

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**UC Davis
Shared Services Organization
Audit & Management Advisory Services Project #23-16**

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**Shared Services Organization
AMAS Project #23-16**

MANAGEMENT SUMMARY

Background

As part of the fiscal year (FY) 2023 audit plan, Audit and Management Advisory Services (AMAS) conducted a planned audit of the Human Resources (HR) and Payroll functions within the Shared Services Organization (SSO).

The HR and payroll functions within the SSO are split into two units: HR Support Services, which has oversight of UC Davis Health (UCDH), School of Medicine (SOM) and School of Nursing (SON); and SSO People Services, which serves mainly Davis based administrative units. Both units of the SSO are responsible for data entry in UC Path for staff.

Separate from the SSO referenced above are two shared service channels that support staff and faculty within the academic units. The Academic Unit Shared Services Center (AUSSC) and the Distributed Shared Services Center (DiSSC) oversee academic units' human resources and payroll functions and are governed by a Board of Assistant Deans and the College of Agricultural and Environmental Sciences, respectively. Additional support for academic appointments is provided by the Academic Affairs and Academic Personnel offices.

HR and payroll activities are initiated at the department level with requests submitted to the SSOs via Aggie Service, PeopleAdmin or via email. All of the shared services channels rely on departments to submit timely and accurate requests for input into UC Path. These can include requests for personnel changes, timekeeping adjustments, job transfers, separations, and other employee actions.

Purpose and Scope

The purpose of this review was to assess data integrity in the digitized personnel files within UC Path, however, upon completion of the risk assessment, the integrity of UC Path data was found to be influenced by numerous factors that could not be captured within the scope of this audit. The audit then focused on some of the individual components of UC Path, including assessments of overpayments, adjustments, salary actions and approvals.

AMAS extracted a selection of data from UC Path and Aggie Services for analysis during this review. As these systems are utilized for all UC Davis employees, data associated with the HR and payroll activities conducted by AUSSC and DiSSC were included as part of the analysis.

During the preliminary stage of the audit, we expanded the scope to include a review of an accounts receivable (AR) balance recorded on the general ledger at the UC Office of the President (UCOP) that originated from UC Davis payroll related overpayments.

Due to concerns with the potential volume of unapproved timecards, the scope was further expanded to include a review of the timecard approval process in the campus-based time reporting system (TRS).

To conduct our review of overpayments, after speaking with human resources and payroll personnel within the SSO and UC Davis Payroll Services office (Payroll Services), we performed testing to assess factors contributing to the volume of overpayments; reviewed the methods currently in place within UCPC, SSO and Payroll Services to detect overpayments; and interviewed staff at UCOP and UCPC to discuss correction and collection practices. We also performed testing to identify overpayments that had remained undetected. Additionally, as the majority of funds on the overpayment AR were attributed to former UC Davis employees, an evaluation of the employment separation practices was also conducted.

We reviewed payroll adjustments processed in September and October 2022 to identify trends by department or service channel. We also met with Payroll Services staff with oversight of TRS and reviewed their processes and reports for tracking timecard approvals.

Conclusion

We recognize that staff are dedicated to assisting customers, fulfilling the UC mission, and that much effort has already been spent to improve the process and HR experience for staff. However, there is still need for improvement. We found that payroll-related overpayments to UC Davis past and current employees, which were processed through the UC Path Center (UCPC), have generated an AR balance of approximately \$1.5 million¹.

The totals reflected below represent UC Davis overpayments that are not subject to a repayment commitment.²

	Current Employee Amount	Current Employee Count	Former Employee Amount	Former Employee Count	Total Employee Amount	Total Employee Count
UC Davis	\$ 705,797	335	\$ 804,792	470	\$ 1,510,589	805

Much of the AR balance may not be collectable, as almost \$1.2 million is aged greater than 120 days. To date, UC Davis has not established a liability account to offset the expense when the UCPC writes off uncollectable balances.

Our review into root causes for the \$1.5M in overpayments identified that there are many underlying scenarios (both systemic and one-off transactions) that resulted in overpayments or manual adjustments.

¹ As of May 2023 the balance is \$1.6 million and the amount aged greater than 120 days is \$1.2 million.

² The total AR balance related to overpayments is not known as UCPC reports on only the total without a repayment commitment.

We also performed analysis to identify overpayments that have not yet been detected. These tests identified employees with negative leave balances, duplicate payments for additional compensation, and payouts for family leave that exceed the maximum annual allowance. Limited resources and the volume of requests has impacted the ability to be proactive in identifying errors that can contribute to overpayments. However, it is key to have processes in place to prevent or detect overpayments before they occur as collection of overpaid funds can be challenging.

We also observed instances of departments not notifying service channels about separations timely, which contributed to overpayments. We assessed the process for separations recorded in UC Path that could be matched to specific submissions in Aggie Service from January 2021 to August 2022. We found that 31% were submitted to HR with less than the required 14 days' prior notice; and an additional 34% were submitted after the employee separated, for a total of 65% of the tested population submitted outside of policy expectations. In addition to a risk of overpayments, failure to submit separations timely can also put UC Davis at risk of violating California labor code and local union agreements.

Finally, though we were advised that collaboration between the UC Davis service channels and the departments they support is ongoing, this collaboration has not yet proved to be comprehensive enough in scope to satisfactorily address the underlying issues discussed throughout this report. During the time of our review UC Davis Payroll Services implemented a process to follow up with department leaders after the pay period has closed to assure that all TRS timecards are acknowledged, so no observations were made in this area.

Details of these observations are included in the body of this report.

Observations, Recommendations, and Management Corrective Actions

A. Processes are not sufficient to detect and prevent overpayments.

During our review we observed the following issues that would benefit from further oversight.

1. Detection of overpayments

An analysis to identify undetected overpayments included a review of salaries by title codes, a review of reoccurring stipends, a review of multiple types of leave balances, and a comparison of earnings by person across multiple pay periods. As a result of these tests, we identified the following types of overpayments:

- Individuals with negative leave balances, including vacation, sick, paid time off and compensatory time.
- Individuals with inconsistent pay frequencies and FLSA³ status within the same job codes that resulted in an overpayment.
- Duplicate payments for additional compensation, such as stipends.
- Payments for paid family care and bonding leave that exceeded the maximum annual allowance.

It is key for processes to be in place to prevent or detect overpayments before they occur, as the collection of overpaid funds can be challenging. These processes can include updated training within the SSO's and at the department level, as well as system automation to decrease the risks of errors due to manual calculations.

2. Timely notification of employee separations to prevent overpayments.

AMAS obtained Aggie Services data to examine department submission of employment separation notifications to HR. We compared those submission dates to UC Path separation data to identify if separations were submitted within the recommended two-weeks prior to separation. From January 2021 to August 2022, we matched 9,847 separations in Aggie Service to separations in UC Path.

Time Frame for submission of separation	Number of Separations	Percent of Total
More than two weeks from the separation date	3,444	35%
Less than two weeks from the separation date but prior to separation	3,059	31%
After the date of separation	3,344	34%
Total	9,847	

³ FLSA status refers to whether the employee is classified as exempt or non-exempt according to the Fair Labor Standards Act (FLSA)

Through discussions with the shared services organizations and testing of a sample of data, we also found that the separation requests do not always include all required information, especially for hourly employees. This further delays the issuance of final payouts to separating employees.

AMAS did observe published guidance on the processes for submitting separations; however, oversight to enforce the process is minimal. Though the issuance of final pay is controlled by the UCPC, UC Davis shared services channels can control the communications to the departments on proper processes; the timing of when separations are submitted locally; the method the separations are submitted to HR; and the calculation of the final pay. Failure to submit separations timely can result in overpayments⁴ and puts UCD at risk of violating California Labor Code, which in most cases requires payments to employees at the time of separation, or local union agreements, which require final payments to be issued within 10 days of separation.

3. Resolution of existing overpayment balance.

As of January 2023, the UCPC is reporting that UC Davis has an AR balance of approximately \$1.5M from current and former employees due to overpayments⁵. When a pay-based transaction resulting in an employee overpayment is identified, the transaction is reversed by UCPC. This reversal applies a credit to the original fund source at UC Davis with the offsetting AR debit residing at the UCPC.

The UCPC establishes an AR balance for the current or former employee and coordinates with UC Davis Payroll Services (within Finance & Accounting Services) who coordinates with the department-based HR team, to contact the individual to establish a repayment plan. If a current employee agrees to a repayment plan through payroll deduction, the UCPC removes their balance from the AR.

The aging of the \$1.5M dates to September 2019 when UC Davis transitioned to UC Path, with nearly 77% of the balance aged more than 120 days.

	< 120 Days Amount	< 120 Days Count	> 120 Days Amount	> 120 Days Count	Total Amount	Total Count
UC Davis	\$ 349,700	126	\$1,160,889	689	\$1,510,589	815 ⁶

⁴ Our review of the overpayments identified individuals who were not separated in the payroll system until weeks after their separation date, thus they continued to receive their normal pay even though they were no longer affiliated with UCD.

⁵ The UCPC has not provided accurate, timely data to UC Davis about the balance. As a result, UC Davis has been challenged to develop a comprehensive, coordinated process for monitoring the AR balance.

⁶ The count by aging is higher because employees with multiple overpayments can be in both categories.

The age of the overpayment balance indicates it is unlikely all funds will be recovered, and UC Davis does not have a liability recorded to offset the expense if the balances are deemed uncollectable and written off.

Recommendation

1. UC Davis should form a workgroup that includes representation from each shared service channel, Payroll Services, and administrative leadership throughout the campus. Together the workgroup should consider opportunities to enhance the HR and payroll functions, including:
 - Further develop processes for service channel and department personnel to provide consistency, improve accuracy and reduce errors. These processes could include monitoring of leave balances, scripts for pay frequencies and FLSA status, and monitoring for duplicate payments.
 - Update educational opportunities for department-based staff that includes expectations related to separations and review and approval of time records and payroll entries.
 - Develop a process to track root causes of overpayments and adjustments with a method to communicate those results to a larger population, including parties responsible.
 - Examine the feasibility of establishing a local liability for funds that may be uncollectable⁷.
 - Assess if further automation can be implemented to prevent overpayments or the need for additional adjustments.
2. The workgroup should communicate progress on their efforts to AMAS on a periodic basis.

Management Corrective Action

1. UC Davis will form a workgroup that includes representation from each shared service organization, Payroll Services, and administrative leadership by November 30, 2023. The workgroup will consider the following opportunities to enhance the HR and payroll functions at UC Davis and UC Davis Health.
 - Further develop processes for service channel and department personnel to provide consistency, improve accuracy and reduce errors.

⁷ When the write-off for the overpayments occurs, the entry will revert to the original fund source. This could be a grant or a closed account. Salary overpayments would not be an allowable grant expense so proactively identifying an acceptable fund source could reduce future account issues.

- Update educational opportunities for department-based staff that includes expectations related to separations and review and approval of time records and payroll entries.
 - Develop a process to track root causes of overpayments and adjustments and a method to communicate those results to a larger population, including parties responsible.
 - Examine the feasibility of establishing a local liability for funds that may be uncollectable.
 - Assess if further automation can be implemented to prevent overpayments or the need for additional adjustments.
2. The workgroup will communicate progress toward the above tasks to AMAS on a periodic basis through April 30, 2024.