

August 29, 2018

**MEMORANDUM**

**TO:** Mary Beth Mathre  
Director, Payroll

**FROM:** Sherri Magnus *Sherri Magnus*  
Vice President & Chief Audit Officer

**SUBJECT:** Payroll Data Analysis

This project involved the analysis of payroll data for the period of October 2016 through September 2017 in an effort to identify potential anomalies, trends and irregularities. Internal Audit reviewed the results in order to determine the root causes and extent of any issues noted. Our work was limited in scope and not intended to be a complete audit of operations and procedures.

In summary, our analysis did not indicate any significant deficiencies. We did, however, identify opportunities for improvement related to payroll payment requests, employee overpayments, and compensation exceeding pay grade limits. Other opportunities for improvement outside the scope of this review were discussed with the appropriate parties.

As of April 2018, MD Anderson's workforce consisted of approximately 28,000 employees, including contingent workers. As such, payroll expenses represent a significant portion of the Institution's operating budget. For the past five fiscal years, total payroll expenses have ranged from approximately \$1.8 billion to \$2 billion.

**Appendix A** outlines the methodology for this project.

Observation 1:

**Payroll Payment Requests**

**RANKING: Moderate**

Payroll Payment Requests are used to initiate special payments to employees that are not part of their regular compensation. Currently, anyone in the Institution can initiate and approve these special payments via the Payroll Services SharePoint site. Payroll Services relies on the departments to ensure appropriate approvals occur, given that this process is outside of the PeopleSoft workflow. Once the form is submitted, Payroll Services reviews the form for completeness prior to processing. We noted there is no formal reconciliation between the SharePoint site and PeopleSoft to ensure that the manual entries in PeopleSoft are accurate and complete.



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Since the inception of the SharePoint site in 2013, approximately \$3.4 million had been paid via this method. When payments to employees do not follow established payroll controls and processes, the proper approvals may not be obtained and the funding source may be inappropriate. In addition, there is an increased risk that errors and irregularities may occur and go undetected. Institutional policy states that departmental management is responsible for establishing, maintaining, and supporting a system of Internal Controls, which includes proper approval for transactions.

### Recommendation

Management should evaluate whether this payment mechanism has sufficient controls to ensure that proper approvals occur and funding sources are appropriate. If controls are not determined to be adequate, management should utilize the functionality of the payroll system, which includes the proper workflow for approvals. If this mechanism continues to be used, then a formal reconciliation process should be implemented to ensure accuracy and completeness of all manual entries posted to PeopleSoft.

### Management's Action Plan:

Responsible Executive: Shibu Varghese

Owner: Mary Beth Mathre

Due Date: March 31, 2019

*We will be moving the Miscellaneous Payment Requests into PeopleSoft. PeopleSoft will address the authorization workflow by utilizing the FACT table and workflow processes available within the PeopleSoft system. Once the Miscellaneous Payment Request is in PeopleSoft, the SharePoint Payroll Payment Request form will be retired.*

### Observation 2:

#### **Employee Overpayments**

**RANKING: Low**

Based on our analysis of payroll data, we found instances where employees were overpaid. When employees are overpaid, there is a risk that the funds may not be repaid, resulting in a financial loss to the Institution.

According to management, the overpayments occur when electronic Personnel Action Forms (ePAFs), Kronos corrections (eKCRs) and FMLA related leave are incorrect or not submitted timely in conjunction with personnel actions. Institutional policies require that an approved ePAF and any leave related corrections be completed in a timely manner for any type of personnel action.

Management reported that overpayments are identified through the ePAF Payroll Worklist in PeopleSoft or by the Leave Center. The employee is notified of the overpayment and repayment arrangements are set up. During the period of October 2016 through September 2017, employees repaid approximately \$100,000 in payroll overpayments.

### Recommendation:

Management should consider developing and implementing continuous monitoring procedures to help identify potential overpayments. Additionally, training and education should be provided to departments concerning timely processing of ePAFs, eKCRs and FMLA related leave.



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Management's Action Plan:

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*HR leadership will discuss and determine whether the cost-benefit of monitoring on a continuous basis justifies the time and resources (FTE, salary, fringe, etc.) needed to perform this. We will consider the frequency of underpayments & overpayments, cumulative dollar amounts and acceptable error threshold.*

Observation 3:**Compensation Exceeding Pay Grade****RANKING: Low**

During our review, we noted several instances where employees' compensation exceeded their maximum pay grade limits noted in PeopleSoft. Based on discussions with management, controls should be enhanced to ensure that compensation exceeding the established salary paygrades is approved prior to payment. The Classified Pay Plan prescribes the appropriate salary range for each position. Proper internal controls would ensure that a transaction, such as a deviation from the Pay Plan, be approved in advance by an authorized individual. Without proper approval, there is a risk that improper transactions could occur without being detected, resulting in financial loss to the Institution.

Recommendation:

Compensation in excess of the pay plan for each salary grade should be reviewed and approved by appropriate parties prior to payment.

Management's Action Plan:

Responsible Executive: Shibu Varghese

Owner: Tanya Webb

Due Date: Implemented

*HR Compensation has modified the current process related to compensation that exceeds pay grade limit. Effective immediately, the Director's review and approval will be documented in emails that are maintained in the department's shared drive. In addition, the weekly audit process will include a reconciliation to ensure approval for any new classified employee whose salary exceeds their pay grade.*

We appreciate the courtesy and cooperation extended to us during this review.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Government Auditing Standards*.

cc: Shibu Varghese, Senior Vice President, HR Administration  
Yolan A. Campbell, Associate Vice President, HR Administration  
Lyn A. Herkimer Schoonveld, Executive Director, HR Administration  
Tanya Webb, Director, HR Total Rewards Compensation

**Appendix A****Methodology**

Audit procedures included but were not limited to:

- Data analytics to identify anomalies that could indicate payments to fictitious employees or other improper payments. These anomalies included, but were not limited to:
  - Manual checks
  - Overtime pay
  - Large incentive payments or other payments over a certain dollar amount or percentage of base pay
  - Payments to employees who had no payroll deductions, recent pay raises, institutional badge access, or supervisor listed in the system
- Interviews and review of supporting documentation with Payroll Services, Human Resources, and other appropriate departments to identify reasons for the anomalies
- Evaluation of the workflow for the payroll payment requests