December 19, 2013

To: Bobbi McCracken
        Associate Vice Chancellor, Financial Services

Subject: Leave Accounting

Ref: R2012-21

We have completed our Leave Accounting audit in accordance with the University of California, Riverside Internal Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2012-21 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact us.

Gregory Moore
Director

cc: Audit Committee
        Payroll Director Nwandu

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2012-21

LEAVE ACCOUNTING

DECEMBER 2013

Approved by:

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Laura Bishin   Toffee Jeturian
Principal Auditor   Assistant Director

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                                                         Gregory Moore
                                                         Director

UC RIVERSIDE
LEAVE ACCOUNTING
INTERNAL AUDIT REPORT R2012-21
DECEMBER 2013

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the audit, it is our opinion that the system of internal controls over the Leave Accounting process, is satisfactory and generally in compliance with applicable University policies and procedures.

Management has taken a proactive approach and continues to enhance controls as evidenced by the following positive observations:

1) Based on the activities observed at the Enterprise Systems Steering Committee (ESSC) meetings during Fiscal Year (FY) 2012-2013 and the documents reviewed, it appears that the ESSC provided appropriate oversight of the implementation of the Time and Attendance Reporting System (TARS) and the bi-weekly payroll conversion processes.

2) Based on documentation and communications examined, demonstrations, and training attended, it appears that there was appropriate communication to employees, supervisors, and management; training at departments appeared adequate; and enhancements were made as requested and approved.

3) It appears that the online documentation is thorough and we have noted documentation updates over time.

4) Computing & Communications (C&C) and campus management are developing the following enhancements to improve controls and increase efficiency:

   a. TARS to Personnel Payroll System (PPS) reconciliation report.
   b. Automatic calculation for daily overtime.
   c. Interfaces for Kronos and other campus time clock systems.

An area that needs enhancement to strengthen internal controls and/or effect compliance with University policy is the process to follow up on time not positively confirmed (Observation III). This item is discussed below.

Minor items not of the magnitude to warrant inclusion in this report were discussed verbally with management.

II.   **INTRODUCTION**

   A.   **PURPOSE**

   University of California, Riverside (UCR) Audit & Advisory Services
   (A&AS), as part of its Audit Plan, performed an analysis and evaluation of
   Leave Accounting. This audit included procedures to verify compliance
   with University Policy and evaluate efficiency and effectiveness of
   processes.

   B.   **BACKGROUND**

   The University designed and built the online TARS application. This
   system increases the transparency of the time reporting process and has an
   automated interface into PPS.

   Features include:

   - Support of multiple roles and automatic routing.
   - Electronic mail (email) notifications to employees and supervisors
     prompting them to enter, review, and approve time by the reporting
     deadline.
   - Users record hours worked and/or leave time, can include
     comments, and attach supporting documents to corroborate
     time/leave reported (e.g. jury attendance).

   For career faculty/staff appointments, routing is determined through setup
   in the Enterprise Directory where supervisors are assigned to employees
   and emails are sent based on their email addresses in the directory. For
   students, supervisors are assigned within the TARS software by
   departmental Time and Attendance Administrators (TAAs). Security is
   enabled through the Enterprise Access Control System (EACS) where
   access is granted based on roles and the users' Enterprise Accountability
   Structure.

   TARS was implemented in a phased approach starting with several pilot
   departments' exempt employees in May of 2011. In August of 2012,
   positive pay employees were added to the TARS pilot. In late September
   2012, University of California mandated all campuses to implement bi-
   weekly payroll cycles for all positive pay employees and convert non-
   exempt employees from salary to hourly based by January 20, 2013. This
   change required re-programming of TARS and an acceleration of the
   system roll-out plan to just a few months (with a few exceptions for
   departments with other timekeeping systems like Kronos).

   In January 2013, UCR successfully met the system-wide deadline to
   convert positive pay employees (including Readers and Tutors academic
   titles) to bi-weekly payroll cycles. For departments with timekeeping
   systems, substantial progress has been made to interface these systems

with TARS. TARS will be implemented for all other academic titles that accrue and use vacation and/or sick leave at a later date.

C.   SCOPE

This review analyzed selected time and leave data from FY 2011-2012 and FY 2012-2013. Further, because of the nature of this review's global perspective, and other limitations, the audit procedures could not ensure that errors and irregularities were detected, especially minor or isolated incidents.

The review included, but was not limited to the following areas:

1. **Steering Committee Oversight and Communication** - We performed procedures to evaluate management oversight and communication over the TARS development and implementation and the bi-weekly payroll conversion mandated by the Office of the President (OP). This included evaluating:

   a) Whether the mix of management involved in providing direction included individuals from appropriate areas within the University such as: C&C, Accounting Services, Human Resources, and Academic Personnel.

   b) The plans, design features and control processes, communication between the steering committee and campus constituents, training plans, test and deployment plans, prioritization of tasks, and issue resolution process.

   A&AS attended ESSC and Financial Human Resources Officers Group (FHROG) meetings, reviewed documents provided, and communicated with key members of these groups.

2. **Evaluate Communication and Training of End users** - We attended demonstrations and training provided by C&C to one unit, training conducted by one unit, and reviewed documentation provided (including management communications to employees regarding TARS and bi-weekly implementation).

3. **Documentation** - We reviewed online documentation to determine if it was thorough, easy to understand, and updated.

4. **Detailed Testing** - We selected the following departments and/or units for review:

   a) Child Development Center
   b) Psychology
   c) Entomology
   d) Dining, Housing and Housing Services Administration

      e) University Advancement

The following payroll cycles were selected for review:

    a) March 16 to April 15, 2012 (exempt)
    b) April 16 to May 15, 2012 (exempt)
    c) October 16 to November 15, 2012 (exempt and pilot positive pay)
    d) November 16 to December 15, 2012 (exempt and pilot positive pay)
    e) January 20 to February 2, 2013 (positive pay on first bi-weekly pay cycle)
    f) May 26 to June 8, 2013 (positive pay on bi-weekly)

We examined 17 timesheets from departments/units and time periods above to determine whether:

- Timesheets were processed into PPS accurately;
- Approvals were obtained by employees, supervisors, and the TAAs;
- Approvals were timely; and
- Routing appeared appropriate.

We verified whether the time recorded in TARS matched PPS for three of 17 individuals. We also determined whether the leave balance roll forward from one period to the next was accurate. We verified that recorded leave during the holiday shutdown was in accordance with policy for two of the 17 individuals.

We selected seven individuals on positive pay and verified the accuracy of the roll forward of PPS leave balances from March 1 to March 31, 2013. This included recalculating the accruals earned and matching the leave taken back to the TARS record for that period.

We reviewed the follow up process on timesheets not positively confirmed by employees and supervisors. This included a review of the negative confirmation reports for accuracy for the periods noted above. We noted that the negative confirmation reports were not available for the January 20 to February 2, 2013 time period so we used the period from February 3 to February 16, 2013 instead.

We selected and reviewed 21 TARS timesheets from two of the time periods above from the negative confirmation reports to determine whether they were subsequently positively confirmed by employees and supervisors.

    D.   **INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal controls is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

Substantive audit procedures were performed from May through June 2013. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III.   OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

Process to Follow-up on Time not Positively Confirmed

The number of timesheets not positively confirmed by employees' supervisors appears excessive in the early months of the implementation; although management indicates that the rate is improving. Views, reports, and the follow up process can be improved.

Management has indicated that a 'negative confirmation' process provides 100% compliance with the requirement that all timesheets be approved.

Although the 'negative confirmation' process is used, management has indicated that they are in support of positive confirmations and that ideally, additional TARS reports should be created that highlight missing positive approvals and other leave related metrics. Organizational units and central offices should review these reports and analyses in an effort to promote positive confirmations whenever possible and determine what units, if any, should be concerned with the leave reporting process.

COMMENTS

Management indicated that in order to get 100% compliance with timesheet approvals, they implemented a 'negative confirmation' process. An employee is provided an email reminder to submit his/her timesheet in advance of the time reporting period cut-off. If the timesheet is not submitted by the due date, TARS automatically routes the timesheet to the supervisor. When the timesheet is routed to the supervisor by either the employee or the system, the supervisor receives an email notification informing him/her of the cut-off date to submit the timesheet to the TAA. The supervisor has the option to:
1) Edit the timesheet, which will generate an email notification to the employee.
2) Approve the timesheet, which will route to the TAA for processing.
3) Return the timesheet to the employee.

If the supervisor does not submit the timesheet by the cut-off date, TARS automatically routes the timesheet to the TAA. If a timesheet has not been approved by the employee and/or supervisor, the TAA has the option to return the timesheet to the appropriate individual for approval (note: the ability to return directly to the employee is a recent enhancement). Any returned timesheet will automatically route back to the TAA a day before the roster cut-off date, if the employee and/or supervisor did not take action to route the timesheet forward. After the PPS roster closes, if a timesheet was not approved by the employee and/or supervisor, an email is sent to the employee and/or supervisor advising them to review the timesheet and either:

> 1) Enter a comment to confirm the time and submit the timesheet, or
> 2) Edit the timesheet and submit it within a specified number of days
> (note: edits will generate an email to the TAA).

The email advises the employee/supervisor that, if no action is taken by the date indicated, the employee and/or supervisor indicate, by the lack of response, approval of the time record (i.e. "negative confirmation"). Employees will be paid based on what was in the timesheet when it interfaces to PPS whether it was approved or not. It is A&AS's opinion that the process for indicating the subsequent approval can be improved. No further emails are sent requesting the employee and/or supervisor take action even if the timesheet is not positively confirmed, because by definition, once the negative confirmation period passes, the timesheet is considered approved.

University Policy IA-101, states:

> *"Daily attendance and job time records, including sick leave and vacation accrual records, shall be maintained on a formal and current basis. Individual attendance and job time records shall be approved by the employee's supervisor ..."*

It also states:

> *"...payroll control standards are presented in terms of the most desirable operating conditions. There may be situations ... when existing conditions may provide adequate control within the intent of the standards. In such situations, variance from these control standards must have the written approval of the Chancellor..."*

Management has indicated that the supervisor is provided with at least two opportunities to positively confirm the time, upon submittal to the supervisor (by either the employee or the system) and, if not previously approved, via the negative confirmation process. As the negative confirmation email clearly states, if no action is taken, the supervisor by default is approving the timesheet. The policy does not explicitly require the employee to approve the timesheet. Although it may be a best practice for both the employee and the supervisor to positively indicate their concurrence with the timesheet, management believes

that the approval process within TARS is within policy, and an exception from the Chancellor is not required.

In our detailed test of timesheets we judgmentally selected 17 timesheets from the departments/units and time periods in our scope to verify employee and supervisor approvals. We noted that seven of 17 timesheets were not positively confirmed by the supervisor and five of 17 timesheets were not positively confirmed by the employee.

There is no formal report of time not positively confirmed. The negative confirmation report is a source one can use to try to identify timesheets not positively confirmed. From this report, we judgmentally selected and examined ten TARS timesheets (exempt or positive pay employees with time across several time periods) where supervisor approval was recorded via a negative confirmation. We determined whether the supervisors had subsequently indicated their approvals in the comments section of the timesheet as per the negative confirmation email instructions. We noted that only one of the ten timesheets examined included an attached email indicating supervisor approval. None of the other nine timesheets examined had supervisor approval indicated.

RECOMMENDATIONS – BUSINESS AND ADMINISTRATIVE (BAS) MANAGEMENT

Additional TARS reports and views should be created that highlight time not positively confirmed and other leave related metrics. Organizational units and central offices should review available reports in an effort to promote positive confirmations and to determine what units and departments, if any, require further follow-up.

We recommend that BAS Management communicate the need for organizational units to review the aforementioned reports in an effort to promote positive confirmations and to determine what departments, if any, require further follow-up.

MANAGEMENT RESPONSE – BAS MANAGEMENT

TARS has substantially improved the overall campus control environment over paper timesheet process and has helped create efficiencies caused by the increased workload of bi-weekly time reporting. The electronic data and documentation are readily available and transparent to campus constituencies. Additionally and importantly, the UCR campus has successfully utilized the negative confirmation process for Federal Cost Transfers (FCTs) for the over 13 years. The utilization of negative confirmations for TARS was an informed decision based on workgroup discussions involving Accounting/Payroll, Human Resources, Academic Personnel, Computing, and the Interim Vice Chancellor of BAS.

Moreover, it is important to note that this audit occurred during the initial stages of the campus-wide deployment. Thus, when comparing April 16, 2012 – May 15, 2012 to April 16, 2013 – May 15, 2013 reporting periods for exempt

employees, the number of items appearing on the negative confirmation report decreased by almost 65%. Thus, as the use of TARS becomes the norm and as best practices are adopted, BAS management believes the number of positive confirmations will continue to increase.

Concerning the Audit Recommendations, BAS concurs with these recommendations and has already acted on both of them. BAS has communicated with campus Chief Financial and Administrative Officers, departmental leadership and TARS administrators and has encouraged all campus stakeholders to actively encourage and adopt procedures that will promote positive confirmations. Additionally, reports have been created and deployed that clearly indicate the frequency of negative confirmations by UCR Accountability Structure.