PROJECT SUMMARY

Overall, financial and management controls at Texas A&M University provide reasonable assurance that payroll expenditures are accurate and complete and in compliance with laws, policies, regulations, and rules. Opportunities for further improvement include increased monitoring and controls over certain departmental payroll expenditures that are not processed through the normal monthly budgeted payroll processes including supplemental pay and payroll corrections. The University should continue working to increase the efficiency and effectiveness of payroll operations such as further reducing the number of manual payroll transactions including both supplemental pay and payroll corrections. The University processes approximately 380,000 payroll transactions totaling $800 million annually.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Payroll Monitoring and Controls

Observation

Payroll monitoring and controls need to be strengthened in certain areas.

Testing of all of the University’s departmental payroll transactions for the first nine months of the fiscal year using data analysis techniques indicated that payroll transactions were generally accurate and in compliance with laws, policies, regulations, and rules based upon supporting departmental payroll documentation. We noted some instances of noncompliance along with areas where controls could be further improved as follows:

- Approval dates were missing from 8 of 12 (67%) dual employment supplemental pay documents tested and thus evidence of advanced approval required by University procedures was not available. University Standard Administrative Procedure 31.01.99.M0.02 related to supplemental pay for dual employment requires advanced approval of the head of both departments when the payment involves more than one department.
1. Payroll Monitoring and Controls (cont.)

- Payroll transactions indicating an excessive number of hours worked were identified for one department and were the result of employees receiving supplemental pay for being on-call during regular working hours which is not appropriate. These transactions were also not in compliance with departmental procedures which indicate these payments should be made only for hours other than normal working hours in which a person is on-call.

- Job duties of some University payroll staff include approvals of certain payroll activities for all University employees. However, three of these payroll staff members have related individuals that work for other departments at the University. As a result, there is a potential risk for actual or perceived conflict of interest related to these approvals. Texas A&M System Policy 33.03, Nepotism, states that departments or comparable administrative units may employ individuals who are related as spouse, as parent-child, or as sibling provided that neither relative has responsibility for direct or indirect supervision of the other, or authority over any term or condition of the other’s employment, including salary or wages. Although these approvals are secondary to departmental approvals and no unusual behavior was noted in the audit period, the ability to approve payroll activities and access payroll data for related individuals should be further evaluated and monitored to ensure no conflict of interest exists or could be perceived as one.

- Approval forms and procedures for supplemental pay related to extra work performed such as continuing education, work unrelated to current duties, and work at greater than 100% effort do not include a requirement for ensuring that appropriate leave is taken by the employee in accordance with relevant University leave requirements while performing additional work. In addition, supplemental pay approval forms do not always include use of a signature block which makes it difficult to determine the actual approver. Use of the signature block would better facilitate and ensure proper approvals.

Payroll transactions and approvals are currently handled at the department level with only limited monitoring of these transactions outside of the departments. Additional monitoring would provide greater assurance that payroll expenditures are accurate and in compliance with laws, policies, regulations, and rules. This is especially important given the magnitude of payroll transactions and payroll-related expenditures at the University which total approximately 380,000 and $800 million annually.
1. Payroll Monitoring and Controls (cont.)

The Committee of Sponsoring Organization’s Internal Control Integrated Framework states that internal control systems need to be monitored to ensure that they continue to operate effectively. Given the large number of payroll transactions processed, a risk-based monitoring approach using data analysis tools may be the most effective and efficient method to provide additional oversight and monitoring of these transactions.

**Recommendation**

Implement additional risk-based monitoring processes to further ensure departmental payroll expenditures are accurate and complete and in compliance with laws, policies, regulations, and rules. For instance, employ various data analysis techniques to identify areas of risk related to departmental payroll transactions and perform additional monitoring such as spot checks of payroll documentation and approvals in these areas. Address the specific instances of departmental noncompliance noted above.

Review existing payroll processes for actual or perceived conflict of interest such as situations where a Payroll Services’ employee may have the potential to approve payroll documents or have access to sensitive payroll information for related individuals. Evaluate the related risk based on management’s knowledge of operations and develop a monitoring strategy.

Develop and implement a process to ensure that proper leave is taken as required in situations where non-faculty employees are receiving supplemental pay for extra work performed. A statement to this effect could be added to current supplemental pay approval forms as evidence that this leave verification has been performed during the supplemental pay approval process. Document this process within University payroll procedures. Consider updating supplemental pay approval forms to also include signature blocks for all required approvals.

**Management’s Response**

*We will evaluate and implement additional risk based monitoring processes, including those specific items listed, by February 28, 2012 to further ensure departmental payroll expenditures are accurate, complete and in compliance. This will be an ongoing process and additional processes will be put in place as needs are identified.*

*Existing payroll processes will be reviewed for actual or perceived conflict of interest with a monitoring process in place by May 31, 2012.*
Opportunities exist for further automation of payroll processes.

A statement will be added to existing forms for certification that proper leave was taken when paying non-faculty employees by February 28, 2012.

An approval statement will be added to the supplemental pay approval forms for all required approvals by February 28, 2012.


Observation

Over the last few years, great strides have been made to automate many payroll processes; however, some payroll transactions at the University continue to be manually processed especially related to supplemental pay and payroll corrections. During testing we noted approximately 20,000 supplemental pay transactions and 13,000 payroll corrections during the first nine months of fiscal year 2011 which accounted for 12% of all payroll transactions during that period. These transactions are manually processed and included payroll processing issues such as changes to funding accounts and work study funding for student financial aid which represented a large portion of the payroll corrections noted during the audit. These manual processes are less efficient and increase the likelihood for clerical and processing errors.

The University has been working with the A&M System Business Computing Services (BCS) staff to further automate supplemental pay transactions and payroll corrections in the A&M System’s Budget, Payroll, and Personnel (B/P/P) system. Additional analysis to identify areas most prone to payroll corrections as well as their corresponding cause would further assist in preventing and thus reducing the number of manual payroll corrections. A key performance measure for the University’s Division of Finance, which includes the Payroll Services department, is cost savings/efficiencies. This measure focuses on quantifying savings and avoidance of both hard and soft costs which serves to connect performance excellence to the bottom line of the business operations.

Recommendation

Continue working with the A&M System BCS staff to further automate supplemental pay transactions and payroll corrections in the B/P/P system.

| Perform additional monitoring and analysis of payroll corrections to identify common areas where payroll corrections are most prevalent and their corresponding cause. Implement corrective actions to eliminate the need for the payroll corrections in these areas as feasible and/or provide additional training as needed. |

Management’s Response

| We will continue working with the A&M System BCS staff to further automate payroll transactions. A meeting will be scheduled with BCS staff to determine the priority and develop a timeline for initiating efforts to further automate payroll transactions. It is estimated that the timeline will be received by February 28, 2012. |
| We will monitor and analyze payroll corrections to identify common areas where these occur and work with those areas to eliminate or minimize the need for corrections. We will have a process in place for this and will have worked with at least two of the top areas that are identified by May 31, 2012. We will work with those areas we identify on an ongoing basis. |
BASIS OF REVIEW

Objective and Scope

The overall objective was to review the financial and management controls over payroll operations to determine if the University has processes in place to ensure the completeness, integrity and accuracy of wages and salaries paid to staff and faculty, and that the University is in compliance with laws, policies, regulations, and rules.

Payroll transactions for the first nine months of fiscal year 2011 at Texas A&M University were analytically reviewed using fiscal year 2011 payroll data. The review consisted of using computer-assisted data analysis to subject all payroll data to various tests. These tests were designed to correlate risks within the payroll process, focusing on the identification of unauthorized or inappropriate transactions, and the efficiency and effectiveness of the processes. The parameters of the tests were defined based upon compliance with laws, policies, and regulations, as well as, expected relationships indicative of the integrity and reasonableness of transactions.

Through a review of supporting payroll documentation and discussion with personnel, we tested a sample of transactions inconsistent with individual test parameters. In addition, we reviewed processes for recovering and restoring critical payroll functions that have been either partially or completely interrupted as the result of a disaster or other extended disruption and account management controls over access to confidential payroll data in the University’s imaging system. Fieldwork was conducted from June to August, 2011.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; Texas A&M University rules and standard administrative procedures; the Committee of Sponsoring Organization’s Internal Control Integrated Framework; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Background

Many of the payroll processes at the University are initiated and approved at the department level. Payroll Services, an administrative unit operating within the University's Division of Finance, serves as the primary resource for payroll processing for the University. There are three sections within Payroll Services: Payroll Processing; Distribution, Imaging and Employment Verifications; and Tax which are staffed by twenty-three employees.

The Payroll Processing section is responsible for review and processing of Employee Payroll Actions (EPA), monthly and biweekly time and effort reporting and required employment documentation in accordance with established laws, rules and regulations for Texas A&M University. The Distribution, Imaging and Employment Verifications section is responsible for printing and distributing payroll-related reports, checks, and earnings registers as well as digital imaging of payroll documents and maintenance of online payroll reports. The Tax section is responsible for a variety of services with regards to tax matters as they relate to payments made to employees, vendors or students. The University processes approximately 380,000 payroll transactions annually for over 18,000 individuals totaling $800 million.
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