

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**Accounting & Financial Services
Payroll Time Reporting
Internal Audit Services Project #15-09**

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MANAGEMENT SUMMARY

Background

Time reporting at UC Davis (UCD) is a complex process, and there are currently several systems and methods in place for reporting time on the UCD campus. The two primary systems for payroll time reporting, the Time Reporting System (TRS) and the Online Payroll Time Reporting System (OPTRS), are administered by Accounting and Financial Services (A&FS). The Payroll Services Division of A&FS is the central campus unit responsible for the oversight of all campus and UC Davis Health System (UCDHS) payroll by facilitating the timely and accurate disbursement of approved employee compensation, satisfying payroll-related employer obligations and tax reporting and ensuring appropriate accounting for campus compensation costs.

Of the over 20,000 employees on the UCD campus, more than 12,000 report their time via an electronic timesheet through TRS. TRS was adopted by UCD in 2012, as part of the University of California (UC) project known as UCPath¹ which, when complete, will implement a single payroll, benefits, human resources and academic personnel solution for all UC employees. Administrative staff and those with academic titles who are eligible to accrue sick leave and/or vacation can use TRS. The Shared Service Center (SSC) provides payroll timekeeping services for approximately half of the TRS users.

The majority of other campus employees not on TRS but required to report time, do so by submitting a timesheet which is then manually entered into OPTRS. These timesheets are either paper based, or generated by department systems such as Maximo (Facilities Services) or Intime (Police and Fire Department).

The Veterinary Medical Teaching Hospital (VMTH) uses Kronos, a stand-alone timekeeping system for approximately 600 employees.

Adding to the complexity of having multiple systems and methods in place for payroll time reporting is the fact that individual business units (academic units in particular) may utilize more than one of those systems and/or methods of time reporting due to the different employee groups within the unit. Additionally, certain classifications of employees (non-exempt employees) are required to report all time (positive time reporting), while others (exempt employees) are only required to report leave time (exception based reporting). Finally, collective bargaining agreements have certain requirements related to time reporting, such as overtime calculations that cannot be accommodated in the existing TRS system, making manual calculation of overtime hours necessary.

¹ UCPath stands for UC Payroll, Academic Personnel, Timekeeping and Human Resources.

Upon implementation of UCPATH at UCD, business units currently entering their time into OPTRS will be required to move to the new version of TRS that will be deployed with UCPATH, with limited exceptions involving a relatively small number of employees. The date for implementation of UCPATH at UCD will be announced in the summer of 2015.

Purpose and Scope

The objectives of our review were to assess the internal controls over the accuracy and completeness of time reporting for both exempt and non-exempt employees at the UC Davis campus. Our audit did not include the UCDHS.

To complete our review and gain an understanding of the time reporting systems and practices in place, we analyzed financial and payroll data, conducted a survey on departmental time reporting practices, interviewed department personnel, and reviewed supporting documentation.

Our review encompassed financial and operational data from fiscal year 2012 to fiscal year 2014. Our review was performed from August 2014 through February 2015.

Conclusion

The use of multiple time reporting systems and processes on the UCD campus inhibits the ability to streamline payroll time reporting, including related internal control procedures. Eventual movement of most campus units to the new TRS in conjunction with implementation of UCPATH, will present the campus with opportunities to update and improve its payroll time reporting processes and internal control procedures. Because of the planned implementation of UCPATH, significant investment of resources in updating current systems must be carefully considered and audit recommendations bear this in mind.

Our audit found that sufficient separation of duties exist and adequate internal are in place to detect and correct material errors in payroll time reported. Our also audit identified opportunities to improve time reporting processes and practices that can be achieved in the current environment:

- Clarifying responsibilities of stakeholders in the payroll time reporting process (Shared Service Center, Payroll Services Division and business units);
- Developing performance metrics and related reporting to help measure performance and target training efforts;
- Providing greater assurance that all timesheets are submitted as required in TRS;
- Communicating with business units regarding key time reporting issues and best practices; and,
- Updating UCD payroll related policies.

Our observations and recommendations are presented in the body of this report along with corresponding management corrective actions.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Clarification of Responsibilities

1. There are opportunities to clarify responsibility and accountability for payroll time reporting.

The SSC processes payroll time reporting for approximately 6,000 campus employees. This involves both the manual input of paper timesheets into OPTRS and the processing of on-line TRS timesheets. Additionally, the SSC reviews the timesheets for compliance with certain payroll policies and business rules. At times the SSC has faced challenges ensuring client business units perform accurate and complete payroll time reporting in accordance with established deadlines. When client business units do not adhere to campus policies and deadlines, there is no clearly established policy or process for addressing non-compliance and/or late submission or approval of timesheets to which the SSC or the business unit itself can refer. The SSC is tasked with processing the timesheets, but does not have means to take action to address non-compliance.

At an organizational and department level, metrics do not exist to measure the volume and/or nature of time reporting errors, or to provide information on the timeliness of submission and approval of time reports. Reports do not exist that tell whether the volume of error corrections and/or late timesheets are increasing or decreasing over time, or if the problems are concentrated to a few departments or certain individuals. Thus the SSC, business units and the Payroll Services Division do not currently have data and reports that would facilitate the identification of client units that are habitually non-compliant and/or late in meeting deadlines in order to target outreach and training to these units. This is due to a lack of a TRS data warehouse and is expected to be remedied with the implementation of the new UCPath TRS. Additionally, there is a lack of clarity amongst the different stakeholders in the payroll time reporting process regarding the specific reporting that is available to help manage the process.

A 2014 review of the SSC by Chazey Partners commented that end-to-end processes are not owned within the SSC and there is a lack of clarity around the roles and responsibilities between the SSC, central units and the departments, as such, meaningful benchmarking is not possible. The consultant report also recommended the SSC develop Service Partnership Agreements to define negotiated service levels, agreed key performance indicators, escalation procedures, process ownership and governance. SSC management has indicated they are beginning work on establishing these end to end Service Partnership Agreements which will address the issues noted above.

Recommendations

1. The SSC should continue with its plans to develop end to end Service Partnership Agreements that encompass client departments, the SSC and central units including the Payroll Services Division, consistent with the Chazey report.
2. A&FS should consult with the SSC and a sampling of other business units that are large users of TRS to identify and prioritize performance metrics and reporting needs related to payroll time reporting. It is recognized that A&FS plans to deliver some of these reports with the implementation of the new system, UCPath TRS.
3. A&FS should perform a cost-benefit analysis of developing the higher priority performance metrics and reporting tools prior to the move to the new version of TRS with the conversion to UC Path. The cost of developing (and then potentially modifying in the new TRS) the metrics and reports should be weighed against benefits of being able to better measure and address issues with the accuracy and timeliness of payroll time reporting.

Management Corrective Actions

- a. The SSC will develop and execute end to end Service Partnership Agreements with its clients consistent with the recommendations in the Chazey report by December 15, 2015.
- b. A&FS will meet with representatives of the SSC and a sampling of department level TRS users to identify and prioritize performance metrics and reporting needs related to payroll time reporting by that may be necessary to supplement those that will be available through the new UCPath TRS data warehouse by October 15, 2015.
- c. A&FS will analyze the cost versus benefits of developing performance metrics and reports related to payroll time reporting prior to the move to the new version of TRS by (insert date). If appropriate, A&FS will schedule development of these metrics and related reports by March 15, 2016.

B. Assurance of Complete TRS Timesheet Population**Controls to ensure all timesheets are submitted as required within TRS could be enhanced.**

As part of our review, we performed data analytics where we looked for gaps in the submission of monthly TRS timesheets for exempt employees. In following-up on a sample of instances where timesheets appeared to be missing, we identified several cases where missing timesheets in fact should have been submitted to report sick leave and/or vacation. We also learned that it is currently not a campus level requirement that exempt employees submit a timesheet when there is no exception time to report, though some departments do have such a requirement. Consequently when departments do not have such a requirement there was no way to determine with any certainty whether the exempt employees forgot to submit their timesheets or if they had no leave time to report for the pay periods in question.

The most effective control to ensure a complete population of timesheets within TRS is to require submission and certification of a timesheet by exempt employees regardless of whether there is exception time to report, and monitor for compliance. If management believes this is not practical in the current environment, then compensating controls are necessary.

Within TRS, employees and supervisors have the ability to request various notifications related to the submission and review of timesheets (e.g., supervisors can be notified when employees submit timesheets late). However, there is currently no choice for supervisors to be notified that employees have **not** submitted a timesheet by the due date. Such a notification would facilitate supervisors being able to identify and follow-up on instances where a timesheet has not been submitted, and would mitigate the risk posed by the lack of a system level control.

Recommendations

1. AF&S should consider a campus-wide requirement that all exempt employees who report exception based time only, be required to report leave time (or that none was taken) each pay period.
2. A&FS should modify TRS to facilitate supervisors being notified of employees who have not submitted a timesheet by the due date.

Management Corrective Action

- a. A&FS will modify existing UC Davis policies to require that all exempt employees report leave time (or that none was taken) each pay period,

and compliance with this policy will be monitored on a periodic basis semi-annually by A&FS beginning January 15, 2016.

- b. A&FS is in the process of modifying the Supervisor's Past Pending Timesheet section of TRS to include statuses indicating instances where a timesheet has not been submitted to a supervisor for biweekly and monthly employees. This modification to TRS will be completed by October 15, 2015.

C. Department Communications and Training

There is a need for greater awareness of the impact of certain timekeeping practices at the department level.

Our payroll time reporting survey and subsequent follow-up discussions disclosed opportunities for increasing business unit awareness of certain policy requirements and the impact of non-compliance with established time reporting procedures. For example:

- Some supervisors returned paper based timesheets to their employees after the supervisor has approved the timesheets. This practice violates the principle of separation of duties, and increases the risk of fraudulent time reporting since the employee has the ability to alter the timesheet subsequent the supervisor's approval. While UCD Policy and Procedure Manual, (PPM) 330-11, "Department Financial Administrative Controls and Separation of Duties", specifically prohibits return of timesheets to employees once approved by the supervisor, some business units are not aware of and/or adhering to this requirement.
- Some business units were unaware of the impact of late TRS timesheets on the workload of the Departmental Time Administrator (DTA). The DTA can reside within the business unit or at the SSC. One of the DTA's responsibilities is ensuring TRS timesheets are uploaded into PPS. If timesheets are submitted on time, the DTA can transmit the timesheets to PPS in a batch. If timesheets are submitted beyond the established deadline, they must be uploaded to PPS one-by-one. Depending upon the size of the department and the corresponding number of late timesheets, this can have a significant impact on the workload of the DTA.

Some of the business units surveyed or interviewed also requested additional training or information on key payroll policies and/or best practices for handling payroll time reporting.

Recommendations

1. A&FS should utilize existing listservs to remind campus employees involved in payroll processing of the policy requirement that timesheets not be returned to employees after supervisory approval.
2. A&FS should collaborate with the SSC and other large business units to identify best practices and/or common issues in payroll time reporting for communication to campus personnel via the listservs and/or formalized training.
3. AF&S should evaluate the results of any new performance metrics and related reporting developed as part of observation (A) above, and determine if additional communications and/or training for campus personnel involved in payroll processing is warranted.

Management Corrective Actions

- a. A&FS will send out a reminder via existing listservs regarding the need to ensure timesheets are not returned to employees after supervisor approval by September 15, 2015.
- b. A&FS will collaborate with SSC and other large business units to identify any additional best practices and/or common issues in payroll time reporting for communication to the campus community by (insert date). A related listserv communication will be sent, or a training plan developed by January 15, 2016.
- c. If it is determined that additional performance metrics and related reporting will be developed under Observation (A), A&FS will also develop a plan for periodic evaluation of the metrics and reports in order to identify opportunities to better educate campus personnel on key payroll time reporting challenges and best practices by March 15, 2016.

D. Campus Policies**Current campus policies contain outdated payroll related references.**

PPM 330-11 contains references to outdated payroll reports, and does not incorporate TRS. The outdated policy may cause confusion for some individuals attempting to fulfill their payroll related responsibilities.

Recommendation

A&FS should ensure planned updates to PPM 330-11 to contain appropriate payroll related information.

Management Corrective Action

A&FS will finalize updates to PPM 330-11 that are currently in progress by October 15, 2015.
