



Texas Lottery Commission

Internal Audit Services

An Internal Audit of:

CAPPS Payroll Processes

Report #21-003

January 12, 2021

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Audit Report Highlights CAPPs Payroll Processes

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for performed this internal audit as part of the approved FY 2021 Annual Internal Audit Plan.

Audit Objectives and Scope

On July 13, 2020, the Texas Lottery Commission went live on the CAPPs HR/Payroll system. We performed this audit to assess management's internal control structure in place to ensure payroll is accurate in the CAPPs system.

The audit scope period was August 2020 – October 2020.

Audit Focus

This audit focused on the following areas:

- ✓ User access and roles to ensure that there is adequate segregation of duties, including ensuring that individuals cannot be added to payroll and salary adjustments cannot be made without the proper authorization.
- ✓ To assess payroll processes and internal controls for adequacy and effectiveness.

Thank You!



We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

Audit Conclusions

Overall, management internal control structure to assure payroll is accurate in the CAPPs HR/Payroll System are effective. The new HR/Payroll processes in place are appropriate to managing their risks.

Internal Control Rating

Best Practice

What Did We recommend?

Our assessment did not identify any findings regarding the agency's CAPPs Payroll Processes. We did find two (2) opportunities for improvement for management to consider.

1. Conduct regular reviews of CAPPs HR/Payroll system access, semi-annually at a minimum. A quarterly would be optimal.
2. Develop and maintain a list of approved user profile access by employee job description.

Number of Findings by Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0
Improvement Opportunities	0	0	2	2

Introduction



McConnell & Jones LLP (MJ) performed an internal audit of the CAPPs Payroll Processes.

We performed this audit as part of the approved FY 2021 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Objective



The purpose of this audit was to assess management's internal control structure in place for the CAPPs payroll process.

We designed audit procedures to evaluate internal controls and processes over:

- ✓ To assess user access and roles to ensure that there is adequate segregation of duties, including ensuring that individuals cannot be added to payroll and salary adjustments cannot be made without the proper authorization.
- ✓ To assess payroll processes and internal controls for adequacy and effectiveness.

Scope



This audit period was August 2020 – October 2020.

Procedures Performed



We conducted interviews and tested the CAPPs HR/Payroll system and processes for segregation of duties, access to the systems, and internal controls to ensure accuracy of payroll calculations.

Conclusion and Internal Control Rating



*We concluded that overall internal controls are Best Practices. **Exhibit 1** describes the internal control rating.*

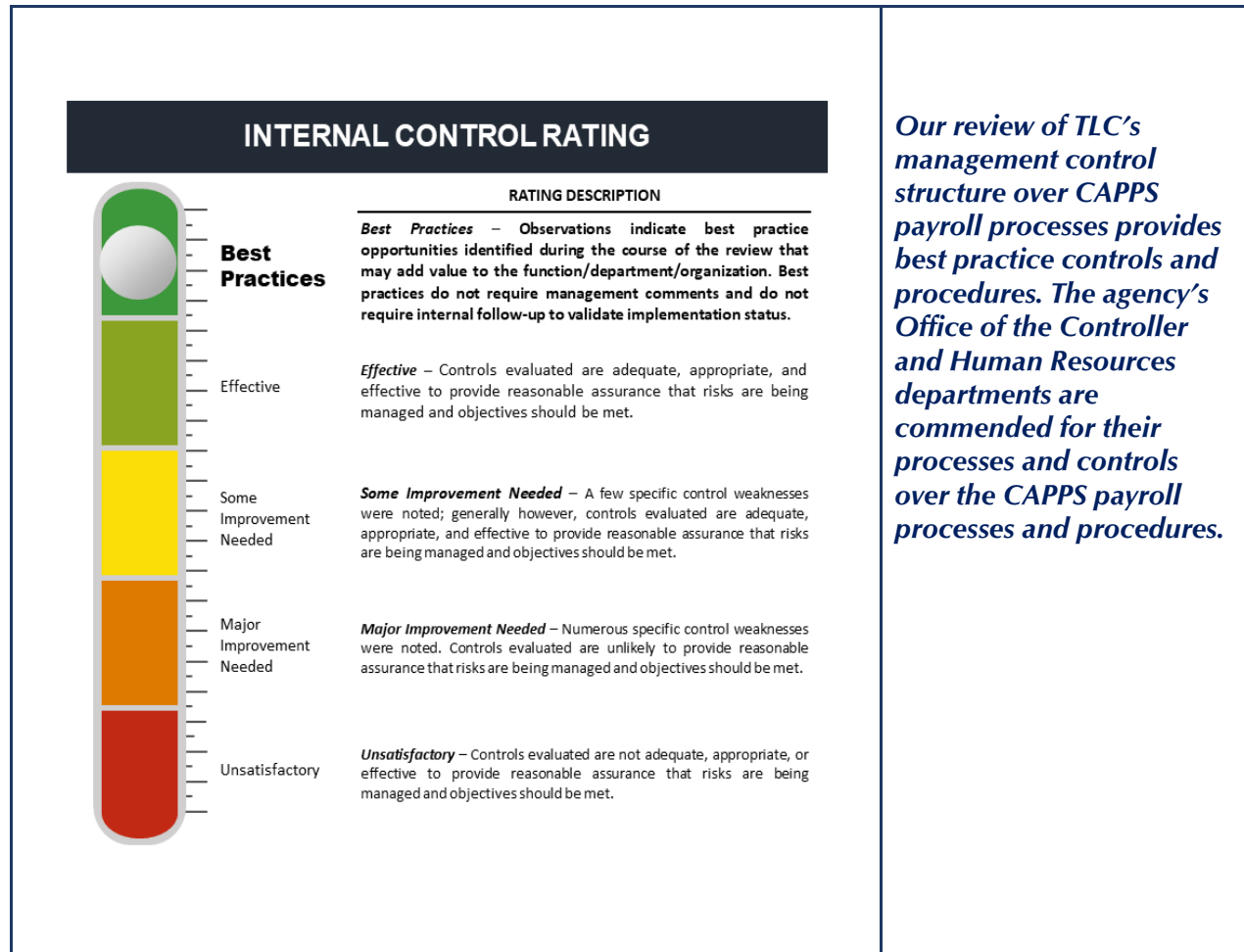


Exhibit 1: Internal control rating description.

Findings and Management Response



Our assessment resulted in no findings or recommendations.

We identified two (2) opportunities for improvement for management to consider:

- Conduct regular reviews of CAPPs HR/Payroll system access, semi-annually at a minimum.
- Develop and maintain a list of approved user profile access by employee job description.

No management response is required.

Background

The Texas Legislature House Bill 3106 in 2007 which charged the Comptroller's office with implementing enterprise resource planning (ERP) system to consolidate the state's various automated business functions into a single, common set of systems to be used by all state agencies. The Comptroller's office response to this bill was the creation of the Centralized Accounting and Payroll /Personnel System (CAPPS). The CAPPS system features two parts: CAPPS Financials and CAPPS Human Resources (HR)/Payroll.

On July 13, 2020, the Texas Lottery Commission transitioned to the CAPPS HR/ Payroll systems. The core modules of the system include: Core HR, Payroll, Position Management, and Time and Labor.

TLC CAPPS Payroll Processes Business Objectives, Risks, Findings and Management Response



This section of the report provides a summary of applicable business objectives, risks, and controls in place to ensure that TLC's CAPPS HR/Payroll system and processes for segregation of duties, access to the systems, and internal controls to ensure accuracy of payroll calculations.

Each table also includes our assessment of internal controls for the respective business risk, our recommendations to address deficiencies noted or opportunities to enhance current controls and management's response.

1 BUSINESS OBJECTIVE: Segregation of Duties Managed with Assigned Users Roles

Business Objective	Texas Lottery Commission (TLC) maintains segregation of duties for Payroll Processing as it relates to authorizing, processing, recording, and reviewing payroll transactions.
Business Risk	➔ Lack of segregation of duties (SOD) can lead to increased risk of fraud.
Management Controls in Place	<ul style="list-style-type: none"> ➔ CAPPS employee self-service access is provided at the time of new hire. For any additional access required, an ISR form is submitted by the employee's supervisor and division director. ➔ Use of ISR form for all requests for access to CAPPS. ➔ Confidential Treatment of Information Acknowledgement (CTIA) from submitted to Office of the Controller for all new hires. ➔ According to TLC during our walkthrough with human resources, the Controller and the HR director determines the level of access to be given to an employee.
Control Tests	<ul style="list-style-type: none"> ➔ Interviewed key process owners. ➔ Tested for SOD between HR and Office of the Controller user access.
Control Assessment / Findings	Internal Controls operating as designed.
Recommended Actions	None

1 BUSINESS OBJECTIVE: Segregation of Duties Managed with Assigned Users Roles

Management Response and Action Plan None required.

2 BUSINESS OBJECTIVE: Prevent Unauthorized Access to Payroll Systems

Business Objective	Texas Lottery Commission (TLC) prevents unauthorized users from having access to payroll and human resources modules in CAPPs.
Business Risk	<ul style="list-style-type: none"> ➤ Unauthorized access to sensitive data. ➤ Unauthorized access/changes to employee personal and/or payroll information.
Management Controls in Place	<ul style="list-style-type: none"> ➤ If the employee requires additional access (HR, Payroll, Position Management, or Time and Labor) an ISR form will need to be submitted. ➤ According to TLC during our walkthrough with human resources, access to payroll and HR modules are granted on a role basis with the approval of the Controller and the HR director. ➤ A semi-annual review of roles for the Centralized Accounting and Payroll/Personnel System (CAPPs) is to be carried out in October and April specifically.
Control Tests	<ul style="list-style-type: none"> ➤ Interviewed key process owners. ➤ Tested for unauthorized access within CAPPs.
Control Assessment / Findings	<ul style="list-style-type: none"> ➤ One (1) employee transferred to a different agency in January 2020 is listed on the CAPPs user access report lists. The report reflects her access to her new agency (304), not TLC (362). After investigation this was due to her workflow being converted to CAPPs during deployment. This has been resolved; no risk. ➤ User access review was missed for October 2020. Since TLC went live on CAPPs in August, they were unaware of the CAPPs data being included as a download requirement with the October 2020 report. They have now marked these reviews on the calendars. ➤ A list of approved CAPPs HR/Payroll user access by employee job function is not maintained.
Recommended Actions/ Improvement Opportunity	<p>Improvement Opportunities:</p> <ul style="list-style-type: none"> ➤ Perform regular user access reviews at least semi-annually to identify users who no longer require access and remove or disable said access promptly. A quarterly would be optimal. ➤ Develop and maintain a list of approved user profile access by employee job description.
Management Response and Action Plan	Although not required, management indicated they concurred with the improvement opportunities and will work towards implementing them.

3 BUSINESS OBJECTIVE: Payroll Process are Appropriately Controlled

Business Objective	Payroll processes include appropriate controls in place to assure employee changes that impact payroll, benefits, and personal information is accurate.
Business Risk	<ul style="list-style-type: none"> ➔ Payroll processes do not have controls in place prevent unauthorized changes to employee payroll, benefits, and personnel information that would negatively impact their payments.
Management Controls in Place	<ul style="list-style-type: none"> ➔ According to TLC during our walkthrough to document payroll processes, a pre-payroll meeting is carried out each month to determine issues that might come up (changes to insurance, schedule changes for employees, and employees with leave balance that are at a low level. ➔ Payroll oversight committee (PSOC) meets to approve personnel action forms (PAF) that affects merit increase, promotion, reclassification. ➔ A manual payroll reconciliation spreadsheet is used to account for any other changes that could impact payroll such as new hires, resignations, adjustment such as partial per diem, longevity status. ➔ Reconciliation is compared with payroll balance from CAPPs report to make sure everything agrees.
Control Tests	<ul style="list-style-type: none"> ➔ Interviewed key process owners. ➔ Tested selected samples to validate process are followed.
Control Assessment / Findings	Internal Controls operating as designed.
Recommended Actions	None
Management Response and Action Plan	None required.

4 BUSINESS OBJECTIVE: Payroll Process Prevents Inaccurate or Unearned Pay

Business Objective	Payroll processes do not have controls in place to place causing inaccurate payment amounts including duplicate payments, overpayments, or underpayments.
Business Risk	<ul style="list-style-type: none"> ➔ Payroll processes do not have controls in place to place causing inaccurate payment amounts including duplicate payments, overpayments, or underpayments.
Management Controls in Place	<ul style="list-style-type: none"> ➔ A monthly payroll meeting is held between HR and Office of the Controller to ensure employees on FMLA or unpaid leave receive proper pay. ➔ Employee Manager responsible for monitoring and reviewing employee time off and compare same to what is entered in CAPPs. ➔ The Employee Manager notifies HR if an employee fails to report their time off correctly.
Control Tests	<ul style="list-style-type: none"> ➔ Interviewed key process owners. ➔ Selected samples for testing.

4 BUSINESS OBJECTIVE: Payroll Process Prevents Inaccurate or Unearned Pay	
	➡ Validate payroll was calculated correctly.
Control Assessment / Findings	Internal Controls operating as designed.
Recommended Actions	None
Management Response and Action Plan	None required.