

An Audit Report on

The Uniform Statewide Payroll/Personnel System (USPS)



Office of the State Auditor
Lawrence F. Alwin, CPA

July 1995

Report No. 95-149



OFFICE OF THE STATE AUDITOR

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Members of the Legislative Audit Committee:

Agencies using the Uniform Statewide Payroll/Personnel System (USPS) surveyed in April 1995 reported that they are able to perform payroll reconciliation procedures to help ensure that agency payroll amounts are accurate. These results represent an improvement from our earlier survey in October 1994 in which agencies reported difficulties in performing payroll reconciliations due to problems associated with the USPS system.

It is important to recognize that this audit focused primarily upon determining whether agencies were able to perform necessary payroll reconciliation procedures. We reduced the original audit scope from a planned review of overall controls within the USPS system due to problems with the system's stability as of October 1994. However, we plan to complete a more thorough review and assessment of control systems within USPS in the future. As of April 1995, USPS was used by 95 agencies and processed approximately 26 percent of total statewide payroll.

Since USPS was implemented in February 1994, the USPS Team at the Comptroller's Office has undertaken a number of initiatives to improve user satisfaction with the system and to improve the level of system support and assistance. The formation of a USPS Users Group and an agency advisory committee have also helped to enhance communication between system users and the USPS Team.

Although the agencies we surveyed indicated that there has been some improvement in the system, important issues still remain as of May 1995. For example, the conversion of additional, larger agencies to USPS has been postponed until a new release of the software is delivered by the system's vendor. The Leave Accounting component of the USPS system is not operational, and the system's vendor is currently modifying this component. Options on the system's Backouts and Reversals screen will be unavailable until the interface between the USPS system and the Texas Payee Information System (TPIS) becomes operational. Agencies continue to report that quarterly IRS reports are difficult to prepare using reports provided by USPS. Finally, controls should be strengthened over the procedures used to process Letters of Authorizations (LOAs) which allow modification of system data.

Management of the Comptroller's Office and its USPS Team generally concur with the recommendations in this report. We appreciate the courtesy and cooperation they extended to us during the course of this review.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

LFA/rmn

Key Points Of Report

An Audit Report on The Uniform Statewide Payroll/Personnel System (USPS)

July 1995

Key Facts and Findings

- Agencies using the Uniform Statewide Payroll/Personnel System (USPS), which were surveyed in April 1995, reported that they are able to perform payroll reconciliation procedures to help ensure that payroll amounts are accurate. These results represent an improvement from our earlier survey in October 1994 in which agencies reported difficulties in performing payroll reconciliations due to problems associated with the system. This audit focused primarily upon determining whether agencies were able to perform necessary payroll reconciliation procedures. We reduced the original audit scope from a planned review of overall controls within the USPS system due to problems with the system's stability as of October 1994. However, we plan to complete a more thorough review and assessment of control systems within USPS in the future. As of April 1995, the system processed approximately 26 percent of total statewide payroll and was used by 95 agencies.
- The USPS Team at the Comptroller's Office has implemented a number of initiatives to improve user satisfaction with the system and to improve the level of system support and assistance available from the USPS Agency System Integrated Support Team (ASIST). In addition, the formation of a USPS Users Group and an agency advisory committee have helped to enhance communication between system users and the USPS Team.
- Although the agencies we surveyed indicated that there has been some improvement in the system, important issues still remain as of May 1995. For example, the conversion of additional, larger agencies to USPS has been postponed until a new release of the software is delivered by the system's vendor. The Leave Accounting component of the USPS system is not currently operational, and the system's vendor is currently modifying this component. Three options on the system's Backouts and Reversals screen will be unavailable until the interface between the USPS system and the Texas Payee Information System (TPIS) becomes operational. Agencies continue to report that quarterly IRS reports are difficult to prepare using reports provided by USPS. Finally, controls should be strengthened over the procedures used to process Letters of Authorizations (LOAs) which allow modification of system data.

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Table of Contents

Issues and Recommendations 1

Section 1:

**Agencies Using The Uniform Statewide Payroll/
Personnel System (USPS) Reported That They Are
Able To Perform Payroll Reconciliation Procedures
To Help Ensure The Accuracy Of Payroll Amounts 1**

Section 2:

**Initiatives Implemented By The Comptroller's Office,
Formation Of A User Group, And An Agency Advisory
Committee Should Enhance Communication
and User Satisfaction 2**

Section 3:

**Although Agencies In Our Survey Indicated That
USPS Is Improving, Important Issues Surrounding The
System Remain 4**

Appendices:

1 - Objectives, Scope, and Methodology 7
2 - Background Information 9
3 - Information About The Selected Sample 10

Issues and Recommendations

Section 1:

Agencies Using The Uniform Statewide Payroll/Personnel System (USPS) Reported That They Are Able To Perform Payroll Reconciliation Procedures To Help Ensure The Accuracy Of Payroll Amounts.

Agencies using the Uniform Statewide Payroll/Personnel System (USPS) surveyed in April 1995 reported that they are able to perform payroll reconciliation procedures to help ensure that agency payroll amounts are accurate. (See Appendix 3 for a list of the sample agencies.) Examples of payroll reconciliation procedures used by these agencies include tasks such as comparison of current month payroll amounts to prior month payroll amounts or confirming the accuracy of payroll amounts through the comparison of trial payrolls with source documents such as personnel action forms.

The April 1995 survey results represent an improvement from our earlier survey (October 1994) in which agencies reported difficulties in performing payroll reconciliations due to problems associated with the USPS system. Specifically, in October 1994, sample agencies indicated that errors in report summation and truncation and other random bugs in the system were making the reconciliation of payroll more difficult. Since October 1994, however, we researched the status of these system problems and found evidence that the USPS Team had corrected or is in the process of correcting these problems. In addition, we also researched the initiatives undertaken by the USPS Team to enhance communication with and assistance provided to the system users.

Our April 1995 survey results indicated that most sample agencies felt that there had been some improvement in the system. Specifically, agencies noted improvements in system availability and improvements in certain reports produced by the system. In addition, agency staff noted that they were learning how to work with the system and overcoming the learning curve associated with converting to a new system. As of April 1995, the USPS system processed approximately 26 percent of total statewide payroll and was used by 95 agencies.

It is important to recognize that this audit focused primarily upon determining whether agencies were able to perform necessary payroll reconciliation procedures. We reduced the original audit scope from a planned review of overall controls within the USPS system due to problems with the system's stability as of October 1994. However, we plan to complete a more thorough review and assessment of control systems within USPS in the future.

The Comptroller's Office is currently improving the process it uses to make changes to the USPS system. Specifically, the management of Application Change Requests (ACRs) is being modified in order to enhance the manner in which agencies are notified about system changes. In addition, the Comptroller's Office is working toward better categorization of existing and new ACRs into categories such as system enhancements or system fixes.

Recommendation:

The Comptroller's Office and its USPS Team should continue their efforts to correct system problems in a timely manner and improve the Application Change Request (ACR) process. In addition, trends in the categories and status

Issues and Recommendations

of ACRs should be reported to Comptroller's Office executive management on a monthly basis. These reports should be accompanied by plans to address any global or system-wide problems which the ACR trends may reveal.

Management's Response:

The ACR process has been streamlined and simplified, and publicized to the users on the State Government Accounting electronic bulletin board as well as in presentations to the User Groups. Additional analysts have been assigned to the ACR analysis and review function which helps insure prevention of duplicates, accurate categorization, and efficient resolution of conflicting requests. This analysis has identified all related ACRs into associated bundles which will be worked in a group, thereby reducing the overhead on testing, training, and documentation. It is anticipated that the throughput will be significantly increased by this approach.

Monthly statistical reports concerning the ACR status and trends have been implemented. These reports are distributed to executive management, and to the intra-divisional management who attend the monthly ACR review meetings. These monthly meetings were implemented in order to share status and planning information concerning all aspects of changes to the statewide accounting systems.

Section 2:

Initiatives Implemented By The Comptroller's Office, Formation Of A User Group, And An Agency Advisory Committee Should Enhance Communication and User Satisfaction

The Comptroller's Office, its USPS Training Team, and its USPS Agency System Integrated Support Team (ASIST) have implemented a number of initiatives to improve user satisfaction with the system and to improve the level of system support and assistance. Examples of these initiatives include the following:

- The Comptroller's Office has offered to conduct business processes analysis studies at agencies using USPS. The purpose of these studies is to explore opportunities for improving agency payroll and personnel processes. In addition, the studies will identify any training needs and Application Change Requests (ACRs) which could fill specific needs of the agencies. The first pilot study was conducted at the Department of Public Safety in January 1995, and nine other agencies are scheduled for this analysis from April through August 1995.
- Since the implementation of the USPS system, ASIST team members have distributed instructional information to agencies regarding reconciliation. This has evolved into the preparation of a guide for suggested quarter-end processing (currently in draft form). The draft is currently being reviewed by the Comptroller's Office documentation staff

Issues and Recommendations

and will eventually be distributed to agencies. This guide describes specific tasks that will make the quarter-end process easier and includes recommended tasks to be done for every payroll.

- The ASIST team supervisor is now testing the ASIST team members on their knowledge of the USPS system. Through this process, the supervisor judges the team members' knowledge of the system and whether there are areas about which they need to learn more. In addition, when making monthly visits to agencies, ASIST team members give agencies blank "grade cards," which the agencies complete and return to the Comptroller's Office.
- The ASIST team also performs analysis of Letters of Authorization (LOA) logs and help desk phone logs to determine whether there is a need for training in a particular area.
- The ASIST team communicates system changes to agencies via on-line E-mail, printed banner pages, user group meetings, the monthly *Statewise* newsletter, and Notices to State Agencies.
- An Employees Retirement System (ERS) benefits reconciliation guide has been developed. This reconciliation guide provides general steps in the payroll/reconciliation process, including required reports, deadlines, and terminology used to reconcile and report employee benefits data.
- USPS training has evolved from a lecture type of environment to a self-paced, exercise driven, lab environment due to the comments regarding training that the

USPS Training Team has received from users.

- The USPS Training Team is considering developing and distributing a work-around guide to inform agencies about temporary procedures to use to work around system problems until they are corrected.

The formation of a USPS Users Group in June 1994 has also provided a forum for agencies to discuss various aspects of or problems associated with the system. Comptroller's Office staff make presentations at the monthly meetings of the USPS Users Group, and the minutes from the USPS User Group meetings are mailed to agencies that do not send representatives to the meetings. Within the USPS Users Group, a number of focus groups have been formed to concentrate on specific components of the system. These focus groups also assist in prioritizing the ACRs. ACR status updates are also presented at USPS Users Group meetings. In addition to the USPS Users Group, an agency advisory committee, which includes representatives from USPS agencies, has been formed. In April 1995, this committee began meeting with the Deputy Comptroller on a monthly basis.

Recommendation:

To continue its efforts to improve user communication and user satisfaction regarding USPS, the Comptroller's Office should do the following:

- Consider incorporating the Business Processes Analysis as a standard, post-conversion step when additional agencies convert to the USPS system.

Issues and Recommendations

- Finalize the suggested quarter-end procedures and distribute them to agencies. In addition, the work-around guide should be developed and distributed to agencies as soon as possible.

Management's Response:

It is our intention to incorporate the Business Process Analysis as a standard, post-conversion step when converting agencies with more than 200 employees to USPS. Smaller agencies usually have one employee who performs all accounting, human resource and payroll processing functions. A review of these processes would provide for little improvement.

The quarter-end document was distributed to users at the June 1995 USPS User Group meeting.

The USPS Training Team has formed a task force to create the work-around guide for agencies. It is expected to be completed by late summer.

Section 3:

Although Agencies In Our Survey Indicated That USPS Is Improving, Important Issues Surrounding The System Remain

Certain issues surrounding the USPS system have not been completely resolved, and the Comptroller's Office and its USPS Team are in the process of addressing these issues. These issues include the following:

- The conversion of additional, larger

agencies to USPS has been postponed until the system vendor provides the Comptroller's Office with a new release of the USPS software. The new release will be upgraded to COBOL II programming language and will include checkpoint restart logic. The Comptroller's Office expects this release to be delivered in June 1995. After delivery, the USPS Team will spend from June 1995 to December 1995 testing these revised programs. During this time period, the USPS Team must also modify the programs in the new release. These modifications are necessary to ensure that the modifications that the USPS Team made to its original copy of the programs are also incorporated into the programs in the new release. The USPS Team plans to resume scheduling larger agencies to convert to USPS in January 1996.

- The Leave Accounting component of USPS is not currently operational. The vendor is currently making modifications to this component. Once this component becomes operational, any agency which previously converted data to the original version of this component will have to re-convert its data for the revised version of this component.
- The USPS Backouts and Reversals screen is not available for the termination, rehire, new hire, and transfer options. These options are not available because the interface between the USPS system and the Texas Payee Information System (TPIS) is not currently operational. The USPS Team is working on this interface, and, once the interface is operational, these options will become available.
- Agencies surveyed in April 1995 report that quarterly IRS reports are still difficult to complete with the information

Issues and Recommendations

supplied by the USPS system. The USPS ASIST team has drafted a guide for suggested quarter-end processing which includes suggested tasks for preparing the quarterly IRS reports. In addition, the ASIST team has formed a specialized team to assist with the completion of the IRS reports. This team is available to any agency needing assistance completing the IRS reports.

- The USPS ASIST team does not currently use an authorized signature list when processing the LOAs submitted by agencies. LOAs are submitted in order to modify data in the system which cannot be modified using the system's screens.

Recommendation:

The Comptroller's Office and its USPS Team should continue its efforts to address issues associated with the system. Specifically:

- Upon receipt of the new release of the USPS programs from the vendor, the USPS Team should ensure that all modifications made by the USPS Team to its version of the programs are correctly and completely transferred to the applicable programs in the new release. The USPS Team should also conduct thorough testing to ensure that the checkpoint restart logic is operational and that all modifications have been completely transferred to the new version of the programs.
- The USPS Team should continue to monitor the status of the Leave Accounting component of the system and should ensure that the re-conversion of agency data for this component of the system is conducted in an organized

fashion.

- The USPS Team should continue its efforts to complete the interface between the USPS and TPIS systems in a timely manner.
- The USPS Team should continue its efforts to assist agencies in completing their quarterly IRS tax reports. As part of this effort, the USPS Team should work jointly with agencies to identify and correct any inaccuracies in the data produced by the USPS system which is used to complete the IRS tax reports.
- The USPS ASIST Team should implement the use of an authorized signature list when processing LOAs submitted by agencies. This list should be consulted for each LOA submitted to ensure that the LOA was submitted by an authorized individual.

Management's Response:

The vendor has provided the Comptroller with a workplan for installing restart logic into the system. Part of the plan requires the state staff to test, and for management to signoff, on each part of this phased in effort. We have already reviewed, tested and accepted the first module delivered in the restart plan.

In May, we were notified by DBS that a copy of the COBOL II product was available to us upon special request. We made that request. In addition, we have developed and are in the process of executing a plan for converting existing state supported USPS code to COBOL II. As part of the total plan, both the state modified version and vendor modified version of USPS using COBOL II will be tested in unison to ensure, that when put into

Issues and Recommendations

full production, that they not only work singularly but also continue to work together.

A workplan template has been drafted to address the re-conversion of agencies' data to the Leave Accounting component of USPS. The Leave Accounting Conversion Team will coordinate the orderly scheduling of agencies' to the USPS Leave system. The workplan encompasses all phases of the re-conversion, including re-training of the agencies' timekeepers.

An ACR is currently in review by the functional staff to ensure that all documentation of the business requirements for the interface between USPS and TPIS are complete. Once this is done, it will be prioritized and scheduled using the procedures defined in the ACR process.

The USPS ASIST team formed a specialized task force designated to work with agencies having difficulty completing the IRS 941 reports. A letter offering this service was faxed to all agencies production on USPS. If errors are detected on any USPS reports which provide the information for the completion of the IRS reports, emergency ACRs will be submitted. In addition, a presentation is scheduled to be made to the June USPS User Group meeting on this project.

A letter is being drafted to agencies requesting the designation of specified individuals authorized to approve data changes. This procedure would be able to be implemented by the end of June, assuming a timely response from agencies.

Appendix I:

Objectives, Scope, And Methodology

Objectives

We evaluated whether agencies using the Uniform Statewide Payroll/Personnel System (USPS) were able to perform payroll reconciliation procedures to help ensure that employees receive correct pay amounts. This audit evaluated the reconciliation procedures in place as of April 1995. The original objective of this audit to evaluate the adequacy of the system's internal controls was modified due to the instability of the system as of October 1994. In the future, we intend to complete a thorough review of the control systems within USPS.

The evaluation focused on answering the following questions:

- Are reconciliations being performed by the user agencies?
 - Does information provided to the users assist in reconciling pay amounts?
 - Are system problems impacting the agency reconciliation procedures?
- Does the system team assist the users to resolve the problems?

Scope

The scope of this audit included consideration of the following:

- reconciliation control procedures performed by the agencies, including the impact of system problems on agencies' ability to reconcile
- assistance and communication provided by the USPS Team to the agencies

Methodology

The methodology used consisted of collecting information, analyzing and verifying the information, and evaluating the information against pre-established criteria.

Information collected to accomplish our objectives included the following:

- Interviews with the users of the USPS system
 - Office of the Attorney General
 - Comptroller of Public Accounts
 - Department of Public Safety
 - Employees Retirement System
 - Public Utility Commission
 - Texas Commission for the Blind
 - Texas Cosmetology Commission
 - Texas Education Agency
 - Texas Natural Resource Conservation Commission
 - Texas Veteran's Commission
 - Texas Workers' Compensation Commission
 - Texas Youth Commission
- Interviews with USPS management and staff
- Documentary evidence such as:
 - System data entry screens and reports
 - System error examples
 - USPS User Meeting Minutes
 - Agency reconciliation documents
- Enabling legislation for USPS
- Agency-generated data on system modifications, modules used, processed amounts, and employee totals

Analysis techniques used:

- Computer Assisted Audit Techniques
- Review of Application Change Request information
- Review of special pay and deduction table codes

Appendices

Criteria used:

- Information Systems Audit and Control Association (ISACA) Policies and Procedures
- Management Information System standards issued by the Department of Information Resources
- IRS payroll regulations
- Texas state payroll and human resources regulations

Fieldwork was conducted from October 19, 1994, through May 2, 1995. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

The audit work was performed by the following members of the State Auditor's staff:

- Teresa Menchaca, CISA (Project Manager)
- David Conner, CISA
- Nancy McBride, MA
- Ed Pyun, CPA
- Randy Townsend, CPA (Audit Manager)
- Craig D. Kinton, CPA (Director)

Appendices

Appendix 2:

Background Information

Under directive from the Texas Legislature, the Comptroller of Public Accounts is required to implement a Uniform Statewide Payroll/Personnel System (USPS). The purpose of the USPS system is to provide a standard payroll calculation for the State of Texas, as well as accurate and timely data concerning the work force. USPS is intended to satisfy the needs of statewide payroll reporting while supporting individual agency payroll and personnel management operations.

The development of the system began with detailed study activities in September 1989,

and a Request for Information was released in November 1990. The contract with the system's software vendor, Dun and Bradstreet Software Services, Inc., was executed in April 1992. A supplemental contract with the vendor was signed in October 1994. Development costs of the system during fiscal years 1990 through 1994 totaled \$20,138,667.

Agencies have gradually been migrating to the USPS system since February 1994. Institutions of higher education have been granted a deferral from inclusion in the USPS system. As of April 1995, the USPS system was in use at 95 agencies. The migration of additional, larger agencies to the system has been postponed until a new release of the software is delivered by the vendor.

Appendices

Appendix 3:

Information About The Selected Sample

We selected a sample of agencies that use USPS to evaluate the adequacy of compensating controls implemented by these agencies to ensure that their employees were paid correctly.

A stratification of the 86 agencies using USPS in September 1994 was used to select the sample agencies. The 86 agencies were divided into three stratum:

- 1,000 employees or more
- less than 1,000 and more than 99 employees
- 99 employees or less

All seven agencies with 1,000 employees or more were included in the sample. Three of the 29 agencies with less than 1,000 and more than 99 employees were reviewed. Two of the 50 agencies with 99 employees or less were reviewed. By reviewing the following agencies, we covered 68 percent (\$59,969,303) of the \$87,972,566.50 processed in September 1994 by the system and 67 percent of 32,098 total employees in the system.

The following lists the selected agencies with employee population by stratum:

<u>Agencies with 1,000 employees or more</u>	<u>Employees</u>	<u>September 1994 Monthly Payroll</u>
• Department of Public Safety	6,071	\$16,123,717
• Office of the Attorney General	3,750	10,325,986
• Texas Natural Resource Conservation Commission	2,876	9,069,783
• Comptroller of Public Accounts	2,821	9,588,856
• Texas Youth Commission	2,169	4,774,924
• Texas Education Agency	1,273	3,398,070
• Texas Workers' Compensation Commission	1,145	2,831,311
<u>Agencies with less than 1,000 employees and more than 99 employees</u>		
• Texas Commission for the Blind	582	1,298,298
• Employees Retirement System	312	1,509,271
• Public Utilities Commission	226	760,989
<u>Agencies with 99 employees or less</u>		
• Texas Veterans Commission	89	201,623
• Texas Cosmetology Commission	47	86,474
Total	21,361	\$59,969,302

Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junell, Chair, House Appropriations Committee
Representative Tom Craddick, Chair, House Ways and Means Committee

Governor of Texas

Honorable George W. Bush

Legislative Budget Board

Sunset Advisory Commission

Comptroller of Public Accounts

Honorable John Sharp, Comptroller of Public Accounts
Mr. Billy Hamilton, Deputy Comptroller
Mr. Art Martinez, CPA, Manager, Internal Audit