

AUDIT OF SELECTED PAYROLL PROCESSES

THE UNIVERSITY OF NEW MEXICO

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ABBREVIATIONS

EDC.....	Employment Data Center
ENMU.....	Eastern New Mexico University
ERP.....	Enterprise Resource Planning
Faculty Contracts.....	Faculty Contracts and Services Office
FTE.....	Full-Time Equivalent
HR.....	Department of Human Resources
NMHU.....	New Mexico Highlands University
NMSU.....	New Mexico State University
NM Tech.....	The New Mexico Institute for Mining and Technology
OEO.....	Office of Equal Opportunity
OGS.....	Office of Graduate Studies
Payroll.....	UNM Payroll Department
SAC.....	Special Administrative Component
SOM.....	School of Medicine
SOM AA.....	School of Medicine Academic Affairs
SOM FCHO.....	School of Medicine Faculty Contracts Hiring Office
STC.....	Special Teaching Component
UBP.....	University Business Policies and Procedures Manual
University.....	The University of New Mexico
UNM.....	The University of New Mexico
UNMMG.....	The University of New Mexico Medical Group

EXECUTIVE SUMMARY

As part of the fiscal year 2010 audit plan, the Internal Audit Department conducted an audit of selected payroll processes at The University of New Mexico (UNM). The audit focused on certain processes in the UNM Payroll Department (Payroll), and how other departments' processes affect Payroll. The main issue affecting Payroll is systemic delays in processing employment transactions. To compensate for the delays, Payroll has implemented various processes and procedures that divert resources from its regular payroll processing mission. The following summary provides management with an overview of our recommendations.

PAYROLL PROCESSES

Payroll spends considerable time and resources processing off-cycle payrolls, adjustments, and employee accounts receivable. Management should address the causes of the off-cycle payrolls and implement policies to minimize payroll adjustments.

EMPLOYEE ACCOUNTS RECEIVABLE

Employee accounts receivable arise when former or current employees receive payroll overpayments resulting from processing delays for terminations, change in employee status, or changes in reported time. Payroll spends considerable resources researching, collecting and accounting for employee overpayments. Management should implement a policy on employee accounts receivable and address the delays in processing that give rise to the accounts receivable.

EMPLOYMENT DATA CENTERS

The University has seven Employment Data Centers (EDCs) that are responsible for processing the hiring of University employees. The EDCs each report to different Executive Vice Presidents and have operations autonomous from Payroll and the Department of Human Resources (HR). Management should consider consolidating the EDCs to streamline the hiring process, and in the interim, address processing delays in hiring and payroll processing.

COORDINATION AND COMMUNICATION

Lack of communication among departments and failure to coordinate processes create delays in the payroll process. Management should enhance communication and coordination in the payroll process amongst the Department of Human Resources, Payroll, EDCs, and departmental users of the Enterprise Resource Planning (ERP) systems.

SINGLE PAYROLL DATE

The University is currently on a dual payday cycle; non-exempt employees are paid biweekly and exempt employees are paid monthly. Management should explore the possibility of adopting a single biweekly pay date for all employees.

AUTOMATED TIME ENTRY SYSTEMS

The current time keeping system relies on manual input and is prone to delays and processing errors. Management should explore the possibility of implementing an automated timekeeping system for all University employees.

CONCLUSION

Although the University has successfully implemented its Enterprise Resource Planning systems, challenges remain in making the system more effective. In an environment of contracted resources, it is more essential than ever that the University find ways to become more efficient. The recommendations in this report are aimed at increasing the effectiveness of current processes, and designing systems and procedures that will improve payroll efficiency.

INTRODUCTION

BACKGROUND

UNM initiated implementation of the ERP system with Banner Finance in 2004, Banner Student in 2006, and Banner HR/Payroll in January 2008. UNM implemented the UNMJobs hiring and employment program and process in 2008.

Overall, the University's ERP implementation has been a success as measured by its ability to pay employees and vendors on time, and manage the finances of UNM's diverse organizations and operations. The University's challenge is to continue to achieve greater efficiency of processes and improve on the coordination of all the different components of the ERP system.

One of the main challenges to improving efficiency within the ERP system involves improving communication and coordination among operations and departments. The ERP system is intended to integrate the University's business processes and organizational data so that it is more consistent, secure, and easier to access by a diverse group of users. One of the underlying principles of ERP Systems is that when ERP software is integrated into the organization to administer departmental functions, those departments become unified and no longer operate independently. Business processes at the departmental level affect the entire ERP system, often across organizational lines. Departmental inefficiency can have a domino effect and cause strain on the system in other parts of the organization.

The University's employment processes are facilitated through UNMJobs, while payroll processing is facilitated through the Banner HR/Payroll system. The hiring process is complex, requires multiple levels of review and approvals, and requires detailed data entry. In addition, hiring processes differ depending on the type of employee. Payroll is administered through Banner HR/Payroll, which functions autonomously of UNMJobs. The core offices administering hiring and payroll transactions are HR, Payroll and the EDCs.

Hiring at UNM is decentralized into seven EDCs organized by class of employee. The EDCs are the offices that are responsible for the hiring process, including employee screening, data entry, and oversight of employment transactions for each specific group of employees. The EDCs include: HR-Staff, School of Medicine (SOM) Academic Affairs, SOM Faculty Contracts and Hiring Office, Student Employment, Graduate Medical Education, Office of Graduate Studies (OGS), and Faculty Contracts and Services Office (Faculty Contracts).

PURPOSE

The purpose of the audit was to assess the payroll processing cycle of the University to determine opportunities to achieve greater efficiency and effectiveness.

SCOPE

The audit focused on certain processes within Payroll and the effect that other departments and centers are having on these processes. The audit examined the cause of off-cycle payroll runs and

delays in processing of employment transactions. Internal Audit completed fieldwork on October 25, 2010.

AUDIT PROCEDURES

Audit procedures included analyzing off-cycle payrolls and payroll adjustments, and interviews of personnel in the core administrative offices of Payroll, Human Resources and the Employment Data Centers. We surveyed other New Mexico institutions of higher education regarding the HR/Payroll processes, and also sent survey questionnaires to other peer institutions suggested by the Provost.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

PAYROLL PROCESSES

The Payroll Department processes and distributes salary and wage payments to approximately 16,000 faculty, staff and student employees. Additional responsibilities include withholding and remitting employment taxes to the Internal Revenue Service and the State of New Mexico, preparing employment tax reports, and reporting year-end tax information. Payroll is also responsible for: nonresident alien tax status evaluation; tax treaty compliance; insurance vendor payments; tax deferred annuity enrollment; retirement reporting; enrollment for U.S. Savings Bonds; and, servicing third party garnishments.

Payroll employs a total of 15 employees and reports to the Vice President for Finance and University Controller. For FY 2010, Payroll processed a total of 319,085 payments as counted by number of direct deposits: 314,281 original payrolls; and, 4,804 adjusted, reissued, voided and manual payrolls. The total gross payroll for FY 2010 was \$835,024,388.

Analysis of Off-Cycle Payroll Runs and Adjustments

Payroll processing through the regularly scheduled payroll cycle is a routine and relatively trouble-free practice. In addition to the regularly scheduled runs, Payroll also processes numerous off-cycle payroll runs and adjustments. Off-cycle payroll runs between regularly scheduled payroll dates are labor intensive, time consuming, and pose a significant stress on Payroll resources.

Off-cycle payrolls and adjustments involve research, analysis, calculation and review, and processing of direct deposits, all of which allocate resources away from regular Payroll functions. Off-cycle payrolls are usually the result of delays in employment paperwork, employees not yet entered into Banner, data entry errors and corrections, and special requests to process paychecks. Special requests to process payroll are often the result of delays or breakdowns in other departments, requiring Payroll to complete the process through off-cycle adjustment.

Off-cycle payrolls and adjustments are made either through a Banner adjustment form during a current cycle, or by running a payroll adjustment through a subsequent regular payroll cycle. Either method requires additional time and effort to verify correct earnings, payroll deductions, and leave balances. In addition to performing off-cycle payroll runs, Payroll processes time that is submitted late with a “pick up” run system prior to finalizing the payroll run.

Payroll processes non-exempt employees on a biweekly basis and processes exempt employees once a month. During FY 2010, Payroll processed approximately 1,500 off-cycle pay checks through Banner adjustment forms, and another 900 payrolls via subsequent payroll cycles. The off-cycle payrolls were approximately 9/10 of 1% of total payrolls analyzed. Comparably, the State of New Mexico has an off-cycle payroll rate of 1/10 of 1% for all State employees. A certain level of payroll adjustment is necessary and will always exist; however, the State

Controller indicated that the 1/10 of 1% is at the upper level of acceptable strain on Payroll resources for the State. The State of New Mexico processes approximately 624,000 payrolls per fiscal year. All State employees are paid on a biweekly payroll cycle with a one week processing to pay date delay.

Analysis of off-cycle payrolls shows that the main cause of payroll adjustment is delay in processing employment transactions (See Attachment A). Late processing of transactions or paperwork occurs for a number of reasons, including:

- New hires are entered into UNMJobs, but not entered into the Banner payroll system;
- Input of new hires into Banner payroll process prior to finalization of hiring process in UNMJobs; and/or
- Delay in processing terminations, which results in overpayments and employee accounts receivable.

While not epidemic in proportion, the late paperwork problem does indicate inefficiency in processing. The analysis indicated that the delays originate at the department level and occur across the University. Furthermore, departments where delays occur appear to be concentrated in Faculty Contracts, Office of Graduate Studies, and Human Resources EDCs.

The EDCs appear to be ineffective in holding departments accountable for meeting deadlines. In addition, they have not been providing guidance and setting policy for departments to follow. The EDCs do not have authority to change department processing procedures. UNM also lacks a University-wide policy on off-cycle payrolls and adjustments.

Policy for Off-Cycle Payroll Runs and Adjustments

The standard operating procedure at Payroll is to process all requests for off-cycle payrolls and adjustments. University leadership has established a precedent over time – deans, directors and administrators request that Payroll process off-cycle payrolls for various reasons. Understandably, Management does not want to delay employee paychecks when the department may be at fault. However, exceptions have now turned into standard operating procedures, putting undue stress on Payroll resources. Continual off-cycle processing leaves Payroll in a reactive mode, requiring additional resources for adjustments and off-cycle payrolls.

Our survey of other institutions of higher education in New Mexico (Attachment B), as well as an inquiry of the State of New Mexico Department of Finance, indicate that it is common practice to have one off-cycle payroll run. UNM has a practice of daily off-cycle paycheck processing, sometimes occurring multiple times per day.

Increasing efficiency in Payroll will necessitate curtailing the off-cycle payroll processing. This approach may result in delay for some employee's paychecks until the delays at the department

level are addressed and corrected. The aim is to bring a greater degree of accountability to the departments for their processes, rather than pass the consequences for processing delays on to Payroll.

Recommendation 1

The EVP for Administration should implement policies to end special exceptions and the continual processing of off-cycle payrolls and adjustments. To help reduce exceptions, the administration should implement initiatives to hold employees, supervisors and department heads accountable for delays and responsible for their lack of attention.

Response from the EVP for Administration

The EVP for Administration agrees with the need to reduce the continual process of off-cycle payrolls and adjustments and reduce the number of exceptions, but does not endorse the recommendation to end special exceptions. In an operation as diverse and expansive as UNM there is a need for flexibility in order to respond to enrollment changes and research opportunities, and some special exceptions and off-cycle payrolls are necessary. The EVP proposes the following action to reduce the number of exceptions and off-cycle payrolls:

Action Items		
Corrective Action Planned	Assigned to	Target Completion Date
<i>1. Revise Policy 2000 “Responsibility and Accountability for University Information and Transactions” to incorporate accountability for timely submission of accurate payroll-related information.</i>	<i>UNM Policy Office</i>	<i>6/1/11</i>
<i>2. Payroll will review and evaluate off-cycle payrolls and create a schedule that reduces the number of off-cycle payrolls while still ensuring that employees are paid within a reasonable time. These changes will be adequately communicated to supervisors and department heads to ensure they meet the new schedules.</i>	<i>Payroll</i>	<i>5/15/11</i>
<i>3. Human Resources will develop a monthly summary report for deans and directors advising them of actions from their units that result in off-cycle payrolls so they can address the root causes.</i>	<i>Human Resources</i>	<i>7/1/11</i>

Recommendation 2

Payroll should develop a plan to communicate changes in policy to the UNM payroll community and provide guidance for departments to help ensure successful implementation of new policies.

A communication campaign well in advance of the policy change will increase chances for successful implementation. Deans, directors, department chairs, and payroll timekeepers and approvers should be notified several months in advance of the transition through all means available, including updates on the PR and HR website, emails, newsletters, and enhanced training.

Response from the Vice President for Finance and University Controller

The Vice President for Finance and University Controller concurs that a communication campaign is necessary to notify the campus community of the schedule reflecting a reduced number of off-cycle payrolls and the need to reduce the number of exceptions. A substantial reduction in processing off-cycle payrolls will be a change in practice and not a change in policy, since off-cycle payrolls are processed on an exception basis outside of the published payroll deadlines. The VP for Finance proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Financial Services Division will use Standard Operating Procedure SOP FISC-133: Process-Change Communication Guidelines to communicate any proposed changes in procedures and practices anticipated by Item 2 of the action plan in response to Recommendation #1.</i>	<i>VP for Finance</i>	<i>Begin as soon as action begins on Item 2 of Rec #1.</i>

Recommendation 3

HR should work with payroll and the EDCs to develop standard guidelines and policies for departments to follow. The information should include, but not be limited to: terminations and separations; adjustments; and, deadlines for submission to Payroll for payment. Payroll should disseminate this information to the department deans, directors, chairs, timekeepers and approvers, and Payroll personnel.

Response from the Vice President for Human Resources

The Vice President for Human Resources concurs with this recommendation and proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<p><i>1. Human Resources in conjunction with Payroll and the EDCs will develop standard guidelines and procedures for departments to follow which will address payroll special exceptions that result in off-cycle payrolls and adjustments. The specific areas to be addressed will include late processing, inaccurate reporting and inaccurate processing of all employment transactions. In addition, processes will be developed to address department and EDC accountability as it related to non-compliance with timely and accurate employment transactions. These guidelines will be disseminated using multiple approaches identified in a communication plan submitted to the EVP for Administration for approval prior to implementation.</i></p>	<p><i>Human Resources</i></p>	<p><i>Submit report to EVP for Administration by 7/1/11</i></p>

Recommendation 4

HR should work with Payroll to develop and enhance training programs to include new policies and initiatives. Payroll currently offers one payroll training class for new departmental timekeepers and approvers. HR has online training courses for accurate time reporting, UNM employment policies, and Fair Labor Standard Act rules.

Enhanced training should include, but not be limited to: training for new hires or new timekeepers; recertification of current timekeepers and approvers; and, specialized training topics. Specialized training should address the underlying causes of off-cycle payrolls, including: terminations and separations; timely processing of hiring paperwork; proper data entry at the EDC level; and, deadlines for submission of paperwork for payroll processing. The training can be general, across the board training, or tailored toward departments/EDCs that are experiencing problems.

Response from the Vice President for Human Resources

The Vice President for Human Resources concurs with the recommendation to enhance training and proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>Human Resources in conjunction with Payroll and the EDCs will review training programs and update them to include revised standards, procedures, and policies.</i>	<i>Human Resources</i>	<i>9/1/11</i>

EMPLOYEE ACCOUNTS RECEIVABLE

Payroll handles a significant number of employee accounts receivable arising from payroll overpayments to current and former employees. The University does not have a policy on collecting employee accounts receivable, and Payroll does not have written guidance for departments on preventing and handling employee accounts receivable.

Most employee accounts receivable arise when departments do not immediately forward termination paperwork for exempt employees to Payroll. Exempt employees are set up for automatic salary payments each month, and continue to receive direct deposits until Payroll is notified of termination. Payroll overpayments can also occur for a variety of other reasons, including:

- Erroneous overpayments kept by employees;
- Cancelled classes where faculty retains salary payment;
- Lack of review/reconciliation of payroll records by payroll supervisors; and
- Change in employee classification, status, or pay rate.

Generally, Payroll is not made aware of the overpayment until the employee or department reports it to them. Once Payroll is notified, they must analyze the cause, and contact the originating department and employee. When an employee makes repayment, Payroll must adjust departmental and employee payroll records. If they do not collect an overpayment within 30 days, Payroll turns over the employee receivable to the Bursar's Office for collection. If the overpayment spans calendar years, the process becomes more difficult because correction of records involves amendment of W-2 forms and payroll tax reports.

Gross salary overpayment adjustments during FYE 2010 were approximately \$680,000. A significant portion of the overpayments are able to be corrected through reductions on employee paychecks within the next payroll cycle. Otherwise, the overpayment must be collected through collection efforts by Payroll or the Bursar. When the net overpayment is collected from the employee, the transaction is reversed, and the department recovers the gross expense. The net outstanding balance due from employees as of June 30, 2010, was \$105,000.

Recommendation 5

The University Policy Office should develop a University-wide policy on employee accounts receivable that addresses the circumstances in which accounts receivable arise, and the repayment and collection policy for overpayments to employees.

Response from the Director of Policy

The Director of Policy concurs with this recommendation and proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>Work with subject matter experts to develop a proposed administrative policy on "Accounts Receivable" in accordance with Policy 1100 "Development and Approval of Institutional Policy."</i>	<i>UNM Policy Office</i>	<i>5/1/11</i>
<i>Include in Fall 2011 Policy campus review cycle.</i>	<i>UNM Policy Office</i>	<i>11/1/11</i>

Recommendation 6

HR should work with payroll and the EDCs to address delays in processing terminations. HR should develop specific guidance on the termination process and how to avoid employee accounts receivable. Payroll should consider developing a report for department directors and supervisors providing feedback for accuracy and completeness of payroll data.

Response from the Vice President for Human Resources

The Vice President for Human Resources concurs with this recommendation and proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>1. Human Resources in conjunction with Payroll and the EDCs will develop standard guidelines and procedures for departments to follow which will address delays in processing termination transactions.</i>	<i>Human Resources</i>	<i>7/1/11</i>
<i>2. The Report described in Item 3 of response to Rec. #1 will advise deans and directors of actions from their units that result in accounts receivable and other termination concerns resulting from problems with accuracy, completeness, and timeliness of termination payroll data so deans and directors can address the root causes.</i>	<i>Human Resources</i>	<i>7/1/11</i>

EMPLOYMENT DATA CENTERS

The University has seven separate Employment Data Centers. The EDCs are responsible for facilitating the employment processes, including: hiring; terminations; change in status; and, initial data entry into the Banner HR/Payroll system. EDCs are autonomous of each other and there is no standardization of processes and procedures among the centers. The EDCs are organized according to type of employee. Each center has different procedures for handling key employment-related transactions, such as hiring processes, terminations, and changes in employee class or status. EDCs each report to a different Executive Vice President, and each have differing corporate cultures and methodologies. The total estimated cost for personnel administering the payroll function and the EDCs is approximately \$2,676,000 (Attachment C).

Human Resources

The Human Resources EDC is responsible for hiring UNM staff for employment in departments and branches, and for administering benefits for all UNM faculty, staff and student employees. The Human Resources EDC has seven full-time equivalent (FTE) personnel and reports to the Vice President for Human Resources.

Faculty Contracts

Faculty Contracts is responsible for facilitating the hiring of all main campus and branch campus full-time and part-time faculty, continuing education faculty, and part-time faculty at SOM, including College of Nursing and College of Pharmacy faculty. Faculty Contracts' EDC has four and one-half FTE personnel and reports to the Deputy Provost for Academic Affairs.

Office of Graduate Studies

The Office of Graduate Studies (OGS) is the EDC for hiring and administering graduate assistantships at UNM. The Office of Graduate Studies' EDC employs three FTE and reports to the Office of the Provost.

School of Medicine

SOM Academic Affairs EDC split into two units in 2008, in anticipation of the opening of the UNM Sandoval Regional Medical Center. UNM Sandoval Regional Medical Center expected to hire 60 new faculty members. The EDC split to expedite the hiring process; however, the hospital opening is delayed until spring 2012.

- School of Medicine Faculty Hiring and Contracts Office (SOM FHCO) focuses on hiring new faculty and clinical physicians at the School of Medicine. The SOM FHCO works with the Position Review Committee and the UNM Medical Group (UNMMG) to identify and screen potential candidates and facilitate the faculty hiring process. The SOM FHCO employs three FTE and reports to SOM Academic Affairs.
- The SOM Academic Affairs office is responsible for employment processes related to existing SOM faculty. Those processes include Family Medical Leave Act, administrative leaves, sabbaticals, tenure and promotions, FTE changes, salary changes, retirement and employment actions related to existing faculty. This EDC employs five FTE and reports to SOM Academic Affairs.

Graduate Medical Education

Graduate Medical Education EDC hires residents after graduation from medical school. Residents enter one of the core programs at the SOM, or, after finishing a core program, may enter a Fellowship. The Graduate Medical Education EDC employs three FTE and reports to the EVP for the Health Sciences Center.

Student Employment

Student Employment hires students at the University, both work study qualified and regular student employees. Student employment has four FTE and reports to the Vice President of Enrollment Management at the Office of the Provost.

Consolidation of Employment Data Centers

The University may benefit from increased efficiency through consolidation of the Employment Data Centers. Benefits include consistency of data entry into the system and uniformity of processes in hiring UNM employees. While each EDC has processes specific to its own type of employee, there are characteristics of the UNMJobs and HR Banner systems that are common to all processes and should be uniform across the University.

Our survey results (Attachment B) indicate that other institutions of higher education in New Mexico have far fewer employment data centers than UNM. For example, New Mexico State University (NMSU) and New Mexico Highlands University (NMHU) have two centers (one for faculty contracts and one for the remainder of the university). The New Mexico Institute for Mining and Technology (NM Tech) has three (one each for staff, faculty, and student employment). Eastern New Mexico University (ENMU) has one combined employment center. However, the University of New Mexico has seven employment data centers as listed above. The survey also indicates three institutions (ENMU, NMHU, and NMSU) combined their human resources and payroll processing into one division that reports to Finance. These institutions have implemented strong internal controls for system access and security.

Standardization can be achieved in the following data input areas:

- New hire processing;
- Processing terminations and separations;
- Consistency of data entry into Banner; and
- Timeliness of processing employment transactions.

Recommendation 7

Management should explore the possibility of consolidating the EDCs, taking into account the costs, benefits, and implementation considerations.

Response from the Office of the President

UNM has an extensive Health Sciences Center component which adds employee categories that the three institutions listed as examples do not have; we will explore consolidation of EDCs taking into consideration the complexities associated with the HSC and the variety of the functions of each EDC (i.e. credentialing compliance, affirmative action compliance, federal and state work study compliance, benefits, data entry, etc.). The Office of the President proposes the following action.

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>Through their regular meetings, the EDCs will be asked to explore the possibility of consolidating some of the EDCs and submit a status report to the Office of the President. Human Resources will facilitate this process.</i>	<i>Human Resources</i>	<i>7/1/11</i>

Office of Graduate Studies

Departments that hire graduate assistants generally have to wait until grants are approved and finalized before they begin the hiring process. The process provides the Office of Graduate Studies only six weeks prior to the start of a term to process approximately 2,000 assistantship contracts. Often, graduate assistants are not fully processed through the system prior to the start of the term. As a result, OGS is fraught with delays in employment processing, resulting in graduate assistants who have started working but are not yet entered in the payroll system. The delays have a domino effect, culminating with Payroll processing off-cycle payrolls and adjustments. While OGS does have deadlines for submitting paperwork, departments do not adhere to the deadlines, and OGS has little authority to enforce compliance with deadlines. In addition, contract revisions occurring mid-term often result in confusion over the effective date of the change and when payments under the new contract terms should commence.

Recommendation 8

The Provost should review the hiring process for graduate assistantships and work with departments to develop real deadlines, realistic lead time for hiring, and specific guidance for reporting terminations and contract revisions. The Provost should consider coupling payroll payment to timely submission of employment paperwork for new hires and contract revisions.

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<p><i>The Provost will work with the Dean of the Office of Graduate Studies to establish a deadline calendar for hiring graduate assistants, and then will work with the Deans and Chairs of Colleges and Schools to make them aware that deadlines will be enforced. Terminations, contract revisions, and off-cycle hiring will result in delays in salaries until the next regular payroll.</i></p>	<p><i>Deputy Provost and Dean of the Office of Graduate Studies</i></p>	<p><i>July 1, 2011</i></p>

Faculty Contracts

Faculty Assignments

Often, academic departments do not decide assignments for deans, associate deans, or department chairs until after the budget process is over and the contract period is passed. Faculty Contracts begins producing nine month faculty contracts in May and June in anticipation of the

upcoming fiscal year. However, they do not finalize the Special Administrative Component (SAC), Special Teaching Component (STC), and other components and positions until after the budget is known, generally, in July. The contracts are not completed until Faculty Contracts finalizes the special components, which generally is not until the next fiscal year, necessitating contract changes after July 1. Faculty usually report for the fall semester in mid-August; however, not all contracts are finalized and in place at that time. The delay in assignments impedes the process, and allows Faculty Contracts only 1½ months to enter all of the contracts into the system before faculty report for the fall semester.

Contract Revisions

Contract revisions occur frequently throughout the year, often during the middle of a semester. The effective date of contract revisions and the payment commencement date are not clearly defined in policy. Such changes often result in retroactive payroll adjustments.

Class Cancellations

Although the fall semester starts in August, the faculty cadre is not set until mid-September when classes fill up, and all student additions and drops are confirmed. Faculty Contracts cannot determine if classes will be held or canceled until this process is complete. This process generally creates a faculty payroll adjustment to reflect reduced workload; however, there is no guidance regarding the procedures and effective date of the pay reduction.

Recommendation 9

The Provost should review the faculty contract process and ensure that faculty contracts are in place prior to the commencement of the academic year. The Provost should work with deans and faculty to establish an appropriate timeline for determination of faculty assignments and development of lead times. The timeline should provide sufficient time for Faculty Contracts to meet hiring and payroll deadlines. The Provost should work with deans, faculty and Payroll to determine the effective date for class cancellation and the appropriate method for contract revision adjustments.

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Provost will work with the Deans and Chairs of the Colleges and Schools to establish a calendar for determination of SAC's and STC's so that the majority of contracts for regular faculty (tenured, tenure-track,</i>	<i>Deputy Provost</i>	<i>July 1, 2011</i>

<i>and lecturers) are in place prior to the beginning of the academic year and in time to meet hiring and payroll deadlines. A similar calendar for finalizing class cancellation decisions will be created and dates set so that affected contracts of part-time faculty will be revised in time to meet payroll deadlines</i>		
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Faculty Payments Prior to Completion of Hiring Process

The Faculty Contracts office is responsible for both faculty hiring through UNMJobs and payroll entry in Banner. UNMJobs is intended to be integrated with Banner and if the process is not complete for a prospective hire, the department should be contacted for follow up. This should be done before the prospective faculty information is entered in Banner for payroll payments. However, the two processes within Faculty Contracts appear to be unsynchronized, where payroll is initiated before the hiring is complete. Due to a delay in the processing of contracts, faculty often begin teaching and receive payroll payment(s) prior to completion of the hiring process.

Recommendation 10

The Provost should review the hiring and payroll processes at Faculty Contracts for compliance with faculty hiring guidelines and payroll processing policies.

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Provost will review and reinforce with the Deans and Chairs of the Colleges and Schools the deadlines for hiring part-time faculty so that the UNMJobs portion of the required data entry is complete before the Banner data entry that results in placement on the payroll.</i>	<i>Deputy Provost</i>	<i>July 1, 2011</i>

Recommendation 11

The Provost should work with Faculty Contracts to design and implement an effective hiring process to ensure timely completion prior to employee start date, and prior to commencement of payroll payments.

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Provost will work with Faculty Contracts to review the current hiring process and make any necessary modifications to ensure hires are completed before the employee start date and before commencement of payroll payments.</i>	<i>Deputy Provost</i>	<i>July 1, 2011</i>

Part Time Temporary Faculty

When a semester ends, the system automatically terminates part-time temporary faculty, even if the faculty will continue to teach the next semester. Faculty Contracts must then reenter the employee data and contract into the system to rehire them. The inherent inefficiency of this process contributes to the delay in processing faculty contracts.

Recommendation 12

The Provost should work with Faculty Contracts to develop effective hiring procedures for part-time temporary faculty. Faculty Contracts needs to draft and implement data entry procedures to accurately reflect payment processes for part-time temporary faculty, and processes to accurately record the employees in the ERP system.

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Provost will work with Faculty Contracts to review the current hiring procedures for part-time temporary faculty so that data entry accurately reflects payment processes and records the employees actually in the ERP system</i>	<i>Deputy Provost</i>	<i>July 1, 2011</i>

Office of Equal Opportunity Issues

During their review for annual Federal Affirmative Action reporting, the Office of Equal Opportunity (OEO) discovered errors in Faculty Contracts' employment data entry, including:

- Faculty do not meet the minimum hiring qualifications that departments have set;
- Faculty Contracts processes the temporary part-time faculty for payroll prior to processing in UNMJobs;
- OEO has denied approval of employee hires due to failure to meet minimum qualifications, and yet the individual was already working and being paid;
- Certain position classes described by Faculty Contracts are not listed in the Faculty Handbook; and
- Faculty Contracts improperly inputs data into Banner using a Summer Session classification for secondary duties, such as interim dean or chair. The Summer Session faculty coding is used by OEO to report temporary part-time faculty teaching summer session to Federal agencies for the Affirmative Action Plan. The inconsistent use of the designation may skew results and/or double-count faculty in OEO reports.

Recommendation 13

Faculty Contracts should work with OEO to determine the proper data necessary for the ERP systems to produce accurate Affirmative Action Reports. Faculty Contracts should then develop internal guidelines for the data entry process to meet those reporting requirements. Faculty Contracts should work with OEO to document the internal data entry procedures for inputting full-time, research, and temporary part-time faculty into the UNMJobs system.

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Provost will ensure that Faculty Contracts and OEO work together to determine the correct data and reporting methodology so that accurate Affirmative Action Reports are produced. This effort will include procedures for inputting all faculty into the UNMJobs system</i>	<i>Deputy Provost</i>	<i>July 1, 2011</i>

COMMUNICATION AND COORDINATION

HR, Payroll, EDCs, and departmental users of the ERP system will benefit from enhanced communication and coordination. The University has complex hiring and payroll processes that require coordination of multiple departments. Departments work with the various EDCs in the hiring process. Employment data entered by the various EDCs integrates with Payroll processing, and OEO relies on data input into the system for hiring approvals and Federal Affirmative Action reporting.

Organizations and departments within the University that use the ERP systems have divergent missions, values and modes of operation. There are diverse purposes and uses for the information entered into the ERP systems, and input errors of one department could have an adverse impact on the processes in other departments. Monitoring and maintenance of the system is necessary in post implementation phases to reduce ineffectiveness within the ERP system. Typically, the maintenance phase of an ERP life cycle requires changes and modifications such as new reports, different workflows, and changes to processes. A formal Continuous Improvement Process is an ongoing effort to improve services or processes through continual evaluation and improvement of effectiveness and flexibility.

Internal Audit found the following examples of communication and coordination lapses resulting in additional adjustments, off-cycle payrolls, and data corrections.

- Departments not timely processing terminations and providing data to EDC or to Payroll;
- Departments independently installing automated time keeping systems;
- Departments requesting off-cycle payrolls without proper supporting documents;
- Departments requesting off-cycle payrolls several weeks or months late; and
- Multiple departments relying on inconsistent/uncoordinated data entry.

Due to the integrated nature of the ERP system, the processes and procedures of one department can impact the efficiency and effectiveness of other departments in the hiring and payroll process. For example, an ineffective hiring process at the department level can cause delays at the EDC, leading to adjustments and off-cycle runs in Payroll. Since the hiring and payroll processes as a whole span across departments and organizational lines, efficiencies and delays are compounded and cascade throughout the system. Some of the processes identified that affect multiple departments and processes include:

- Communication and coordination in the termination and separation processes;
- Hiring processes at EDCs and how they integrate with Payroll, OEO, and other departments;
- Timely processing of faculty contracts and graduate assistantships; and
- Actions affecting change in pay rate, including class cancellation, promotions, change in employee classification, and change in employment status.

To increase efficiency within the payroll system, the University could benefit from a formal continuous process improvement program to examine the effectiveness of EDC and departmental processes.

Recommendation 14

The Vice President for Finance and University Controller, the Vice President for Human Resources, and the Provost should work together to improve communication and coordination of processes among the ERP administrators and users.

Response from the Vice President for Finance and University Controller

The Vice President for Finance and University Controller concur with this recommendation and propose the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>Develop a communication plan and collaboration tools to increase the effectiveness and efficiency of the ERP.</i>	<i>Financial Services, Human Resources, Faculty Contracts</i>	<i>9/1/11</i>

Response from the Vice President for Human Resources

The Vice President for Human Resources concurs with this recommendation and proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>Human Resources will coordinate with the Finance Division and the Academic Affairs Division to review the need for revised or new standard guidelines, training, and/or communications for ERP administrators and users.</i>	<i>Human Resources</i>	<i>7/1/11</i>

Response from the Provost/EVP for Academic Affairs

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>The Provost will work with the Vice Presidents and the Controller to ensure there is better communication and coordination of processes among the ERP administrators and users.</i>	<i>Deputy Provost</i>	<i>July 1, 2011</i>

Recommendation 15

The EVP for Administration should establish a Continual Improvement Process to indentify, analyze, and eliminate inefficient or ineffective processes throughout the ERP system and across organizational lines.

Response from the EVP for Administration

The EVP for Administration agrees that a Continual Improvement Process is important to indentify, analyze, and eliminate inefficient or ineffective processes throughout the ERP system and across organizational lines and proposes the following action:

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>I will ask the ERP Leadership Group to review current Continual Improvement Processes (CIP) used by ERP Steering Committee, the HRPR Project Prioritization Teams, the Business Process Owners initiatives, and the Leadership Group and submit an ERP CIP report to me.</i>	<i>ERP Leadership Group</i>	<i>7/1/11</i>

SINGLE PAYROLL DATE

The University has a dual payroll system where non-exempt employees are paid biweekly, and exempt employees are paid monthly. There are different payroll tax deposit rules for each pay period, requiring different tax reconciliation and deposit dates for each type. Survey results (Attachment B) indicate neither the State of New Mexico nor the other higher education institutions have more than one pay date per payroll cycle. Five entities (CNM, ENMU, NMHU, NM Tech, and State of New Mexico) are on a biweekly payroll system with one off-cycle payroll run per cycle. NMSU is on a semi-monthly payroll cycle with one off-cycle payroll run. In comparison, UNM runs both bi-weekly and monthly payroll cycles with near daily off-cycle payroll runs creating many inefficiencies and very high demand on payroll processing staff.

An alternative to the dual processing date is adoption of a single payroll date for all University employees. Changing to a single payroll date would involve adopting a biweekly or semimonthly pay date for all University employees. Under New Mexico labor laws, an employer must establish pay days at least once every 16 days and within 10 days of the close of the pay period.

Section 50-4-2A, NMSA 1978, as amended states:

An employer in this state shall designate regular pay days, not more than sixteen days apart, as days fixed for the payment of wages to all employees paid in this state. The employer shall pay for services rendered from the first to the fifteenth days, inclusive, of any calendar month by the twenty-fifth day of the month during which services are rendered, and for all services rendered from the sixteenth to the last day of the month, inclusive, of any calendar month by the tenth day of the succeeding month.

Employers may pay professional, administrative, executive employees, or employees employed in the capacity of an outside salesman, one time per month, excluding those employees whose wages are subject to provisions of collective bargaining agreements.

Benefits of a single payroll include:

- Reduction in out-of-cycle payroll runs;
- Single date to deposit payroll taxes; and
- Single reconciliation of payroll, two times a month.

Recommendation 16

The Vice President for Finance and University Controller should explore the possibility of adopting a biweekly or semi-monthly payroll date for all University employees.

Response from the Vice President for Finance and University Controller

Management has explored the options of paying all University employees on a biweekly or semi-monthly payroll and cannot endorse a change under the current circumstances and environment. Additional resources would be needed in Payroll for this change. Currently, two Payroll staff members are assigned to process the monthly employee payroll. These staff members have nearly an entire month to process all of the documentation, changes, set up deductions, research problems, and follow up with the appropriate EDC on problems. Changing to a biweekly or semi-monthly pay cycles for exempt employees would mean that all of the processing to get the exempt employee paid would need to take place in less than half the time. In addition, the change from a monthly payroll could negatively impact interest revenue and cash flow for the University. Given the severe fiscal constraints UNM faces, the considerable workload placed on Information Technologies, and budget cuts resulting in workforce reductions, this recommendation would overwhelm the University's current resources and therefore is not a viable option at this time. This recommendation could be revisited when the economy recovers and adequate resources are available.

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>None at this time</i>		

AUTOMATED TIME ENTRY SYSTEMS

The University currently uses the departmental time entry methodology. Under the current payroll processing system, non-exempt biweekly employees fill out a sheet with daily hours showing time in and out, including breaks and time taken off for sick, annual, or other leave categories. At the end of the pay period, the timesheets are forwarded to the direct supervisor for review, and then given to the timekeeper for entry into Banner. The process is similar for exempt monthly employees; however, only exception time (sick and annual leave) is entered into Banner. Upon final review for accuracy, the data is approved electronically and submitted to Payroll for processing and payment.

Even though there is an electronic element to the process, it is very labor intensive and requires close supervision and review for accuracy. For large departments with hundreds of employees, the data input process is cumbersome, time consuming and prone to error. Smaller departments also have internal control issues; individuals may have dual roles of timekeeper and time

approver, and there may be insufficient personnel to provide separation of duties. Automated and direct time entry models enable employees to report their time through card swipe or a web portal and to submit the time for approval by supervisors.

The University has initiatives underway that explore an organization-wide implementation of automated time keeping systems. Automated and web time entry has the following advantages and disadvantages:

Advantages

- Saves money; technology already exists in house;
- Decentralizes data entry;
- Makes employees accountable for time entry;
- Eliminates need for paper timekeeping;
- Allows employees and supervisors to see time entered through web portal;
- Automatically captures time through use of a card swipe;
- Eliminates manual time input;
- Integrates with existing systems, including direct time download into Payroll systems; and
- Reports annual leave and sick leave accrual in real time.

Disadvantages

- Higher data entry error rates, if adequate training is not provided;
- Cultural change, implementation of new systems, and steep learning curves;
- Policy revisions and possible additions;
- Errors at data entry level compound throughout database systems;
- More difficult reconciliation;
- Software/Hardware Cost, including University-wide licensing and hardware installation; and
- Extensive testing of the system.

UNM Hospital

The UNM Hospital payroll operation is on an automatic feed timekeeping system that is integrated with their payroll system for automatic payroll processing. The system is set up and coded with payroll rules, procedures and employee data. The system properly translates the payroll data captured by swiping the ID card for processing by the payroll system. Every employee, except top administrators, uses the automatic time feed system. The hospitals have approximately 6,000 employees made up of clinical technicians, physician assistants, pharmacy technicians, and non-clinical administrators. There are no physicians employed by the hospital. All of the physicians are employed either by SOM or by UNM Medical Group.

Every employee uses an ID to swipe and enter time into the system. Hourly employees must swipe in and out, at lunch, breaks, etc. Exempt employees only swipe once a day. There is some

need for monitoring of employee attendance by supervisors. Each department has time editors who will make changes and edits to time entry should there be any errors or omissions by employees. Employees also have the option of entering their time through online computer entry should they be off site or otherwise not able to swipe.

To process payroll, UNM Hospital Payroll locks the system from further input and executes a global import of payroll data into the payroll system. UNM Hospital Payroll performs a supplemental payroll run every two weeks to catch any missing time, but generally this process is minimal, as the automatic feed properly captures time into the system when employees swipe identification cards.

Recommendation 17

The EVP for Administration should expedite evaluation of alternative time entry methods and explore the possibility of implementing a University-wide system.

Response from the EVP for Administration

A committee was convened to review implementation of a Kronos solution for automated time entry. The initial cost estimates for a University-wide implementation were in the range of 1.75-2 million dollars with a recurring cost of \$200,000. Given the severe fiscal constraints UNM faces, the considerable workload placed on Information Technologies, and budget cuts resulting in workforce reductions, this recommendation would overwhelm the University's current resources and therefore is not a viable option at this time. This recommendation could be revisited when the economy recovers and adequate resources are available.

Action Items		
Corrective Action Planned	Assigned to	Targeted Completion Date
<i>None at this time.</i>		

APPROVALS



Manilal Patel, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit Committee

UNM Payroll Process
Survey of Other New Mexico Institutions of Higher Education

No	Question	UNM (HR)	UNM (Payroll)	CNM	ENMU	NMHSU	NMITSU
1.	Are the Payroll and Human Resources separate departments?						
	Yes	X	X	X	X	X	X
	No						
2.	What are your payroll cycles?						
	Bi-weekly		X	X	X		X
	Monthly						
	Both bi-weekly and monthly	X	X				
	Semi-monthly					X	
3.	How often does your University allow off-cycle payroll runs and under what circumstances?	Off cycle payroll runs are processed four times for each payroll type (bi-weekly-2R, monthly-5R, and non pay-9R) for all circumstances (i.e., missed time entry or approval, late time sheets, late paperwork, etc.)	UNM Payroll produces off cycle paychecks on a daily basis. Written justification from the requesting department is required.	Upon exception request by supervisor.	Manual check on payroll dates to correct errors and involuntary employee terminations.	Weekly off-cycle runs primarily to pay "late" payments for jobs that have ended or to process termination leave payouts	Every other week. Varies to fix incorrect payment (ie no overtime, raise paperwork late special payments to reimburse employee for purchases....)
4.	What is your method of time reporting?						
	On line/web-based entry			X	X	X	
	Automatic feed/card swipe	X - Bookstore Only-Kronos feed to Banner	X				
	Departmental timekeeper/manual entry	X - All other Departments	X	X			X
	Other						
5.	How many HR employment data centers do you have?						
	Staff employment	1	1				X
	Faculty employment (contracts)	3	3		X	X	X
	Student employment	2	2	X			X
	Combined employment center or unit	1	1	X	X	X	
6.	What is your annual/sick leave use policy for taking time off more than 1 hour?	Exempt employees report leave in one hour to four hour increments based on the employees department policies. Non-exempt employees report all leave time.	Salaried employees (Exempt FLSA), Non-Salaried (hourly) employees (Non-exempt FLSA)	Survey did not answer question.	Survey did not answer question.	Exempt employees report leave in excess of 4 hours a day. Non-exempt employees report all leave time. 9 month faculty's do not accrue sick or annual leave.	Survey did not answer question.

UNM Payroll Process
Survey of Other New Mexico Institutions of Higher Education

Notes: Advantages of Organizational Structure

- 1) UNM (HR) - Payroll Office separately reporting to Finance allows for more coordination and guidance from Finance Department with reconciliations related to fringe benefits, taxes, labor, and other. Separation of HR and Payroll allow for separation of duties for internal control purposes (i.e., Salary is entered at HR and verified and paid by Payroll, Benefits are entered and administered by HR and paid to vendors by Payroll)
- 2) UNM (PR) UNM has 6 core offices (Employment Data Centers) that function as Human Resources offices for their respective employees: Faculty Contracts, SOM Academic Affairs (HSC faculty), Student Employment, Office of Graduate Studies, Graduate Medical Education, Human Resources (staff). Because each type of employee is distinctive, the above approach works well for such a diverse population. Each core office is responsible for hiring and tracking its employees as well as making any system changes such as promotions, contract changes, FTE changes, etc. This provides a separation of duties. Only the Employment Centers can set up new employees and only Payroll can pay employees.
- 3) CNM - Avoid possibility of setting up ghost employees and paying without collusion.
- 4) ENMU - Increased efficiency related to communication; ability to cross-train small staff and meet obligations when absences occur. Greater equity related to distribution of responsibilities, streamlined services
- 5) NMHU - Eliminates duplication of documents/records. Allows for extensive cross-training of Payroll and HR Staff. Improved communication (improved workflow, improved customer service- employees need only visit one department. Payroll reporting to HR allows for uncomplicated implementation of Administrative Software features as payroll is part of the HR module of our software (Banner)* (*Caution must be exercised in building system security to ensure strong internal controls.)
- 6) NMSU - Better control of hire to pay process to ensure process efficiencies; helped to define clear roles and responsibilities to avoid non-duplicative non-value added procedures yet allowing for data integrity checks as necessary. Staff have a more holistic view of the process which enables them to provide better customer service and serve as effective problem solvers. Helped eliminate the finger-pointing (problem is now "ours"). Better control of how data needs to come in to produce accurate output, processes are defined and developed to meet all needs (no more garbage in/garbage out)
- 7) NMTech - Double check of information on all employees.

**UNM Payroll Processes
Payroll and Employment Data Centers (FY 2011)
Summary of Resources**

<u>Unit</u>	<u>FTEs</u>	<u>Salary</u>	<u>Benefits</u> ⁽²⁾	<u>Total</u>
Payroll	15	\$ 730,666.00	\$ 219,199.80	\$ 949,865.80
Human Resources	7	\$ 233,989.00	\$ 70,196.70	\$ 304,185.70
Faculty Contract	5	\$ 275,355.00	\$ 82,606.50	\$ 357,961.50
Office of Graduate Studies	3	\$ 104,043.00	\$ 31,212.90	\$ 135,255.90
SOM FHCO	3	\$ 161,200.00	\$ 48,360.00	\$ 209,560.00
SOM Academic Affairs	5	\$ 273,125.00	\$ 81,937.50	\$ 355,062.50
Graduate Medical Ed.	3	\$ 148,646.00	\$ 44,593.80	\$ 193,239.80
Student Employment	4	\$ 132,013.00	\$ 39,603.90	\$ 171,616.90
Totals	45	\$ 2,059,037.00	\$ 617,711.10	\$ 2,676,748.10 ⁽¹⁾

NOTES:

⁽¹⁾ The table does not include other non-personnel related expenses.

⁽²⁾ Benefits are estimated at 30% of total salary expense