

Texas State Library and Archives Commission

IA# 2024-03 Internal Audit Report over Payroll

Report Date: October 7, 2024

Issued: October 11, 2024

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Commissioners of the
Texas State Library and Archives Commission
1201 Brazos St.
Austin, TX 78701

This report presents the results of the internal audit procedures performed for the Texas State Library and Archives Commission (TSLAC) for the period April 29, 2024, through October 4, 2024, relating to payroll processes.

The objectives of this internal audit were to evaluate the design and effectiveness of TSLAC's payroll processes as follows:

- Determine whether internal controls over payroll processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes in order to ensure effective operations.
- Verify that controls over selected critical processes within payroll processes are operating efficiently, effectively, and result in complete, accurate and timely information.

Our procedures included interviewing key TSLAC personnel who have responsibilities in managing and/or monitoring payroll activities to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from November 1, 2022, through March 31, 2024.

The following report summarizes the findings identified, risks to TSLAC, recommendations for improvement and management's responses.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
October 11, 2024

Weaver and Tidwell, L.L.P.
1601 South MoPac Expressway, Suite D250 | Austin, Texas 78746
Main: 512.609.1900

CPAs AND ADVISORS | WEAVER.COM

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Background

The Texas State Library and Archives Commission (TSLAC) is responsible for preserving the archival records of Texas; providing support to Texas public, academic, and school libraries; assisting public agencies in the maintenance of their records; and meeting the reading needs of Texans with disabilities. As part of its mission, one of the responsibilities of TSLAC helps public agencies maintain their public records. TSLAC, like all state agencies, is required to follow the Texas Comptroller's Office (Comptroller) payroll process requirements. The Comptroller provides agencies checklists for agencies to follow in processing payroll. The checklists cover on-cycle, off-cycle, Board Member off-cycle, returned monies, cancellations, and replacements.

TSLAC's most common payroll process is the on-cycle payroll process which covers all full-time employee's monthly salaries. Both the Accounting and Human Resources Divisions have a role in the payroll process. The Human Resource Division reviews the payroll and the Accounting Division releases the payroll to the Comptroller's Office for processing. Other, less common, payroll cycles include off-cycle, Board Member off-cycle, returned monies, cancellations, and replacements. These payroll cycles follow the same process as the on-cycle process, except for the timing of payroll payment.

Payroll changes can occur due to performance increase, promotions, separation, and legislative-mandated pay increases. TSLAC utilizes a payroll change checklist for most payroll changes except for legislative approved pay increases. The checklist identifies the changes that are needed and includes the appropriate signoffs. The supporting documentation is maintained within the employee's personnel file.

The Internal Revenue Service (IRS) requires employers to submit Form 941 reports quarterly. These reports show the total payroll paid and payroll taxes withheld and submitted to the IRS. The Accounting Department prepares the Form 941 and the Chief Operations and Fiscal Officer reviews and approves the form. The Accounting Department maintains the supporting documentation including Form 941 and appropriate accounting system support.

Audit Objective and Scope

The audit focused on TSLAC's payroll within the departments of the Commission that have payroll responsibilities. We reviewed the procedures in place for appropriate risk, regulatory coverage and compliance to ensure efficient and effective processes related to payroll. Key functions and sub-processes within the payroll process that were reviewed include:

- Timekeeping and Approval
- Payroll Processing
- Payroll Taxes
- Voluntary Deductions
- Garnishments
- Accrued Leave

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Our procedures were designed to ensure relevant risks were covered and verified the following:

Timekeeping and Approval:

- Timesheets are complete and submitted on a weekly basis.

Payroll Changes:

- Payroll change checklist form was completed
- Payroll change checklist form included the appropriate approvals

Payroll Processing:

- Payroll register and additional payroll changes report occurred in the right pay period
- Payroll included appropriate approvals
- Payroll was released for payment in compliance with Comptroller requirements

Payroll Taxes:

- Internal Revenue Service 941 Tax Form ties to TSLAC's accounting system
- 941 tax form was prepared and reviewed by separate employees
- Tax forms are submitted timely

Voluntary Deductions:

- Voluntary deductions are allocated and calculated correctly.

Garnishments:

- A court order or official notice is on the employee's file for any garnishments.
- Employee's garnishments are allocated and calculated correctly.

Accrued Leave:

- Accrued leave is monitored and recorded for each employee.
- Auditing accrued leave balances is reviewed and approved.

Our procedures included interviewing key personnel within the departments of the Commission that have responsibilities in managing and/or monitoring the payroll to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from November 1, 2022, through March 31, 2024.

Executive Summary

Through our interviews, evaluation of internal control design and testing of processes we identified no findings.

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A summary of our results, by audit objective, is provided in the table below. See the Appendix for an overview of the Assessment and Risk Ratings.

OVERALL ASSESSMENT	Strong
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SCOPE AREA	RESULT	RATING
Objective A: Determine whether internal controls over the payroll processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes in order to ensure effective operations.	We identified 13 controls to be in place in the process. We did not identify any findings in the design testing performed.	Strong
Objective B: Verify that controls over selected critical processes within payroll processes are operating efficiently, effectively, and result in complete, accurate and timely information.	Controls appear to be in place and operating effectively.	Strong

Conclusion

Based on our evaluation, the payroll process has procedures and controls in place to conduct effective management of these processes at Texas State Library and Archives Commission. We recommend continued diligence in maintaining internal controls over the process to ensure effective operations.

**Detailed Procedures Performed, Findings,
Recommendations and Management
Response**

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Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel within the Commission that have responsibilities in managing and/or monitoring payroll processes to gain an understanding of the current procedures in place, examining existing documentation, and evaluating the internal controls. We evaluated the existing policies, procedures, and processes in their current state during the coverage of November 1, 2022, through March 31, 2024.

Objective A: Design of Internal Controls

Determine whether internal controls over the payroll processes were designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes in order to ensure effective operations.

Procedures Performed: We conducted interviews with key personnel within the departments of the Commission that have responsibilities in managing payroll processes to gain an understanding of the current procedures in place, examined existing documentation, and evaluated the internal controls. We evaluated the existing policies, procedures, and processes in their current state. We documented our understanding of the processes and identified internal controls over the following sub-processes:

- Timekeeping and Approval
- Payroll Processing
- Payroll Taxes
- Voluntary Deductions
- Garnishments
- Accrued Leave

We evaluated the controls identified against expected controls to determine whether the identified processes and internal controls were sufficiently designed to mitigate the critical risks associated with the payroll sub-processes. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

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Results: We identified 13 controls in place over the significant activities within the payroll processes. We also identified no findings where improvements in the process can be made.

Process Area	Control Coverage	Findings
Timekeeping and Approval	5	-
Payroll Processing	2	-
Payroll Taxes	1	-
Voluntary Deductions	5	-
Garnishments	1	-
Accrued Leave	3	-
Total:	13	-

Objective B: Control Testing

Ensure that controls over selected critical processes within payroll processes were operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting and active monitoring.

Payroll Changes:

Procedures Performed: We obtained a listing of all payroll changes during the scope period of November 1, 2022, through March 31, 2024. We selected 25 out of 542 payroll changes and reviewed to verify that the payroll change checklist form was completed, included appropriate approvals, and payroll change was approved prior to the change effective date.

Results: No findings identified

Payroll Processing:

Procedures Performed: We selected November 2022, March 2023, July 2023, and January 2024 for testing. We verified that the monthly payroll register and additional payroll changes report occurred in the right pay period, included appropriate approvals, and released for payment on compliance with Comptroller guidelines.

Results: No findings identified

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Payroll Taxes:

Procedures Performed: We reviewed all quarterly Internal Revenue Service (IRS) Form 941 from November 1, 2022, through March 30, 2024, to verify that the form tied to TSLAC's accounting system, there was prepared and approved by appropriate employees, and submitted timely to the IRS.

Results: No findings identified.

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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of TSLAC
- TSLAC objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
 - Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations and programs
 - Safeguarding of assets
 - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong

The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.

Satisfactory

The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.

Unsatisfactory

The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten TSLAC's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of TSLAC or beyond a single function or department
- Potential material impact to operations or TSLAC's finances
- Remediation requires significant involvement from TSLAC management

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of TSLAC
- Impact could be felt outside of TSLAC or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of TSLAC
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior TSLAC management to be updated

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the TSLAC's strategic priorities
- Impact is limited to a single function within TSLAC
- Minimal financial or operational impact to TSLAC
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk