UNIVERSITY OF TEXAS A ARLINGTON

Internal Audit Report

Payroll Audit

September 2020

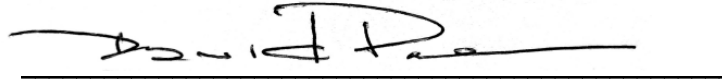# **Distribution** – Payroll Audit

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Background – Payroll Audit

The University of Texas at Arlington (UTA) processes payroll using PeopleSoft's Human Capital Management System. Total UTA salaries and wages were $296,274,922 in Fiscal Year 2019. Coordination between the following is critical to help ensure accurate and timely payroll processing.

Payroll Services - Payroll Services is part of UTA's Division of Business Affairs. There are 11 Payroll Services employees. The team processes semi-monthly, monthly, and off-cycle payroll runs. As part of each run, Payroll Services performs checks and balances, processes payroll deductions, and completes transactions to update the general ledger. The result is the compensation of UTA's employees.
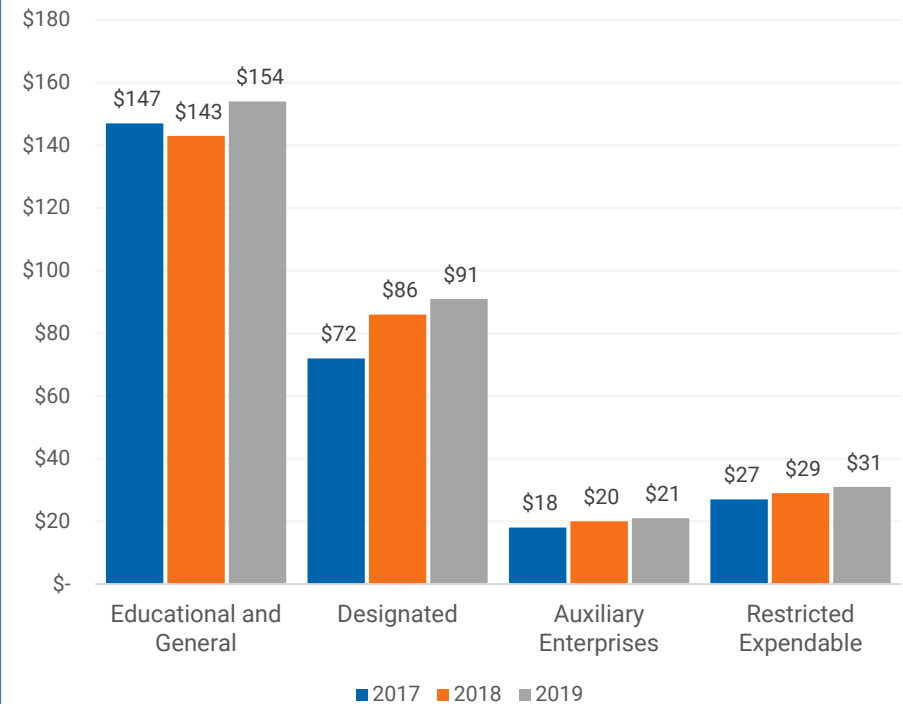
Human Resources (HR) - Two areas within HR play key roles in UTA's payroll processing. First, Employee Records and Data Administration facilitates the maintenance and updates to employee records. Second, Leave Management assists employees with UTA's leave programs.

Individual Departments - Across UTA, individual department's report and approve time worked, record-keeping, hiring/terminating employees, and submitting personnel action requests.

Salaries and Wages by Group: FY 2017-2019
(In Millions)
(Source: Schedule C-2, Annual Financial Report)

Group	2017	2018	2019
Educational and General	$147	$143	$154
Designated	$72	$86	$91
Auxiliary Enterprises	$18	$20	$21
Restricted Expendable	$27	$29	$31

Audit Objective, Scope & Ranking Criteria – Payroll Audit

Audit Objective:

The objectives of the audit were to review the adequacy of:
- the security, reliability, timeliness, and accuracy of UTA's payroll files;
- compliance with federal and state regulations, and UTA policies and procedures;
- the efficiency and effectiveness of the operations and processes that support payroll and related processing.

Audit Scope:

The audit scope included a review of:
- Form 941 reporting;
- payroll reconciliations;
- check stock and distribution;
- Payroll and HR processing;
- wage guidelines;
- system access controls;
- paid leave, including sick leave;
- payroll payments;
- overtime pay.

Payroll Services, HR, and individual department operations were included in the audit scope. The period reviewed was from September 1, 2018, through March 31, 2020.

The audit methodology included interviewing key personnel, reviewing procedures and processes, and performing audit testing on supporting documentation. The following regulations and policies were the basis for audit test work:

UTA Policy/Procedure

BF-AS-PR7: Cost Center and Project Statements	HR-B-PR3: Longevity Pay
BF-P-F11: Authorization for Professional Services	HR-E-PR3 Salary Administration - Classified Service
BF-P-F12: Authorization for Professional Services (less than $600)	HR-E-PR6: Personal Information Changes
BF-P-PR2: Time Reports	HR-E- PR10: Employee Separation and Clearance Process
BF-P-PR6: Overtime Requests and Payments to Employees	HR-E-PR28: Overtime
BF-P-PR9: Payments for Professional Services	HR-LA-PR2: Vacation Leave Policies
BF-P-PR7: Accrued Vacation, Sick Leave, Death Benefits, Excessive Absences and Mid-Month Terminations	HR-LA-PR8: Sick Leave Pool
BF-P-PR1: Payroll Processing – Pay Dates and Deadlines	

Audit Objective, Scope & Ranking Criteria – Payroll Audit

Ranking Criteria:

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for these rankings are as follows:

●	Priority	An issue identified by an internal audit that, if not addressed on a timely basis, could directly impact achievement of a strategic or important operational objective of UTA or the UT System as a whole.
●	High	A finding identified by an internal audit that is considered to have a medium to high probability of adverse effects to UTA either as a whole or to a significant college/school/unit level.
●	Medium	A finding identified by an internal audit that is considered to have a low to medium probability of adverse effects to UTA either as a whole or to a college/school/unit level.
●	Low	A finding identified by an internal audit that is considered to have minimal probability of adverse effects to UTA either as a whole or to a college/school/unit level.

None of the findings from this review are deemed as a "Priority" finding.

Summary – Payroll Audit

Overall, our review disclosed that Payroll Services has controls in place to help ensure that employees are paid accurately and on a timely basis. However, opportunities exist to improve operational effectiveness and efficiency by strengthening communications, further defining roles and responsibilities, and improving the strategic partnership between Payroll and HR. Additionally, further work should be performed to enhance eForm usability and individual department compliance with eForm accuracy and cut-off timing.

Specifically, the following opportunities were identified:

1)	Opportunities Exist To Control Access To The Correct History Function	Page 7	🔴
2)	Opportunities To Improve Compliance With The Sick Leave Pool Policy	Page 9	🔴
3)	Opportunities Exist To Improve The Vacation Voucher And Unpaid Leave Processes	Page 14	🟡
4)	Opportunity To Update Salary Schedules/Grid	Page 17	🟡
5)	Opportunities Exist To Implement Process Improvements To Reduce Retroactive Payroll Adjustments	Page 19	🟡
6)	Opportunities Exist To Reduce Payroll Processing Costs By Improving UTA's Direct Deposit Compliance Rate	Page 26	🟢

Further details are outlined in the Observation section. Other less significant opportunities for improvement were communicated to management separately.

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Observations

🔴	High	2
🟡	Medium	3
🟢	Low	1

We appreciate the courtesy and cooperation received from Payroll Services and HR throughout this audit.

Observation 1 – Opportunities Exist To Control Access To The Correct History Function

PeopleSoft's Correct History feature allows users to delete, change, or insert records regardless of the effective date or sequence number. This feature enables users to bypass typical input controls without leaving a traditional audit trail. As a result, this feature is nicknamed the "god control." Access to it should be limited, and the ability to approve access should be even more restricted, given its functionality.

Our review disclosed 12 staff members, 2 managers, and 1 director had access to the Correct History function. A determination of how often these individuals used the function could not be made, as PeopleSoft does not maintain an audit trail of modifications made with Correct History. Additionally, there is no procedure in place, outlining the documentation, review, and approval processes outside the system. The lack of an audit trail affects management's ability to monitor an individual's usage. Institutional exposure to the risk of unauthorized and undetected data changes is high as usage monitoring processes are non-existent.

The ability to grant employees access to the Correct History function was not limited to UTA senior leaders. For example, an HR Business Analyst II can grant access to this feature. In his role, this employee approved access for 7 of the 14 employees on the following chart:

Department Hierarchy	Number of Employees With Correct History Access	
	HR	Academic Resource Planning
Director	1	0
Manager	2	0
Staff	11	1
Total	14	1

Observation 1 – Opportunities Exist To Control Access To The Correct History Function (Continued)

Recommendation:
HR should:
- significantly restrict access to the Correct History function;
- develop a method to track Correct History's use and periodically review users' activity logs to help identify and correct re-occurring issues; and
- limit the ability to grant/approve employee access to the Correct History function to the Controller, or appropriate VP level.

Management Response:
HR concurs with the recommendation with some exceptions for consideration.

- We will immediately reduce the number of HR staff with Job Data Correct History functionality to include only the four HR Data Administrators, Business Analyst and Director that comprise the Data Administration team. This will reduce the users with this specific role from 14 to 6. This is a preferred exception as the Data Administration team requires this ability to perform normal job responsibilities, and they trained in the proper usage in maintaining job data using "Correct History" functionality.

- HR will work with Shared Information Services to develop and implement a tool for tracking Correct History updates. We will also continue to develop and implement the internal "Correct History" tool to assist in tracking re-occurring issues that require the use of this functionality.

- HR will work with the campus Information Security Administrators team to remove the Correction Role as a role assignment option. HR Correction roles will require specific approval from the Director for HR Planning, Policy and Systems. A periodic review of access will be performed to ensure that only those who need access have the role.

Target Implementation Date:
November 1, 2020

Responsible Party:
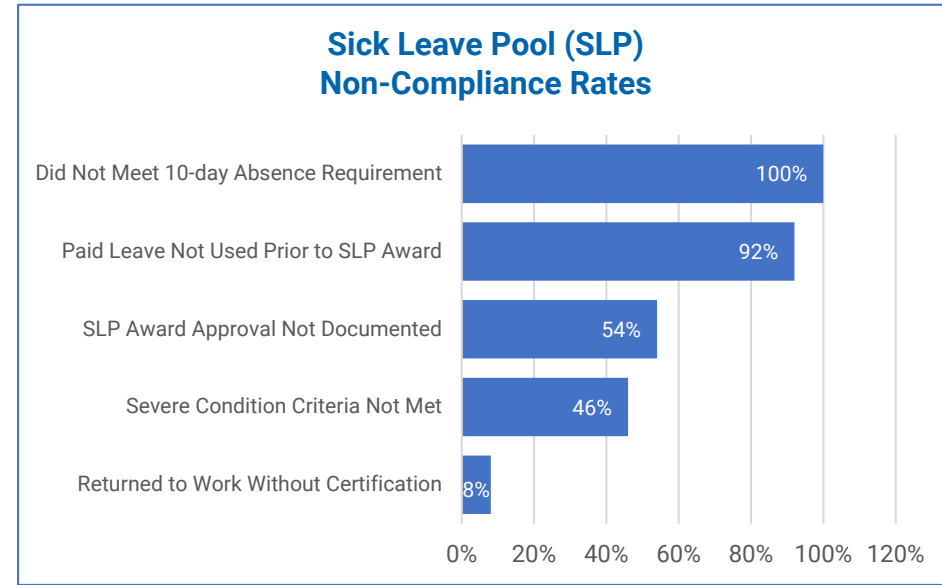Director for HR Planning, Policy and Systems

Observation 2 – Opportunities To Improve Compliance With The Sick Leave Pool Policy

High

Background - If an employee or employee's immediate family member has a severe condition or combination of conditions that require the prolonged care of a licensed practitioner, the employee can apply to receive sick leave pool (SLP) hours, so he/she does not go without pay during an extended leave of absence.

Summary - During 2019, HR processed 59 SLP awards, totaling 14,851 hours or approximately $283,000. Our review of 13 SLP awards, totaling 4,772 hours, or $88,534, given to 8 employees, disclosed that Leave Management did not consistently adhere to the SLP policy's eligibility and return to work requirements. SLP policy violations existed in every (13 of 13) award reviewed. The chart to the right outlines the sources of SLP policy non-compliance.

Sick Leave Pool (SLP) Non-Compliance Rates

Category	Rate
Did Not Meet 10-day Absence Requirement	100%
Paid Leave Not Used Prior to SLP Award	92%
SLP Award Approval Not Documented	54%
Severe Condition Criteria Not Met	46%
Returned to Work Without Certification	8%

Control Opportunities - Our review of the SLP awards disclosed the following contributed to the high number of policy violations:
- Staff knowledge of the SLP award procedures was not adequate, resulting in unintentional non-compliance with SLP policy.
- Staff did not consistently follow the SLP procedures. Award decisions were made that were contrary to policy.
- The review process was not adequate. Policy violations went undetected, and evidence of review was not consistently documented.
- Documentation standards were not consistent or effective, resulting in a lack or loss of back-up required for proper decision making.
- The review committee was limited in its effectiveness. All six members of the review committee were part of the SLP award process. While two of the members are HR Business Partners, no <u>external</u> members were included in this oversight function.

Observation 2 – Opportunities to Improve Compliance with the Sick Leave Pool Policy (Continued)

The following paragraphs explain the SLP non-compliance for the 13 awards reviewed in the audit:

Did Not Meet The Ten-Day Absence Requirement: To qualify for SLP hours, an employee must be absent from work because of the severe condition or combination of conditions for ten working days during the four months preceding the date that using the SLP becomes necessary. Our review identified that:
- 13 SLP awards, made to 8 employees (totaling 4,772 SLP hours or $88,534), did not have sufficient documentation supporting whether the employees were absent ten working days during the four months before the date that using the SLP became necessary. In other words, none of the 13 SLP awards reviewed complied with this requirement.

Paid Leave Not Fully Used Prior To Award: An employee must exhaust all accrued paid leave, including compensatory time, because of the condition, before using SLP hours. Our review identified that:
- In 12 SLP awards, made to 7 employees (totaling 4,293 SLP hours or $78,400), the employees did <u>not</u> exhaust their paid leave before using SLP hours.

Severe Condition: A statement from a licensed practitioner must be provided specifying the illness or injury, prognosis, and the approximate duration of the employee's absence. The statement is used to verify that the employee's illness or injury qualifies as a severe condition. An employee can request an application for extension only if they have not exceeded the 720 hours per condition maximum. The application must be completed and submitted with a licensed practitioner statement supporting the extended absence to Leave Management to enable the Administrator to evaluate their eligibility. Our review identified that:
- Six SLP awards, made to four employees (totaling 1,220 SLP hours or $22,930), did not have sufficient documentation attesting to the severe condition.

SLP Administrator's Approval: Upon receipt of an employee's completed application and required documentation, the SLP Administrator must review and approve or deny each applicant's SLP request within ten working days. Our review identified that:
- Seven SLP awards, made to four employees (totaling 1,465 SLP hours or $23,088), did not have sufficient documentation supporting whether the SLP Administrator approved the award.

Observation 2 – Opportunities to Improve Compliance with the Sick Leave Pool Policy (Continued)

Return to Work Certification: When an employee is absent from work because of a catastrophic illness or injury, a return to work certification signed by a licensed practitioner must be provided to the employee's supervisor and the SLP Administrator before he/she returns to work. A return to work certification is not required from employees on SLP to care for their immediate family. Our review identified that:

- One employee returned to work from an approved leave without providing the required return to work certification. Returning to work without medical clearance increases the risk to the Institution if an employee cannot perform duties safely.

Without enforcement of the SLP policy, UTA's assets are not properly safeguarded:
- employees may misuse the program or receive incorrect benefits, and/or
- productivity may decline due to the temporary loss of experienced professionals.

The following chart provides details related to the SLP policy non-compliance.

Summary: SLP Results											
Employee's ID Number	Award Begin Date	Award End Date	Awarded Hours	Where Severe Conditions Met And/Or Documented?	Was The Licensed Practitioner Statement Obtained and On File?	Was The Application For SLP Extension On File?	Was The Employee Absent for Ten Days Due To Severe Condition Before Applying For The SLP?	Did the Employee Exhaust All Paid Leave Before Receiving SLP?	Did the SLP Administrator's Document Their Approval?	Was The Return To Work Certification (RTW) Received Before Returning To Work?
6001133831	03/29/19	06/28/19	528	Yes	Yes	N/A - Initial award	No	No	Yes	Quit before returning
6001133831	06/29/19	07/31/19	176	Yes	Yes	No	No	No	No	Quit before returning
6001133831	08/05/19	08/06/19	16	No	No	No	No	No	No	Quit before returning
1000316746	01/24/20	04/20/20	479	Yes	Yes	N/A - Initial award	No	Yes	Yes	RTW doc not required
1000361904	09/18/18	12/05/18	436	No	Yes	N/A - Initial award	No	No	Yes	Yes
6001271603	02/07/19	04/30/19	505	Yes	Yes	N/A - Initial award	No	No	No	Quit before returning
1000622240	11/18/19	11/17/20	720	Yes	Yes	N/A - Initial award	No	No	Yes	RTW doc not required
6001491566	03/12/19	05/24/19	424	Yes	Yes	N/A - Initial award	No	No	Yes	Yes
6001491566	05/29/19	07/01/19	16	No	No	No	No	No	No	Yes
6001491566	06/01/19	07/01/19	184	No	No	No	No	No	No	Yes
6001491566	07/01/19	07/26/19	96	No	No	No	No	No	No	Yes
6001278534	05/24/19	10/30/19	720	Yes	Yes	N/A - Initial award	No	No	Yes	No
1001041496	06/06/18	08/28/18	472	No	No	N/A - Initial award	No	No	No	Quit before returning

Observation 2 – Opportunities to Improve Compliance with the Sick Leave Pool Policy (Continued)

Recommendation:
HR should enhance the clarity of the SLP policy's eligibility requirements, and a checklist should be developed to help ensure employees complied with the policy. Training should be provided to those involved in the SLP process. HR should establish an improved review process to help ensure compliance going forward. Consideration should be given to adding independent members (outside of HR) to the SLP Review Committee. Additionally, committee bylaws outlining objectives and membership should be adopted. Finally, minutes should be taken to document decisions made in the meetings.

Management Response:
The SLP policy will be reviewed for potential changes, enhancements, and clarifications. Any new recommendations to the policy will be sent to Legal for review to ensure appropriate compliance of the policy is followed. HR will establish an improved review process to help ensure compliance. Part of this new process will include a checklist the Leave Administrators will use to ensure employees are in compliance with the SLP policy when the applicant's eligibility is being assessed. Once this process is established, HR will train all those involved in the new SLP process.

A new review process will be established to ensure all SLP requests were reviewed appropriately and that the SLP policy was followed. The new process will include a formal review and final approval by the HR Executive Director to ensure compliance has been met. The implementation of this new process will help to ensure all criteria and supporting documents are reviewed thoroughly. In addition, the efficiency will support timely responses to employees, departments, and payroll.

Target Implementation Date:
November 1, 2020

Responsible Party:
Executive Director, Human Resources

Observation 2 – Opportunities to Improve Compliance with the Sick Leave Pool Policy (Continued)

Recommendation:
- HR should develop an application for extension and procedure to help ensure employees comply with the Sick Leave Policy, HR-LA-PR8, Section VIII.
- HR should create a central repository to store SLP documentation.

Management Response:
HR has revised the current SLP request application to include an option for extension requests. Leave Management will update the current procedure to cover extension requests and ensure it is in line with state statute.

HR will create a central repository to store SLP documentation electronically located on Leave Management's secure SharePoint drive.

Target Implementation Date:
November 1, 2020

Responsible Party:
Executive Director, Human Resources

Observation 3 – Opportunities Exist to Improve the Vacation Voucher And Unpaid Leave Processes

Our walkthrough of the vacation voucher and unpaid leave process disclosed:

A) Vacation Voucher: Leave Management did not consistently comply with Procedure BF-P-PR7 (Accrued Vacation, Sick Leave, Death Benefits, Excessive Absences, and Mid-Month Terminations). This procedure provides information regarding the payment of accrued vacation for terminated UTA employees and accrued vacation/sick leave time for deceased employees. The procedure requires that Leave Management validate the employee's vacation hours on the Departmental Vacation/Holiday Payroll Voucher and forward the form to Payroll Services for processing.

Leave Management did not consistently follow this procedure. Instead, one employee developed and used an unofficial vacation spreadsheet to recalculate vacation owed. This spreadsheet, along with the Departmental Vacation/Holiday Payroll Voucher, was forwarded to Payroll for processing. However, data discrepancies between the spreadsheet and the Departmental Vacation/Holiday Payroll Voucher were not consistently resolved. As a result, staff from Payroll Services regularly re-performed the vacation payout calculation, which resulted in a duplication of effort.

Recommendation:
Leave Management should:
- run a termination report weekly to identify employees that may require a vacation payout;
- verify that the employees are eligible for a payout;
- email the departmental timekeeper to confirm all the employee's time has been entered in UTShare;
- reconcile the leave balance from the most recent system update to the updated timesheets;
- complete the Departmental Vacation/Holiday Payroll Voucher and have it reviewed and approved by their supervisor before sending it to Payroll Services for processing.

Observation 3 – Opportunities Exist to Improve the Vacation Voucher And Unpaid Leave Processes (Continued)

Management Response:

HR concurs with the recommendations and will work to implement and strengthen changes to the process by establishing and creating Standard Operating Procedures that include:

- running a termination report weekly to identify employees that may require a vacation payout;
- verifying that the employees are eligible for a payout;
- emailing the departmental timekeeper to confirm all the employee's time has been entered in UTShare;
- reconciling the leave balance from the most recent system update to the updated timesheets;
- advising departments to complete the Departmental Vacation/Holiday Payroll Voucher;
- Payroll Services reviewing and approving the Departmental Vacation/Holiday Payroll Voucher.

Target Implementation Date:

November 1, 2020

Responsible Party:

Executive Director, Human Resources

Observation 3 – Opportunities Exist to Improve the Vacation Voucher And Unpaid Leave Processes (Continued)

B) Unpaid Leave Report: Payroll Services creates the Unpaid Leave Report during each pay period. The report is forwarded to HR for review and approval. After the validation is complete, Payroll Services deducts the hours in unpaid status from employee paychecks. Our walkthrough identified two instances where the report was approved by HR without the proper verification:
- One employee's time had not been entered in UTShare for a month.
- One employee's transfer hours from another state agency/institution had not been verified and updated in UTShare.

A review process was not in place to help ensure the reports were accurate, as evidenced by the inconsistencies noted above. A proper review process is needed to help ensure employees are paid correctly.

Recommendation:
Consideration should be given to having Payroll Services take over the verification process. If the process is left with HR, they should:
- develop a formal review and approval process, implement additional training and obtain best practices from UT System's Absence Management Business Analyst;
- create comprehensive procedures to help ensure processing consistency.

Management Response:
After discussions between Internal Audit, Payroll Services and HR, it is decided that Payroll Services will take on this process sometime in the future. However, HR will maintain ownership of this process until further review scheduled for the end of November 2020. In the interim, HR will develop a formal review and approval process, implement additional training and obtain best practices from UT System's Absence Management Business Analyst; and create comprehensive procedures to help ensure processing consistency.

Target Implementation Date:
November 1, 2020

Responsible Party:
Executive Director, Human Resources

Observation 4 – Opportunity to Update Salary Schedules/Grid

Medium

UTA maintains a pay grid for all classified positions with salary schedules. The objective of a pay grid is to assure uniform treatment of comparable positions, provide opportunities to recognize quality and length of service, and consider the market pay rates for comparable positions.

Our review of UTA's pay grid disclosed that the salary schedules appear to be out-of-date. Institutional departments are not consistently adhering to the pay grid guidelines when hiring new employees. Our audit disclosed 13 of the 15 (87%) new hires received an hourly rate above the mid-point shown in the grid. Additionally, 7 of the 15 (47%) new hires were hired at an hourly rate above the maximum.

Employee ID	Dept. Number	Position	Position Title	Hire Date	Starting Hourly Rate	Pay Grade	Salary Schedule Midpoint	Salary Schedule Maximum	Hire Pay Rate > Salary Schedule Midpoint	Hire Pay Rate > Salary Schedule Maximum
XXXXXXX507	625000	10085614	Accounting Specialist	06/10/19	$ 18.23	7	$ 15.52	$ 18.73	Yes	No
XXXXXXX845	615000	10014038	Coordinator III, Special Program	06/17/19	$ 26.82	11	$ 24.31	$ 29.92	Yes	No
XXXXXXX771	645000	10010847	Administrative Assistant I	06/24/19	$ 15.63	6	$ 14.03	$ 16.65	Yes	No
XXXXXXX292	512006	10012077	Student Development Specialist	05/06/19	$ 17.88	8	$ 17.37	$ 21.06	Yes	No
XXXXXXX431	511009	10014004	Transcript Evaluator I	06/10/19	$ 14.58	5	$ 12.40	$ 14.80	Yes	No
XXXXXXX607	635000	10097316	Statistician III	04/01/19	$ 33.14	12	$ 27.19	$ 33.63	Yes	No
XXXXXXX589	315206	10010951	Building Attendant I	06/10/19	$ 9.44	1	$ 8.24	$ 9.23	Yes	Yes
XXXXXXX504	315206	10010950	Building Attendant I	03/04/19	$ 9.44	1	$ 8.24	$ 9.23	Yes	Yes
XXXXXXX853	625107	10014255	Research Assistant	05/21/19	$ 14.00	1	$ 8.24	$ 9.23	Yes	Yes
XXXXXXX440	315210	10015713	Housekeeper I	07/17/19	$ 9.44	1	$ 8.24	$ 9.23	Yes	Yes
XXXXXXX689	320205	10014998	Accountant II	04/01/19	$ 24.62	8	$ 17.37	$ 21.06	Yes	Yes
XXXXXXX203	335102	10017976	HR Data Administrator	04/22/19	$ 21.31	8	$ 17.37	$ 21.06	Yes	Yes
XXXXXXX269	615000	10097935	Academic Advisor	07/15/19	$ 16.98	6	$ 14.03	$ 16.65	Yes	Yes

Additionally, our review disclosed that the Salary Administration - Classified Service Policy (HR-E-PR3) should be updated. It is unclear whether a hiring manager must receive approval when offering an hourly rate above the maximum, or in the top quartile of the salary band. The policy should clearly state the approval requirements to help ensure the guidelines are consistently applied.

Finally, the salary grid does not provide guidance for administrative and professional positions. Including these positions would provide more expanded guidance.

Observation 4 – Opportunity To Update Salary Schedules/Grid (Continued)

Recommendation:

Consideration should be given to updating the salary/hourly rate schedules/grids. Procedures should be developed to help ensure there is an adequate approval process when a hiring manager exceeds the maximum rates. Finally, consideration should be given to including Administrative and Professional salaries in the schedule/grid.

Management Response:

HR concurs with the recommendation. An updated classified salary schedule has been finalized and approved by management. The salary tables within UTShare are in the process of being updated.

Target Implementation Date:

September 1, 2020

Responsible Party:

Compensation Manager
Director for HR Planning, Policy and Systems

Observation 5 – Opportunities Exist to Implement Process Improvements to Reduce Retroactive Payroll Adjustments

Payroll Services processed 292 retroactive adjustments during the fiscal year 2019, totaling $360,560. Our review of 20 retroactive adjustments identified the need to enhance institutional compliance with the payroll processing deadlines and HR's review processes, as evidenced by our observations related to: 1) Wage Overpayments, 2) Faculty Contracts, 3) Outstanding Social Security Numbers, and 4) Pay Groups.
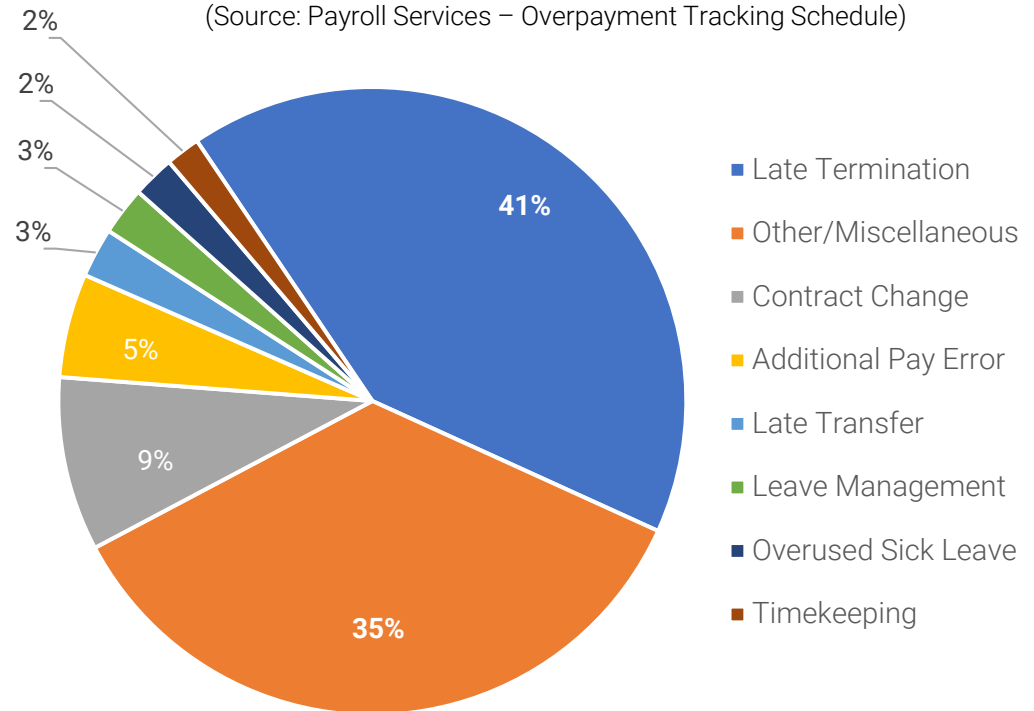
1) Wage Overpayments:

Payroll Services processed 142 overpayments in the fiscal year 2019, totaling approximately $298,000. UTA employees receive and repay overpayments on a re-occurring basis. Our review identified that 5 of the 20 employees sampled received a wage overpayment. Non-compliance with the eForm cut-off dates increases the circumstances leading to overpayments. (See pie chart to the right for a breakdown of circumstances leading to wage overpayments realized in the fiscal year 2019.)

Payroll Services attempts to prevent, detect, and correct overpayments. They dedicate considerable time and resources to researching, tracking, and collecting overpayments. Their recovery rate for the fiscal year 2019 was 89 percent of the total overpayments.

Wage Overpayments Realized in the Fiscal Year 2019

(Source: Payroll Services – Overpayment Tracking Schedule)

- Late Termination — 41%
- Other/Miscellaneous — 35%
- Contract Change — 9%
- Additional Pay Error — 5%
- Late Transfer — 3%
- Leave Management — 3%
- Overused Sick Leave — 2%
- Timekeeping — 2%

Observation 5 – Opportunities Exist to Implement Process Improvements to Reduce Retroactive Payroll Adjustments (Continued)

2) Faculty Contracts:

If a faculty member is hired or his/her contract renewed, HR processes the contract in UTShare. However, HR has not consistently calculated the salary allocation stipulated in faculty members' contracts correctly. As a result, five faculty members were underpaid by a total of $3,411. Although the dollar amount is immaterial, our evaluation highlighted the lack of a review process. As a best practice, functions like processing faculty contracts should be reviewed and approved by management. The lack of a review process increases the risk of errors and liability resulting from underpayments.

Faculty Contracts		
eForm Request ID	Department submitted the new assignment eForm after the cut-off date (Yes/No)	Number of Days Late
113086	Yes	4
114200	Yes	6
114336	Yes	10
115606	Yes	17
28292	Yes	8
Average		9

Another contributing factor affecting faculty contracts is the institution's non-compliance with the eForm cut-off procedures outlined in Procedure BF-P-PR1 (Payroll Processing – Pay Dates and Deadlines). Our review identified that the department submitted faculty member's new assignment eForms an average of nine days late. Cut-off procedures help ensure employees receive paychecks on-time, and records have time to go through a structured review/approval process. The lack of ownership over the cut-off process gives the perception that there are no consequences for missing established deadlines.

Observation 5 – Opportunities Exist to Implement Process Improvements to Reduce Retroactive Payroll Adjustments (Continued)

3) Outstanding Social Security Numbers:

Departments must comply with the payroll processing deadlines outlined in Procedure BF-P-PR1 (Payroll Processing - Pay Dates and Deadlines). Payroll Services must have the social security number (SSN) of a new employee before the employee's first paycheck. Without a social security number, Payroll Services cannot issue an employee's paycheck. Additionally, UTA must comply with the State of Texas' new hire reporting deadline. The state requires employers to submit an employee's social security number to its new hire directory within the first 20 days of hire or two monthly electronic transmissions no less than 12 days or over 16 days apart (Texas Administration Code §55.303). Our review identified:

- Four employees did not receive their first paycheck because of being onboarded without a valid social security number.
- The state's new hire reporting deadline was missed for one employee because the employee's new assignment eForm was initiated 59 days after his/her effective start date.

Outstanding Social Security Numbers		
eForm Request ID	Department submitted the new assignment eForm after the employee's effective start date (Yes/No)	Number of days late
92435	Yes	10
114832	Yes	12
115254	Yes	14
32331	Yes	59
Average		24

When "new assignment" eForms are delayed, UTA can be subject to monetary penalties from the Internal Revenue Service for not including an employee's SSN on their W-2 (Wage and Tax Statement) or other wage reports. It can also increase UTA's risk of non-compliance with the State of Texas' new hiring reporting deadline.

Medium

4) Pay Groups:

Inaccurate pay groups entered on "new assignment" eForms resulted in six student-workers' being underpaid. The underpayment resulted when the employees were incorrectly moved from a U.S. Social Security (FICA) and Medicare tax-exempt pay group to a non-exempt pay group within PeopleSoft. The eForms were not consistently reviewed before being finalized by HR. Incorrect pay groups can cause inaccuracies on a student-worker's W-2 (Wage and Tax Statement) or Form 1042-S (Foreign Person's U.S. Source Income Subject to Withholding), which could lead to UTA incurring penalties from the Internal Revenue Service.

Recommendation:

Payroll Services should collaborate with HR to develop and implement an internal control plan that defines each department's responsibilities in the payroll process and segregation of duties.

Management Response:

Payroll Services will work collaboratively with HR to develop and implement an internal control plan, which defines roles and responsibilities for both areas and departments and include Internal Audit as a consultant. Additionally, they will work with Executive Leadership to develop a communication plan for the campus.

Target Implementation Date:

February 1, 2021

Responsible Party:

Director of Payroll Services
Director for Human Resources Services

Observation 5 – Opportunities Exist to Implement Process Improvements to Reduce Retroactive Payroll Adjustments (Continued)

Recommendation:
Payroll Services should collaborate with HR to develop and implement a "decision tree" to show the downstream effects of processes that have delayed departments from submitting eForms on-time. They should distribute the decision tree to all departments or post it to HR's website.

Management Response:
Payroll Services will work collaboratively with HR to develop and implement a process decision tree to address the eForms submissions and reduce retroactive payroll adjustments.

Payroll Services will work with Executive Leadership for support of departments complying with deadlines.

Target Implementation Date:
November 1, 2020

Responsible Party:
Director of Payroll Services
Director for Human Resources Services

Observation 5 – Opportunities Exist to Implement Process Improvements to Reduce Retroactive Payroll Adjustments (Continued)

Recommendation:
HR should improve their review procedures related to eForms that impact payroll and implement cross-training for when their review process is disrupted due to staffing issues and/or other concerns.

Management Response:
HR concurs with the recommendation. HR Data Administration will assess current review procedures and work with Payroll Services to understand and improve the shared responsibility to pay employees correctly and timely. We will also enhance the cross-training of staff to alleviate any review disruption.

Target Implementation Date:
February 1, 2021

Responsible Party:
Director for HR Planning, Policy and Systems

Recommendation:
HR should collaborate with the University's leadership team to develop and implement procedures to enforce institutional compliance with the eForm cut-off dates.

Management Response:
HR concurs with the recommendation. HR will work with Payroll Services and Executive Leadership to develop and support strict institutional cut-off procedures to University leadership. It should be noted that in the absence of an institutional position, merely imposing strict adherence to eForms cut-off dates would create the need for more retroactive payments, which is counter to the Observation.

Consideration will be given to developing retro pay monitoring reports to provide to Executive Leadership and the Compliance Office.

Observation 5 – Opportunities Exist to Implement Process Improvements to Reduce Retroactive Payroll Adjustments (Continued)

Management Response (Continued):
Additionally, we suggest that HR and Payroll Services enter into a consulting arrangement directly with Internal Audit in exploring an institutional policy/practice to address the mitigation of the inherent risks and increased administrative costs associated with retroactive hires.

HR and Payroll Services will explore both technical and procedural aspects of mitigating retroactive payments. These would include the implementation of retroactive pay, standardized communications, and implementation of specific hire dates predicated on the requirement that all new employee paperwork and hiring documents are completed prior to the hire date.

Target Implementation Date:
November 1, 2020

Responsible Party:
Director for HR Planning, Policy and Systems

Observation 6 – Opportunities Exist to Reduce Payroll Processing Costs By Improving UTA's Direct Deposit Compliance Rate

The transition from issuing paper checks to direct deposit benefits UTA and its employees. With direct deposit, UTA reduces payment fraud, relieves the administrative burden of lost or outstanding checks, and saves money by eliminating costs associated with check handling and distribution. With that said, a portion of UTA employees will still choose to receive a paper check each pay period. These employees visit the Payroll office each pay period to pick-up their checks.

During 2019, Payroll Services issued 4,961 paper payroll checks to UTA employees. Issuing paper payroll checks increases costs and risks. Based on our analysis, UTA could save between $13,643 to $28,256 per year by increasing UTA's direct deposit compliance rate. This analysis was based on extrapolating, the National Automated Clearinghouse Association's (NACHA) estimated check processing costs. The savings amount may be +/- our estimate, as several variables affect the cost, such as the cost of wages, check stock, printing, escheatment tracking, and bank fees.

Type	Number of Checks - Annually	NACHA Estimated Cost of Issuing A Paper Check on a Per Item Basis		
		$ 3.00	$ 4.50	$ 6.00
Semi-Monthly	3645	10,935	16,403	21,870
On-Cycle Monthly	1091	3,273	4,910	6,546
Off-Cycle Monthly	225	675	1,013	1,350
Total Estimated Cost	4961	$ 14,883	$ 22,326	$ 29,766
Less: Estimated Automated Clearinghouse Processing Cost: $0.25	4961	($1,240)	($1,240)	($1,240)
Potential Cost Saving		$13,643	$21,086	$28,526

Observation 6 – Opportunities Exist to Reduce Payroll Processing Costs By Improving UTA's Direct Deposit Compliance Rate (Continued)

Recommendation:

Payroll Services should implement a semi-annual campaign to encourage employees to enroll in the direct deposit program. The campaign should focus on employees who have not enrolled within 90 days of their effective start date. A brochure and enrollment form should be attached to the employee's paycheck that lists the benefits of direct deposit.

Management Response:

Payroll Services will develop and implement a periodic campaign to encourage direct deposit enrollment.

Target Implementation Date:

February 1, 2021

Responsible Party:

Director of Payroll Services

Observation 6 – Opportunities Exist to Reduce Payroll Processing Costs By Improving UTA's Direct Deposit Compliance Rate (Continued)

Recommendation:
HR should consider making the direct deposit enrollment form mandatory. Whether or not the employee enrolls, he or she should have to return the form to HR. This will give HR another opportunity to "sell" the direct deposit program as a benefit and encourage the employee to enroll.

Management Response:
HR will partner with Payroll Services to promote the direct deposit program. Payroll Services will collaborate with HR to analyze other options for UTA to mitigate check disbursement for employees who are not signed up for direct deposit.

Additionally, Payroll Services and HR will collaborate to consider the value of a mandatory return of direct deposit form even if declining this option.

Target Implementation Date:
February 1, 2021

Responsible Party:
Director for Human Resources Services