



Audit Highlights

Highlights of Legislative Auditor report on the Integrated Financial System Controls issued on February 19, 2004. Report #LA04-11.

Background

The purpose of the Integrated Financial System (IFS) was to replace the State's financial and human resources systems. According to design documentation, the new system was to improve data integrity, and reduce costs through the elimination of redundant systems, processes, and data.

The IFS provides agency-specific and statewide financial information to users, and is the source of financial information available to the public through the State's data warehouse Internet website. The implementation of IFS has resulted in significant changes to the State's financial control environment. As a result, new initiation and approval practices apply to almost all financial transactions processed by state agencies.

Purpose of Audit

The audit included the controls over processing transactions at the fiscal center level in the financial and human resources modules of the IFS. The audit included system and agency controls over processing receipts, expenditures, purchasing, payroll, and fixed assets transactions. The audit reviewed the online IFS transactions processed in calendar year 2002. The audit did not include a detailed assessment of the computer system's technical environment and system controls for all applications being used by the IFS. The objective of our audit was to determine if internal controls have been established to provide reasonable assurance that financial and payroll transactions were processed as intended.

Audit Recommendations

This report contains 10 recommendations to improve controls over the IFS. The recommendations help ensure key control procedures are performed. In addition, they improve fiscal center policies and procedures and property and equipment reporting. Finally, the recommendations help ensure proper security over system access and the formalization of the records retention schedules for both physical and electronic records.

The Department of Administration accepted all 10 recommendations.

Status of Recommendations

The Division's 60-day plan for corrective action is due May 13, 2004. In addition, the six-month report on the status of audit recommendations is due on November 15, 2004.

Integrated Financial System Controls

Results in Brief

Internal controls associated with the Integrated Financial System (IFS) provided reasonable assurance that financial and payroll transactions were processed as intended. However, certain aspects of the control environment at the State's fiscal centers could be strengthened. For example, key control practices were not always performed and written policies and procedures could be improved. In addition, requirements for maintaining property and equipment records were not always complied with and security over system access could be strengthened. Finally, retention and disposition policies regarding financial records need refinement and formalization. Internal controls are essential to the operating integrity of the system given its decentralized environment. Established procedures should be followed, written procedures completed, and security strengthened to help ensure transactions continue to process as intended.

Principal Findings

Under the IFS, the State's centralized pre-audit function was shifted to state agencies. The pre-audit review is a key agency control designed to ensure transactions are processed as intended. Although agencies have developed procedures for conducting pre-audit reviews, we found that over half of the fiscal centers tested did not have evidence such reviews were done.

Quarterly post-audit reviews are required to be performed at each fiscal center. Conducted by independent agency staff, these reviews are designed to evaluate historical compliance with written policies and procedures. Only 8 of the 31 mandatory post-audit reviews, in calendar year 2002, were conducted at the nine fiscal centers visited.

Tracking and reconciliation processes required by fiscal center procedures were often not performed. We examined 18 payroll periods at the 9 fiscal centers visited. We noted that reconciliations relative to the input of timesheets had not been conducted for 11 of the pay periods tested. We also found that payroll expenditures for nine of the pay periods had not been reconciled to the State's accounting records. These exceptions involved eight of the fiscal centers examined.

Agency fiscal centers did not enter fixed asset codes for 6 of 10 requisitions we examined involving fixed asset purchases. In one of these instances, the asset was not included in the agency's inventory records. These codes indicate the item is a fixed asset and should be included in the inventory. Unless these codes are consistently entered, there is an increased risk that assets will not be recorded on the State's property and equipment records.

Access to the IFS is controlled by the assignment of user identification codes and passwords. These controls are designed to limit system access and to track the identity of users responsible for executing financial transactions. Although these controls generally worked as intended, key user actions were not always documented in the electronic system logs or underlying physical records. To ensure system accountability, the identity of all individuals involved in the execution of a transaction should be documented.

Fiscal centers did not always report terminated personnel with system access to the IFS's security administrators. For example, at five of the nine fiscal centers visited, system access for terminated employees had not been removed for periods ranging from two weeks to over a year. To promote system integrity, user access to the IFS should be continually monitored and maintained.

With the implementation of the IFS, the responsibility for storing original financial records shifted to state agencies. Our audit tests indicated these records were being properly maintained. However, there were inconsistencies in the retention practices at the nine fiscal centers ranging from no policies to keeping records for seven years. In addition, there were no formalized retention procedures for the electronic records stored centrally on the IFS.