



UT Health

San Antonio

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Date: July 11, 2018

To: Gerard Long, Assistant Vice President of Business Affairs

From: John Lazarine, Chief Audit Executive
Internal Audit & Consulting

Subject: Audit Report – Payroll

As part of our FY 2018 Audit Plan, we recently completed an audit of Payroll. Attached is the report detailing the results of this review. Management's Action Plans are included in the report.

We appreciate the cooperation and assistance we received from Business Affairs throughout this review.

Respectfully,

John Lazarine, CIA, CISA, CRISC
Chief Audit Executive
Internal Audit & Consulting Services

Distribution:

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**Audit Report
Payroll
(Project #18-08)**

July 11, 2018

John Lazarine, CIA, CISA, CRISC
Chief Audit Executive

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Executive Summary

As part of the FY 2018 Plan, Internal Audit completed a review of the payroll processes and controls. The objectives, conclusions and recommendations follow:

Audit Objectives

The objectives of this audit were to assess the adequacy and effectiveness of payroll processes and controls to ensure:

- Appropriate individuals were on the Institution's payroll
- Accurate and timely payments were made to employees
- Proper segregation of duties exist within PeopleSoft
- Compliance with IRS reporting requirements
- Overtime is accurately calculated in PeopleSoft
- Off-cycle payments are properly approved and processed

Conclusion and Corrective Actions

Based on our review, we concluded that the payroll process and controls are adequate to provide reasonable assurance that payments are timely, accurate and are in compliance with applicable policies and IRS reporting requirements. However, during the course of this audit, we identified a single instance of an overpayment to an employee of \$2,079. This error occurred when the wages were calculated for an employee that had worked outside their normal department and schedule, otherwise known as "moonlighting". Based on our review of similar payroll transactions and management's review process, we concluded that this error was an exception, and not a systemic problem. This overpayment was resolved when the employee's July 2018 paycheck was reduced by \$2,079.

Although not a finding, we did note an opportunity to streamline the number of systems and methods for tracking and recording time and attendance. Addressing this opportunity could result in cost savings and enhanced controls over employee pay related data. This opportunity is discussed in the detailed report that follows.

Acknowledgement

We appreciate the courtesy and cooperation we received from Business Affairs staff throughout the audit.

Background

UT Health San Antonio employs over 6,800 employees that provide a number of services for the Institution. The total payroll for the period under review (September 2017 – February 2018) was approximately \$246.5 million, of which 99% was paid by direct deposit and the remaining 1% by physical check prepared by the Human Capital Module (HCM) of Peoplesoft.

Business Affairs supports the Institution by providing oversight of its financial operations, including: accounting, payroll, treasury management, student accounting, purchasing, Historically Underutilized Businesses (HUB) Program, materials management and auxiliary enterprises. The Director of Payroll Services (Payroll) oversees eight staff responsible for processing and monitoring the Institution's payroll activities. Individual departments are responsible for ensuring time is entered accurately and timely into Kronos and DRS¹ (a module of Peoplesoft) so that payroll can be processed in PeopleSoft. If a department does not meet the deadline for entering timekeeping information into DRS or Kronos an off-cycle check may be processed.

Payroll is processed through HCM. Physical check stock is not used for general payroll purposes. If an employee requests a physical paycheck, the check is processed through the HCM system. There are multiple earnings codes which designate how and when the employee will be paid. Earning code groups include the following:

- Salary Monthly Regular
- Semi Monthly Non-Regular
- Stipend
- Salary Return to Work
- Return to Work Retiree Hourly
- Hourly Regular
- 9 Month/12 Month Pay

To help ensure proper segregation of duties, the payroll process involves three separate departments: hiring department, Human Resources and Payroll. The employee's department processes a request for hire. Once hired, the department must fund the new position. The compensation rate for the position is entered into HCM by Human Resources. Human Resources determines how employees are classified upon hire, which governs frequency and timing of when the employee will be paid.

¹ UT Health San Antonio utilizes Kronos and DRS as their primary time keeping systems, which feed into PeopleSoft, UT Health San Antonio's financial system.

Audit Scope and Methodology

The scope of this review included the pay periods between September 2017 and February 2018, which totaled approximately \$246.5 million. The objectives of this audit were to assess the adequacy and effectiveness of processes and controls for the following:

- Appropriate individuals were on the Institution's payroll
- Accurate and timely payments were made to employees
- Proper segregation of duties existed within PeopleSoft
- Compliance with IRS reporting requirements
- Overtime was appropriately calculated in PeopleSoft
- Off-cycle payments were properly approved and processed

Interviews were conducted with both Payroll and Human Resources Department management and staff to gain an understanding of the payroll process, including recruitment, hiring, activating new employees, payroll processing and the disbursement process. To establish testing criteria, we reviewed the following:

- UT Health San Antonio policies (HOP policies)
- Payroll policies and procedures
- Financial data (PeopleSoft)
- Fair Labor Standards Act (FLSA) and Texas Labor Laws
- Federal, State, Local Government Divisions of the IRS

Hourly employee pay at UT Health San Antonio is less than 1% of the annual payroll expense, and is therefore immaterial, and was excluded from the scope of this audit. Additionally, a majority of the hourly employees use the Kronos system, which utilizes biometric identification thereby reducing the risk of fraud. PeopleSoft, UT Health San Antonio's financial and accounting system of record, was the primary source of data reviewed and analyzed in this audit. We performed direct tests on the data, and did not perform a review of HCM's general computing controls.

We conducted this audit in accordance with the standards set forth by the Institute of Internal Auditors' International Professional Practices Framework. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results and Recommendations

A. Overpayment

During our review, we identified a single, payroll disbursement error. An employee “moonlighted” with another department, and was overpaid for this work by \$2,079. The reported hours and calculated pay rate from the supporting documentation was incorrectly entered on the summary cover page, and management’s operational review for these types of payments did not catch this error.

“Moonlighting” activities include any extra duties performed by an employee for UT Health San Antonio outside the employee’s normal job function and schedule. For example, a nurse working for one department/clinic may moonlight in another department because the department is short on nursing staff. For the employee to be paid, a “Request for Approval and Payment to Employee for Additional Services” form must be completed showing services rendered, hours worked and the amount owed to the employee. After the employee signs the form, it is reviewed and approved by the department receiving the services and the Chief Financial Officer before payroll will process payment. The “moonlighting” pay is not included in the employee’s normal paycheck. Instead, an off-cycle check is processed through the HCM system. If the employee is normally paid by direct-deposit, the funds will be deposited in the employees account. If the employee has opted to receive a paper check for wages, then a paper check will be issued through the HCM system.

We reviewed and tested similar payments and noted that they were accurate, and management’s reviews were effective. Based on our testing and analysis, we concluded this error to be an exception, and not a systemic problem. This overpayment has been corrected. The employee was notified of the error, and the \$2,079 was deducted from their subsequent paycheck. No further action is required.

Risk Ranking: *Low*

Audit Suggestion

During the course of this audit, we noted an opportunity to improve the process for capturing and recording time and attendance across the Institution. Specifically, the Institution currently uses three methods for capturing and reporting time and attendance. Two of these processes utilize time keeping and/or reporting systems (Kronos² and DRS³) and the third is manual (timesheets, which are then manually entered into DRS).

Utilizing a number of systems and processes for capturing time and attendance not only results in increased operational costs, but also increases the likelihood of errors and wrongdoing. In addition, capturing and maintaining this data in three different locations increases data security related risks.

While we do not consider this an audit finding, we would suggest that management determine the different time and attendance reporting requirements across the Institution, and consider the possibility of identifying one automated solution that would meet the needs of the various stakeholders. We would also recommend that the manual time and attendance reporting process be discontinued and one of the current systems in place be utilized.

Risk Ranking: N/A

² Kronos is a sophisticated standalone system in which the employee enters their time and the system tracks time and attendance.

³ DRS is a module of the Peoplesoft system that is solely a time reporting system. The DRS system does not have detailed time keeping records like the Kronos system. Instead, timekeeping records are created and stored within the individual departments and time administrators enter aggregate time totals in order to maintain leave balances.

Appendix A – Audit Issue Ranking Definitions

The audit issue was ranked according to the following University of Texas System Administration issue ranking guidelines:

- **Priority** – A Priority Finding is defined as an issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of the Health Science Center or the UT System as a whole.
- **High** – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the Health Science Center either as a whole or to a significant college/school/unit level.
- **Medium** – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the Health Science Center either as a whole or to a college/ school/unit level.
- **Low** – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the Health Science Center either as a whole or to a college/ school/unit level.