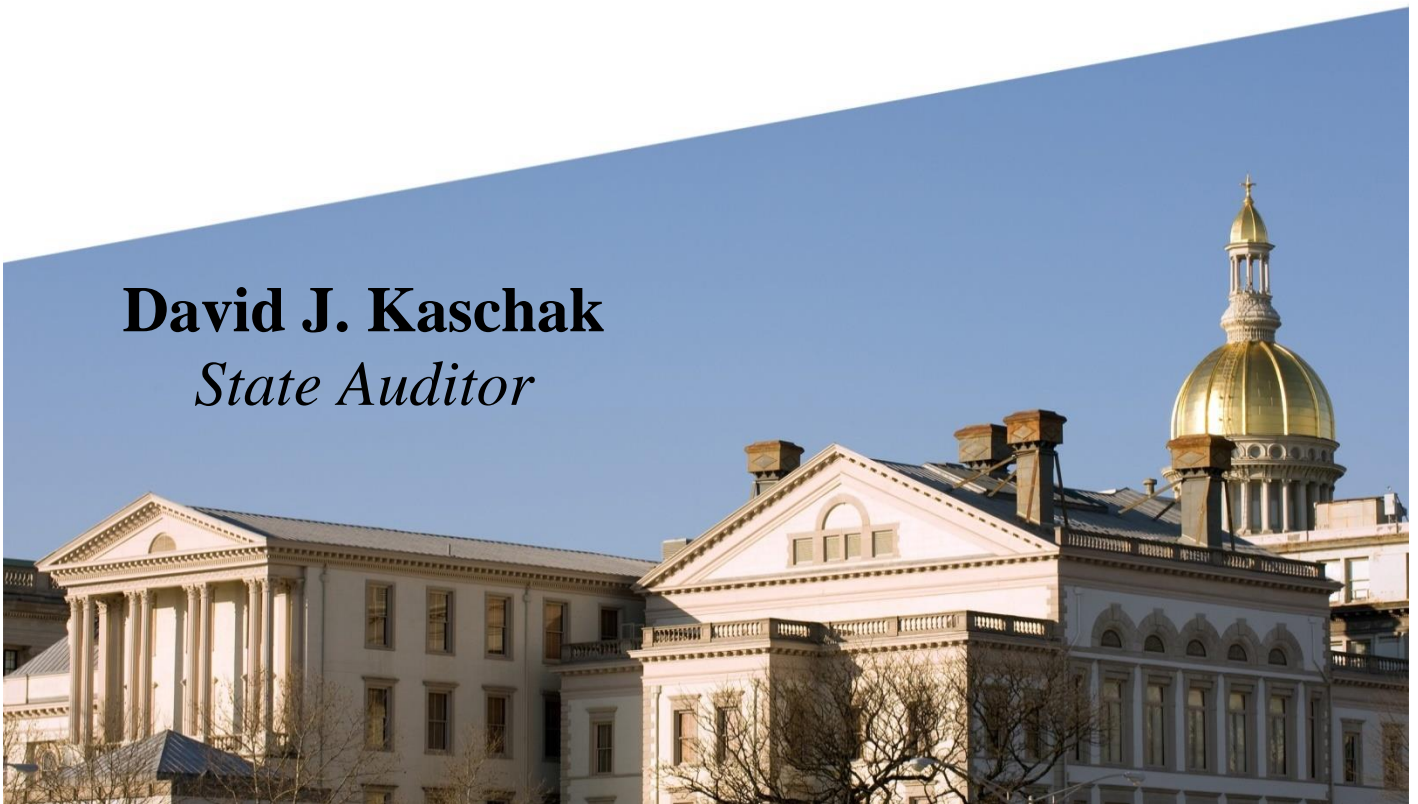


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

Department of the Treasury
Office of Management and Budget
Centralized Payroll System

July 1, 2021 to November 1, 2023

David J. Kaschak
State Auditor



LEGISLATIVE SERVICES COMMISSION

Assemblyman
Craig J. Coughlin, Chair

Senator
Anthony M. Bucco, Vice-Chair

SENATE

Christopher J. Connors
Kristin M. Corrado
Sandra B. Cunningham
Linda R. Greenstein
Joseph Pennacchio
M. Teresa Ruiz
Nicholas P. Scutari

GENERAL ASSEMBLY

Annette Chaparro
John DiMaio
Louis D. Greenwald
Nancy F. Muñoz
Verlina Reynolds-Jackson
Edward H. Thomson
Harold J. Wirths



NEW JERSEY STATE LEGISLATURE
★ Office of LEGISLATIVE SERVICES ★

STATE HOUSE ANNEX • P.O. BOX 068 • TRENTON, NJ 08625-0068
www.njleg.state.nj.us

OFFICE OF THE
STATE AUDITOR
609-847-3470
Fax 609-633-0834

David J. Kaschak
State Auditor

Brian M. Klingele
Assistant State Auditor

Thomas Troutman
Assistant State Auditor

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Nicholas P. Scutari
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Maureen McMahon
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Office of Management and Budget, Centralized Payroll System for the period of July 1, 2021 to November 1, 2023. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "David J. Kaschak".

David J. Kaschak
State Auditor
December 6, 2023

Table of Contents

Scope.....	1
Objectives	1
Methodology	1
Data Reliability	2
Conclusions.....	2
Background.....	2
Observation	
Risk to Payroll Processing Functionality	3
Findings and Recommendations	
Payroll Certifications	5
Change Control	6
Logical Access – Program Libraries.....	7
Overtime Payments.....	9
Appendix	
Methodologies to Achieve Audit Objectives.....	11
Auditee Response.....	13

Scope

We have completed an audit of the Department of the Treasury, Office of Management and Budget, Centralized Payroll System for the period of July 1, 2021 to November 1, 2023. The scope of our audit included logical access, change control, contingency planning, and data integrity of the system.

Objectives

The objective of the audit was to determine if the general and application controls in the Centralized Payroll System are appropriate and working properly to ensure the confidentiality, integrity, and availability of the system and its data. An additional objective was to determine if the operational objectives of payroll processing are being met.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Additional guidance for the conduct of the audit was taken from the *Federal Information System Control and Audit Manual (FISCAM)*, published by the U.S. Government Accountability Office, and the *New Jersey Statewide Information Security Manual (SISM)*, published by the New Jersey Office of Homeland Security and Preparedness. These documents were used as the criteria against which internal controls were measured.

In preparation for our testing, we studied legislation, the administrative code, department policies and procedures, and industry best practices. Provisions we considered significant were documented, and compliance was verified by interviews of key personnel, review of system-related documentation, observations, and review of general and application controls. In order to achieve our objectives, we performed various tests and analyses as we determined necessary. Additional detail regarding our methodology and work performed can be found in the Appendix, as well as in the findings section when testing resulted in a reportable condition.

A non-statistical sampling approach was used in situations where the entire population was not tested. Our samples were designed to provide conclusions on our audit objectives as well as on internal controls and compliance. Sample populations were identified, and items were judgmentally selected for testing. Because we used a non-statistical sampling approach for our tests, we cannot project the results to the respective populations.

Data Reliability

We assessed the reliability of the data in the Centralized Payroll System by performing a reconciliation between the source system data and the Office of Information Technology (OIT) Enterprise Data Warehouse. In addition, data integrity and transaction testing was performed as part of the audit and found no material issues. We determined that the data were sufficiently reliable for the purposes of this report.

Conclusions

We found that the Department of the Treasury, Office of Management and Budget has general and application controls and processes in place in the Centralized Payroll System that are appropriate and working properly to ensure the confidentiality, integrity, and availability of the system and its data. In addition, payroll processing objectives are being met. However, we noted areas for improvement in controls and processes in the areas of data integrity, change control, and logical access that merit management's attention. We are also providing an observation regarding a situation that could affect the processing of certain payrolls in the future.

Background

The New Jersey Centralized Payroll System processes regular and supplemental payroll transactions for state employees. It is an IBM mainframe system, and components of it have been operational since the 1960s. The application has internal system interfaces with state timekeeping and personnel management systems and external interfaces with taxing authorities and commercial entities. The Department of the Treasury, Office of Management and Budget, Centralized Payroll (CP) receives payroll data from state agencies through a combination of timekeeping inputs. Approximately 88 percent of agencies use the electronic Cost Accounting Timesheet System (eCATS), which has a direct system interface to transfer data to the system. Another 6 percent of agencies use the Time and Leave Recording System (TALRS), which has both a direct system interface and spreadsheet-based component for regular payroll and uses the spreadsheet-based component for supplemental payroll. The remaining 6 percent of agencies use only spreadsheet-based input. Spreadsheet-based components require formatting prior to loading into the CP system through a separate software.

Regular and supplemental payroll totaled approximately \$5.4 and \$5.7 billion in fiscal years 2022 and 2023, respectively. An average of 64,345 employee payments were processed per biweekly regular pay period in fiscal year 2022, and an average of 63,768 were processed in fiscal year 2023. Regular payroll consists of regular pay time, overtime, shift differential, and other miscellaneous employee payments. Supplemental payroll consists of regular payment restorations, lump-sum payments, overtime, clothing and uniform allowances, retroactive adjustments, sick leave reimbursements, and vision care.

CP manages the system, while development, maintenance, and production support is provided by the OIT.

Observation

Risk to Payroll Processing Functionality

The payroll system uses a vendor-licensed software that is critical to the payroll process because it is used for direct data input and edit within the mainframe data tables. It creates data entry forms and edit checks that are used during payroll processing as well as allows CP to correct issues and errors identified by its audit processes before the payroll is finalized.

In July 2022, the vendor that licenses the software announced that it was closing its business and that the software in use by CP would no longer be available for use after December 31, 2023. Because this is a yearly subscription, the license will expire after this date and the functionality of the software to perform input and edits will no longer be available. After the vendor announced the discontinuation of the software, the OIT identified another program that could perform that same functionality as the expiring software; however, after testing the software CP did not feel the software met its needs.

In May 2023, CP decided to develop an in-house replacement software that, according to CP management, will perform the same functions as the expiring software. In addition, CP informed us it has identified alternative procedures that, although involving more manual intervention and being more time consuming, will allow payroll to be processed if the replacement is not completed by December 31, 2023. CP staff have stated that they would decide which path to pursue by the end of November 2023 in order to allow for adequate testing of the process chosen.

CP provided an abbreviated project plan for the in-house replacement project, which identified the tasks necessary to complete and the requirements of each of the three phases in the development. The plan stated the entire project would be completed and tested by December 15, 2023. Discussions with CP disclosed that development and testing of the first phase is almost complete, and progress on the second phase has been made. CP expressed that tasks can and will be tested independently in the future phases; however, a complete parallel test to ensure the entire process works as expected can only be performed after all parts of the new system and all necessary changes to the associated mainframe processing programs have been successfully completed. CP has identified the processing programs needing changes to work with the new software. Access controls will be handled using the same technology currently in place because it is part of the computing environment and not the expiring product.

According to CP, the alternative procedures could be used immediately if necessary and, as a result of our inquiries, CP and the OIT are working to identify and document any differences from the existing payroll process. The alternative procedures have not yet been completely tested in parallel with the existing process. The CP informed us it plans to test the alternative procedures in the last two regular and supplemental payrolls of calendar year 2023, in parallel to the current process. Our inquiries disclosed that the access controls related to the data inputs used in the alternative procedures may not allow CP to identify who makes changes to an individual payroll record.

Whether CP is able to finish the in-house replacement or the alternative procedures are adopted, if adequate testing is either not conducted or is unsuccessful and any issues cannot be corrected before December 31, 2023, there is a risk that certain payroll submissions will not be able to be processed. The ability to process a payroll submission will depend on the type of submission input and/or errors in the submission identified during CP's audit process. CP is working on both options and anticipates that one will be successfully tested and in use by the first payroll after December 31, 2023.

The CP unit has a responsibility to notify payroll officers throughout the state of any potential payroll processing issues that may arise, as well as any potential changes to their requirements or procedures for submission. If the selected solution is not successfully tested prior to December 31, 2023, CP needs to communicate to the payroll officers of any potential delay or disruption to regular or supplemental payroll processing.



Payroll Certifications

Centralized Payroll is not enforcing the payroll certification administrative code.

A payroll certification accompanies every payroll proof submitted to CP by payroll units statewide. N.J.A.C 4A:3-4.1 states:

In State service, the appointing authority or the appointing authority's designee shall sign the regular and supplemental payroll certification documents submitted to the Centralized Payroll Unit, Department of the Treasury. The certification documents shall state, in substance, that all persons whose names appear on the accompanying payroll proof have rendered services for the benefit of the State, in the positions shown and for the time period indicated, for which funds are available. The certification shall further state, in substance, that formal approval of the employment of these persons has been, or is in the process of being, secured from the Civil Service Commission and the Department of the Treasury.

Agencies designate their authorized approvers by completing and submitting a signature card to CP. It is the responsibility of each agency to update the signature card when there is a change in authorized approvers.

Regular Payroll

Based on the timekeeping input used and dollar amount processed, we judgmentally sampled 40 payroll submissions that processed a total of \$65.8 million in regular payroll from a single pay period in calendar year 2022. The sample included 18 spreadsheet-based submissions, 16 submissions with both a direct system interface and spreadsheet-based component, and 6 direct system interface submissions. We found that 6 of the 40 (15 percent) regular payroll certifications tested did not have authorized signatures.

Supplemental Payroll

Based on the timekeeping process used and the dollar amount processed, we judgmentally sampled 204 payroll submissions that processed a total of \$19.2 million in supplemental payroll from a pay period in calendar year 2021. The sample included 199 spreadsheet-based submissions and 5 direct system interface submissions. We found that 22 of the 204 (10.7 percent) supplemental payroll certifications tested did not have an authorized signature. Included in these exceptions are 11 payroll certifications totaling \$767,741 with no signatures at all.

The results of our tests disclosed that CP is not enforcing the certification requirements by accepting payroll certifications without the proper authorized signatures. CP informed us that its position is to not reject payrolls for signature issues because they must be processed on time. When certifications do not include proper authorizations, CP's procedure is to follow up with the agency to obtain the required authorizations; however, this procedure was not followed for our

test exceptions. Payroll submissions without proper review and authorization increases the risk of incorrect or improper data being processed and payments issued based on that data.

Recommendation

We recommend CP improve its efforts to ensure that the certification procedures are followed. CP should work with agencies to identify authorized approvers to obtain updated signature cards and reinforce the issue to all agencies of the necessity to update signatures cards when necessary. In addition, CP should notify agencies that they are in violation of the administrative code when payroll proofs are submitted without authorized signatures or no signatures at all.



Change Control

Change control procedures should be improved and properly documented.

According to the SISM, all technology changes to production environments must follow a standard process to reduce the risk associated with change. Agencies shall involve key business stakeholders in the change process to ensure changes are appropriately tested, validated, and documented before implementing any change on a production network. Change control consists of a wide range of activities, including the establishment of a formal change management process; proper authorization and approval of all changes; development, documentation, and approval of comprehensive test plans; completion and review of all test results; and retention of an audit trail for all changes. The goal of change management is to prevent unnecessary or unauthorized changes, assess the impact of changes on the computing environment, and maintain necessary documentation of all changes.

The OIT, which performs programming changes to the system, provided us with a list of 53 changes during the period from July 1, 2021 to December 31, 2022, from which we selected 14 changes for testing. These changes start with a formal work request to the OIT group responsible for making the programming changes. We found two work requests that had a typed name of the change requestor instead of an authentic written or verifiable electronic signature, and one work request with no signature. Also, one change did not have evidence of testing, and six of the work requests did not have evidence of approval. The OIT informed us that approvals were typically obtained through an email from the approver.

In addition to changes identified through the formal process above, there are also changes requested through an email directly from the change requestor to OIT personnel. OIT payroll personnel did not identify specific criteria that determine when a change must go through the formal change control procedure that includes a work request document or when an email or other informal request is acceptable. We analyzed the payroll programs in the various processing schedules and found 42 programs that had been changed during the audit period but were not on the list of changes we received. We requested information and any documentation associated with

these changes and received sufficient information for all but two of these items. For these two, the OIT could not provide an explanation or documentation of the change for one, while the other had an explanation but no supporting documentation.

Although the OIT was able to verbally describe the formal change management process, discussions with the agency acknowledged that there is no documented procedure for changes to payroll programs. In addition, not all changes followed the formal process, evidenced by the 42 program changes that did not use the work request document. Finally, a review of the current work request form found that it referenced various items that are no longer in use by the OIT. Although there are changes such as routine maintenance that may not require extensive design and testing once initially developed, OIT payroll personnel did not have criteria for assessing the impact of the change and determining the level of documentation necessary.

Effective change management provides strict controls over the implementation of system changes, thereby minimizing potential corruption to the information system. Inadequate controls over the development and modification of programs could result in improper or unauthorized changes being made to the production environment.

Recommendation

We recommend the OIT review its current change control process and make improvements to ensure it is in compliance with the SISM requirements, and document that process formally. These improvements should include a change request document that includes a verifiable signature for the initial request and final approval of the change. In addition, the OIT should develop criteria for assessing the impact of the change to ensure the correct level of validation and testing is performed and the corresponding documentation maintained.



Logical Access – Program Libraries

The production and development libraries for programs used in the payroll application do not have proper separation of duties.

Separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of improper activity without collusion. Separation of duties includes dividing mission or business functions and support functions among different individuals or roles, conducting system support functions with different individuals, and ensuring that security personnel who administer access control functions do not also administer audit functions. The SISM requires agencies to identify and document functions, tasks, and responsibilities, including system maintenance, day-to-day computer operations, and security/system administration duties. It further requires agencies to define system access authorizations to support separation of duties to prevent the bypassing of internal controls without collusion.

The payroll application uses the Access Control Facility (ACF2) product to control access to the mainframe libraries containing the programs used by the application. ACF2 can restrict access to libraries or allow only specific actions in a library. There are three permissions required to take a program from the development library and compile it, thereby making it part of the live application. The user must have access to write to the development library, write access to the production library, and permission to run the utility that compiles the program into the live application. We reviewed the security rules that restrict access to the libraries containing the programs that make up the application and found there were five individuals with access to all of the permissions necessary to bypass separation of duties. These users can make a change to a program in the development library and move that change into production without the assistance of another user.

OIT personnel said that, because of staffing constraints, any of these five individuals could have a business need to make a programming change and compile the program as part of their job duties. Therefore, they believe this privileged access is necessary to maintain and enhance the functionality of the application. The SISM requires agencies to restrict and control the allocation and use of privileged user accounts. It further requires privileged access to be logged at all times to ensure that actions conducted while using privileged access can be traced to a unique user account. ACF2 can log the specific actions permitted to a user and provide reports for audit trail purposes; however, our review disclosed that log reports are not used. Even if the OIT is accepting the risk of allowing this privileged access for a legitimate business reason, they are not adequately logging or reviewing the users' activities.

Users having the ability to circumvent necessary internal controls and develop or change a program and compile it into the production system without the assistance or intervention of another employee could lead to unauthorized, incorrect, or untested programs being moved to production, thereby affecting the operation of the application. If there are circumstances where this access is necessary, then the actions of these employees should be logged and reviewed for propriety.

Recommendation

We recommend the permissions to the program libraries and compiling utility be reviewed and strengthened to support proper separation of duties as required in the SISM. If the review identifies users who require this privileged access, then use of this access should be logged and reviewed.



Overtime Payments

Supplemental payments to full-time employees are incorrectly being coded as overtime.

Under various circumstances, full-time employees who take on additional tasks are eligible for supplemental pay for those tasks. These payments are not included in the employees' pensionable income; therefore, they should be processed as supplemental payroll payments. We found instances where these payments were incorrectly recorded as overtime payments using an incorrect job code. It should be noted that we did not identify any of these payments as improper or not permitted; only that the payments were coded incorrectly.

We judgmentally sampled 287 overtime payments to employees who are not typically eligible for overtime for a total of \$281,448 in payments from a selected pay period in calendar year 2022. There were 45 payments classified as overtime to these employees totaling \$51,088 that should have been processed as supplemental pay. Discussions with CP identified different circumstances that caused this miscoding to occur. In some cases, these payments were additional duties performed by the employees for an agreed-upon rate, and the miscoding was an oversight by the agency and overlooked during the CP review. The CP staff informed us that the volume of payroll processing submitted each supplemental pay period makes it difficult to manually review all of them; therefore, CP relies on the information provided by the agencies. Other individuals from the list of exceptions worked for an agency whose timesheets are electronic and use a direct system interface. The payments had notes indicating that they were for special projects, but they were processed as overtime because the timekeeping system has limitations related to entering the pay for extra duties, therefore the agencies coded the payment as overtime to work around this issue and ensure employees were properly paid for the duties they performed. CP has identified this as a temporary solution to the issue. Lastly, there were also individuals whose payments were stipends and not overtime, and a contract is in place for the agreed-upon rates for these duties. CP stated that this has been the procedure for these types of payments, although it is not documented in the CP manual. For all items, we verified that the rate paid had no correlation to the calculated overtime rate based on the employees' salaries, and we deemed them proper.

Based on the results of our testing, we analyzed the entire population of overtime payments to full-time employees during the period July 3, 2021 through June 30, 2023, which had the same conditions that resulted in the exceptions in our sample. We identified 2,203 payments to 290 employees in 30 different agency payrolls coded as overtime that should have been coded as supplemental payroll. The 2,203 payments totaled \$816,317, which represented only 0.11 percent of the total overtime paid by the state during the analysis period. Therefore, the payments, though incorrectly coded, do not result in a material misstatement of the payroll system's overtime data and do not have an impact on the data integrity of the payroll data. However, for certain payroll submissions, this miscoding represented a significant percentage of the total overtime paid during the period analyzed. For 6 of the 30 agency payrolls we identified, supplemental payments miscoded as overtime represented 70 percent or more of the total overtime recorded. This could lead to those agencies relying on miscoded payments for management analysis and business decision making related to overtime. In addition, the items that were related to limitations of the

timekeeping system to handle certain extra duty pay could be exacerbated as adoption of that system increases by agencies that use this type of payment.

Recommendation

We recommend that CP develop or enhance procedures for dealing with these payments to ensure they are properly coded and communicate these procedures to agency payroll officers. In addition, CP should make the electronic timekeeping system owner aware of the limitations they have identified.



Appendix

Methodologies to Achieve Audit Objectives

In addition to the procedures outlined in the findings, we performed the following audit procedures to reach our conclusions:

Logical Access

To understand the control environment over user account creation, modification, and deletion, we documented the process to obtain access to the systems associated with payroll processing. To determine if CP is monitoring access to the systems and ensuring that separated employees are removed from access to the systems in a timely manner, we tested all user accounts in these systems to verify that CP is disabling user IDs when an employee separates from service or transfers to another agency. To determine if access to the system that handles the input of sensitive employee information is restricted/controlled, we determined whether access was granted to only the appropriate personnel in the payroll unit.

To assess the controls around the mainframe program libraries and related utilities, we documented all user accounts and their permissions to the various development and production libraries as well as utility programs necessary to compile programs for use in the live system.

Data Integrity

To determine the control environment and corresponding procedures used in the payroll editing and auditing process to ensure data accuracy, we documented and reviewed the edit reports generated during the payroll process for one regular payroll in calendar year 2022.

To determine if Social Security and Medicare deductions from state employee paychecks were correct, we recalculated these deductions for a regular payroll pay period in calendar year 2022. To determine whether Social Security deductions were taken from employees exempt from this deduction, we reviewed the deductions for these users for a regular payroll pay period in calendar year 2022. For the same regular payroll pay period in calendar year 2022, we also compared all employees who had a Social Security deduction to the state's personnel management system to determine whether the individuals were not in an exempt group or position. Because users can move into or out of an exempt group or position if they change jobs, we analyzed all regular wage data for the period January 1, 2022 to September 30, 2022 to determine whether any Social Security deductions that were withheld for these employees were for pay periods when they were not working in an exempt group or position.

To determine if Social Security and Medicare deductions were taken from state employees' vision care reimbursements (which are exempt from these deductions), we tested for this occurrence for a pay period in calendar year 2022. We also determined whether employees' year-to-date vision care reimbursements exceeded the \$400 yearly limit by testing all reimbursements processed in

calendar year 2022.

To determine if state employees were enrolled in direct deposit as required, we analyzed the direct deposit data for a pay period in calendar year 2023. We also analyzed all the bank accounts and cash pay cards for a pay period in calendar year 2023 to determine whether a single bank account or cash pay card received more than two different employees' payments.

To determine whether the payroll system was calculating income tax withholdings correctly, we documented the appropriate formulas used to calculate these withholdings and recalculated the federal and/or state income withholdings for different payment types for one regular and one supplemental payroll in calendar year 2023. To determine if unemployment insurance deductions from state employee paychecks were correctly calculated, we documented the appropriate withholding rate and recalculated this deduction for a regular payroll pay period in calendar year 2023.

Change Control

To obtain an understanding of the change control environment, we met with personnel responsible for the change control process and documented their description of the process. We also documented the list of daily regular and supplemental payroll programs provided by CP, determined whether all jobs were accounted for in the run schedules, and verified the version dates of all transaction processing, system assurance, and job control code.

Disaster Recovery

To determine if the OMB had identified critical data and operations, we documented the business impact analysis for the application and assessed its contents. We documented the disaster recovery plan for the application and assessed its contents. We also documented the results of the disaster recovery exercise for the application performed in November 2022. In addition, because the application and data have been moved to a vendor-managed infrastructure Mainframe-as-a-Service, we documented the System and Organization Controls (SOC) report for the vendor.





State of New Jersey

DEPARTMENT OF THE TREASURY

PO Box 002

TRENTON, NEW JERSEY 08625

PHILIP D. MURPHY

Governor

TAHESHA L. WAY

Lt. Governor

ELIZABETH MAHER MUOIO

State Treasurer

December 1, 2023

Mr. Brian M. Klingele
Assistant State Auditor
Office of Legislative Services
Office of the State Auditor
PO Box 067
Trenton, NJ 08625-0067

Dear Mr. Klingele:

Thank you for the audit report dated November 17, 2023, regarding the *Department of the Treasury, Office of Management and Budget, Centralized Payroll System*, prepared by your office. The Office of Management and Budget (OMB) appreciates the efforts of your staff and the opportunity to identify actions taken to address your audit recommendations. It should be noted that responses to the recommendations related to the Office of Information Technology (OIT) have been prepared by that agency and are labeled as such.

Payroll Certifications

Centralized Payroll is not enforcing the payroll certification administrative code.

A payroll certification accompanies every payroll proof submitted to CP by payroll units statewide. N.J.A.C 4A:3-4.1 states:

In State service, the appointing authority or the appointing authority's designee shall sign the regular and supplemental payroll certification documents submitted to the Centralized Payroll Unit, Department of the Treasury. The certification documents shall state, in substance, that all persons whose names appear on the accompanying payroll proof have rendered services for the benefit of the State, in the positions shown and for the time period indicated, for which funds are available. The certification shall further state, in substance, that formal approval of the employment of these persons has been, or is in the process of being, secured from the Civil Service Commission and the Department of the Treasury.

Agencies designate their authorized approvers by completing and submitting a signature card to CP. It is the responsibility of each agency to update the signature card when there is a change in authorized approvers.

Regular Payroll

Based on the timekeeping input used and dollar amount processed, we judgmentally sampled 40 payroll submissions that processed a total of \$65.8 million in regular payroll from a single pay period in calendar year 2022. The sample included 18 spreadsheet-based submissions, 16 submissions with both a direct

system interface and spreadsheet-based component, and 6 direct system interface submissions. We found that 6 of the 40 (15 percent) regular payroll certifications tested did not have authorized signatures.

Supplemental Payroll

Based on the timekeeping process used and the dollar amount processed, we judgmentally sampled 204 payroll submissions that processed a total of \$19.2 million in supplemental payroll from a pay period in calendar year 2021. The sample included 199 spreadsheet-based submissions and 5 direct system interface submissions. We found that 22 of the 204 (10.7 percent) supplemental payroll certifications tested did not have an authorized signature. Included in these exceptions are 11 payroll certifications totaling \$767,741 with no signatures at all.

The results of our tests disclosed that CP is not enforcing the certification requirements by accepting payroll certifications without the proper authorized signatures. CP informed us that its position is to not reject payrolls for signature issues because they must be processed on time. When certifications do not include proper authorizations, CP's procedure is to follow up with the agency to obtain the required authorizations; however, this procedure was not followed for our test exceptions. Payroll submissions without proper review and authorization increases the risk of incorrect or improper data being processed and payments issued based on that data.

Recommendation

We recommend CP improve its efforts to ensure that the certification procedures are followed. CP should work with agencies to identify authorized approvers to obtain updated signature cards and reinforce the issue to all agencies of the necessity to update signatures cards when necessary. In addition, CP should notify agencies that they are in violation of the administrative code when payroll proofs are submitted without authorized signatures or no signatures at all.

OMB Response

The OMB will begin a comprehensive review of the payroll certification process ensuring all signature cards are up to date. The OMB will also continue to monitor certifications post-processing and follow-up with affected agencies to obtain fully signed forms. A mass e-mail will be sent to agencies informing them their compliance is required pursuant to N.J.A.C. 4A:3-4.1. Lastly, an additional step of notifying the agencies of their lack of compliance is being added. The OMB intends to notify agencies upon receiving the incomplete forms in addition to following-up after the payroll has been processed. It is also the OMB's intent to inquire with the Civil Service Commission (CSC) to verify whether two signatures are still required or if one would still satisfy the regulations. Depending upon the response from CSC, another mass e-mail will be sent notifying all State agencies.

Change Control

Change control procedures should be improved and properly documented.

According to the SISM, all technology changes to production environments must follow a standard process to reduce the risk associated with change. Agencies shall involve key business stakeholders in the change process to ensure changes are appropriately tested, validated, and documented before implementing any change on a production network. Change control consists of a wide range of activities, including the establishment of a formal change management process; proper authorization and approval of all changes; development, documentation, and approval of comprehensive test plans; completion and review of all test results; and retention of an audit trail for all changes. The goal of change management is to prevent

unnecessary or unauthorized changes, assess the impact of changes on the computing environment, and maintain necessary documentation of all changes.

The OIT, which performs programming changes to the system, provided us with a list of 53 changes during the period from July 1, 2021 to December 31, 2022, from which we selected 14 changes for testing. These changes start with a formal work request to the OIT group responsible for making the programming changes. We found two work requests that had a typed name of the change requestor instead of an authentic written or verifiable electronic signature, and one work request with no signature. Also, one change did not have evidence of testing, and six of the work requests did not have evidence of approval. The OIT informed us that approvals were typically obtained through an email from the approver.

In addition to changes identified through the formal process above, there are also changes requested through an email directly from the change requestor to OIT personnel. OIT payroll personnel did not identify specific criteria that determine when a change must go through the formal change control procedure that includes a work request document or when an email or other informal request is acceptable. We analyzed the payroll programs in the various processing schedules and found 42 programs that had been changed during the audit period but were not on the list of changes we received. We requested information and any documentation associated with these changes and received sufficient information for all but two of these items. For these two, the OIT could not provide an explanation or documentation of the change for one, while the other had an explanation but no supporting documentation.

Although the OIT was able to verbally describe the formal change management process, discussions with the agency acknowledged that there is no documented procedure for changes to payroll programs. In addition, not all changes followed the formal process, evidenced by the 42 program changes that did not use the work request document. Finally, a review of the current work request form found that it referenced various items that are no longer in use by the OIT. Although there are changes such as routine maintenance that may not require extensive design and testing once initially developed, OIT payroll personnel did not have criteria for assessing the impact of the change and determining the level of documentation necessary.

Effective change management provides strict controls over the implementation of system changes, minimizing potential corruption to the information system. Inadequate controls over the development and modification of programs could result in improper or unauthorized changes being made to the production environment.

Recommendation

We recommend the OIT review its current change control process and make improvements to ensure it is in compliance with the SISM requirements, and document that process formally. These improvements should include a change request document that includes a verifiable signature for the initial request and final approval of the change. In addition, the OIT should develop criteria for assessing the impact of the change to ensure the correct level of validation and testing is performed and the corresponding documentation maintained.

OIT Response

NJOIT maintains and manages a very robust change control process for all agencies/systems. We are adopting the application change control procedures used by the New Jersey Comprehensive Financial System (NJCFS) and are modifying them when they are necessary. We are investigating the viability of utilizing ServiceNow for application change requests.

Logical Access – Program Libraries

The production and development libraries for programs used in the payroll application do not have proper separation of duties.

Separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of improper activity without collusion. Separation of duties includes dividing mission or business functions and support functions among different individuals or roles, conducting system support functions with different individuals, and ensuring that security personnel who administer access control functions do not also administer audit functions. The SISM requires agencies to identify and document functions, tasks, and responsibilities, including system maintenance, day-to-day computer operations, and security/system administration duties. It further requires agencies to define system access authorizations to support separation of duties to prevent the bypassing of internal controls without collusion.

The payroll application uses the Access Control Facility (ACF2) product to control access to the mainframe libraries containing the programs used by the application. ACF2 can restrict access to libraries or allow only specific actions in a library. There are three permissions required to take a program from the development library and compile it, making it part of the live application. The user must have access to write to the development library, write access to the production library, and permission to run the utility that compiles the program into the live application. We reviewed the security rules that restrict access to the libraries containing the programs that make up the application and found there were five individuals with access to all of the permissions necessary to bypass separation of duties. These users can make a change to a program in the development library and move that change into production without the assistance of another user.

OIT personnel said that, because of staffing constraints, any of these five individuals could have business need to make a programming change and compile the program as part of their job duties. Therefore, they believe this privileged access is necessary to maintain and enhance the functionality of the application. The SISM requires agencies to restrict and control the allocation and use of privileged user accounts. It further requires privileged access to be logged at all times to ensure that actions conducted while using privileged access can be traced to a unique user account. ACF2 can log the specific actions permitted to a user and provide reports for audit trail purposes; however, our review disclosed that log reports are not used. Even if the OIT is accepting the risk of allowing this privileged access for a legitimate business reason, they are not adequately logging or reviewing the users' activities.

Users having the ability to circumvent necessary internal controls and develop or change a program and compile it into the production system without the assistance or intervention of another employee could lead to unauthorized, incorrect, or untested programs being moved to production, affecting the operation of the application. If there are circumstances where this access is necessary, then the actions of these employees should be logged and reviewed for propriety.

Recommendation

We recommend the permissions to the program libraries and compiling utility be reviewed and strengthened to support proper separation of duties as required in the SISM. If the review identifies users who require this privileged access, then use of this access should be logged and reviewed.

OIT Response

A review process is underway regarding program library access, and we are working with our mainframe vendor to investigate additional access logging. We are evaluating the feasibility of separating the two functions, given the size of the staff and the age of the application.

Overtime Payments

Supplemental payments to full-time employees are incorrectly being coded as overtime.

Under various circumstances, full-time employees who take on additional tasks are eligible for supplemental pay for those tasks. These payments are not included in the employees' pensionable income; therefore, they should be processed as supplemental payroll payments. We found instances where these payments were incorrectly recorded as overtime payments using an incorrect job code. It should be noted that we did not identify any of these payments as improper or not permitted; the payments were only coded incorrectly.

We judgmentally sampled 287 overtime payments to employees who are not typically eligible for overtime for a total of \$281,448 in payments from a selected pay period in calendar year 2022. There were 45 payments classified as overtime to these employees totaling \$51,088 that should have been processed as supplemental pay. Discussions with CP identified different circumstances that caused this miscoding to occur. In some cases, these payments were additional duties performed by the employees for an agreed-upon rate, and the miscoding was an oversight by the agency and overlooked during the CP review. The CP staff informed us that the volume of payroll processing submitted each supplemental pay period makes it difficult to manually review all of them; therefore, CP relies on the information provided by the agencies. Other individuals from the list of exceptions worked for an agency whose timesheets are electronic and use a direct system interface. The payments had notes indicating that they were for special projects, but they were processed as overtime because the timekeeping system has limitations related to entering the pay for extra duties, so the agencies coded the payment as overtime to work around this issue and ensure employees were properly paid for the duties they performed. CP has identified this as a temporary solution to the issue. Lastly, there were also individuals whose payments were stipends and not overtime, and a contract is in place for the agreed-upon rates for these duties. CP stated that this has been the procedure for these types of payments, although it is not documented in the CP manual. For all items, we verified that the rate paid had no correlation to the calculated overtime rate based on the employees' salaries, and we deemed them proper.

Based on the results of our testing, we analyzed the entire population of overtime payments to full-time employees during the period July 3, 2021 through June 30, 2023, which had the same conditions that resulted in the exceptions in our sample. We identified 2,203 payments to 290 employees in 30 different agency payrolls coded as overtime that should have been coded as supplemental payroll. The 2,203 payments totaled \$816,317, which represented only 0.11 percent of the total overtime paid by the state during the analysis period. Therefore, the payments, though incorrectly coded, do not result in a material misstatement of the payroll system's overtime data and do not have an impact on the data integrity of the payroll data. However, for certain payroll submissions, this miscoding represented a significant percentage of the total overtime paid during the period analyzed. For 6 of the 30 agency payrolls we identified, supplemental payments miscoded as overtime represented 70 percent or more of the total overtime recorded. This could lead to those agencies relying on miscoded payments for management analysis and business decision making related to overtime. In addition, the items that were related to limitations of the timekeeping system to handle certain extra duty pay could be exacerbated as adoption of that system increases by agencies that use this type of payment.

Recommendation

We recommend that CP develop or enhance procedures for dealing with these payments to ensure they are properly coded and communicate these procedures to agency payroll officers. In addition, CP should make the electronic timekeeping system owner aware of the limitations they have identified.

OMB Response

The overtime concerns within the audit findings have been noted by the OMB management. The correct processing of these payments will be e-mailed to the affected agencies. Furthermore, eCATS staff will be contacted regarding the limitations of the application that have been noted.

The OMB would also like to inform the readers of the report that subsequent to the audit period, we were notified by the vendor that provides our direct data input system that we will have unsupported use of their software until March 31, 2024. This significantly reduces the possible need to utilize the alternative procedure that involves more manual intervention, as detailed in the Observation section of the report.

Sincerely,



Elizabeth Maher Muoio
State Treasurer