



INTERNAL AUDIT

Follow-up Assessment: Payroll

R-18-01

May 19, 2021

Table of Contents

Executive Summary	3
Attachment A: Detail of Findings	4
Attachment B: Preliminary Assessment report dated May 30, 2018	8
Attachment C: Audit report dated June 1, 2020	9

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
Executive Director		*
Chief Operating Officer	*	
Chief Financial Officer	*	
Chief People Officer	*	
Comptroller	*	
Accounting 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 and Engagement Background

In conjunction with the Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA).

As part of the 2019 internal audit plan, IA was directed by the Audit Committee to perform an audit to determine if controls over payroll management are designed adequately and operating effectively to ensure compliance with key federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives. The preliminary stage of the audit was concluded in March 2018 and the final audit was completed in December 2019.

Engagement Objectives and Scope

The period of the preliminary assessment was January 1, 2017, through December 31, 2017 with the completion of the audit work focusing on January 1, 2019 through July 31, 2019. IA conducted a follow-up assessment during April and May 2021.

The primary areas of focus for the payroll audit were:

- Governance
- Payroll accounting and payments
- People Office, Total Rewards, and HR Services & Labor Relations, as it relates to the payroll process
- Payroll processing
- Enterprise resource planning system (ERP) master files, as it relates to the payroll process
- Bargaining Unit employee timekeeping
- Bargaining Unit timekeeping application administration

Follow-up Summary

In summary, the follow-up assessment found that although most of the risk have been addressed, substantial risk remains in the payroll process. The following risks were identified in the 2018 preliminary assessment and have not been resolved as of the date of this report:

- Substantial risk in the segregation of duties (SOD) relating to preparing, reviewing, and approving timekeeping as well as interim checks.
- Lack of oversight and monitoring regarding changes to employee master files and pay and accrual codes.

Details:

This issue identified in PA reported on 5/30/2018, again in Audit dated 7/1/2020, and during follow-up conducted in May 2021 issue had not been resolved.

Follow-up Findings:

Payroll is the owner of the payroll process. Currently there are Payroll department standard operating procedures (SOP)s and individual business unit payroll SOPs. IAs review of the SOP identified in several instances of inconsistency, redundancy, and lack of segregation of duties. IA recommends that one SOP is designed for companywide use in processing payroll on the business side, and one office SOP designed strictly for payroll processing by the payroll accounting personnel.

The SOP related issues not mitigated from Audit phase are listed below:

1. For many business units a blanket assignment of critical aspects of timekeeping had been assigned to the same users including preparing, reviewing, and approving timekeeping as well as review of timekeeping exceptions.
2. Office Admin/Specialists/Coordinators as well as supervisors that were responsible for adding and editing time in OWATS, as well as for preparing payroll memos for interim checks, may have also received, and distributed the checks they requested.
3. The OWATS SOP requirement to run the Time Grid Extract and send it to the Operations Supervisor did not include a requirement for the Supervisor to review or approve the report.
4. It was possible for OWATS payroll information to be changed after payroll is processed and before the Time Grid Extract report is run.
5. Manager reviews were intended to take place after timekeeping has been submitted but it was not clearly documented how timely or thorough the review need be.
6. The appropriate authority level and approval requirement for payroll corrections to OWATS was not defined.
7. A segregation of duty requirement between taking physical custody of checks and ability to make timekeeping changes was not included.
8. It did not address how Payroll Administrators had to proceed when the timecards were not received for all employees.

Inherent Risk:

- Dispatch supervisors and office specialists had the ability to change employee leave pay codes without review or approval by the impacted employee, an employee's supervisor, or other party
- Employees may have been under or over paid and pay disputes may be more likely to occur
- Lack of adequate separation of duties can lead to fraud, errors, and financial misstatements. Confusion on roles and responsibilities can lead to failures in accountability.

Recommendations:

IA recommends that one SOP is designed for companywide use in processing payroll on the business side, and one office SOP designed strictly for payroll processing by the payroll accounting personnel.

Payroll and Operations work together to design one SOP to include: each type of payroll processing, a chart of how to segregate duties effectively, key controls to address the issues and risk identified, and defining document review criteria.

Management Response and Action Plan:

The Internal Auditor introduces a new concept that “Payroll is the owner of the payroll process”. This represents a departure from existing policies and practices. Management’s response to the 2020 Payroll Management Audit was drafted in the context of the existing decentralized ownership model. As documented in the Management Agreement to finding R-18-1-1, Payroll drafted a corporate-wide policy (that exempted OWATS) that was intended to “*serve as a coordination document with the Chief People Office, IT, and designated Operations personnel in charge of timekeeping*”.

This policy is pending review and approval by UTA management.

Under the IA’s proposed new centralized approach, the pending Policy drafted in response to finding R-18-1-1 will have to be revisited and modified to address IA’s findings as follows:

1. For many business units a blanket assignment of critical aspects of timekeeping had been assigned to the same users including preparing, reviewing, and approving timekeeping as well as review of timekeeping exceptions. UTA Corporate Policy 3.1.10G in conflict with this finding.
2. Office Admin/Specialists/Coordinators as well as supervisors that were responsible for adding and editing time in OWATS, as well as for preparing payroll memos for interim checks, may have also received, and distributed the checks they requested.
5. Manager reviews were intended to take place after timekeeping has been submitted. Under IA’s recommendation, approvals and review will occur prior to Monday submission. This could require Operations staff to work weekends.
6. The appropriate authority level and approval requirement for payroll corrections to OWATS was not defined.

Action Plan:

This new centralized approach to payroll management will require coordination between Operations, Operational Analysis and Solutions, and Payroll. The team will develop a policy as outlined above in response to these findings.

Target Completion Date: December 31, 2021.

Under the current practice, Payroll has not been involved in the daily operations of the Operator Wage and Time System (OWATS) that uses run-cut bid data and daily sign out in the operations business units to generate operator time for each payroll period. As documented in the pending policy described above, and in current practice, Payroll's interaction with OWATS is limited to monitoring the interface with JDE and reviewing payroll exceptions for adherence with the CBA. Under this new centralized approach proposed by IA, payroll would need to evaluate the most effective way to handle the following findings:

3. The OWATS SOP requirement to run the Time Grid Extract and send it to the Operations Supervisor did not include a requirement for the Supervisor to review or approve the report.
4. It was possible for OWATS payroll information to be changed after payroll is processed and before the Time Grid Extract report is run.

Action Plan:

This new centralized approach to payroll management requires revisiting ownership of the OWAT system. Operations, Operational Analysis and Solutions and Payroll will convene to discuss and determine a solution.

Target Completion Date:

The committee will complete their work by September 30, 2021 and provide IA with a recommended solution.

IA introduces a new finding to the 2020 Payroll Management Audit. In response, Payroll will implement an Accounting departmental SOP to create:

7. A segregation of duty requirement between taking physical custody of checks and ability to make timekeeping changes was not included [in the SOP].

Action Plan and Target Completion Date:

Payroll will complete the SOP by September 30, 2021.

This issue is currently in development and should be implemented by late summer 2021:

8. It (the SOP [sic]) did not address how Payroll Administrators had to proceed when the timecards were not received for all employees.

Action Plan and Target Completion Date:

Payroll will complete the SOP by September 30, 2021.

Details:

This issue was identified in the PA reported on 5/30/2018, again in Audit dated 7/1/2020, and during follow-up conducted in May 2021 issue had not been resolved.

Reported in Preliminary Assessment May 30, 2018:

Oversight of master data changes was not adequate. The ERP Technology Systems Admin in Total Rewards maintained tables of pay codes (types of time such as overtime and straight time, as well as accruals, benefits, deductions, and automatic accounting instructions). Changes were manually tracked on an Excel spreadsheet, along with screen shots from the system. However, there was no formal request process for making changes to the master data and no monitoring oversight, review or approval of changes made

Reported in Audit June 1, 2020:

In the absence of a clear delegation of authority for changes to employee master data it was not well understood whether the HR Business Partner had sufficient authority to be able to approve bargaining unit employee cost of living wage increases.

Inherent Risk:

In the absence of a clear delegation of authority for changes to employee master data it was not well understood whether the HR Business Partner had sufficient authority to be able to approve bargaining unit employee cost of living wage increases.

Lack of adequate separation of duties can lead to fraud, errors, and financial misstatements. Confusion on roles and responsibilities can lead to failures in accountability.

Recommendations:

1. The critical HR master data fields should be identified, and a process undertaken to design monitoring controls to determine whether changes to those fields were valid, correct, and complete.
2. HR is responsible to maintain the Employee Master Data including pay increases with documentation. Payroll should be responsible to review changes for accuracy, document any inconsistencies to formal approvals, and confirm corresponding corrections are made by HR.
3. The modifying, adding, or deleting of benefit accrual codes, and pay codes be subjected to a review and approval process through Laserfiche to ensure supporting documents are retained, management is notified of changes, and to provide an adequate trail of events.

Management Response and Action Plan:

IT, Finance and People Office will review the ownership of specific sensitive data fields on the employee master to see which business roles, People Office, or Payroll, require access to do their respective jobs. (Both Finance and People Office need to be involved as the employee master contains

data fields use by both functions.) Once the evaluation has been done, JDE security for those fields will be setup so only those roles have update access to those specific sensitive data fields. In addition, Technology will establish field update monitoring on those sensitive data fields so the appropriate business owner manager (People Office or Finance) will be alert every time one of those fields get updated.

Due to the loss of the People Office Manager who was working on this process, the evaluation will be completed by 9/30/2021. Technology will facilitate the evaluation. Monitoring alerts directed to the appropriate business manager(s) will be in place by 12/31/2021.

Target Completion Date:

Preliminary Assessment target date: August 1, 2018

Audit target date: July 31, 2020

Managements proposed completion date: December 31, 2021.