



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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INTERNAL AUDIT

"REVIEW OF TDHCA'S PAYROLL PROCESSES"

AUDIT #15-004

March 27, 2015

Office of Internal Audit
P.O. Box 13941
Austin, Texas 78711-3941

INTERNAL AUDIT

"REVIEW OF TDHCA'S PAYROLL PROCESSES"

AUDIT #15-004

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"REVIEW OF TDHCA'S PAYROLL PROCESSES AUDIT #15-004"

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

INTERNAL AUDIT REPORT – AUDIT #15-004

Subject: Review of Payroll

Audit Results

- D.1 Excel sheet that is maintained for payroll percentages for funding source is not password protected.
- D.2 Excel sheet is currently kept on staff's P drive, which is inaccessible to other staff that might require the information contained on the spreadsheet.

Recommendations

- D.1 Have the Excel sheet password protected.
- D.2. Place Excel sheet on the Department's shared drive to allow authorized staff access to the information.

Other Observations/Concerns:

N/A

Response:

Management agreed with our recommendations.
Detailed responses are included in the body of the audit report.

Responsible Area:

Program Director

Scope

Our scope included a review of FY14 and first quarter of FY2015.

Our methodology included interviews with the payroll and human resource staff. We also reviewed necessary documentation which included the Standard Operating Procedures (SOP's), and various reports that were reviewed and processed by the Human Resources and Payroll Program.

We conducted a survey of all of TDHCA's employees, including those in the Manufactured Housing Division. The results of this survey are discussed in detail in section G.



Mark Scott, CPA, CIA, CISA, MBA
Director, Internal Audit

3/27/2015
Date Signed

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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March 27, 2015

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To: The Audit Committee and the Governing Board of the Texas Department of Housing and Community Affairs, ("TDHCA") or the "Department".

This report presents the results of the Office of Internal Audit's ("OIA") Review of TDHCA's Payroll Process, *Audit 15-004*. This audit was identified in the Fiscal Year 2015 Annual Audit Plan.

AUDIT RESULTS:

The Payroll program had updated policy and procedures or Standard Operation Procedures ("SOPs") that were reviewed in 2013.

A survey was sent to all TDHCA staff on their experiences with the payroll function, (not the amount of their paycheck). The results of the survey were very positive and majority of the staff were satisfied with their experiences.

Payroll uses an Excel sheet which was not password protected nor was it located on one of the TDHCA shared drives that is backed up daily. This Excel sheet is used to calculate the percentages for the grant funding source for each staff whose time is charged against that grant.

SCOPE AND METHODOLOGY

Our scope included a review of FY14 and first quarter of FY2015.

Our methodology included interviews with the payroll and human resource staff. We also reviewed necessary documentation which included the SOPs, and various reports that were reviewed and processed by the Human Resources Division and Payroll Program team.

We conducted a survey of all TDHCA's employee's, including those in the Manufactured Housing Division. The results of this survey are discussed in detail in section G.



This report is separated into the following sections:

Background

- A. Standard Operating Procedures
- B. Verification of TDHCA staff
- C. Personal Action Forms (“PAF”)
- D. Payroll Process
- E. Payroll Self-Audits
- F. Follow up on Internal Finding or External Finding
- G. Survey
- H. Other

Background

Texas Department of Housing and Community Affairs (“TDHCA”) had 289 employees as of December 31, 2014. This includes the Manufactured Housing Division employees. The Department’s budgeted full time equivalent employees were 312 for Fiscal Year 2014 and 309 for Fiscal year 2015.

For Fiscal Year 2014 the amount budgeted for salaries, wages and payroll related cost was \$20,880,810. For Fiscal Year 2015 the amount budgeted for salaries, wages and payroll related costs was \$21,259,593.

The majority of the payroll process activities are performed by the Payroll/Travel Team Leader within the Financial Servicers Section of the Financial Administration Division, the Human Resources Division and the respective employees’ supervisors. While TDHCA staff members are charged with preparing the payroll information, the actual paychecks are issued by the Texas Comptroller of Public Accounts.

The payroll process incorporates both the financial and the human resource functions as a collaboration of information with various checks and balances to ensure that all information is correct before payroll can be finalized and TDHCA staff receive their payroll checks.

Issues related to payroll such as reporting at the financial statement level and indirect cost allocations will be addressed in a forthcoming audit of the agency’s Sources and Uses.

A. Standard Operating Procedures

The payroll program has a Standard Operating Procedure (“SOP”) 260.01 which was last updated/reviewed in August 2013. The SOP follows the payroll regulations that are required from the Texas Comptroller of Public Accounts, Texas Government Code and the General Appropriations Act.

The SOP clearly identifies staff titles and their main responsibility. The SOP also identifies that there will be Human Resources (“HR”) Monthly Payroll Audits and HR Quarterly Payroll Audits. These two self audits conducted by HR will be discussed further within this report.

The SOPs are very thorough and address various scenarios from termination, pay increases, direct deposit, and longevity pay to charitable contributions, bankruptcies, and child support payments.

We have no findings or recommendations for this section.

B. Verification of Employees

As part of the payroll audit, one of OIA's objectives was to test records of the Texas Comptroller of Public Accounts ("CPA") payroll, TDHCA, and the Department of Public Safety ("DPS") to determine whether these three sources of information confirm there were no "ghost" employees. Ghost employees are staff that received payroll payments but are not actual employees of the agency.

OIA testing showed that all staff that were on the CPA's report and the TDHCA HR list of staff matched, confirming that TDHCA does not have any "ghost" employees.

The DPS list of staff that have badges was compared to the HR list of staff and it was identified that two staff reflected TDHCA as having badges which had been deactivated, but the badges were still listed as active on the DPS roster. TDHCA sends over documentation to DPS to have badges activated and deactivated whenever the status of an employee changes.

TDHCA does follow the procedures that are set in place for the deactivation of ID badges, but we do not follow up with DPS for confirmation. OIA recommends that TDHCA request the list of active ID badges from DPS at least annually and compare with HR list of staff to ensure that the ID badges that were requested to be deactivated have actually been deactivated.

We have no formal findings for this section.

C. Personnel Action Forms ("PAF")

PAF is the initial action document after the vacant job position has been filled. Human Resources creates and circulates it for the required approval signatures. The PAF has the information that includes the position title, date of hire, salary and payroll class.

The PAF is also used for additional changes to staffs' status that may include: promotions, reclassification, demotion, leave without pay, separation, and transfer to another agency or any other actions that involves payroll changes.

Once the PAF is created, it is printed and the paper copy of the PAF is placed in a purple folder and is manually routed to the required TDHCA staff for the approval and signature. After the PAF has all the required signatures, it is returned to HR staff who then submits it to the Payroll section for action. The original PAF is placed in the affected employee's personnel folder.

Although this process is handled with great care to ensure PAF's are processed on a timely basis and that the information stays confidential, OIA considers that the HR and Payroll system would benefit from an electronic routing system to process and hold the data information. The electronic database would ensure:

- Confidentiality of information as only the staff that is included in the routing for signatures would have access to information,
- Ability to track the progress of the signature process,
- Ability to have an auditable trail of history of the PAF,
- Ability to use HR staff resources for other projects instead of hand delivering and monitoring the process of the signatures, and
- Would allow for the re-evaluation of required approval signatures

We have no formal findings or recommendations for this section.

D. Payroll Process

TDHCA uses the software "Genesis" as the time keeping program for staff to input their daily time; and it also stores the employees leave balances. The Genesis is an older software system for timekeeping and slightly outdated but currently is meeting the needs of the Department. Management advises, they would like to get an updated software package that would be more user friendly and be able to support and provide all TDHCA's requirements.

Management has identified that Genesis does have several constraints that can sometimes hamper the timekeeping process for staff who work with various grants which are paid from multiple funding sources. The Genesis only has the capability of giving the staff up to ten funding sources to choose from. When a staff needs more funding codes, one of the other codes has to be deleted to have the capability of adding the additional funding code.

Another constraint with Genesis is that it is unable to calculate the various percentages that are required to pay various staff who are paid out of the multiple grant funding sources. The Payroll staff downloads a report from Genesis that shows the amount of hours each employee worked and then they have to sort, formulate, etc. in order to get the percentage amounts for each employee's specific grant worked. Then this information is translated to the salary per grant. This Excel spreadsheet is used to calculate the appropriate payroll expenses from each funding source in order to charge federal grants correctly for payroll expenditures.

This Excel spreadsheet is kept on one of the staff's "P drive" which is inaccessible to other staff that might require the information contained on the spreadsheet. The spreadsheet does not have a password protection activated, which best practices would require as there is confidential information contained in the spreadsheet.

OIA recommends that the spreadsheet be moved from the "P" drive and placed on a departments shared drive to allow other authorized staff access to the information and also to make the Excel spreadsheet password protected.

FINDINGS AND RECOMMENDATIONS

D.1 Excel sheet that is maintained for payroll percentages for funding source is not password protected.

D.2 Excel sheet is currently kept on staff's P drive, which is inaccessible to other staff that might require the information contained on the spreadsheet.

Recommendations:

- D.1 Have the Excel sheet password protected.
- D.2. Place Excel sheet on the Departments shared drive to allow authorized staff access to the information.

D. MANGEMENTS COMMENTS – CORRECTIVE ACTION TABLE

Finding Item Number	Management Comments- Status Pertaining to the Recommendations and Actions to be taken.	Target Completion Date	Responsible Division/Program Area and Manager
D.1	Excel spreadsheets pertaining to timesheet reconciliation have been password protected. The password has only been shared with pertinent budget/payroll staff that would need to access the files.	3/19/2015	Financial Services/Budget and Payroll, manager Joe Guevara
D.2.	The Excel spreadsheets pertaining to timesheet reconciliation have been relocated to the FABP folder in the T drive. Only employees with access to this file can access the spreadsheets.	3/19/2015	Financial Services/Budget and Payroll, manager Joe Guevara

E. Payroll Self-Audits

Human Resources staff on a quarterly basis runs the Employee Master List report from the Genesis and the Agency Payroll Master from the Texas Comptroller USAS program. The HR staff then compares line for line between the two reports to ensure that the information is exactly the same on both reports. If there are any discrepancies, HR will review the PAFs or other documentation and make required corrections. Upon completion of this task, the reports are then reviewed by the Director of Human Resources.

On a monthly basis Human Resources staff audits the monthly Personnel Action Forms (“PAFs”) and compares them with Payroll Master from the Texas Comptroller USAS program and the information in Genesis. If there are any discrepancies, HR will review the PAFs or other documentation and make required corrections. Upon completion of this task, the reports are then reviewed by the Director of Human Resources.

OIA met with the Human Resources Division staff and was provided a demonstrational walk-through of the process and had three months of reports with all the verification for OIA to review. OIA considers that there is sufficient verification and separation of duties to provide an accurate payroll function.

We have no formal findings or recommendations for this section.

F. Follow up on Prior External Audit Recommendations:

Texas Comptroller Post Payment Audit

The report dated November 30, 2012, from the Texas Comptroller Post Payment audit included two recommendations that were directly related to the payroll function. The Texas Comptroller on a periodic cycle does a Post Payment Audit of each state agency to review payments of agency purchases, travel and payroll transactions.

In the recent audit, it was identified that one employee had the incorrect longevity payment; the Texas Comptroller of Public Accounts ("CPA") recommended that TDHCA properly verify and document prior service for all new employees.

The second item identified by the CPA was that there was missing documentation in the files for prior state service of employees.

TDHCA has corrected these issues.

We have no formal findings or recommendations for this section.

G. Survey

The Office of Internal Audit conducted a survey to obtain information about the Department's employees' experience with the payroll process, payroll information and the payroll personnel. The survey was sent to all TDHCA employees (including the Manufactured Housing Division). Of the 287 survey recipients, 172 employees responded. OIA has discussed the survey results with management.

The majority of the survey responses were positive. Respondents indicated that the Department's Payroll staff and Human Resources staff address their questions accurately, completely and in a timely manner. When asked if the employees had comments about payroll, numerous respondents provided compliments for the payroll and human resources staff, including "excellent, great, and very knowledgeable". Some respondents had issues related to the Department's timekeeping system (Genesis). Respondents indicated that the time keeping system is outdated, archaic, and cumbersome. Department management is aware of the challenges presented with the existing timekeeping system. However, resources have not yet been provided to enhance or replace the current time keeping system.

Two of the respondents indicated that they have had an issue with their paycheck or the payroll process that was either not resolved or not yet resolved. Those two respondents did not indicate the nature of the issue.

Survey responses indicated that there is a continuing need for supervisors to communicate and reinforce the importance of accurate time reporting to their staff.

We have no formal findings or recommendations for this section.

H. Other

A substantial amount of payroll costs are paid as indirect cost. OIA will review the indirect cost methodologies used for each program during the audit of Sources and Uses to be conducted in the near future.

We conducted this performance audit in accordance with applicable auditing standards. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to management and program personnel for their courtesy and cooperation during this review. Please contact me at 512-475-3813 if you have any questions or concerns about the issues or recommendations that are contained in this report.

Sincerely,



Mark Scott, CPA, CIA, CISA, MBA
Director of Internal Audit

rgk

cc: Tim Irvine, Executive Director
Cameron Dorsey, Chief of Staff
Gina Esteves, Director of Human Resources
David Cervantes, Chief Financial Officer
Kristina Vavra, Team Leader Payroll