



THE UNIVERSITY of TEXAS SYSTEM
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September 18, 2017

Mr. William Huang
Director, Shared Business Operations
The University of Texas System Administration
210 West 7th Street
Austin, Texas 78701

Dear Mr. Huang:

We have completed an audit of The University of Texas (UT) System Administration treasury and payroll functions within Shared Business Operations (SBO). The detailed report is attached for your review.

We conducted our engagement in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We will follow up on recommendations made in this report to determine their implementation status. This process will help enhance accountability and ensure that audit recommendations are implemented in a timely manner.

We appreciate the assistance provided by all SBO staff and other personnel throughout this audit.

Sincerely,

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

cc: Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs

**The University of Texas System Administration
Shared Business Operations Treasury/Payroll Function Audit Report
Fiscal Year 2017**



September 2017

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AUDIT REPORT

September 2017

EXECUTIVE SUMMARY

The University of Texas (UT) System Administration's Shared Business Operations (SBO) department was created in Fiscal Year (FY) 2012 to operate the treasury and payroll functions of System Administration after the transition to PeopleSoft in May 2014. SBO is composed of six full-time equivalents (FTEs) and facilitated over \$3.6 billion in cash flows during FY 2016. SBO's operational activities include, but are not limited to, facilitating wire transfers to third parties, coordinating intra-System transfers among UT System institutions, processing payroll, and managing monthly employee contributions for insurance and deferred compensation.

An audit of SBO's operations was included on the System Audit Office's FY 2017 audit plan because SBO is a relatively new office and its operations had not been previously evaluated by System Audit. The objectives of this audit were to gain an understanding of treasury and payroll operations performed by SBO and to determine whether SBO has adequate controls in place over these functions. The scope of this audit included SBO's payroll and treasury activities during the period September 1, 2015 through February 28, 2017.

RESULTS

We gained an understanding of treasury and payroll operations by interviewing SBO employees, performing walkthroughs of SBO processes, testing transactions, and reviewing relevant documentation. With respect to the treasury function, we determined that only authorized users have access to execute wire transfers; only SBO staff, as appropriate, have access to online bank platforms; cash and cash equivalent balances are reviewed for reasonableness and discrepancies are investigated; treasury general ledger entries tested were properly approved, adequately supported, and correctly recorded; and vendor accounts for repetitive wire transfers are appropriately authorized. With respect to the payroll function, we determined that separation of duties for the payroll process is adequate; key controls, including pre-payroll distribution audits, payroll confirmation, and review of general ledger payroll transaction are being performed; monthly payroll variance analysis is being performed; and positive pay control for paper checks is in place. For both the treasury and payroll functions, SBO maintains documented procedures and checklists of how to perform specific tasks.

In addition to the results described above, we have recommended that SBO begin periodic reviews of individuals with assigned user roles and permission lists that provide access to critical treasury and payroll data and to work with the Controller's Office to review physical access to the check printing room. While SBO's controls over the manual adjustment process for payroll was adequate, we identified one issue regarding potential underpayment of hazardous duty pay.

CONCLUSION

Overall, SBO has sufficient and proper controls in place for both its treasury and payroll functions. While there were no priority findings, opportunities exist to strengthen the review of user access in PeopleSoft and physical access to the check printing room. Because SBO does not control supplemental pay rates, we provided one recommendation to the Office of Human Resources (OHR) to address potential underpayment of hazardous duty pay. We appreciate the support and assistance provided by SBO throughout this audit.

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

Gan Louie, CIA, CISA
Audit Supervisor



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BACKGROUND

Prior to the PeopleSoft implementation, many of System Administration's treasury and payroll functions were processed by UT Austin through its *DEFINE mainframe system. SBO was created in FY 2012 to operate the treasury and payroll functions of System Administration after the transition to PeopleSoft in May 2014. As of September 2017, SBO staff includes six FTEs. In FY 2016, SBO facilitated over \$3.6 billion in cash flows and its key operational activities included:

- Maintaining banking relationships and managing approximately \$800 million in cash activity in FY 2016 related to accounts receivable, accounts payable, and approximately \$80 million in payroll.
- Facilitating wire transfers through The University of Texas/Texas A&M Investment Management Company's (UTIMCO) Client Participation System (CPS) for large payments¹ that totaled \$1.2 billion in FY 2016.
- Coordinating intra-System wire transfers via CPS for UT System on behalf of the Office of Employee Benefits (OEB), the Office of Risk Management, and the Office of Facilities Planning and Construction. For FY 2016, intra-System wire transfers totaled \$1.6 billion.
- Preparing federal and out-of-state payroll tax reports for the Internal Revenue Service, Social Security Administration, and various states.
- Preparing and submitting payroll-related compliance reports required by Texas state agencies, including the Teacher Retirement System of Texas and the Texas Workforce Commission.
- Managing payroll contributions for group insurance, unemployment, workers' compensation, retirement, and voluntary savings contributions.

SBO also performs consultative activities for System Administration departments and other UT System institutions, which include, but are not limited to:

- Providing guidance and troubleshooting for the UT Share PeopleSoft cohort in payroll and treasury areas,
- Assisting with international economic development projects at UT System institutions through the creation of a UT System standby letter of credit program, and
- Assisting with payroll processing for The University of Texas of the Permian Basin (UTPB).

SCOPE & METHODOLOGY

The scope of this audit included SBO's treasury and payroll operations during the period September 1, 2015 through February 28, 2017. While we also reviewed activities performed by other departments that can impact payroll or treasury operations, the primary focus of this audit was activities under the direct control of SBO.

The Texas Comptroller (Comptroller) recently completed a post-payment audit of UT System Administration², which included reviewing payroll payments reimbursed by the state. The Comptroller examined 150 payroll transactions covering 34 employees. There were three low-level findings, and SBO is collaborating with OHR to take corrective action. Given the results of the post-payment audit, we did not perform additional testing to validate payroll accuracy. In addition, we did not evaluate consultative activities SBO performs on behalf of System Administration or the institutions.

¹ 95% these payments are to pay claims incurred for the self-insured medical, dental, prescription drug plans, and claims incurred for other insurance plans (e.g., vision plan).

² "Post-Payment Audit of The University of Texas System," Texas Comptroller of Public Accounts, accessed May 3, 2017, https://fm.x.cpa.texas.gov/fm/audit/ar17-3q/The_University_of_Texas_System.pdf.



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Our audit was conducted in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

AUDIT RESULTS

We gained an understanding of treasury and payroll operations by interviewing SBO employees, performing walkthroughs of SBO processes, testing transactions, and reviewing relevant documentation.

With respect to the treasury function:

- Only authorized users have access to CPS to execute wire transfers to third parties and to complete intra-System wire transfers. We confirmed that System Administration CPS users were appropriate.
- Vendor accounts for repetitive wire transfers in CPS are set up by UTIMCO upon the request of two authorized individuals from System Administration. We tested a sample of vendor accounts for System Administration within CPS and found that the appropriate authorizations were obtained.
- We confirmed that only SBO treasury staff have access to System Administration online bank platforms as appropriate.
- We validated that SBO monitors the cash and cash equivalent account balances for reasonableness and investigates reconciling items if unexpected discrepancies are detected.
- We tested general ledger entries recorded by SBO treasury staff and determined that they were properly approved, adequately supported, and correctly recorded in PeopleSoft.
- We validated that SBO monitors System Administration's cash positions by reviewing bank activity and balances on a daily basis to gain assurance over the general ledger accounts for cash-in-bank and ensure sufficient cash-on-hand to cover any potential expenses.

With respect to the payroll function:

- We validated that separation of duties among OHR, the Controller's Office, and SBO for the payroll process is adequate and helps reduce the risk of fraud and errors.
- After payroll has been calculated, payroll staff coordinate with the budget section of Controller's Office to run a pre-distribution audit to identify any high-level budget errors. Payroll is then confirmed by payroll staff in SBO. The final step of the payroll process is to post the transactions to the general ledger, which is performed by the general ledger team within the Controller's Office. We tested a sample of semi-monthly and monthly payroll cycles for evidence that the key payroll steps described above had been completed and validated that the controls are being performed.
- We confirmed that OHR performs a monthly payroll variance analysis of processed payroll reports, which is designed to identify changes in deductions, status, and contributions.
- We validated that positive pay³ control over paper checks was in place and no exception was noted.

We also confirmed that SBO maintains documented procedures and checklists of how to perform specific actions for both the treasury and payroll functions. This is useful in the event that a new or backup staff member must perform some activity in the absence of the person primarily responsible for that activity.

³ Each time a paper check is processed in PeopleSoft, a positive pay file is generated. The positive pay file contains specific, identifying information about the check that is transmitted directly to the bank. If the information in the positive pay file does not match the paper check, then the bank will not honor the check unless approved by UT System as an exception.



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Based on the procedures we performed, it appears that SBO has sufficient and proper controls in place for both its treasury and payroll functions. While there were no priority findings⁴, opportunities exist to strengthen review of user access in PeopleSoft and physical access to the check printing room. In addition, we determined that SBO's control over the manual adjustment process for payroll was adequate; however, we identified one issue regarding potential underpayment of hazardous duty pay. Details about these observations and the related recommendations are described below:

PeopleSoft Access

There are two information systems critical to SBO's payroll and treasury operations, PeopleSoft and CPS. Treasury and payroll activities are performed in PeopleSoft, while only the treasury function utilizes CPS for cash management and wire transfers. No exceptions were noted with respect to access to CPS.

For PeopleSoft access, all System Administration employees are first assigned User IDs. User roles can then be assigned to the User ID that are composed of one or more permission lists. The permission lists grant the user access to various functions within the application. SBO has developed PeopleSoft queries to assist with reviewing login and other system activity to protect against attempted financial fraud; however, SBO does not routinely monitor assigned user roles and/or permission lists that have an ability to review or modify treasury or payroll data within PeopleSoft. The UT Share PeopleSoft information security and access control functions are performed by a combination of Shared Information Services (SIS) and the Office of Technology and Information Services (OTIS). SIS is responsible for the creation and maintenance of UT Share access control, information security, and PeopleSoft permission lists and roles. OTIS is responsible for assigning and managing individual user access with input and approval from functional departments at System Administration. According to UTS165, *Information Resources and Acceptable Use Policy*, user access should be reviewed at least annually.

SBO informed us that the main focus of the treasury function is to manage the risks related to cash flows, which it does by directly monitoring the bank transactions that are integrated into PeopleSoft. In addition, SBO management indicated that System Administration is still in the process of stabilizing PeopleSoft, and it is likely that some individuals within SIS also have super user access to treasury and payroll functions within PeopleSoft. Ideally, the number of super users should be limited to those whose job duties require such access. An evaluation of SIS and whether super user access for certain SIS staff is appropriate was not within the scope of this audit; however, System Audit is in the process of performing a PeopleSoft Post-Implementation Review that addresses SIS's processes and controls.

The observation described above is considered a **medium-level** finding in accordance with UT System's Internal Audit finding classification system.

Recommendation: SBO management should work with SIS to obtain the access they need to generate reports within PeopleSoft that will allow the department to perform periodic reviews of users with assigned user roles and permission lists that provide access to critical treasury and payroll data to ensure that user access is appropriate for their job duties.

⁴ 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." Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated. This audit resulted in one low-level and one medium-level finding.



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Management's Response: *SBO management concurs with the recommendation to enhance the review of access for critical treasury and payroll data. Instead of handling the review on a decentralized basis, SBO management respectfully recommends the SIS team lead the access control review for the UTShare cohort in consultation with SBO. SIS has staff that is trained in information security and access control as well as access to the appropriate PeopleSoft tools. Once the cohort-wide review is complete, OTIS can work with SBO, OHR, the Controller's Office and other applicable functional departments to review whether user access is appropriate.*

Anticipated Implementation Date: *SBO management will coordinate the request with SIS and OTIS management by October 31, 2017 with a comprehensive review to be completed by March 31, 2018.*

Check Printing Room Physical Access

Paper checks are processed and printed via PeopleSoft through dedicated check printers. During the audit, there were two check printers and blank check stock stored in a locked room that was monitored by cameras. SBO management believed that, generally, only SBO and Accounting Services employees had access to this room. OTIS and Facilities Management personnel also had access to this room to address technology- or facility-related issues. We verified access to the check printing room with Facilities Management and found that one employee, who is not part of the above-named departments, had access to the check printing room. This access was not necessary for the employee to perform their job duties. This was likely due to a lack of periodic reviews of the access list. Upon discovery, SBO management worked with Facilities Management to address this issue. Even though controls are in place for printing paper checks, if a secured area is used, then appropriate physical access should also be maintained as a best practice to reduce the risk of unauthorized access or tampering with checks.

The observation described above is considered a **low-level** finding in accordance with UT System's Internal Audit finding classification system.

Recommendation: SBO should coordinate with the Controller's Office, since System Administration has completed its move to the new UT System Building, to perform a review of those with access to the check printing room to ensure access is still appropriate.

Management's Response: *SBO management concurs with the recommendation to enhance the review of physical access for secured areas. Due to a logistics change prior to move-in, the check printers are located on floor 13 (instead of floor 12) of the new UT System building in an "unsecured" room. Although the room can be locked with a physical key, the room does not have a camera or electronic/pass code security. SBO is waiting on Facilities Management to provide information about whether the check printing room will be converted into a fully secured room as well as the timing of any construction required (similar to the construction of the "secure" room on floor 12). Currently, SBO does not have a key to access the check printing room on floor 12.*

Anticipated Implementation Date: *SBO management will follow-up with Facilities Management by October 31, 2017. If the check printing room will be converted to a secured room, a comprehensive review and process will be implemented by November 30, 2017.*

Manual Payroll Adjustments

The payroll process begins with the creation of pay sheets within PeopleSoft by SBO payroll staff. The pay sheets are automatically generated based on employee job information within PeopleSoft, such as position type, time and labor (for non-exempt employees), employee benefit elections, etc. SBO staff are able to make manual adjustments to the pay sheets if needed. These adjustments are generally done at the request of OHR or OEB but



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can also be completed to correct errors identified by SBO staff. We reviewed the manual adjustment process. With respect to SBO, no exceptions were noted. However, we identified one issue regarding potential underpayment of hazardous duty pay. The rate applied is not controlled by SBO and this potential issue has been separately communicated to OHR management for further action.