



INTERNAL AUDIT

Preliminary Assessment of Payroll Process

R-24-06

June 25, 2024

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action ¹	For Information	Reviewed prior to release
Executive Director		*	*
Chief Financial Officer		*	*
Payroll Manager	*	*	*
Payroll Supervisor	*	*	*

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding

Executive Summary

Introduction

The Audit Committee directed Internal Audit (IA) to perform an audit engagement to determine if governance and controls around the payroll process are sufficient to meet management objectives. The Audit Committee approved the Audit Plan on December 18, 2023.

IA completed the assessment on June 20, 2024, and conducted it in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

Background and Functional Overview

UTA Payroll is a sub-department of the Finance Office. The department consists of a manager, supervisor, and three payroll analysts.

Payroll has responsibility for processing paychecks twenty-six (26) times a year for all UTA employees, approximately 3,000 as of June 2024. Payroll's duties include ensuring accurate payroll payments, recordkeeping, payroll reconciliation, ensuring compliance with payroll tax and related laws, and assisting employees with payroll related issues and questions.

Objectives and Scope

The period under review was January 1, 2023 – December 31, 2023. IA applied risk-based planning to select the following areas for testing:

- Overtime and graveyard shift payments
- Vacation and sick leave payments
- Personal time payments
- Vacation sell-back payments¹
- 457 deferred compensation matches
- Interim checks²
- Hiring bonus and other spot bonus³

IA also evaluated the Payroll department's governance against principles established by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") We evaluated if Payroll has sufficient resources to complete their responsibilities. We verified if Payroll has necessary expertise by documenting staff education, certifications, and training attendance. We confirmed if management has developed standard operating procedures ("SOP") to ensure that governance is adequately integrated. We reviewed management's red flag monitoring program and confirmed that there was separation of key duties ("SOD") sufficient to reduce the likelihood of fraud and abuse.

¹ UTA employees are permitted to "sell-back" vacation if certain time-of-service conditions are met.

² Interim checks are payments made between regularly scheduled pay periods, for reasons such as to correct a significant error on an employee's regular paycheck.

³ UTA does not offer "bonuses" in the usual sense. Bonuses are generally limited to hiring incentives and certain award programs, such bonuses offered to bus operators who reach mileage milestones.

Summary

Throughout this preliminary assessment, we observed numerous strengths, best practices, and accomplishments within UTA Payroll. We found that the department has adequate resources, that staff is highly qualified related to education, experience, and training, and that management proactively monitors payroll red flags, such as discrepancies in pay rates and vacation balances.

Our review of SOD found that greater separation is needed in areas of performing and approving payroll actions. However, we judged the issue to have low severity and decided not to report it as a formal issue in this report. The lack of separation is a result of a historically small Payroll department. The Payroll Manager position did not exist prior to 2024, and management expects to create greater SOD with this position now filled. IA will follow-up with management during a follow-up phase of the engagement.

We found that management has not adopted sufficient SOP, but that extensive informal documentation of key processes does exist. This documentation is not a substitute for formally adopted SOPs, but it does demonstrate a level of management responsibility and concern for continuity. We decided not to report it as a formal issue, but we will follow-up with management on progress toward formal SOPs during a follow-up phase of the engagement.

Our testing of payroll line items yielded the following results:

- Overtime and graveyard shift payments – no exceptions.
- Vacation and sick leave payments – no exceptions.
- Personal time payments – no exceptions.
- Vacation sell-back payments – we noted instances of employees violating vacation sell-back policy.
- 457 deferred compensation match – no exceptions.
- Interim checks – no exceptions.
- Hiring bonus and other spot bonus – no exceptions.

We observed during the testing that there are opportunities to improve documentation retention. Management retains documents in a shared drive folder with reasonable organization. Nonetheless, when we had exceptions we could not always find the underlying documentation and had to rely on management. It was not always quick and intuitive for Payroll employees to find needed documentation. We recommend that management use built-in attachment features of the JD Edwards accounting system to directly associate material exceptions with documentation. We intend this recommendation as a process improvement and not as a finding that indicates there was a significant deficiency or violation of policy.

IA appreciates the assistance offered by UTA Payroll management and staff in completing this preliminary assessment.

Attachment A: Details of Recommendations

PA Finding R-24-06-01

Vacation Sell-back exceeded policy

Risk Level: Low

Criteria:

Per policy UTA.05.02 Paid Time Off - Administrative Employees section 3(B):

Vacation policy - Employees who accrue 168 hours or more per year may elect to sell back up to 40 hours of vacation per year.

Additionally, per the 12/11/2022 - 12/10/2025 Collective Bargaining Agreement (CBA) ARTICLE 21: VACATIONS Page 22 line 3 states:

*UTA shall allow operators to request and be paid for unused available vacation. Operators with two or more weeks of accrued and available vacation, in lieu of time off, may choose to receive pay in **full week increments** for all but one week. (Bold added for emphasis).*

Condition:

IA found in testing vacation sell-back compliance that 22 employees used the vacation sell-back code multiple times during the year. Each of these time entries were subsequently approved by their supervisor(s) and in some instances, this exceeded the amount of vacation sell-back as allowed by policy. Nine of these employees incorrectly sold back an additional 412 vacation hours which did not conform to UTA policy, or the Collective Bargaining Agreement (CBA) for union employees. IA also noted that the employees who sold extra hours were not operators, and therefore should not have been able to sell back more than forty (40) vacation hours.

Underlying Cause:

The Payroll department has been relying on the employee's supervisors to know the appropriate policy and applying when vacation time sellback would be allowed. IA noted that Operators submit a Payroll Memo when they are using their option to sell back vacation hours, while other departments did not appear to follow the same procedure.

Effect:

The total value of the excess vacation time paid out was approximately \$14,000.

Recommendations:

1. Management should work with the Total Rewards department to educate supervisors on vacation sell-back policy and procedure.
2. We recommend that Management develop a form or memo required for all employees requesting vacation sell-back that verifies that all eligibility requirements are met before the sell-back is processed.
3. We recommend that Management monitors the vacation sellback entries to detect any future occurrences of the error.
4. We recommend that Management *not* attempt to claw-back past errors.

Management Response and Action Plan:

The Payroll Department has taken pro-active measures to mitigate the risk of vacation sell back that is not within policy. A new JDE report has been created titled "Vacation Sell Back Verification". This new report shows year-to-date sell back hours compared with the current pay period vacation sell back by employee type. This report is being used during the payroll cycle to ensure that all vacation sell back is conducted according to UTA policy.

Management agrees that a refresher training session in conjunction with Total Rewards for all supervisors and office specialists would be beneficial. We believe that with the implementation of the new JDE report and the refresher training that the risk would be sufficiently mitigated, and another form or memo would not be required.

Management agrees that the monies should not be clawed back. Some of the employees involved are now retired and the overall amount that could be clawed back is immaterial.

Target Completion Date:

The new JDE report is already in affect and management has targeted the third quarter of 2024 for remedial training.

PA Finding R-24-06-2 Recommendation to use JDE for document storage Risk Level: Medium

Criteria:

Since COSO has published its *Internal Control – Integrated Framework* (Framework) it has gained broad acceptance and is widely used around the world. The COSO Framework is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control.

Component Four: Information & Communication, Principle 13 within the Framework states:

The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

The Points of Focus for Principle 13 further elaborates:

*Information systems produce information that is timely, current, accurate, complete, **accessible**, protected, and **verifiable and retained**. Information is reviewed to assess its relevance in supporting internal control components (emphasis added with bold).*

Condition:

Due to the complex nature of UTA’s payroll, there are unusual circumstances or exceptions in most pay periods. The documentations for these exceptions are stored in a shared folder instead of the built-in retention of the JD Edwards system where payroll is processed. The focus of this recommendation is limited to offering recommendations for better data organization and retention in these exception scenarios.

Underlying Cause:

Not applicable

Effect:

IA noted that throughout the audit there were frequent exceptions, or special situations, within each area of our testing. IA has access to the Payroll Department’s shared drive, but we often could not find the underlying documentation and would find it necessary to contact the Payroll Department to obtain the answers. In all but the one instance noted above in Finding R-24-06-1, Payroll would ultimately provide the documentation, and we resolved the question. However, this process is time consuming for all involved.

Additionally, the current practices for data retention relies heavily on the institutional knowledge of a few individuals to locate and produce information. The risk of UTA losing this knowledge can be reduced by improving the way Payroll stores documentation.

Recommendations:

1. We recommend that the Payroll Department use the Attachment Manager feature of JD Edwards to directly associate exception documentation with the related paycheck.

Examples of information that they could attach to a paystub could include, but are not limited to, an employee's final check and severance pay calculations, hiring bonuses, notes or calculations for double-overtime, and corrections to time entries. If adopted, management would want to consider materiality thresholds and other efficiency considerations. For example, every pay period has a large volume of small-value gift cards employees receive through a rewards program. Management documents these with a reports showing all employees with gift cards that pay period. Matching gift card documentation with each of receiving employee would be impractical and unnecessary given the small dollar amount.

Management Response and Action Plan:

Management agrees that certain complex, uncommon, or singular transactions should have the directly associated documentation attached to the item in JDE. This can be achieved by utilizing the attachment functionality within JDE's payroll module. A new standard operating procedure will be crafted with the parameters to be applied to these types of transactions and subsequent documentation requirements.

Target Completion Date:

Management expects that the process could be instituted by the end of the third quarter 2024.