
Performance Audit of the San Diego Convention Center's HR Systems

HUMAN RESOURCES SOFTWARE AS A SERVICE
SYSTEM RISKS ARE APPROPRIATELY MITIGATED

AUGUST 2014

Audit Report
Office of the City Auditor
City of San Diego



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THE CITY OF SAN DIEGO

August 14, 2014

Carol Wallace, President and Chief Executive Officer
San Diego Convention Center

Transmitted herewith is an audit report on the San Diego Convention Center's Human Resources Systems. We have completed this report as requested by the Convention Center. This report is presented in accordance with City Charter Section 39.2. Management's response to the report is presented on page 8.

We would like to thank the Convention Center's staff for their assistance and cooperation during this audit. All of their valuable time and efforts spent providing us information is greatly appreciated. The audit staff members responsible for this audit report are Stephen Gomez, Danielle Knighten, and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: City of San Diego Audit Committee Members

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Introduction

***SDCC Current and
Previous IT
Performance Audits***

The San Diego City Auditor's Office (OCA) previously conducted two performance audits of risk areas within the San Diego Convention Center's (SDCC) information systems at the request of the Convention Center. The audit of the SDCC's HR Systems is the third of four IT risk areas identified in a previous risk assessment of the organization information systems environment as shown below:

1. IT infrastructure operations and security;
2. Financial systems IT controls;
3. Human Resources contracted system services; and
4. Management of IT system implementations; specifically, the implementation of the customer relationship management system.

The Office of the City Auditor has completed the first three audits at the request of the San Diego Convention Center.

Background

The San Diego Convention Center's Role in San Diego

The San Diego Convention Center (SDCC) facilitates business, educational, social, cultural, and entertainment activities through several types of events, including convention and trade shows, consumer shows, conferences, community functions, meetings, seminars and performing arts. SDCC is a nonprofit public benefit corporation founded in 1984 by the City of San Diego, and operates under an independent Board of Directors appointed by the San Diego City Council.

SDCC's Economic Impact to the San Diego Region

According to their 2013 annual report, the Convention Center generated \$1.3 billion in economic impact to the San Diego region resulting from 148 events held in the building and the more than 760,000 attendees associated with those events. In addition to the significant economic benefits, an estimated 12,500 local jobs are supported by events held at the center.

The SDCC projects their total operating revenues to be approximately 33 million dollars for Fiscal Year 2015. Due to the nature of their business, they schedule events far in advance, with several repeat annual events such as Comic-Con. In addition, the SDCC collects full payment prior to each event. The advance planning and collection of fees allows for a detailed revenue projection.

The Convention Center hosts most of their IT services to maintain services such as financials, sales, and event calendar in-house; however, they have outsourced their Human Resources (HR) systems through Ultimate Software.

**Ultimate Software Group
Inc.**

Ultimate Software has a proven product and longevity in the market. The vendor has been in the Human Resources IT services market and publicly traded on the Nasdaq stock exchange since the 1990's.

Ultimate has employees in 150 countries with approximately 2,700 customers, including Adobe Systems Incorporated, Bloomin' Brands, Culligan International, Major League Baseball, Pep Boys, Texas Rangers Baseball, and Texas Roadhouse.

According to their shareholder letter in their financial statements, they have had continuous growth year after year further demonstrating their financial health.

*Outsourced HR System
Service Offering through
SaaS Model*

The Convention Center has utilized UltiPro by Ultimate Software as their primary HR system since 2007. The system is provided using the Software-as-a-Service (SaaS) model, where the vendor maintains all the "Information Technology (IT) Aspects" of the system and the Convention Center accesses it through a web portal to maintain all the day to day HR operations. The roles and responsibilities of this model as well as recourse in the case of failure are governed by a contract between the parties, with an initial three year term and extended through four addendums through June 2015.

Audit Results

THE CONVENTION CENTER HAS MITIGATED RISKS INHERENT TO OUTSOURCING HR SYSTEM SOFTWARE

The risks associated with utilizing the Software-as-a-Service (SaaS) model of outsourcing have been mitigated through contractual safeguards, contractual segregation of duties, external audits, and secondary controls.

Contract Risks & Mitigations

Common risks associated with outsourcing IT services to third party hosting include:

- Failure to deliver contractual services (inadequate contract definitions, poor business practices, insolvency);
- Poor IT security resulting in theft of data/data breach;
- Disclosure of sensitive data; and
- Loss of data resulting from inadequate data recovery ability.

The Convention Center mitigates several of these risks through appropriate contract definition, such as roles & responsibilities definitions, recovery requirements, and warranty and indemnification clauses.

We reviewed Ultimate Software's most recent Service Organization Controls (SOC1¹) Type 2 report, which provides an overall assessment of their financial and product control environment to provide third party assurance over the reliability of Ultimate Software's service offering. KPMG conducts control testing and issues Ultimate Software's SOC report every six months.

¹ As defined by the AICPA, an SOC1 Type 2 reports on the fairness of the presentation of management's description of the service organizations system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period.

Customer Responsibilities Ultimate Software is responsible for all aspects of the HR system, except those defined as the responsibility of the Convention Center.

The Convention Center is responsible for maintaining their User IDs and Passwords, maintaining the customer side environment, and notifying Ultimate Software of events that permit changes to contractual terms. Maintaining the customer side environment includes providing UltiPro web-side administration. This web-side administration contains access to define approval requirements for adjusting employee compensation and managing some Convention Center-specific process flows.

The Convention Center staff still need to submit most significant changes to Ultimate Software through a ticketing system; however, a Convention Center privileged user can modify the process flow controls around the payroll approvals using the available administration access. This risk is mitigated through restricting the number of users with this access, and financial controls outside of the system requiring significant collusion to bypass payroll controls and remain undetected. Additionally, Ultimate Software maintains back-ups of customer data for 12 weeks in addition to other SaaS standard controls meant to safeguard customer data.

Appendix A: Objectives, Scope, and Methodology

Objectives In accordance with the City Auditor's FY 2015 Work Plan and at the request of the San Diego Convention Center (SDCC), we conducted an IT audit of the Human Resources (HR) Systems to assess the controls over the HR systems contract and customer responsibilities.

Specifically, our objective was to review the appropriateness of the controls and performance measures defined in the contract and review the strength of the controls as well as the vendor's compliance with the defined controls.

Scope & Methodology In order to ensure we reviewed all relevant systems corresponding to the HR processes, we performed a risk assessment of SDCC's HR systems environment, including a review of SDCC's HR business processes.

Through this assessment we confirmed that the Convention Center utilizes UltiPro by Ultimate Software in a Software-as-a-Service (SaaS) for their HR processes.

We then reviewed the Ultimate Software Contract, dated September 2007 through the fourth addendum active until June 2015, to ensure it appropriately addressed responsibilities, Convention Center risks, and mitigations. In addition, we reviewed system data as well as the results of a Service Organization Controls review to evaluate Ultimate's compliance with the defined controls. We then reviewed remaining risks resulting from customer responsibilities to ensure the Convention Center has adequately mitigated remaining significant contractual risks. System configuration and user access data was obtained and reviewed during the May through July 2014 audit period.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

August 8, 2014

Mr. Eduardo Luna
City Auditor
Office of the City Auditor

Dear Mr. Luna:

The San Diego Convention Center Corporation's management would like to thank the City Auditors for their thorough audit of our Human resources IT System, and to convey our agreement with the audit report findings.



Tom Mazzocco

Executive Vice President & COO