



THE UNIVERSITY OF TEXAS AT DALLAS

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February 28, 2014

Dr. Daniel,

We have completed a financial audit over Salaries and Wages as part of our Fiscal Year 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objectives of the audit were to ensure appropriate internal controls exist to ensure the accuracy of salaries and wages expenses and payroll deductions.

Overall, we found that internal controls can be strengthened and operational processes could be enhanced to ensure compliance with UT Dallas policies and procedures and minimize the risk of inaccurate salaries, wages, and deductions. The attached report details recommendations that enhance current processes and operations.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Executive Director of Audit and Compliance

UT Dallas Responsible Parties:

- Mr. Adam Cantwell, Director of Payroll Services
- Ms. Colleen Dutton, Assistant Vice President, Human Resources

Members of the UT Dallas Audit and Compliance Committee:

- Dr. Hobson Wildenthal, Executive Vice President and Provost
- Dr. Calvin Jamison, Vice President for Administration
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
- Dr. Bruce Gnade, Vice President for Research
- Dr. Darrelene Rachavong, Vice President for Student Affairs
- Dr. James Marquart, Vice Provost
- Dr. Sue Taylor, Acting Chief Information Security Officer
- Mr. Timothy Shaw, University Attorney
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The University of Texas System:

- Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
- Alan Marks, Attorney
- Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
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State of Texas Agencies:

- Legislative Budget Board
- Governor's Office
- State Auditor's Office
- Sunset Advisory Commission

Executive Summary

Salaries and Wages: Report No. 1411

<p>Audit Objective and Scope: To ensure appropriate internal controls exist over salaries and wages to ensure the accuracy of fiscal year 2013 salaries and wages expenses and payroll deductions.</p>	
<p>Audit Results: The audit resulted in no recommendations considered a priority to University operations. However, we offer the following recommendations to enhance controls:</p>	
<i>Recommendation</i>	<i>Estimated Implementation Date</i>
(1) Enhance Monitoring over Tax Deferred Contributions.	December 31, 2014
(2) Review the Process to Upload Benefits Adjustments.	June 1, 2014
(3) Review Benefits Configurations in PeopleSoft	
(4) Enhance Monitoring over Teacher Retirement System and Optional Retirement Plan Contributions	November 2012
(5) Review PeopleSoft Access Controls	June 1, 2014
(6) Enhance the Process to Accrue Liabilities for Certain Employees	June 1, 2014
(7) Define Methodologies to Determine FTE's for Faculty	September 1, 2014
(8) Enhance Guidance over Supplemental and Additional Pay	April 1, 2014
<p>Conclusion: Based on the audit work performed, we conclude that an adequate system of internal controls is in place over the area reviewed. However, implementation of the recommendations will enhance internal controls and compliance with applicable policies and procedures.</p>	
<p>Responsible Vice President: Mr. Terry Pankratz, Vice President, Budget and Finance Dr. Calvin Jamison, Vice President for Administration</p>	<p>Responsible Parties:</p> <ul style="list-style-type: none"> • Mr. Adam Cantwell, Director, Payroll Services • Ms. Colleen Dutton, Assistant Vice President, Human Resources
<p>Staff Assigned to Audit: Dylan Becker, CPA, CIA Senior Auditor Brandon Bergman, Investigative Auditor</p>	

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Background

The Payroll Department is responsible for the timely and accurate payment of salaries, wages, and tax withholding for all University employees, processing of all salary transactions including W4's, direct deposits, W2's, 1042-s forms and other allowable payroll deductions. Payroll is also responsible for ensuring compliance with federal and state laws for students, staff and faculty, as well as processing monthly and semi-monthly payroll and processing authorizations for professional services as well as certain scholarship appointment forms.

The Human Resources Department helps administer benefits, assists schools and divisions with recruitment and retention activities, helps establish pay grades and the employee performance appraisal process as well as work to foster positive employee relations to promote a positive work environment for all employees. Human Resources is also responsible for ensuring compliance with various regulations, such as the FLSA (Fair Labor Standards Act), and helping administer the hiring process for new employees.

Since the conversion to PeopleSoft in February 2011, efforts have been made to significantly increase the accuracy of salaries, wages, benefits and deductions for employees. Shortly after the PeopleSoft conversion, erroneous and duplicate payments were made to employees, inaccurate deductions were withheld from paychecks, and the pay file sent to the bank used to process payroll were incomplete resulting in numerous adjustments. During Fiscal Year 2013, however, vast improvements were made to existing processes that reduced the number of payroll related errors, including reductions in duplicate paychecks, erroneous pay files, and tax withholdings.

Led by Adam Cantwell, Director of Payroll Services, the Payroll Department employs 14 full time staff members, two part time staff members and had an annual budget of \$783,734 for Fiscal Year 2013. During Fiscal Year 2013 there were 76,966 checks issued to 7,251 unique employees that totaled approximately \$220,583,000.

Audit Objective

To ensure appropriate internal controls exist over salaries and wages to ensure the accuracy of salaries and wages expenses and payroll deductions.

Scope and Methodology

The scope of this audit was Fiscal Year 2013, except for the test work completed over TRS and ORP contributions, and our fieldwork concluded on December 10, 2013. The scope of our testing over TRS and ORP contributions included calendar year 2012. To satisfy our objectives, we performed the following:

- Interviewed staff and observed documentation to gain an understanding of current operations and processes.
- Reviewed documentation and records for earnings, voluntary and involuntary deductions, tax withholdings, overtime payments, and deferred earnings to ensure:
 - Compliance with selected UTD and UT System policies and procedures
 - Proper authorization for salaries and overtime payments
 - Salaries and wages expensed agreed to authorized amounts
 - Accurate voluntary and involuntary withholdings
 - Accurate tax withholdings
- Tested selected transactions and determined if the current processes used during payroll cycles were adequate to ensure:
 - Accurate salaries and wages were expensed;
 - Compliance with applicable federal and state laws;
 - Compliance with UTD and UT System policies;
 - Accurate tax deferred contributions were made to retirement accounts
 - Proper access to payroll related information was granted to employees

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management's Responses

Overall, internal controls can be strengthened and operational processes could be enhanced to ensure compliance with UT Dallas policies and procedures and federal and state regulations. Our audit work indicated that the following controls currently exist:

- Proper supporting documentation existed for overtime payments
- Taxes were accurately withheld and complied with federal regulations
- Salaries and wages paid agreed to authorized amounts

Prior to the hire of Colleen Dutton, Assistant Vice President, Human Resources the turnover for the Human Resources department was significantly higher when compared to the turnover at the date of this audit report. Additionally, vast improvements have been made over operational processes that have enhanced the accuracy of retirement contributions, reduced turnover, and reduced the risk of employees not enrolling in the benefits they selected.

A priority recommendation is defined as one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. We have **no priority recommendations** resulting from this audit; however, the following recommendations will help enhance existing internal controls and compliance with applicable UT Dallas policies and procedures, and best practices.

Audit Recommendations

(1) Enhance Monitoring over Tax Deferred Contributions

During the audit, we found that there were no controls in place to prevent an employee from contributing more than the maximum allowable amount to tax deferred retirement plans. The maximum contribution amounts are established by IRS Section 415(c)¹ and vary by calendar year and age of contributors. The Texas State Legislature established contribution limits for employees and employers for Teacher Retirement System (TRS) and Optional Retirement Plans (ORP)². Optional Retirement Plans (ORP) are provided through the Texas Higher Education Coordinating Board to eligible employees of UT System and are considered a 403(b) savings plan that fall under IRS Section 415(c).

We compared the total contributions made by employees to ORP plans during calendar year 2012 to the established maximum allowable contributions and noted a total of 17 employees contributed a total of approximately \$109,000 more than the maximum allowable amounts. These over-contributions were refunded to employees from their retirement accounts to ensure the contributions in excess of the maximum did not remain in their retirement accounts after 12/31/2012 to prevent penalties from the IRS.

The refunds, however, resulted in four of the 17 (24%) still contributing more than the maximum allowable amounts and four of 17 (24%) of employees contributing less the maximum amount.

Recommendation: The process to monitor and track contributions towards tax deferred retirement plans should be enhanced to prevent employees from contributing more than the maximum.

¹ <http://www.irs.gov/uac/IRS-Announces-Pension-Plan-Limitations-for-2012>

² <http://www.theccb.state.tx.us/reports/pdf/0869.pdf>

Payroll Response: *The Payroll department has assisted the Benefits Department to better review contributions to deferred retirement plans. Two additional Over 50 deduction codes have been set up to help separate Over 50 Catch Up contributions that have led to previous overages.*

Payroll Estimated Date of Implementation: *Partial implementation already completed with additional monthly review to begin with April 2014 payroll.*

Payroll Person(s) Responsible for Implementation: *Adam Cantwell, Director of Payroll with Marita Hawkins, Director of Benefits*

Human Resource Response: *Beginning December 2012, the Benefits Director performed manual audits (through data queries) of annual limits for all employees with ORP and TSA/Roth and provided adjustments to Payroll as needed to ensure that 2012 W-2 adjustments were made timely. For 2013 calendar year, all plan limits were audited beginning September 2013 through December 2013. Any adjustments for over contributions or under contributions were made prior to the last payroll for the calendar year 2013. Employees were notified of adjustments via email.*

New benefit plans were set-up to fix the Age 50 contribution limitations for those that are contributing over the maximum 415 annual limits to the 403(b) – ORP/TSA/ROTH. The new plans, TSA Age 50 and Roth Age 50, allowed these employees to contribute the maximum allowable under the age 50 catch-up regardless of the combined ORP/TSA/ROTH 415c limitations. These plans were implemented beginning December 2013.

The Benefits Director and HRIS Manager have had discussion with the UT System Office of Employee Benefits/UT Share Team and other UT Institutions regarding the retirement plan set-up limits automation. We are all working together to come up with solutions. We believe that our meeting on December 17, 2013 with UT Share provided us with information and possible solution. We are pursuing this possibility in 2014.

Human Resources Estimated Date of Implementation: *Audit process has been implemented on November 2012. The Benefits Team is continuing to review the plan set-up and the possibility of automating the plan limits for ORP/TSA/Roth in PeopleSoft. This may require additional resources from the IR Team or potential customization. For DCP and TSA/Roth, plan limits for non-ORP participants are accurately process through the delivered PeopleSoft functionality. The remaining issues needing to be addressed are the TRS and ORP/TSA/Roth combination limits. If the possible solution works in test, implementation is planned to be made by December 31, 2014.*

Human Resources Person(s) Responsible for Implementation: *Benefits Director and HRIS Manager*

(2) Review the Process to Upload Benefits Adjustments

Benefits Services, within the Human Resources department, is responsible for providing the data for benefits adjustments to Payroll, and Payroll is responsible for reviewing and uploading the data onto a staging table within PeopleSoft. After the data has been loaded onto the staging table, it is then entered into the paylines within PeopleSoft. Payroll uploads the data into the paylines instead of Benefits Services to ensure a proper segregation of duties was maintained and access to paylines was properly restricted.

The data relied upon to make adjustments to employees' benefits contained numerous errors during Fiscal Year 2013. The current process calls for Benefits Services to provide the data to Payroll in the form of an Excel spreadsheet before being loaded onto the staging table. This process prevents a clear owner over the data that is ultimately reflected on the paylines since errors could occur anywhere within the process and could be made by either department. Benefits Services relied, in part, on the employees to notify their department when a discrepancy existed. While out of a random sample of 65 employees (1% of the population) did not reveal any discrepancies, the current process has enhanced risk that the benefits actually enrolled by employees may not agree to the benefits selected.

Recommendation: Payroll and Benefits should consider revising the existing process for uploading benefits adjustments to include an additional staging table where Benefits Services can upload the benefits adjustment data before being loaded into PeopleSoft by Payroll. The additional table would allow Benefits to maintain clear ownership over the data, while ensuring a proper segregation of duties.

Response from Payroll: *The Payroll Department will review the feasibility of creating a staging table with both Human Resources and Information Resources. Additional process review meeting will be conducted to review how adjustments are received and processed.*

Payroll Estimated Date of Implementation: *June 1, 2014*

Payroll Person Responsible for Implementation: *Adam Cantwell, Director of Payroll and Marita Hawkins, Director of Benefits*

Response from Human Resources: *The Benefits Team currently does not have access to input benefit adjustments in the PeopleSoft system as this function is on the Payroll side of HCM. We recommend that the Benefits team be provided the ability to post the information directly into PeopleSoft. The method should include system validation (i.e. enrollment) during posting by Benefits whether through a staging table or a payline access. The current excel spreadsheet method does not provide this validation*

Since the arrival of Marita Hawkins, Benefits Director in October 2012, the Benefits Team has implemented several audit process/measures to review benefits processing results before and after payroll run. Potential errors are proactively managed and the employee is not solely relied on to inform HR of any errors. When an error is discovered, employees are notified as soon as possible.

Human Resources Estimated Date of Implementation: *Unknown at this time – Assessment by Payroll, Benefits and IR is required to determine implementation date.*

Human Resource Person(s) Responsible for Implementation: *Benefits Director, HRIS Manager, Payroll Director, IR Manager.*

(3) Review the Benefits Configuration in PeopleSoft

Employees are eligible for certain benefits programs based on their employment status. Benefits Services, within the Human Resources Department, established the eligibility rules for employees in PeopleSoft that determine which benefits plans and options employees are eligible to receive.

Due to errors made when the established rules were configured within PeopleSoft, we noted several employees were placed in benefits programs for which they were ineligible.

Recommendation: Benefits Services should review the established rules in PeopleSoft that are used to determine benefits program eligibility to ensure the eligibility rules are correctly configured.

Management's Response: *The configuration for the Benefits Programs are currently set properly in PeopleSoft based on jobs and pay groups. In most cases, the PeopleSoft Ben Admin process works unless there is a data entry or integrity issue. This was noted on the sampling that was sent for Benefits to review.*

However, the Ben 500 customization and PeopleSoft Ben 500 delivered functionality must be reviewed and fixed. A JIRA has been submitted around November 2013 to have IR review the program and help Benefits fix the issues found. These programs are designed to rebuild the primary job flags to determine benefits eligibility for those with primary and secondary jobs. The delivered functionality is not handling a segment of employees; therefore, the custom Ben 500 was created by a Consultant to fix this problem. However, the Custom Ben 500 does not work for all employees so there is conflict in the process running both programs. The goal is to take the custom Ben 500 and make it work for all employees and not run the delivered functionality.

Estimated Date of Implementation: *Based on Priority level from the IR Team*

Person Responsible for Implementation: *Benefits Director and HRIS Manager with assistance from the IR Team.*

(4) Enhance Monitoring over Teacher Retirement System and Optional Retirement Plan Contributions

The Teacher Retirement System (TRS) and Optional Retirement Plan (ORP) are retirement plans provided to eligible employees in public higher education and public K-12 education. If eligible, all public education employees are automatically enrolled in TRS on their first day of employment. Certain professionals, however, that meet additional eligibility criterion, may elect ORP in lieu of TRS. The Texas Higher Education Coordinating Board states, "An individual in public higher education who is employed in an ORP eligible position at 100% effort is given 90 days to make a one-time irrevocable decision to enroll in ORP in lieu of TRS."

Benefits Services relied on the State to identify instances where employees contributed to both retirement plans without additional monitoring or oversight. As a result, we identified 37 employees that contributed to both an ORP and TRS retirement plan. Out of the 37 employees, 24 (65%) made contributions to an ORP plan prior to contributing to the TRS plan.

Recommendation: Benefits Services should enhance monitoring of contributions made by employees to ORP and TRS retirement plans to ensure employees only contribute to their selected retirement plan.

Management's Response: *The PeopleSoft HR System is configured to make the TRS deduction mandatory for all employees until such time an ORP eligible employee makes an election to participate in ORP within the 90 day election period. However, Job changes, transfer employees from state and other UT institutions, impact the ORP and TRS election processing.*

Beginning November 2012, Benefits started running a query of job changes that impacts TRS and ORP eligibility. This is run twice a week and manually reviewed for reprocessing of ORP and TRS elections as needed.

Benefits also runs a monthly report comparing TRS and ORP contribution. This report shows the discrepancy between retirement contributions. Any discrepancies are fixed immediately.

Transfers from other State agencies and other UT institutions bring about challenges in terms of determining whether an employee was a prior ORP or TRS participants. Benefits developed a form that is given to the employees to complete to determine their prior ORP participation. However, employees do not always complete the form correctly or not complete it at all. In this situation, TRS is informing UT Dallas upon

submission of TRS contributions for an employee who is listed as ORP participants on the TRS records.

ORP and TRS elections and funding are being monitored by the Benefits Team on an on-going basis.

Estimated Date of Implementation: *Monitoring was implemented November 2012 and is a continuing process. The Benefits Team continues to look at any necessary process improvements.*

Person Responsible for Implementation: *Benefits Director*

(5) Review PeopleSoft Access Controls

We identified 92 employees that had other than read-only access to payroll related data within PeopleSoft. Out of the 92 employees, 45 (49%) were in the Information Resources – Enterprise Application Services (EAS) department. Audit also noted employees that had their roles changed in PeopleSoft did not have their access levels sufficiently reviewed to ensure their new role was permitted appropriate access to PeopleSoft data. Best practices suggest the abilities to edit payroll related data should be strictly monitored and limited to the individuals who need the edit abilities to perform their job responsibilities.

Requests for access to data within PeopleSoft originates from the department head and may not have received sufficient review during the approval process prior to access being granted. As a result, other than read-only access may be granted to employees who do not need that level of access to perform their job responsibilities.

Recommendation: Payroll should work with PeopleSoft Security to review PeopleSoft access to payroll related data to ensure only those that need other than read-only access to perform their job responsibilities are granted that access.

Management's Response: *Additional reviews of access to payroll related data for employees outside of the Payroll department will be completed and changes submitted to PeopleSoft Security.*

Estimated Date of Implementation: *Preliminary review of immediate concerns completed by April 1, 2014. Detailed review of all roles identified completed by June 1, 2014.*

Person Responsible for Implementation: *Adam Cantwell, Director of Payroll*

(6) Enhance the Process to Record Accruals for Certain Employees

The process used to accrue liabilities for salaries and wages for employees paid over twelve months that were on a nine month appointment, identified as ENP (Earned not Paid) employees, enhanced the risk that the actual cost centers charged the salaries and wages expenses for ENP employees were different than the cost centers used to record the liabilities.

At the beginning of the fiscal year, the liabilities scheduled to be expensed during the summer months are recorded to a cost center within the department where the employee works. The liabilities accrued should agree to actual salaries and wages expensed to help ensure budgeted resources were utilized in the most effective manner.

The accrual entries were not adjusted when an employees' pay data changed during the fiscal year, such as when the funding source was altered or when the cost centers charged for actual salaries and wages were different than the ones used to record the accrual entries at the beginning of the fiscal year. As a result, the liabilities recorded to cost centers for ENP employees exceeded the actual salaries and wages expensed by approximately \$1.8 million during Fiscal Year 2013.

Recommendation: The Payroll Department should consider consolidating all salaries and wages accruals into a single cost center during the fiscal year. This would help ensure accurate liabilities have been accrued, regardless of the funding source or cost center actually expensed.

Management's Response: *The accruals of ENP liabilities will be reviewed. There is currently one account code for these liabilities but the feasibility of one cost center will be reviewed. Actual payments to employees are reviewed and balanced to make sure all accrued wages are paid correctly in the summer months. A verification is done to make sure no employee is paid an incorrect amount.*

Estimated Date of Implementation: *Review to take place by June 1, 2014*

Person Responsible for Implementation: *Adam Cantwell, Director of Payroll*

(7) Define Methodologies to Determine FTE Percentages for Faculty

UTD does not have a defined methodology to determine full-time employment percentages for part-time faculty members. Employees who are at least 50% full time are considered eligible to receive benefits. IRS Notice Section 4980H³ outlines the factors to be used to determine which employees are eligible to receive benefits. IRS Section 4980H was added to the IRS Code by Section 1513 of the Patient Protection and Affordable Care Act enacted on March 23, 2010.

There is not a UTD policy in place to provide guidance to determine which employees are considered at least 50% employed. Deans and department heads have been using judgment to determine full-time employment percentages. As a result, there is an enhanced risk faculty members that should be eligible to receive benefits have not been considered at least 50% employed.

Recommendation: Human Resources, in conjunction with the Provost's Office, should create clear guidance to determine requirements for part-time faculty members to become eligible to receive benefits.

Management's Response: *This is an issue that will be decided in collaboration with the Provost Office for UTD in compliance with the Affordable Care Act. The UT System Office of Employee Benefits is requiring institutions to make this determination for ACA compliance purposes.*

Estimated Date of Implementation: *Implementation required under the UT Plan to keep track of full-time 30 hours per week employees by September 1, 2014 Plan Year.*

Person Responsible for Implementation: *AVP for HR and Provost will discuss best options for UTD and implementation of the decision.*

(8) Enhance Guidance over Supplemental and Additional Pay

Insufficient guidance was provided to departments over the appropriate applications for Additional (ADD) and Supplemental (SUPP) payments to employees. IRS Publication 15, Section 7⁴ defines Supplemental Wages as, "... wages [that] are wage payments to an employee that are not regular wages", and include bonuses, overtime pay, severance pay, awards, back pay and retroactive pay increases." Additionally, this Publication also states that if the supplemental pay received by an employee during the calendar year is less than \$1 million, and the supplemental wages can be identified separately than the regular pay, then 25% of the supplemental pay should be withheld as income taxes.

³ <http://www.irs.gov/pub/irs-drop/n-12-58.pdf>

⁴ http://www.irs.gov/publications/p15/ar02.html#en_US_2013_publink1000202352

As a result of the insufficient guidance provided to department heads and Deans over what constitutes SUPP and ADD pay, there is an enhanced risk that the incorrect pay type could be used that could result in violations of the IRS tax requirements.

Recommendation: The Payroll Department should enhance guidance regarding the appropriate applications of Additional and Supplemental Pay when requests are made to approve wages that are not part of employees' regular earnings.

Management's Response: *IRS Publication 15 also provides for an alternative withholding method than the flat 25% where supplemental wages are aggregated with regular paid wages and annualized on each check. PeopleSoft Payroll provides for this method through the use of "aggregating" off cycle checks to the last paycheck issued. This process will commence with the April 1, 2014 check dates and will make sure the University is in compliance regardless of the reason for the additional supplemental wages. Additional guidance will be provided to University departments on the application of Additional and Supplemental pay, including but not limited to, definitions, uses and potential tax consequences.*

Estimated Date of Implementation: *April 1, 2014*

Person Responsible for Implementation: *Adam Cantwell, Director of Payroll*

Other Issues

Other issues, such as enhancing the review process for Personnel Action Forms to ensure proper authorization and approval by management were discussed. Management has acknowledged these issues and has agreed to take corrective action as needed going forward into future fiscal years.

Conclusion

Based on the audit work performed, we conclude that an adequate system of internal controls is in place to ensure the accuracy of salaries and wages expenses and payroll deductions. However, implementation of the recommendations will enhance internal controls and compliance with applicable policies and procedures.

We appreciate the courtesy and cooperation received from the departments of Payroll and Human Resources during this audit.