

# *CITY OF FORT LAUDERDALE*

## OFFICE OF THE CITY AUDITOR

Audit of the Cyborg Payroll System

Report #07/08-4

April 16, 2008



CITY OF  
FORT LAUDERDALE

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City Auditor's Office

**Memorandum**

No: 07/08-09

Date: April 16, 2008

To: Mayor Jim Naugle  
Vice-Mayor Charlotte E. Rodstrom  
Commissioner Carlton B. Moore  
Commissioner Christine Teel  
Commissioner Cindi Hutchinson

From: John Herbst, CPA, CGFO, MBA  
City Auditor

Re: Audit Report #07/08-4 – Review of the Cyborg Payroll System

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The City Auditor's Office has completed its audit of the Cyborg Payroll System. The focus of our audit was:

- To ensure that internal controls are adequate to prevent fraud and misappropriation and ensure that there is adequate segregation of duties throughout the payroll function.
- To determine if the Cyborg payroll system has adequate system security.
- To determine if employee salaries and benefits are authorized/approved, accurately calculated, properly supported and paid in accordance with collective bargaining agreements/city policies.
- To determine that payroll tax reporting and payment procedures are in compliance with IRS requirements.

Based on our audit we are not aware of any material weaknesses in internal control, nor did we find evidence of fraudulent activity. We did note two items, Findings 1.1 and 1.2, that we consider to be significant deficiencies. They are discussed in more detail in the accompanying report.

*A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

We are pleased to note that management generally concurs with our recommendations for these items and has already begun to implement steps to address our concerns. Finally, we noted other opportunities to enhance controls over the payroll process and they are also included in the report.

cc: George Gretsas, City Manager  
Harry Stewart, City Attorney  
Jonda Joseph, City Clerk  
Stephen Scott, Assistant City Manager

**CITY OF FORT LAUDERDALE  
CITY AUDITOR'S OFFICE  
REVIEW OF THE CYBORG PAYROLL SYSTEM**

**PURPOSE**

To conduct an audit of the City of Fort Lauderdale's Cyborg payroll system and evaluate the adequacy and effectiveness of internal controls over the payroll process.

**EXECUTIVE SUMMARY**

Our review of the internal controls over the Cyborg payroll system revealed that the process is functioning as intended and generally has adequate control policies and procedures in place. However, we noted some instances where the existing controls are either not functioning as intended or being fully utilized. Finally, there are opportunities to develop and implement additional policies to enhance the control environment.

- Available Cyborg reports should be developed and used to their maximum potential to monitor the accuracy and integrity of the payroll process.
- Payroll bank reconciliations should be completed more timely.
- The inventory control system over the payroll check stock needs to be strengthened.
- An effective payroll disaster recovery plan should be developed and thoroughly tested to assure continuity of payroll processing in the event of a disaster.
- Various Information Technology security controls should be implemented or enhanced to minimize the risk of unauthorized changes to the payroll database.

**STATEMENT OF OBJECTIVES**

- ❖ To ensure that internal controls are adequate to prevent fraud and misappropriation and ensure that there is adequate segregation of duties throughout the payroll function.
- ❖ To determine if the Cyborg payroll system has adequate system security.
- ❖ To determine if employee salaries and benefits are authorized/approved, accurately calculated, properly supported and paid in accordance with collective bargaining agreements/city policies.
- ❖ To determine that payroll tax reporting and payment procedures are in compliance with IRS requirements.

## **BACKGROUND**

The City of Fort Lauderdale has approximately 2,600 employees and processes a bi-weekly payroll using Cyborg payroll software. The payroll function is located in the Finance Department, however various payroll-related tasks are shared with the Human Resources Department. Time and attendance data collection is distributed to the various City departments and each has a designated timekeeper/payroll coordinator. Payroll tax reporting and compliance is the responsibility of an Accountant II in Central Accounting.

## **SCOPE & METHODOLOGY**

We interviewed staff in the Finance, Information Technology, and Human Resources Departments, as well as departmental timekeepers throughout the City. We tested payroll tax reporting compliance for calendar year 2006.

### **OBJECTIVE 1**

*To ensure that internal controls are adequate to prevent fraud and misappropriation and ensure that there is adequate segregation of duties throughout the payroll function.*

### **FINDING 1.1**

The “Is/Was” report is generated by the Cyborg payroll system as part of the bi-weekly payroll processing. The report establishes an audit trail for all the changes made to the payroll master files. The report is voluminous (6950 pages) and contains a lot of transaction detail for a single change. The Finance and Information Technology Departments haven’t refined the Is/Was report to identify elements of significance from a risk perspective, nor is the report being reviewed by management for evidence of fraud.

Monitoring and communication are significant elements of the COSO<sup>1</sup> internal control framework. Available control tools that are not being utilized increase the risk of unauthorized changes not being readily detected. Cyborg users with super-user access privileges could initiate changes to rates of pay, add fictitious employees or make other unauthorized changes to the payroll without detection.

The “Is/Was” report is not being utilized as a proactive monitoring tool to verify that higher risk changes to the payroll master files (additions, rate changes, promotions etc) have been properly authorized and approved.

### **Recommendation 1**

The City Manager should require the IT Department to develop a customized scaled down version of the Is/Was report with emphasis on higher risk changes to the payroll master file. This report should be provided to the Finance Department after each bi-

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<sup>1</sup> COSO - Committee of Sponsoring Organizations of the Treadway Commission – This peer group developed and disseminated an integrated internal control conceptual framework that has become the professional standard throughout the world. COSO has been adopted and endorsed by the American Institute of CPA’s the Institute of Internal Auditors, the Financial Executives International, etc

weekly payroll and Finance staff other than the payroll office should periodically test a sample of additions to the payroll and employees who have received a rate change to verify that these changes are properly authorized, documented and approved.

**Management Response**

Concur: The “Is/Was” report could be more useful. We will work with IT to create a bi-weekly report which provides significant payroll / HR changes not currently available in the “85” report (this includes all benefit changes). Examples include adjustments/changes to pension, 401A, 457, W-4's, one-time adjustments, etc. This report could be used by Payroll, and Human Resources to review specific changes during any given pay period.

**FINDING 1.2**

Bank reconciliations for the payroll account are not being prepared timely as recommended by the City’s external auditors Ernst & Young. During the twelve months of 2007, only three (3) reconciliations were prepared in a timely manner. Also, the reconciliation for April was completed prior to the March reconciliation. As of 1/4/08, the reconciliations for October, November and December had not been prepared.

Effective internal control over cash requires that bank reconciliations be performed on a monthly basis.

The Finance Department has experienced staffing challenges and therefore performing the bank reconciliations wasn’t a priority. However, to help alleviate the current understaffing a new senior accountant position was authorized in the FY07/08 operating budget and an accounts receivable manager was authorized in the FY06/07 budget. These positions remain unfilled at this time.

**Recommendation 2**

The City Manager should require the Finance Director to assign staff the responsibility for completing bank reconciliations on a monthly basis.

**Management Response**

Concur: Finance staff has been assigned to complete all City bank reconciliations. The reconciliations for the Wachovia Payroll Account have now been completed thru November 2007. During the extensive fiscal year end “closing” process, reconciliations have lagged by a few months. Bank reconciliations should be completed within 60 days of the receipt of the bank statement.

**FINDING 1.3**

The blank check stock used for payroll, pension and vendor checks are not subject to stringent inventory controls and unused payroll check stock was found on an open shelf in the computer operations room.

The Finance Department has not evaluated the effectiveness of internal controls over the blank check stock. The blank check stock lacks adequate inventory controls. Check stock

that is not inventoried and periodically counted and reconciled increases the risk of unauthorized use.

### **Recommendation 3**

The City Manager should require the Finance Director to develop and implement written procedures to document the processes and internal controls over safeguarding the check stock, including but not limited to:

- Develop an inventory control system to monitor the use of check stock. Physical quantities of check stock should be taken quarterly and reconciled to the number of checks used, spoiled or held by payroll for use as manual checks.
- Discontinue storing blank payroll check stock in the computer operations room. Any unused checks should immediately be returned to the locked storage room in the Finance Department after each check run.

### **Management Response**

The controls over check printing provided through our Fi-Ware check writing software make the need for inventory controls over the blank paper stock unnecessary. For example, staff in the computer room can only print checks once from the print file created during a pay run. They cannot access or alter the related check register nor can they print online or on demand (replacement) checks. They also cannot reprint a check, even from a printer jam, without an authorized person from Central Accounting performing maintenance in Fi-Ware to allow that check to be printed a second time. Similar controls exist for staff in Payroll. They can only print online checks and on demand checks, cannot alter the registers for those checks, cannot print “check run” checks and cannot reprint checks without authorized maintenance being performed. These are just some of the controls in place to prevent unauthorized printing of checks. There are other procedures in place and the payroll bank account has “positive pay” fraud protection in place.

Blank check stock sufficient for current processing is stored in the computer room prior to use to keep it in a controlled moisture free environment. Previously stock taken directly from the locked storage room to the computer room for processing has resulted in paper jams when printing. In the future we will retrieve unused stock and only provide sufficient stock for the next payroll run.

## **OBJECTIVE 2**

*To determine if the Cyborg payroll system has adequate Information Technology controls:*

### **FINDING 2.1**

The IT Department could not demonstrate to the City Auditor (CA) that the City has developed and thoroughly tested an effective Cyborg disaster recovery plan. The IT Director explained that during an emergency, the bank file (checks and direct

deposits) from the last payroll could be transferred to the bank by IT staff from another location with internet access. This bank file could be rerun for every pay period until the system is restored. The Finance Dept would have to make arrangements to have the checks printed at a remote location. The IT Director stated, "It has not been tested but only in the sense that it hasn't been tested from that location."

The CA believes that the existing informal practices are not optimal because using the last payroll file would result in some employees being paid more or less than their usual auto pay bi-weekly payroll amount. Moreover, the CA cannot ascertain the City's ability to recover the payroll system from an actual disaster based on the fact that the entire process hasn't been tested.

The development and testing of a disaster recovery plan is an essential element of an IT Business Continuity Strategy. The effectiveness of any disaster recovery plan depends entirely on how well it performs during testing under mock disaster conditions. This testing should be completed at least annually and should be thoroughly documented. Written procedures should be available and specific duties assigned to key members of the disaster recovery team.

#### **Recommendation 4**

The City Manager should require the IT Director to implement the following:

- Prepare and test a Disaster Recovery Plan for the Cyborg payroll system with specifics about who, what, when and where. The test should be conducted annually and thoroughly documented. Refinements to the plan should be made after each test as necessary.
- Incorporate the running of an unadjusted auto pay file as part of the bi-weekly payroll process as a back up. This file can be used to generate payroll checks until the system can be fully restored.
- Consider establishing a reciprocal agreement with another entity in a geographically distant area that has the same operating platform and uses the Cyborg payroll system to assure continuity of the payroll function in the event of a prolonged disaster.

#### **Management Response**

Concur that ITS should develop a Disaster Recovery Plan for payroll that is more formalized and tested than the existing plan. ITS will be working on such a process which will involve coordination with the bank to accept a test file from an off-site location and process a "dummy" payroll.

There is not agreement that ITS create the unadjusted auto pay file as a part of every payroll cycle. The process of creating that file would be too disruptive to the real payroll and would greatly increase the opportunity for errors in processing the actual payroll.

However, ITS will investigate creating this unadjusted file on a regular basis, perhaps monthly, in a window outside of normal payroll processing.

There is also not agreement in attempting to develop a “hot site” relationship with an outside entity to process payroll in a Disaster/Recovery situation. One reason is that our payroll software has been highly customized and no other entity would be running the same version of the Cyborg software which would mean that we could not take a file from our location and process it anywhere else. Also, there would be no way for City users to enter payroll information at a remote location and thus you would end up with essentially the same unadjusted auto pay file that we could run from any location. Having a recent unadjusted auto pay file in hand would serve the same purpose as a remote processing site.

ITS does believe that if a remote or “hot site” location is to be considered it needs to cover all critical applications and not just payroll. The City of St. Petersburg is issuing an RFP to obtain such services and we will be following their activity to determine if the City of Fort Lauderdale should follow the same path. If in the future we do create a remote site payroll would be one of the priority applications considered for processing remotely in a D/R situation.

#### **FINDING 2.2**

The actual number of active/authorized users could not be verified through a system generated census report. Five out of six or 83% of a judgmental sample of terminated former employees had active Cyborg user profiles months/years after leaving the City.

**Auditor Note:** The IT Director confirmed that while the Cyborg user profile was still active, the network access for our sample group had been terminated when these former employees left the City.

Monitoring and testing of access controls has not been conducted.

System access rights should be based on the principle of least privilege and continuously monitored to assure that access rights are appropriately aligned with the information needs of the user.

This condition existed because post implementation monitoring and testing of access controls has never been accomplished. The risk to the payroll system can be mitigated with effective access controls.

#### **Recommendation 5**

The City Manager should require the Information Technology Director to:

- Coordinate with the Human Resources Department and develop a written procedure to date stamp the face of the Notice of Termination upon receipt from H/R and proceed to disable all access permissions to City computer networks and application software by close of business on the employee’s last day. The specific



programs that were disabled should be noted on the back of the Notice of Termination and the IT staff member should also date and initial the Notice of Termination to document a completed action.

- The Cyborg System Administrator should consult with the software vendor to create a system generated exception report of terminated employees who may have had Cyborg access permissions. This report should be cross checked against a list of active Cyborg users as a final check to confirm that all terminated employees have had their Cyborg access disabled.
- Develop in collaboration with Human Resources and the City Departments an annual monitoring plan to verify that Cyborg access rights granted to specific users remain valid and are necessary because of a job requirement.

### **Management Response**

The Finding indicated that a judgmental sample of former employees indicated that 83% of such employees still had access records in the payroll system. ITS did review the entire report and had all employees who do have payroll access been examined, only about 8% of the total population were in the situation of having access to the application but no longer employed by the City(14 out of 161). And it is noted that even though some users maintain security profiles within Cyborg it does not mean that they have access to the application because their system-wide access has been eliminated.

ITS does concur that such access should be eliminated as soon as possible. Although a user's network access is disabled, current employees in nefarious collusion with separated employees could potentially access the Cyborg application so that door should be closed. Although the recommendation directs ITS to resolve this issue, during discussion of this item with the City Auditor staff it was determined that it is a process that needs to be developed with Human Resources having the lead role as ITS has no means of determining employment except through Human Resources. As soon as we receive notification of separation ITS does disable system access. However, the current process likely does not get that notice to ITS in a timely enough manner in all cases nor for all application access. The procedure needs to be "tightened" and ITS support this recommendation.

The second recommendation is to create a report that compares separated employees that still have payroll software access. ITS will request a quote from the vendor to generate such a report as we do not have the capability to de-encrypt certain security information within their system. Once we receive a quote ITS will provide the information to management to determine the feasibility of proceeding.

This report would also have the capability of displaying the entire security matrix, which then could be used by HR and Finance to verify system access on a regular basis.

### **FINDING 2.3**

The Finance Department does not have written procedures requiring immediate disabling of FI-Ware digital signatures that are no longer required. These digital signatures are used to endorse all City of Fort Lauderdale payroll, pension and vendor checks. A FI-Ware print screen as of 1/18/08 revealed that there were 8 active digital signatures including the former Finance Director and the City Controller.

Effective internal controls would require that digital signatures that are no longer needed be immediately inactivated or deleted to minimize the risk of unauthorized use.

The Finance Department does not have a robust verification procedure in place to periodically monitor and disable digital signatures, which are no longer required.

### **Recommendation 6**

The City Manager should require the Finance Director to establish a written procedure to immediately disable digital signatures as soon as they are no longer required and periodically monitor the current status of all active signatures in the software.

### **Management Response**

Concur: We will work with IT to develop written procedures to address this issue.

### **FINDING 2.4**

The Cyborg payroll system as currently configured does not track changes to user security profiles or changes to system parameters in an audit log and there is no established policy to periodically monitor super user activity for unauthorized transactions.

The IT Department has not been proactive in establishing effective procedures to monitor the Cyborg payroll program for unauthorized activity. The financial consequences of unauthorized changes to the payroll program could be substantial. Audit logs included with software should be enabled and periodically reviewed by the IT Director for unusual/unauthorized activity.

### **Recommendation 7**

The City Manager should require the IT Director to enable the audit log capability and generate a monthly report sorted by major department (IT, Finance and Human Resources). A written procedure and monitoring plan should be established to require the Finance Director, Human Resources Director and the IT Director to review the report for unusual changes. Particular emphasis should be placed on those users with enhanced access privileges such as the Payroll Supervisor, System Administrator or Personnel Records Specialist.

### **Management Response**

The security audit log is not a feature that is available in the current version of the Cyborg software. However, ITS will be upgrading to a newer version (scheduled within the next 60 days) and that logging capability exists in that version. These records should

be chosen as part of the In/Out report design mentioned earlier in Finding 1.1 regarding the “Is/Was” report.

And ITS will investigate generating reports that will allow closer monitoring of activity for those users that have the ability to make payroll changes. For example, on a periodic basis the ITS Director ought to receive a report that would note any changes done by ITS personnel so that I can monitor for appropriateness. And we should also create a report so that the Human Resources and Finance Director can monitor their staffs. These reports may have to be generated by the vendor.

### **OBJECTIVE 3**

*To determine if employee salaries and benefits are authorized/approved, accurately calculated, properly supported and paid in accordance with collective bargaining agreements/city policies.*

The City’s external auditors, Ernst and Young, performed extensive payroll testing as part of their annual financial compliance audit. The CA obtained copies of their work papers and made inquiries of their engagement staff. The CA determined that the testing of employee classification and payroll calculations was comprehensive and no material exceptions were noted. Therefore, the CA concluded that reliance would be placed on the work of the external auditor and no additional substantive testing was required to satisfy this audit objective.

### **OBJECTIVE 4**

*To determine that payroll tax reporting and payment procedures are in compliance with IRS requirements.*

#### **FINDING 4.1**

A \$1,410 taxable automobile commuting benefit for CY 2006 was not reported as taxable federal wages in box 1 of the W2 wage statement for two City employees<sup>2</sup> who have a City-provided automobile.

According to IRS guidelines an employer can elect not to withhold income tax on the value of an employee's personal use of a highway motor vehicle provided by the employer, but they must withhold the applicable Social Security and Medicare taxes. The employer must also include the value of the benefits in boxes 1, 3, 5, and 14 on the W-2.

The Finance Department uses a worksheet that lists the earnings codes that are to be included/excluded to calculate social security, medicare, and taxable wages. The auto commuting benefit was added to the wages of two employees with take home vehicles

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<sup>2</sup> Public Safety (Police and Fire) vehicles are generally exempt from auto benefit calculations per IRS requirements.

during the last pay period of calendar year 2007. After reconciling the amount reported on Form W-2 in Box 1, (federal taxable wages) the CA determined that the benefit was excluded.

**Recommendation 8**

The City Manager should require the Finance Director to issue Form W-2c (Correcting W-2s) for 2005, 2006, and 2007 to properly include the auto commuting benefit in federal taxable wages for those employees who had use of a take home city vehicle. Furthermore, the Finance department should establish procedures that would bring the City into compliance with the regulations established by the IRS. The Finance Department should coordinate with the IT Department to perform maintenance on the HED code (274) to ensure that it is properly included with box 1 on the W-2 statement as taxable federal wages.

**Management Response**

Concur: This item is currently being reviewed and will be corrected.

Engagement Staff:

Pamela Range, Staff Auditor  
Martha Romero, Staff Auditor  
James Hamill, Audit Manager

## Summary of Management Responses

### \* Responses from Finance Director – Ray Mannion, received 3/21/08.

#### FINDING 1.1 IS/WAS REPORT:

Concur: The "Is/Was" report could be more useful. We will work with IT to create a bi-weekly report which provides significant payroll / HR changes not currently available in the "85" report (this includes all benefit changes). Examples include adjustments/changes to pension, 401A, 457, W-4's, one-time adjustments, etc. This report could be used by Payroll, and Human Resources to review specific changes during any given pay period.

#### FINDING 1.2 BANK RECONCILIATIONS:

Concur: Finance staff have been assigned to complete all City bank reconciliations. The reconciliations for the Wachovia Payroll Account have now been completed thru November 2007. During the extensive fiscal year end "closing" process, reconciliations have lagged by a few months. Bank reconciliations should be completed within 60 days of the receipt of the bank statement.

#### FINDING 1.3 BANK CHECK STOCK:

The controls over check printing provided through our Fi-Ware check writing software make the need for inventory controls over the blank paper stock unnecessary. For example, staff in the computer room can only print checks once from the print file created during a pay run. They cannot access or alter the related check register nor can they print online or on demand (replacement) checks. They also cannot reprint a check, even from a printer jam, without an authorized person from Central Accounting performing maintenance in Fi-Ware to allow that check to be printed a second time. Similar controls exist for staff in Payroll. They can only print online checks and on demand checks, cannot alter the registers for those checks, cannot print "check run" checks and cannot reprint checks without authorized maintenance being performed. These are just some of the controls in place to prevent unauthorized printing of checks. There are other procedures in place and the payroll bank account has "positive pay" fraud protection in place.

Blank check stock sufficient for current processing is stored in the computer room prior to use to keep it in a controlled moisture free environment. Previously stock taken directly from the locked storage room to the computer room for processing has resulted in paper jams when printing. In the future we will retrieve unused stock and only provide sufficient stock for the next payroll run.

#### FINDING 2.3 DISABLING OF FI-WARE DIGITAL SIGNATURES FOR CHECK SIGNING:

Concur: We will work with IT to develop written procedures to address this issue.

#### FINDING 4.1 TAXABLE AUTOMOBILE BENEFIT FOR TWO EMPLOYEES WAS NOT INCLUDED IN BOX 1 OF THEIR W-2's:

Concur: This item is currently being reviewed and will be corrected.

## **\* Responses from Information Technology Director – Tim Edkin**

### **FINDING 2.1 PAYROLL DISASTER/RECOVERY:**

Concur that ITS should develop a Disaster Recovery Plan for payroll that is more formalized and tested than the existing plan. ITS will be working on such a process which will involve coordination with the bank to accept a test file from an off-site location and process a “dummy” payroll.

There is not agreement that ITS create the unadjusted auto pay file as a part of every payroll cycle. The process of creating that file would be too disruptive to the real payroll and would greatly increase the opportunity for errors in processing the actual payroll. However, ITS will investigate creating this unadjusted file on a regular basis, perhaps monthly, in a window outside of normal payroll processing.

There is also not agreement in attempting to develop a “hot site” relationship with an outside entity to process payroll in a Disaster/Recovery situation. One reason is that our payroll software has been highly customized and no other entity would be running the same version of the Cyborg software which would mean that we could not take a file from our location and process it anywhere else. Also, there would be no way for City users to enter payroll information at a remote location and thus you would end up with essentially the same unadjusted auto pay file that we could run from any location. Having a recent unadjusted auto pay file in hand would serve the same purpose as a remote processing site.

ITS does believe that if a remote or “hot site” location is to be considered it needs to cover all critical applications and not just payroll. The City of St. Petersburg is issuing an RFP to obtain such services and we will be following their activity to determine if the City of Fort Lauderdale should follow the same path. If in the future we do create a remote site payroll would be one of the priority applications considered for processing remotely in a D/R situation.

### **FINDING 2.2 ACTIVE/AUTHORIZED USERS:**

The Finding indicated that a judgmental sample of former employees indicated that 83% of such employees still had access records in the payroll system. ITS did review the entire report and had all employees who do have payroll access been examined, only about 8% of the total population were in the situation of having access to the application but no longer employed by the City (14 out of 161). And it is noted that even though some users maintain security profiles within Cyborg it does not mean that they have access to the application because their system-wide access has been eliminated.

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This report would also have the capability of displaying the entire security matrix, which then could be used by HR and Finance to verify system access on a regular basis.

#### FINDING 2.4 TRACK CHANGES TO USER SECURITY PROFILES:

The security audit log is not a feature that is available in the current version of the Cyborg software. However, ITS will be upgrading to a newer version (scheduled within the next 60 days) and that logging capability exists in that version. These records should be chosen as part of the In/Out report design mentioned earlier in Finding 1.1 regarding the "Is/Was" report.

And ITS will investigate generating reports that will allow closer monitoring of activity for those users that have the ability to make payroll changes. For example, on a periodic basis the ITS Director ought to receive a report that would note any changes done by ITS personnel so that I can monitor for appropriateness. And we should also create a report so that the Human Resources and Finance Director can monitor their staffs. These reports may have to be generated by the vendor.