Several unallowable expenditures and exceptions to policy were noted.

In our testing of 16 disbursement/PCard transactions, 12 travel transactions, and 9 gift transactions, we noted 6 transactions contained unallowable or unreasonable expenses, including:

- a reserved table for $500 at a XX event (business purpose is unclear; no exception to policy was obtained);
- flowers for three separate staff using O & M funding;
- gifts of apple baskets for XX (no exception to policy was obtained);
- holiday gift baskets for University departments and collaborators (no exception to policy was obtained);
- one employee reimbursement for moving expenses included taxable (non-qualified) expenses of $667.60 that were not taxed; and
- excessive prepaid parking spots were reserved for departmental events, most of which were never used.

According to University administrative policy *Hospitality, Alcoholic Beverages and other Special Expenses*: "Employees who incur or approve expenses for hospitality, alcoholic beverages, entertainment, and other special expenses must exercise prudent judgment to ensure expenses are for legitimate University business and comply with the Expense Allowability Grid, regardless of the funding source used. Exceptions should be infrequent. Departments may request an exception from the University Controller in those situations where special circumstances exist. If an exception is not obtained in advance and the expense is determined to be unallowable, the expense may not be reimbursed, and may be deemed taxable income to the employee, in accordance with guidance published by the Internal Revenue Service.

Properly adhering to University policy:

- aids in complying with federal and state laws;
- helps ensure compliance with Internal Revenue Service guidance regarding expense reimbursements made pursuant to "accountable plans";
- assists with meeting restrictions imposed by funding agencies; and
- demonstrates appropriate use of funds entrusted it by various constituencies and assures that special expenses do not personally benefit University employees.

Recommendation:

6. XX should:
   - Ensure that the funding source is appropriate for all purchases. Where applicable, expenditures listed above should be moved to allowable funds.
   - Ensure that employee expense reports do not contain unallowable expenses and that moving expenses have been fully documented and reviewed for taxability.
   - Obtain exceptions to policy from the Controller's Office if needed for expenditures that may be deemed as unallowable prior to purchase.

Monitoring/Inventory of project incentives (purchases and disbursements)

In our testing of a disbursement transaction related to the purchase and distribution of incentives for participants for the XX Project it was noted that while the department tracks the individual distribution of the incentives (in this case gift cards), there is no monitoring of the overall purchases and distributions of the incentives, and no inventory of incentives currently on hand. Gift cards may be carried over from site to site.

According to the University's administrative policy, *Guiding Principles*: "The University has been entrusted with public funds to fulfill its mission of education, research, and public service. All University faculty and staff under the leadership of its officers are obligated to ensure that University funds are used only for mission-related purposes. Leadership responsibilities for fiscal control include assurances that the following exist:

- Documented policies and procedures;
- Mechanisms to ensure compliance with policies.
- All University personnel are responsible for ensuring that fiscal controls exist and are used to prevent abuse or misuse of University funds and other resources."

Recommendation:

2. XX management should ensure that personnel monitor and inventory all incentives purchased and distributed for department research projects.

Disbursements processes need improvement.

In our testing of 16 disbursement/PCard transactions, 12 travel transactions, and 9 gift transactions, we noted the following exceptions:

- One employee expense/travel document exceeded per diem limits, resulting in an overpayment of $314.
- One employee expense/travel document did not have receipts attached.
- Five transactions contained inadequate justifications.
- One force-closed purchasing card statement was missing written approval of the purchases made.
- Five transactions were not processed timely (1 voucher, 3 travel, 1 gift).
- Two transactions contained incorrect category/classifications.
- One transaction was not compliant with University purchasing processes – a purchase order was not done.
- The purchasing card procedure followed in the department does not follow the University's administrative procedure for reconciling procurement card activity.

According to University Policy *Documenting Financial/Accounting Transactions*, financial transaction justification and documentation must contain answers to the "why, what, who, where and when" questions. Entertainment and recruiting expenses must contain additional documentation. Travelers must submit detailed vendor receipts for all expenses greater than $25, excluding meals.

According to the University's *Departmental Monthly Procurement Card Reconciliation Process,* when a billing cycle is force-closed, the department must "obtain cardholder and authorized signatures on the Purchase Detail Report, attach receipts to the purchase detail report and send to imaging, a journal entry must be done to redistribute the charge to the correct chart field string."

Properly adhering to University policy, paying vendors timely and providing adequate justification:

- Minimizes the risk that the University will be charged fines or penalties due to unsubstantiated expenses.
- Ensures that the University is in compliance with regulatory and legal requirements.
- Minimizes reputation risks and adverse public opinions and perceptions.
- Reduces the risk of misappropriation.
- Maintains good vendor relations.

Recommendation:

7. XX should:
   - Improve review of per diem rates for accuracy, and work with the employee to recover overpayment of the per diem noted above.
   - Look at their current purchasing card procedures and modify them as needed to comply with the University's administrative purchasing card procedure. Approval signatures should be obtained on all purchasing card statements that are force closed.
   - Ensure they are including all answers to the 5 W's in the transaction and/or supporting documentation. Entertainment and recruiting justifications need to include the additional information to better demonstrate the business purpose of the expense. Additionally, approvers should review documents to ensure the 5 W's are answered before that transaction is approved.
   - Ensure payment vouchers contain the correct category/classification codes. This includes the correct use of funds, account codes and category used in purchases and travel reimbursements.
   - Ensure transactions are processed in a timely manner and in accordance with vendor payment and travel policies.

Retention of University Property and purchase of non-business purpose equipment.

XX allocates Academic Business Expense (ABE) accounts for faculty and residents. XX are given $1,500 per year, while XX are allocated $1,000 per year, and the funds are to be used at the employee's discretion. We noted three employee reimbursements to XX were for the purchase of equipment that the department is allowing XX to keep for their personal use after they leave the University of Minnesota. These purchases include ipads, smartphones, and laptops. In FY 2011, XX faculty and XX purchased approximately $65,000 in non-capital equipment via these accounts. (Note: the department is not reimbursing sales tax on these purchases.) In addition, one of these XX reimbursements was for the purchase of an Apple TV. No business purpose for this purchase was established.

According to the University's administrative policy *Guiding Principles* "All assets purchased with University funds are University property or the property of the granting agency and should be used only for business, instructional, or research related purposes. The University has been entrusted with public funds to fulfill its mission of education, research, and public service. All University faculty and staff under the leadership of its officers are obligated to ensure that University funds are used only for mission-related purposes."

Properly adhering to University policy ensures the University is in compliance with regulatory and legal requirements, minimizes reputation risks and adverse public opinions and perceptions, and reduces the risk of misappropriation.

Recommendations:

8a. XX should ensure all assets purchased using University funds for XX, faculty and staff are retained by the University upon the resident, faculty, or staff's departure.

8b. XX must re-examine and enforce guidelines for the use of ABE funds to ensure all purchases are necessary for the employee's job and will be used for University-related purposes.

Cash receipt and accounts receivable processes need improvement.

In our review of cash receipt and accounts receivable processes within XX we noted the following:

- Accountability for cash receipts is inadequate; no receipt book or log is maintained to track revenue received. Also, there is an inadequate separation of duties with regards to receiving payments for the "XX" course.
- Not all receivables that could be billed through the central Non-Sponsored Accounts Receivable system are currently using this service.
- Four of five cash receipts tested were not processed timely. For cash receipt deposits over $1,000, we noted the delay for depositing the revenue ranged from one week to one month.
- One cash receipt was associated with an expired contract with the "XX" that had not been renewed or approved for three years.

The University's Guiding Principles for fiscal control state, "*To reduce chances for fraud and facilitate financial data accuracy, the following tasks should be assigned to different individuals: authorizing the use or exchange of assets (cash, payroll, purchasing); handling assets (stocking inventory, distributing checks); and recording transactions (accounting). If staff limitations compel one person to have these responsibilities, a supervisor must accept responsibility for monitoring and verifying transactions to help ensure financial data integrity and protection of University assets*."

University policy, Accepting and Depositing University Revenue states that departments should *"Ensure that all revenue is accurately recorded at the time of receipt*" and "*deposit revenue when the total reaches $1,000 or greater, or once a week, whichever comes first."*
Per the University policy, Managing Billings and Receivables using the EFS, the use of the central Non Sponsored Accounts Receivable system helps to "*maximize the University's cash flow through the timely collection of receivables; minimize exposure from uncollectible receivables; and to increase the integrity of the financial statements through consolidation of receivables and revenues*".

Possible misappropriation of University assets increases when funds are not deposited timely and internal controls over the cash receipts process are not strong. Not using the central Non

Sponsored Accounts Receivable system may result in untimely collection of receivables, increased uncollectible receivables, and increases the workload on XX staff.

Recommendation:

10. XX should implement the following:
    - Ensure accountability is established by maintaining a log or other system of tracking cash receipts. For the ALSO course, accounting staff should obtain a list of course participants from the course instructor, compare the list to the log maintained by the coordinator who receives the checks, and ensure all participants have paid the appropriate amount and the payments were deposited promptly.
    - Utilize the central Non-Sponsored Accounts Receivable system when required.
    - Ensure cash receipts totaling $1,000 or greater are deposited on a daily basis in compliance with University policy.
    - Renew the contract with XX and ensure it is kept up-to-date and the correct rates are being charged.

Timeliness of effort certifications needs to be improved.

Our review of two XX sponsored projects based in XX noted that four of 30 (13%) effort certification statements tested were not certified and submitted in a timely manner. All four of the late certifications were approved after the established effort certification due date.

Per the University's Effort Certification policy (2.1.1), the University's effort reporting system assures external sponsors that funds are properly expended for the salaries and wages of those individuals working on the projects they sponsor. It provides the principal means for certifying that the salaries and wages charged to sponsored projects are consistent with the effort contributed. All employees involved in certifying effort must understand that severe penalties and funding disallowances could result from inaccurate, incomplete, or untimely effort reporting.

Recommendation:

5. XX should ensure effort statements and related adjustments are completed timely and accurately and are properly approved and certified.

Improvements are needed in the sponsored project disbursements process.

Testing of 21 documents affecting two XX sponsored projects noted the following:

- Three transactions had inadequate justification to clearly explain the expenses. One hotel expense exceeded the allowable 150% of per diem policy, with no supervisor approval of the overage, resulting in the traveler being over-reimbursed $82.50.
- One transaction did not include a price comparison form and other required contract for professional services documents for a requisition totaling $21,000.
- One travel expense was not approved by the travelers' supervisor as required by XX guidelines.
- Two travel expenditures were reimbursed six months or more after the trip.
- The correct accounting/category code was not used on four transactions.

By not providing proper expense allocation justifications the risks are increased that improper expenses could be charged to a sponsored project and result in disallowed costs and funding reductions by the sponsor. In addition, entertainment and hospitality expenses must be documented by including names of attendees and their business relationship to the individual or the University (alumni, donor, occupation or their titles).

Recommendation:

3. XX should review their disbursement procedures to strengthen controls relating to:
   - Ensuring all receipts are included;
   - Choosing appropriate account codes;
   - Requiring reimbursements be approved by an appropriate level supervisor before submission to the business office;
   - Providing clear and complete justifications;
   - Reviewing hotel expenses for reasonableness and compliance with University policy limits; and
   - Ensuring travelers submit expense reimbursements in a timely manner.

Improvements are needed in payroll processing.

During our audit we found the following payroll processing control issues during our testing of 13 employees:

- One employee's appointment was extended due to effort on a new program. He was paid retroactively for time based on 6.5 pay periods but should have been paid for 8.5 pay periods, resulting in an underpayment of $6,227.55. Upon further review by the department, for his current appointment it was found that he was overpaid by $6,793.04, resulting in a total overpayment of $565.49.
- One employee had a reduction in appointment and the department by mistake stopped payment on a paycheck for $5,892.98 that occurred prior to the new appointment start date and had it reissued for $5,246.00 (the new appointment amount), resulting in a $646.98 underpayment.
- One employee's bonus earnings for FY 2011 (paid in FY 2012) should have been subject to the 1.15% P & A reduction, resulting in a $241.50 overpayment. Based on the FY 2011 compensation plan all faculty/P&A salary and bonuses earned in FY 2011 must be reduced by 1.15%, regardless of when paid.
- Four employees' appointment changes were not documented in their file. The department was able to provide documentation for three of them.
- A review of off-cycle payments performed during our FY 2011 Payroll audit showed XX is on the high-end of its peer group for total off-cycle checks issued. This seems to be the result of issues with timeliness, appointment increases/reductions, and avoidance of overpayments.

University Payroll policy states that, "Departments are responsible for maintaining adequate internal controls in their departmental payroll processing. This includes… that entries are verified for accuracy once they are processed and timely preparation and submission of complete, authorized appointment and payroll documents. A department's responsibility includes maintaining an effective system of monitoring and oversight to ensure the accuracy and validity of its payroll." Without a consistent adherence to policy and monitoring of payroll entries, the control environment is weakened and inaccuracies may occur. Delays in processing payroll entries or issuing off-cycle checks may result in inaccurate financial data and increase the potential for financial loss due to overpayments.

Recommendations:

9a. XX should:

- Require that payroll documents regarding appointment changes and timesheets are submitted timely to ensure accurate payment of payroll. Supervisors should be informed that off-cycle checks are not the solution for the late submissions.
- Adhere to proper monitoring of payroll entries.
- Correct the underpayments/overpayments noted during our review.
- Ensure proper documentation is included in personnel files regarding any appointment changes.
- Maintain and manage all personnel files in a consistent manner. Reference the "Management of Employee Personnel Records in University Colleges and Departments" and the University of Minnesota Records Retention Schedule for guidance.

9b. XX should correct overpayments of FY 2011 bonuses paid in FY 2012 to the administrative center directors. They should also look at the implications for any other employees throughout the school who may have been similarly affected.

XX is not using the centralized Non-Sponsored Accounts Receivable department for its non-student receivable collections.

We performed testing of application and payment processes for all of the major XX revenue generating activities. During our testing of these revenue activities we noted the following inconsistencies:

- XX does not consistently follow their write-off/collections policy that applies to all of its revenue generating units. For example XX outstanding accounts receivable balance was $54,938 at December 2011 and included an invoice for $51,812 dated July, 2011.
- Late fees were not consistently added when applicable. XX payments are received by XX, deposited into University ledgers, and the XX accounts are updated in RMS. We identified 17 instances out of a sample of 31 when payments were deposited three or more days later than the due date. Only three out of the 17 late payments were assessed late fees.
- Depositing of receivables was not always timely. During the cash deposit testing we noted two instances where XX checks were issued mid-month (3/16, 3/17 and 11/17, 11/18) but were not deposited until approximately two and a half weeks later (4/4, 12/3). Some of the delay is due to the fact that the XX also needs to sign the checks.
- Using multiple receivable systems results in reconciliation difficulties and increases the potential for inaccuracies to occur.

We believe that the XX should be limited to processing XX related transactions interfacing to PeopleSoft XX Financials; while all non-student receivables should be processed through the NSAR system.

According to University policy, departments must receive approval from the Non-Sponsored Accounts Receivable department before using their own departmental receivable systems. This approval has not been obtained by XX for these non-student receivable systems. University policy further indicates departments are responsible for generating accurate and timely billings to non-University customers. These billings must be recorded in the approved departmental system. The standard payment term to be applied to these external billings is Net 30. Departments are expected to track all invoices and follow a regular collection schedule with appropriate escalation actions for those not paid in full within 30 days.

By not having an approved department receivable system, the University's cash flow through the timely collection of receivables may not be maximized and exposure from uncollectible receivables may be increased. Also, to increase the integrity of the financial statements, accurate and timely recording of receivable transactions is essential.

We also noted insufficient separation of duties within the cash handling processes of XX, which includes student application fees, student guarantee deposits, conference fees, and faculty/staff housing payments. The employee responsible for receiving payments is also responsible for depositing the payments and has access to XX payment posting.

University policy, "Guiding Principles" states, to reduce chances for fraud and facilitate financial data accuracy tasks should be assigned to different individuals for recording accounting transactions. If staff limitations compel one person to have these responsibilities, a supervisor must accept responsibility for monitoring and verifying transactions to help ensure financial data integrity and protection of University assets. Without the proper separation of duties or backups in a unit that has a high volume of cash receipts there is an increased risk of lost or misappropriated receipts, untimely deposits, and incomplete reconciliations.

Recommendation:

1. XX should work with Non-Sponsored Accounts Receivable Department to jointly study the potential to convert their non-student receivables to the University's central receivable processing system. If this conversion is not feasible, XX should create proper separation of duties within the cash handling and receivable processes.

There is insufficient separation of payroll duties in the XX Program Office.

The payroll for the XX is processed through XX and interfaced with PeopleSoft. We identified a separation of duties concern within the payroll process of XX. Our discussion with the XX Director noted that all three of the managers have access to XX entry and approval functions. Also, the director is responsible for hiring, involved with XX entry and approval, and is in charge of approving the payroll abstracts. When the functions for initiating and approving payroll are not adequately divided, internal control over payroll is weakened and the potential for fraud increases.

In addition, the XX payroll checks are delivered to the XX office and left on a tray for students to pick up. The lack of proper distribution of payroll checks increases the risk of checks being mishandled.

University payroll internal controls require separation of duties in the payroll process. Payroll policy defines six functions within the payroll process including collection and preparation of hiring documents, approval of hiring, payroll data entry, verification of payroll abstracts, approval of abstracts, and receiving and distribution of payroll checks. Approval functions should be always segregated from the other functions at a minimum and if staffing allows the distribution of payroll checks should be performed by someone not involved in the payroll process. Furthermore a process should be in place to account for all distributed or unclaimed payroll checks.

Recommendations:

8a. Appropriate separation of duties should be established for payroll within XX. XX management should ensure that the entry, verification, and check distribution functions are performed by employees not involved in any aspects of the payroll approval process.

8b. Accountability should also be established for payroll checks to ensure all hard copy checks are properly received by the employees and unclaimed checks are returned to the payroll department.

XX is not in compliance with purchasing requirements for price comparisons.

As part of our disbursements testing, we reviewed 20 large-dollar purchases from external vendors. For two of these transactions, University purchasing policy requires performance and documentation of a price comparison. However, XX did not comply with this requirement for either of these transactions.

The instructions for the University form Price Comparison for Purchases of Goods & Standard Services state, "to comply with requirements of our funding sources, you must document a basis for vendor selection and proof of reasonable price by completing a price comparison." Further, this instructions point out, "this documentation is required to be filled out and retained as part of the permanent departmental purchase record for purchases $10,000 – $49,999." Certain exceptions exist as noted on the price comparison form (e.g., purchases from University Stores, from internal service organizations, and via University-wide contracts).

A price comparison is required for higher-dollar purchases to help ensure University departments obtain goods and services at reasonable prices. Documentation of the price comparison provides assurance to funding sources that the University is expending funds in a fiscally responsible manner.

Recommendation:

13. For purchases of goods and Standard Services between $10,000 and $49,999, XX should complete the Price Comparison for Purchases of Goods & Standard Services form (exceptions to this requirement are noted on the form).

14. <u>XX should process procurement card transactions in a more timely manner.</u>

We tested 22 purchases made via procurement cards. We found that four of these transactions (18%) were processed late. Specifically, in three cases, the purchase detail reports and supporting documentation were submitted late to the Business Office, ranging from 9 to 26 days late. Further, in two cases (including one of the three mentioned above), invoices were paid using the procurement card and these payments were made in an untimely manner; the payments were 14 days and 98 days late.

The University procedure "Reconciling P-card Activity" states, "purchase detail reports and supporting documentation are due to Disbursement Services XX by the end of the month following activity." For example, March 2012 reports are due by April 30. In regard to paying invoices, University purchasing policy advises departments to "process payment documents within the required time period, and to use appropriate terms (for example, net 30 for vendors)." Likewise, Purchasing Services' "Vendor Guide" states, "the University of Minnesota standard payment terms are net 30 days."

Submitting p-card reports and documentation late to the Business Office is contrary to University policy. Moreover, late submission can prevent important information from being available to those in need of it. Unnecessary delays in processing invoices can damage vendor relationships. They can also result in finance charges that could have been avoided.

There has been some turnover in the position that processes disbursements in XX (the position is currently vacant). Moreover, the person previously in that position was there for a relatively short period of time and reportedly may have been unaware of some of the purchasing requirements.

Recommendation:

14. XX staff members who process disbursement documents should be reminded of the following requirements:

    - purchase detail reports and supporting documentation for procurement card transactions should be submitted to the Business Office by the end of the month following the activity, and
    - external vendor invoices should be processed within 30 days of the invoice date.

15. <u>XX' cash receipts have not been deposited in a timely manner.</u>

In the audit period, XX received approximately $156,000 in currency and checks from insurance reimbursements and customer payments for XX fees. For two sample months, we tested the timeliness of deposits of cash receipts. The testing disclosed 8 of 9 deposits (89%) were untimely, ranging up to 4 business days late. XX staff informed us their normal procedure is to deposit receipts when the amount on hand reaches $2,000, or at least weekly.

University policy ("Accepting and Depositing University Revenue") requires revenue "be deposited when the total reaches $1,000 or greater, or once a week, whichever comes first."

The University loses investment income when receipts are not deposited on time. Further, by not making timely deposits, the receipts are exposed to increased risk of theft or misappropriation.

Recommendation:

15. XX should comply with University policy on depositing cash receipts. Specifically, receipts should be deposited when they reach $1,000 or, for smaller amounts, at least once a week.

Cash receipt process improvements are needed in some departments/divisions.

In our testing of ten cash receipt deposits from various XX departments/divisions we noted:

- 3 of 8 deposits were untimely (2 of the 10 were not applicable to testing - one involved Agency funds and the other was an online point-of-sale payment transaction). One check for $22,000 was deposited four business days beyond the date the check was received, one check for $11,057 was deposited two business days beyond the date the check was received, and one deposit that included several checks ranged from 4 to 23 business days beyond the check date.
- Accountability was not appropriately established for 1 of 8 cash receipts (2 of the 10 were not applicable to testing - one involved Agency funds and the other was a prize payment as a result of winning a competition). Tickets sold for a XX did not have a record to accurately reflect the number of tickets sold. Although the tickets sold contained row and seat number information, the stubs retained by the department did not equal the amounts deposited. The amounts deposited totaled $7,735 while the tickets stubs indicate $7,344 worth of tickets were sold; despite the deposit being $391 higher than tickets sold, the discrepancy is indicative of a need for better cash handling and ticket sales reconciliation controls.
- One department was creating departmental invoices rather than using the central Non-Sponsored Accounts Receivable office to invoice a $22,000 charge.

University policy requires appropriate internal controls for handling cash receipts. The risk of possible misappropriation of University assets increases when funds are not deposited timely and internal controls are not strong over this process.

Recommendations:

4a. Each department should deposit cash receipts whenever $1,000 is on hand or at least once a week, whichever occurs first. The Business Office should continue to emphasize the policy regarding deposits with departments on campus.

4b. Deposits for ticket sales should accurately reflect the ticket price for the number of tickets sold; any additional revenue received beyond the ticket price should be reviewed for intent by the receiving department and XX office and, if intended as a gift, deposited appropriately.

5. Disbursement process improvements are needed.

In our testing of 55 disbursement transactions (25 voucher payments, 10 procurement card purchases, 10 travel/expense payments, 10 gift fund payments), totaling $800,555, we noted the following exceptions:

- 7 transactions in which payments to vendors were not made timely. (7 of 45: 16%). Late payments range from 7 to 55 days late.
- 27 transactions that did not have adequate justification. (27 of 55: 49%)
- 2 transactions that were not classified correctly. (2 of 55: 4%)
- 3 bid (price) comparison forms were not used on transactions over $10,000. (3 of 45: 7%)
- 1 transaction that was approved for an unallowable purchase. Note: this has since been returned to the vendor and XX was fully credited. (1 of 55: 2%)
- 1 transaction that exceeded University reimbursement limits. (1 of 55: 2%)

Various University policies and procedures have established standards for processing expense transactions, including the need for timely vendor payments, adequate justifications, correct assignment of account codes and adherence to procurement policies. Documentation of the price comparison aids in demonstrating the University is expending funds in a fiscally responsible manner.

Recommendation:

5. XX should communicate with departments the importance of abiding by the following:
   - Vendors should be paid on a timely basis whenever possible to avoid penalties and maintain good vendor relations.
   - Expenses should be classified correctly. If questions arise, department preparers should consult with the XX Business Office or Disbursement Services to determine the most appropriate code.
   - The University policy regarding bid requirements should be followed to ensure the proper documentation is retained.
   - Employees should be informed of the University policy regarding financial/accounting transactions and instructed on how to comply with it. Preparers should ensure they are including all answers to the 5 W's. Additionally, approvers should review documents to ensure all the 5 W's are answered before that transaction is approved.
   - Departments should ensure Purchasing Cards are being used according to University Policy. Approvers of Purchasing Card transactions should be reviewing all data available in EFS to ensure each purchase is allowable (specifically third level data when a Statement in Lieu of Receipt is submitted).
   - Departments should be following University policy regarding special expenses to ensure amounts paid are within University limits. The University Controller, as the policy owner, should be contacted for approval if an exception to policy is considered warranted.

6. Entry of personnel actions into PeopleSoft is untimely.

Data derived from UMReport "Entry Activity" indicate XX has a large quantity of late entries. These entries were separated into risk categories. During our audit period, we noted 536 transactions entered 16 days or more beyond the transaction's effective date. Of those, 60 transactions included personnel “actions” that Audit categorizes as high risk based on possibility of overpayment (terminations, suspends, leaves without pay, and medical leaves.)

An additional 476 transactions categorized as medium risk (hires, recalls, short work breaks, etc.) were also entered 16 days or more beyond the transaction’s effective date. In our testing of 30 late entries categorized as high or medium risk, we noted three late entries tested resulted in overpayments (two overpayments totaling $1,599.69 were detected by the department and one overpayment for $2,400 was not detected).

A majority of late entries tested were a result of the XX payroll office not receiving timely documentation that an individual’s status had changed. Departments are responsible to maintain effective internal controls to limit the potential for loss and maintain positive employee relationships. Communicating personnel appointment information to payroll processors is essential to effective internal control over the payroll process.

Recommendations:

6a. XX Payroll Office staff should emphasize the need for supervisors to communicate terminations, hires, recalls, and other personnel status changes on a timely basis to the XX Human Resource department.

6b. XX Payroll should pursue a repayment plan for the undetected $2,400 and ensure repayment of the $1,599 has been made.

8. Payroll abstracts are verified but not always approved.

During our testing of payroll documents we reviewed abstracts from pay period 4/9/2012 to 4/22/2012 and from pay period 11/21/2011 to 12/4/2011 and found the payroll abstract related to pay period 4/9/2012 to 4/22/2012 was verified but not approved. We also noted during payroll testing that one of the payroll employees responsible for entering payroll information into HRMS verified, and sometimes approved, the payroll abstracts.

University payroll internal controls require that two individuals confirm (via their signatures) that the payroll abstract is correct: one individual verifies the accuracy of the transactions and notes any changes, and the second individual approves. Payroll abstracts should be verified by an employee in a position to know that payroll entries are legitimate and accurate (i.e., in the originating department) and approved by an appropriate employee who does not have HRMS entry access. HRMS users with entry access should also not have approval responsibilities for any personnel documents.

Recommendation:

8. Payroll personnel should ensure all payroll abstracts are verified and approved appropriately, and any employees with HRMS entry access should not have approval responsibilities for payroll abstracts or personnel documents.