



UNIVERSITY OF
TEXAS
ARLINGTON

PAYROLL PROCESS AND TAX REPORTING AUDIT

OCTOBER 8, 2015

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MEMORANDUM

TO: Dr. Vistasp Karbhari
President

FROM: J. Richard Dawson 
Interim Chief Audit Executive, Office of Internal Audit

DATE: November 12, 2015

SUBJECT: Payroll Process and Tax Reporting Audit Report Dated October 08, 2015

Executive Summary

The University recently implemented PeopleSoft, a new Enterprise Resource Planning system (ERP), in Fiscal Year 2014. As a result, the risk associated with the Payroll Process and Tax Reporting was heightened and we included an audit in our FY 2015 annual audit plan. The objectives of this audit were to verify that:

- Payroll deductions are calculated correctly,
- Payroll deductions agree with the employee elections and
- Payroll tax reporting regulatory requirements are complied with.

Based on the results of the audit procedures performed and samples tested, we determined that:

- Deductions are calculated accurately,
- There were no material differences between employee elections and their deductions. However, the absence of reconciliation of parking fees did not detect the system's failure to deduct parking fee from an employee's paycheck, and;
- The payroll tax reporting requirements related to employment tax liabilities and the unemployment premiums due to respective taxing authorities were submitted timely and accurately as required by the regulatory requirements.

The reportable findings and recommendations in this audit were deemed significant to the department or process. None of the findings are deemed as a "priority finding" to the University. A priority finding is defined as *"an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT Institution or the UT System as a whole. Standard factors for determining a priority finding have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks."*

We appreciate the courtesy and cooperation we received from the Office of Human Resources, Payroll Services, and the Parking and Transportation Services staff throughout this audit.

Background Information

The University recently implemented PeopleSoft, a new Enterprise Resource Planning system (ERP), in Fiscal Year 2014. As a result, the risk associated with the Payroll Process and Tax Reporting was heightened. We, therefore, included an audit in our FY 2015 annual audit plan. Combined salaries and wages from all fund groups for the FY 2014 represent \$369,614,960.37 or approximately 70% of the total expenditures of the university.

Payroll Process

Upon hiring and annually, employees are required to complete the required IRS forms and to make their benefit elections in order for their paycheck to be calculated accurately.

Payroll Tax Reporting

The UT Arlington Payroll Services Department is responsible for reporting the quarterly employment tax liability withheld from University employees and wages to respective taxing authorities in accordance with regulatory requirements.

Objectives

The objectives of this audit were to verify:

- Payroll deductions are calculated correctly,
- Payroll deductions agree with the employee elections and
- Compliance with Payroll tax reporting regulatory requirements.

Scope and Methodology

To achieve the audit objectives, we interviewed key personnel in the Office of Human Resources, Payroll Services, and the Parking and Transportation Services. We also reviewed the applicable policies, and evaluated available documentation for employee's tax election and University tax reporting.

In order to verify that payroll deductions were accurate, we judgmentally selected a sample of 35 employees based on the listing obtained from the Office of Human Resources of new hires from September 1, 2014 through January 31, 2015. We performed the following specific steps:

- Determine whether earnings agree with an authorized appointment and/or other additional payment support;
- Verify that employee benefits and tax deductions agree to supporting documentation for the election chosen. The deductions are also being calculated correctly and/or agree to the current benefits costs for the benefits elected and properly being deducted from the employee's paycheck as intended.

In order to determine whether the university is in compliance with regulatory reporting requirements, we performed the following steps:

- Determine whether UT Arlington has submitted the required quarterly reports to respective taxing authorities on time and as required;
- Determine whether payroll tax liabilities are accurately reported and submitted to tax authorities and UT System;
- Perform analytical reviews of the quarterly reports reported to tax authorities.

The scope of this audit was the payroll for January 31, 2015 for the Payroll Process portion, and calendar year 2014 for Payroll Tax Reporting.

Audit Results

Payroll Process – Paycheck Verification

Employees can elect that the fee for their parking permit be deducted through payroll deduction. For those employees reviewed, 14 out of the 35 sampled employees elected parking deductions. The parking fee for one of the 14 employees who elected payroll deduction was not being deducted at all. In this particular case, the employee had two employee ID numbers: one used to sign-up for the parking fee deduction and the other used for the paycheck payment that the deduction should have been made against. We referred this issue to the management of the Business Affairs Technical Services, and they explained that the duplicate ID is a known issue and is being addressed.

Observation: Lack of reconciliation of parking fee.

However, we observed that expected parking fee revenue is not being reconciled to the actual payroll deductions.

Recommendation:

The management of Parking and Transportation Services needs to develop and implement a process to reconcile expected parking fee revenue against actual payroll deductions so that variances can be identified and addressed.

Management Response:

Parking and Transportation Services (PATS) has implemented a new parking database we have entitled “MAVPark.” The payroll deduction is an 8 month payment plan collected from September through April of every fiscal year with the first installment effective date of October 1. We have recommenced our payroll deduction reconciliation process to address this finding. By the 10th of each month, October – May, PATS will reconcile payroll deductions by:

1. *Obtaining a report from our MAVPark system with the employee names, expected payroll deduction amounts, and their pre-tax or post-tax deduction request.*

2. *Obtaining a report from the UT Arlington Payroll Office with the employee names, actual payroll deduction amounts, and if they were pre-tax or post-tax deductions.*
3. *PATS Staff will cross reference the data sets; identify variances; and resolve the variances by making changes in MAVPark and submitting suggested changes to outside departments, as appropriate.*
4. *PATS will complete a report that outlines the actions taken. The report will be maintained for three years after the end of the fiscal year the report was completed.*

Target Implementation Date: *Implemented October 1, 2015*

Responsible Parties: Director of Parking and Transportation Services

We also noted that four of these 14 employees had elected pre-tax payroll deductions, but were being deducted as post-tax. The management of Parking and Transportation Services explained that there was a system problem during the migration to UTShare in May 2014 that caused this issue. This system issue was corrected during the audit. In addition, Parking and Transportation Services is in the process of implementing a new parking system as of the audit date. The management explained that the new system will help prevent the occurrence of the issues noted above.

Payroll Tax Reporting

We tested the payroll tax reports for the 4th quarter of 2014. We reviewed these reports and validated that the completion, submittal, and receipt dates of the tax reports were documented. The tax liabilities were accurately reported and UT Arlington submitted the required quarterly and /or monthly reports to the respective taxing authorities & UT System on time and as required.

An analytical review was conducted of payroll taxes reported due to the change from the DEFINE accounting system to the UT Share financial application. We reviewed the 4th quarter Form 941 of 2014 and 2013 for unusual trends or anomalies in payroll taxes reported to the IRS. We compared the total balances reported, deposited and recorded in both quarters, and noted that the overall tax rate applied in reporting tax liability for both years 2013 and 2014 was consistent. There were no unusual trends or anomalies noted whether using DEFINE in 2013 or UT Share in 2014.

Conclusion

Based on the results of the audit procedures performed and samples tested, we determined that:

- Deductions are calculated accurately,
- There were no material differences between employee elections and their deductions. However, the absence of reconciliation of parking fees did not detect the system's failure to deduct parking fee from an employee's paycheck, and;

- The payroll tax reporting requirements related to employment tax liabilities and the unemployment premiums due to respective taxing authorities were submitted timely and accurately as required by the regulatory requirements.

Our examination was conducted in accordance with guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. These *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department. UT System policy UTS 129 titled "Internal Audit Activities" requires that we adhere to the *Standards*.

We appreciate the courtesy and cooperation we received from the Office of Human Resources, Payroll Services, and the Parking and Transportation Services staff throughout this audit.

cc: Dr. Ronald L. Elsenbaumer, Provost and Vice President for Academic Affairs, UT Arlington
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Report File