Report on Review of Payroll Processes #14-119 and HCM Integrated Audit #14-201

We have completed our audit of payroll processes and PeopleSoft Human Capital Management (HCM). This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

BACKGROUND

UTHealth's salary and wages expense for the period September 1, 2013 through February 28, 2014 was $354 million. Payroll produced over 164,000 paychecks and advices during fiscal year 2013 and are currently processing payroll for 8,200 employees. The payroll process is generally run approximately one week prior to the date checks are produced. Employees are paid on a semi-monthly or bi-weekly schedule. These pay cycles often coincide and must be carefully coordinated to ensure the processes do not conflict with each other.

UTHealth requires all employees to submit a timesheet. With the exception of Harris County Psychiatric Hospital (HCPC), timesheets are submitted through the Time & Labor (T&L) module within HCM.

OBJECTIVES

The objective of this audit was to determine whether controls (both technical and non-technical) are adequate to ensure payroll expenditures are correct and properly authorized.

SCOPE AND METHODOLOGY

Through interviews, review of documentation, and data analytics, Auditing and Advisory Services (A&AS) performed an audit of controls over timesheet reporting, data entry of employee pay records, and changes to payroll records between September 1, 2013 and February 28, 2014. We identified the high risk areas, including the consideration of potential fraud, and reviewed the associated controls in place.
AUDIT RESULTS

Payroll Expenditures
Personnel actions, such as hiring, terminating, and awarding merit increases in pay are initiated by the departments using the Personnel Action (PA) system. These actions are reviewed by System Data Resources (SDR) to ensure they are complete and properly authorized. SDR then enters the change in the HCM system. A&AS obtained an understanding of data fields within HCM and observed SDR personnel entering PA Request information. We identified the controls to prevent data entry errors and obtained access to a test environment within HCM to conduct testing. The controls identified and tested were operating effectively. We also reviewed a sample of payroll expenditures made for the first six months of fiscal year 2014. We confirmed employee pay was properly authorized and correctly entered into HCM.

In addition to an employee’s salary, a temporary administrative supplement may be paid for specific situations when an employee or faculty member assumes additional responsibilities on an interim basis for an extended period of time, generally not to exceed one fiscal year. The temporary administrative supplement is discontinued when the employee or faculty member is no longer responsible for the additional responsibilities. A&AS selected a sample of faculty members receiving an administrative supplement, obtained explanations for the supplement, and verified the supplemental conditions were still in place as of the sampled payroll cycle. No inappropriate administrative supplements were identified during our testing.

Overtime
HOOP 154 Overtime Pay and Compensatory Time Off (HOOP 154) outlines three situations in which, at the discretion of the supervisor and with the advance written approval of Compensation Services, exempt classified employees may be required to work and be paid for overtime hours. These situations include overtime related to patient care in a hospital setting, a research project or funding that could be placed in jeopardy, or a contract that could be lost.

Departmental justifications for overtime for non-patient care positions are documented by Compensation Services in a variety of ways, including Special Pay Plan Guideline memos, internal spreadsheets, and emails. A&AS found 27 individuals with titles that did not appear to be patient care related. For the six months reviewed, these individuals were paid a total of $36,600 in on-call and overtime pay. We reviewed a sample of overtime payments and found that, in 25% of cases, the department management justification for the overtime did not agree to one of the allowable overtime situations outlined by HOOP 154. In two of these cases, specific approval of the overtime was granted by senior management.

Compensation Services does not formally document their advance written approval of overtime as required by HOOP 154. Additionally, some Special Pay Plan Guideline memos require an annual review to determine whether the overtime program is still valid and necessary; however, Compensation Services could not provide evidence these annual reviews are being performed.

Recommendation 1:
We recommend Compensation Services establish processes to ensure overtime exceptions to HOOP 154 are adequately documented and approved, advance written approval of overtime is formally documented, and annual reviews of overtime programs are performed when required.
Management’s Response: Compensation Services will define the process and determine the most appropriate methods to ensure overtime exceptions are adequately documented and approved in accordance with HOOP 154. The selected solution will be implemented by January 1, 2015.

Responsible Party: Eric Ferrette
Implementation Date: January 1, 2015

Benefits Plans

UTHealth is required to enroll all eligible employees in a retirement plan, either Teachers Retirement System of Texas or the Optional Retirement Program. To ensure all eligible employees are enrolled in a plan, we reviewed all employees without enrollment and determined that each was not eligible. We found no employees incorrectly classified.

UTHealth also offers paid leave, health insurance, and other insurance options for eligible employees and their families. A&AS obtained a list of all employees designated as non-benefits eligible. Through a review of HCM records, we confirmed each employee was correctly classified in a non-benefits eligible pay group. We also reviewed a sample of employees who were employed in part-time positions on an as-needed basis to determine whether the positions were correctly classified. No exceptions were noted.

Final Pay to Terminated Employees

Payroll is processed up to a week before the end of the pay period. Personnel actions, such as pay increases, position changes, and terminations, are entered by the employing department. If these changes are entered after payroll is processed, they are not included in the resulting payroll file. Additionally, employees are paid the first work day following the end of the pay period. Because payroll is processed before this date, exception hours (vacation, sick leave, etc.) are not captured until the following pay period. The lack of a lag time between the end of the pay period and the disbursement of paychecks significantly increases the probability that terminating employees, or employees on extended leave, will be overpaid. Payroll and SDR have an informal manual review and communication process to identify situations that could cause overpayments. When such an event is identified, the departments work together to manually correct the issues and prevent overpayments.

A&AS obtained a list of the 898 employees terminated during the first six months of fiscal year 2014. We reviewed payroll expenditures for a sample of these employees. No substantial overpayments to terminated employees were noted in our sample. A&AS also reviewed the list of overpaid employees maintained by Payroll. The list contained 17 employees terminated during the first six months of fiscal year 2014. The total amount overpaid to these employees was $15,500, of which, $2,700 was recouped through existing leave balances. Approximately $8,000 remained outstanding as of the end of fieldwork. We noted 71% of the 17 overpayments were due to late termination in HCM by the employing department and an additional 18% were due to exception time posted on the final timesheet. Both of these causes are directly related to the lack of lag time between the end of the pay period and the disbursement of paychecks. However, the 17 overpaid employees represent less than 2% of the employees terminated during the period under review. Controls, though labor intensive, are effective.
Time Reporting and Corrections
A&AS also obtained an understanding of time reporting for exempt employees and identified controls within HCM that prevent timesheet entry errors. A&AS obtained access to a test environment within HCM to conduct testing. The controls identified and tested were operating effectively.

A&AS attempted to perform data analytics on the timeliness of timesheet submission and approval. We also attempted to identify all timesheets modified after the initial approval. However, the existing reports and queries did not contain appropriate data fields and we were unable to build queries to obtain the data needed. Payroll personnel indicated that some of the data we were unable to obtain would aid them when analyzing timesheets and researching errors.

Recommendation 2:
We recommend that Administrative Computing and Payroll work together to prioritize and develop needed reports and views.

Management’s Response: Administrative Technology and Payroll will work together to define, develop and implement the Timesheet audit report(s) needed to monitor timesheet changes, submissions, and approvals.
Responsible Party: Connie Wooldridge and Bete Su Williams
Implementation Date: January 31, 2015

A&AS was able to obtain a list of timesheet corrections made by payroll staff. Employees are able to correct their own timesheets for the previous two pay periods. After that time, all corrections, modifications, or changes must be entered by Payroll staff. In lieu of reviewing changes made by employees, A&AS reviewed changes requiring Payroll staff intervention. During the six months reviewed, Payroll entered or corrected over 5,000 entries, 1.8% of the total entries during this period. Most entries, 70%, involved payroll creating timesheet entries not originally recorded. These changes involved creating timesheets that were not entered by the employee; posting holiday time worked, vacation, sick leave, or leave without pay; or granting and allocating sick leave pool hours. While many of the correcting entries impact institutional leave liability, the monetary impact is not material.

Access to Payroll Files and Panels in HCM
A&AS reviewed the HCM access for privileged users and SDR personnel, noting it was appropriate. We selected a sample of authorized submitters, reviewed job descriptions, and determined the assigned authority to be appropriate.

A subset of SDR personnel has access to the correction module in HCM. This module is used for inputting retroactive corrections to current database records such as effective date, job status, position, or pay information. The Assistant Director and Senior Administrative Coordinator are the only SDR employees who can use the Correction Module. The application log contains transaction ID, name, and a timestamp; however, it does not detail the correction made. As a result, SDR has implemented a manual log to track all corrections. The manual log is a
spreadsheet that includes the date, initials of the SDR employee that received the corrected PA Request, the employee and ID number, and a short description of the correction made.

CONCLUSION

Technical and non-technical controls to ensure payroll expenditures are correct and properly authorized are in place and functioning as intended. Recommendations were made for enhancements to formalize the process of granting overtime to exempt positions and to improve management reports for more effective control over timesheet records.

We would like to thank the Payroll, System Data Resources, and Administrative Technology staff and managers who assisted us during our review.

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