UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

PAYROLL

REPORT NO. AR2018-28

UNIVERSITY OF HOUSTON SYSTEM
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MEMORANDUM

TO: Mr. Peter K. Taaffe
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: August 8, 2018

SUBJ: Internal Audit Report – UHS Payroll

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

Executive Summary:

We performed a review of payroll at the University of Houston System universities. Our primary objective of this review was to determine whether resources are being effectively and efficiently deployed under an adequate system of internal controls to help ensure employees are being paid accurately, timely, and in compliance with statutes, regulations, and university policies. In our opinion, the University of Houston System universities have adequate internal controls to help ensure that university employees are being paid accurately, timely, and in compliance with statutes, regulations, and university policies. Although we noted no matters that we considered to be significant risk exposures and control issues, we did note opportunities for improvement in the following areas: payroll finalization, information system access management, roles and responsibilities, and policies and procedures.

This audit report is scheduled to be included in the agenda materials for the August 23, 2018, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON SYSTEM PAYROLL

BACKGROUND:

We performed a review of payroll at the University of Houston System (UHS) universities. The UH Payroll department is responsible for providing timely and accurate payroll services for all UHS employees, including payroll processing; reporting and payment of benefits, deductions, and taxes; compliance with applicable statutes, regulations, and university policies; and acting as a liaison with university departments. The UHCL, UHD, and UHV Payroll departments perform certain payroll responsibilities, including acting as a liaison with university departments, providing training, helping to ensure time is approved, and correcting certain payroll transactions.

The table below includes information regarding staffing, employees receiving payroll disbursements, and gross wages for each System university.

University	Number of Payroll Department Employees	Number of Employees Receiving Payroll Disbursements	Total Gross Wages FY 2017
UH/UHS	9	10,663	$495,000,347
UHCL	2	1,335	$67,266,704
UHD	2	1,339	$77,496,193
UHV	2	582	$27,529,590

OBJECTIVES:

1. Determine whether resources are being effectively and efficiently deployed under an adequate system of internal controls to help ensure that university employees are being paid accurately, timely, and in compliance with statutes, regulations, and university policies.

2. Determine whether access to the Human Resources Information System is properly authorized and there is adequate segregation of duties.

3. Determine whether there are opportunities for standardization among the System universities.

SCOPE OF WORK:

We interviewed personnel responsible for processing payroll, reviewed policies and procedures for payroll processing, reviewed the Human Resources Information System for access and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, the University of Houston System universities have adequate internal controls to help ensure that university employees are being paid accurately, timely, and in compliance with statutes, regulations, and university policies. Although we noted no matters that we considered to be significant risk exposures and control issues, we did note opportunities for improvement in the following areas: payroll finalization, information system access management, roles and responsibilities, and policies and procedures.

Appendix A lists the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, and management's responses.

Don F. Guyton
Chief Audit Executive
July 12, 2018

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Payroll Finalization Procedures

The UH Payroll department performs various processes and procedures, including reconciliations and verifications, to help ensure that payroll is calculated correctly. Once these processes and procedures are complete, the UH Payroll department then performs various verification procedures and finalizes payroll for payment to employees. However, according to the Payroll Manager, a significant amount of effort is expended finalizing monthly and biweekly payrolls due to functionality not in the Human Resources Information System (HRIS) and departments not processing transactions timely.

Because of time constraints, transactions are processed directly into HRIS bypassing its functionality. Certain one time and re-occurring corrections and/or transactions are processed by Payroll employees, using a batch process or direct data entry into HRIS that bypasses the internal controls designed into the functionality of HRIS. These transactions are changes that are made directly to an employee's pay (payline). This type of access should be restricted to a limited number of employees to minimize any risks associated with making changes directly to an employee's payline. However, access to payline has been granted to all individuals with payroll responsibilities at all of the System universities.

A report of transactions processed to payline is available in HRIS, however it was not reviewed. Based on a payline transaction report for all System universities, from September 2017 to February 2018, there were 47,517 transactions made directly to an employee's payline. The UH Payroll department processed approximately 80% of the transactions; however, it has not determined the nature of these transactions. According to the UH Payroll department, they are aware of the following types of transactions made directly to an employee's payline.

- Late ePARs: Considerable time is spent making corrections due to ePARs not being processed timely by university departments. Based on the effective and processing dates of ePARs from September 2017 to May 2018, we determined that 3,696 of 8,647 (43%) hire ePARs were not processed by UH departments within five working days of the effective hire date, as required by MAPP 02.03.03, Employee Orientation and Sign-up. The information regarding late submission of ePARs has not been communicated to management to take appropriate action.

- Insurance Stipends: Graduate, teaching, research, and instructional assistants are eligible for a $150 monthly stipend if they are employed part-time (20 hours per week) and once they reach 4 ½ months of employment. The determination of the eligibility of the stipend is a time consuming, manual process and must be performed on a case by case basis. The UH Payroll department has a dedicated resource that spends approximately one week every month determining the eligibility for approximately

2,200 graduate, teaching, research, and instructional assistants. The stipends are processed to payline using a batch process.

- Foreign National Tax Exempt Status: Prior to FY 2018, the Payroll department manually changed codes in HRIS to help ensure that the tax exempt status of foreign nationals was correct. During September 2017, the UH Payroll department implemented a batch process to properly account for the tax exempt status; however, the transactions are still recorded directly to payline.

In addition, transactions recorded in the Time Reporting and Absence Management System (TRAM) are not always approved by supervisors in a timely manner. To help ensure that employees are paid timely, the UH Payroll department runs a batch process immediately prior to finalizing payroll that automatically approves all TRAM transactions that have not been approved by an employee's supervisor. Based on information regarding the approval of TRAM transactions from September 2017 through May 2018, we determined that 31,462 (3%) TRAM transactions were approved by the Payroll department using the batch process. This information has not been reported to management to take appropriate action.

Recommendation (UHS): Management should identify the causes for transactions processed as part of its finalization procedures and update processes; report non-compliance to management, including escalation procedures; and/or modify system functionality, as appropriate. In addition, management should restrict access to payline to a limited number of employees who are responsible for processing payroll.

Management's Response (UHS): We will identify the causes for transactions processed as part of its finalization procedures and update processes; report non-compliance to management, including escalation procedures; and/or modify system functionality, as appropriate, by December 31, 2018. In addition, we will restrict access to payline to a limited number of employees who are responsible for processing payroll by March 31, 2019.

Human Resources Information System Access Management

Texas Administrative Code, Title 1, Part 10, Chapter 202 – Information Security Standards, System Administrative Memorandum 07.A.08, Data Classification and Protection, MAPP 10.05.01, Information Security Program, and MAPP 10.03.06, College/Division Responsibilities for Information Technology Resources, require implementation of procedures to help ensure information resources are adequately safeguarded. In addition, MAPP 10.05.01 requires information owners to approve and review access to the information resources, implement security controls and procedures, and specify appropriate controls to protect information resources from unauthorized modification, deletion, or disclosure. We noted inconsistencies with these policies and regulations in the following areas: authorizing, granting, and reviewing access.

We determined that access to HRIS was not always authorized and granted appropriately. During our review of access for 14 employees, we noted the following:

- Access requested did not agree with access granted for 11 employees
- An access form was not completed for one employee
- Two access forms were not approved by the employee's supervisor

We also determined that several employees have access to HRIS that may not require this access to perform their job responsibilities and certain employees used a generic account and shared the password. We noted the following:

- An employee had a broad spectrum of payroll and human resources access
- An employee had different access than other employees with the same responsibilities
- An employee's access was not updated after their responsibilities changed
- A role was created for an employee when a similar role was available
- A non-management temporary employee had access to management roles
- A generic account was created for HRIS employees who were sharing the password

In addition, we determined that the annual access reviews were not always completed or reviewed properly. We noted the following:

- UHCL did not complete an annual review of access during FY 2017
- Access was not removed for an employee who was identified as deceased
- A person without the sufficient knowledge of employees' responsibilities completed the annual review for the UH Human Resources department

Recommendation (UHS): Management should implement access management procedures to help ensure access is properly authorized and documented, restricted sufficient for employees to accomplish their job responsibilities, and reviewed annually by individuals with sufficient knowledge of employees' responsibilities.

Management's Response (UHS): We will implement access management procedures to help ensure access is properly authorized and documented, restrict access sufficient for employees to accomplish their job responsibilities, and perform an annual review of access by individuals with sufficient knowledge of employees' responsibilities by August 31, 2019.

Roles and Responsibilities

The Payroll departments at UHCL, UHD, and UHV are each staffed with two employees that have both payroll and human resources responsibilities. The combination of both payroll and human resources processing responsibilities may create a lack of segregation of duties. These responsibilities are as follows:

Payroll

- Liaison with university departments and the UH Payroll department
- Provide TRAM training to university personnel
- Ensure time recorded in TRAM is approved

- Correct certain payroll errors using access to payline

Human Resources

- Approve ePARs, including new hires and terminations
- Process new employee verifications
- Process Family Medical Leave Act leave requests

In addition, job titles for payroll positions differ among the universities. At UHCL, the jobs titles are: Payroll Coordinator and Payroll Assistant. At UHD, the job titles are: Director of Payroll and Records and Payroll Specialist. At UHV, the job titles are: Payroll Manager and Senior Payroll Assistant.

Recommendation (UHS): Management should determine the roles and responsibilities for payroll employees at each System university to help ensure there is adequate segregation of duties and change job descriptions/titles, as appropriate.

Management's Response (UHS): We will determine the roles and responsibilities for payroll employees at each System university to help ensure there is adequate segregation of duties and change job descriptions/titles, as appropriate, by January 31, 2019.

Policies and Procedures

The UH Payroll department did not have complete, documented, and well codified written procedures for payroll processes. There were written procedures for certain aspects of the payroll processes, but not all of the payroll processes. In addition, certain procedures have not been updated to reflect current processes. We also determined that written procedures were not complete for information system access management, reconciliations, and validation of benefit deduction tables.

Recommendation (UHS): Management should develop complete, documented, and well codified written procedures relating to payroll, including information system access management, reconciliations, and validation of benefit deduction tables.

Management's Response (UHS): We will develop complete, documented, and well codified written procedures relating to payroll, including information system access management, reconciliations, and validation of benefit deduction tables by August 31, 2019.

University of Houston System
Internal Auditing Department

UHS Payroll - AR2018-28
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level:	**High**	**Medium** **Low**
December 31, 2018	Joan Nelson Associate VC/VP Human Resources	Identify the causes for transactions processed as part of the finalization procedures and update processes; report non-compliance to management, including escalation procedures; and/or modify system functionality, as appropriate.
March 31, 2019	Joan Nelson Associate VC/VP Human Resources	Restrict access to payline to a limited number of employees who are responsible for processing payroll.
August 31, 2019	Joan Nelson Associate VC/VP Human Resources	Implement access management procedures to help ensure access is properly authorized and documented, restrict access sufficient for employees to accomplish their job responsibilities, and perform an annual review by individuals with sufficient knowledge of employees' responsibilities.
January 31, 2019	Joan Nelson Associate VC/VP Human Resources	Determine the roles and responsibilities for payroll employees at each System university to help ensure there is adequate segregation of duties and change job descriptions/titles, as appropriate.
August 31, 2019	Joan Nelson Associate VC/VP Human Resources	Develop complete, documented, and well codified written procedures relating to payroll, including information system access management, reconciliations, and validation of benefit deduction tables.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.