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Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

May 11, 2023

**EXECUTIVE DIRECTOR TURNER
DEPUTY EXECUTIVE DIRECTOR MAULE**

RE: Final Report Project No. P22A008: UCPATH Financial Controls

Attached is a copy of the final report for: Audit Services Project No. P22A008 UCPATH Financial Controls. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in blue ink, appearing to read "Matt Hicks".

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
Executive Vice President Nava
Associate Vice President Cevallos
UCPATH Controller Patel
Production Director Saint Martin
Systemwide Associate Audit Director Bishin
Finance and Accounting Supervisor Boggs

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

UCPATH FINANCIAL CONTROLS
Audit No. P22A008
May 2023

Work Performed by:
Deloitte, Contract Auditor

Work Reviewed by:
Systemwide Associate Audit Director Bishin
Systemwide Deputy Audit Officer Hicks

Executive Summary

Introduction

As part of the University of California Office of the President's (UCOP) 2021 – 2022 fiscal year internal audit plan, Internal Audit performed an audit of the financial controls within UCPATH.

UCPATH serves as the central location for human resources systems, payroll, benefits, workforce administration and academic processes. It provides transaction processing services for over 200,000 employees across all University of California (UC) locations.

UCOP became the first location to launch the UCPATH system on November 30, 2015, and in January 2018, the pilot deployment consisting of UC Riverside, UC Merced, and the Associated Students of UC Los Angeles (ASUCLA) went live. UCPATH was then rolled out to the remaining locations over the following two years. This initiative served to:

- Replace UC's 35-year-old Payroll/Personnel System (PPS) with a single new payroll and HR technology system.
- Standardize and streamline payroll and HR processes systemwide.
- Centralize certain HR and payroll transactional processes within the UCPATH shared service center.

Objective and Scope

At UCPATH leadership's request, Internal Audit evaluated that financial controls associated with UCPATH are designed, implemented, and operating effectively to support the accuracy and completeness of financial data for the in-scope processes for the period of July 1, 2021, to June 30, 2022.

Internal Audit performed an assessment to evaluate the design and operating effectiveness of in-scope financial controls at UCPATH. The areas assessed included:

- General Ledger Reconciliation
- Accounts Payable
- Accounts Receivable
- Employer Payroll Taxes
- Benefit Billing

The scope of this internal audit included evaluating and testing the design and operating effectiveness of in-scope internal controls. This included the following:

- Compliance with relevant policies, procedures and guidelines for the processing and reporting of financial information.
- Appropriateness of training and guidance provided to employees and contractors that are involved with processing and reporting of financial information.
- Sufficiency of review, reconciliation, and approval procedures in place to confirm the accuracy and timeliness of financial information and reporting.

- Appropriateness of governance structure for managing and escalating UCPATH issues.

The internal audit procedures included the following:

- Performed interviews with key stakeholders to obtain an understanding of processes, procedures and controls and supporting documentation related to the in-scope areas.
- Analyzed relevant documentation, including policies, procedures, standards, baselines, guidelines, and prior internal audit reports.
- Conducted internal control testing according to defined testing attributes and assessed associated design and implementation of in-scope internal controls and processes.
- Selected samples for a subset of controls to determine the operating effectiveness of the controls for the internal audit period.

Overall Conclusion

We identified seven observations that have the potential to impact the management of risks related to UCPATH. A summary of these observations are grouped into two themes and are listed below:

Insufficient Resources: The following four observations have insufficient resources as a root cause or as a contributing factor leading to the identified observations:

1. **Reconciliations have not been completed since July 2020:** Benefit account reconciliations along with AR account reconciliations for the reserve for bad debt account has not been completed since the Oracle Financials conversion in July 2020. The conversion to Oracle Financials and associated consolidation of GL accounts was identified as the root cause by UCPATH.
2. **Payroll overpayments to employees are not sent to collections in a timely manner:** UCPATH has not had a vendor for collections since July 2020.
3. **There is a lack of separation of duties for benefit account reconciliations:** The employee completing benefit account reconciliations was also the employee responsible for creating vouchers related to benefit transactions.
4. **GL entries for workers compensation and FSA have not been posted in a timely manner:** At the time of fieldwork, posting of entries for workers compensation and flexible spending accounts (FSA) had been delayed and management was working to post all entries by fiscal year-end 2021-2022.

Inadequate or Outdated Procedures: The following three observations are related to gaps in existing processes:

5. **Procedures are not in place to validate that GL entries are recorded timely:** There was no process for verifying all GL entries are posted.
6. **User access is not reviewed:** There was no process for monitoring Oracle Financials user access for employees within the AR or GL teams.
7. **Procedures are outdated:** The GL, Benefits, and AP teams did not have current documented procedures, while the AR team had not reviewed its procedures on an annual basis.

For a detailed discussion of these issues, including the management action plans, please refer to the

subsequent pages of this report. Additionally, Internal Audit identified suggestions for UCPATH leadership to consider to better align with leading practices which are documented in detail at the end of this report in a section titled Additional Recommendations.

Opportunities for Improvement and Action Plans

Insufficient Resources

1. Reconciliations have not been completed since July 2020.

Throughout interviews and walkthroughs, it was noted that UCPATH had not completed account reconciliations for the reserve for bad debt account, and UCPATH had not completed payroll liability account reconciliations since the conversion to Oracle Financials in July 2020. The balance in the reserve for bad debt account as of March 31, 2023, was \$475,563 and per management, monthly payments to benefits vendors made by UCPATH are approximately \$100 million.

UCPATH noted (as of July 1, 2020) that 30 to 35 general ledger accounts reported separately in the chart of accounts prior to conversion are now combined into five general ledger accounts in Oracle Financials, increasing the difficulty of completing reconciliations. UCPATH notes that the conversion to Oracle Financials and associated consolidation of GL accounts is the root cause of the issue. Due to being understaffed and the challenge of separating out the various GL payroll liability accounts, reconciliations have not been completed. UCPATH stated they discussed their difficulty in performing reconciliations and a request to revise the chart of accounts to support their ability to perform reconciliations with Financial Accounting and the Systemwide Controller, but a resolution has not been made as of the date of this report. The AR team also indicated their lack of a bad debt reconciliation was related to challenges with the new general ledger chart of accounts structure.

Policy BFB BUS-10 Principles of Accountability with Respect to Financial Transactions, requires that all employees with financial transaction authority re-delegated to them should “ensure the completeness and accuracy of transactions and timely investigation of any discrepancies” and “promptly and regularly match transaction data from source systems to destination systems.” Reconciliations are prepared to determine if differences exist in the records and to correct discrepancies. If reconciliations are not prepared there is an increased risk of errors or omissions on the financial statements from unidentified discrepancies.

Recommended Action Plan: UCPATH will coordinate with Financial Accounting to investigate making changes to the chart of accounts, if necessary, and develop a monthly reconciliation process for the GL balance sheet accounts for benefits and reserve for bad debt account. The UCPATH Controller will seek assistance, as needed, from accounting personnel within the UC System to determine if they can assist with developing and completing the reconciliations. If internal assistance is not available, UCPATH and the Systemwide Controller’s office have jointly submitted a request on November 2, 2022, to UCOP Procurement for an outside vendor for external assistance to perform the required reconciliations. However, the Intent to Award Letter had not been sent out as of the time of this report. Once this work has been completed, staff will be trained on completing the reconciliations themselves moving forward. In addition, the UCPATH Controller will investigate the use of data analytics software to facilitate efficient preparation of monthly reconciliations and implement automation where applicable. This has been escalated to senior leadership at the Office of the President.

Target date: December 31, 2023

2. Payroll overpayments to employees are not sent to collections in a timely manner.

UC has not had a vendor in place to manage collections since the AR function transitioned from UCLA to UCOP Oracle Financials in July 2020. Following that transition, UC has not had a vendor in place since July 2020 to manage collections for payroll overpayments. Since that point, no uncollected employee overpayments have been sent to collections. California tax intercept programs have also not been utilized since that time as they fell under the responsibility of the collections vendor¹. Per the Payroll Overpayments policy, the statute of limitations on collecting overpayments from employees is three years from the date the overpayment was received.

In the absence of a collections vendor, UCPath has attempted to work with UCOP Procurement to obtain a contract collections agency. Management noted that scoring of the RFP for a new vendor was completed in August/September 2021. However, the Intent to Award Letter had not been sent out as of the time of this report. This has been escalated to senior leadership at the Office of the President.

The total uncollected amount at the time of conversion to Oracle Financials in July 2020 was \$1,132,735. As of February 28, 2023, the balance had increased to \$13,296,649. In an effort to understand the reasons for the large increases, management has taken steps to review the current state and have begun to develop a roadmap for the future state. As a result of the current state review, management shared that the large increase is a result of no overpayments being sent to collections since July 2020.

With only three years to collect, there is an increased risk that overpayments will not be collected and will lead to greater expenses for the campuses.

As payroll processes were considered out of scope for this internal audit, further test work was not performed to evaluate the root cause of these overpayments to employees. UCOP intends to coordinate a future review of payroll overpayments to understand the root cause and to identify opportunities to reduce overpayments.

Recommended Action Plan:

UCPath will continue to work closely with procurement to finalize the contract to bring in the new vendor for collections so amounts can be collected prior to the expiration of statutes of limitation. The UCPath Controller will seek legal counsel to request guidance as it pertains to overpayments to verify that any actions taken to collect is permissible under the State of California law. UCPath will also request for legal counsel to review all correspondence forms used in collection efforts to validate that documents are legally binding and contain appropriate wording per legal standards.

Target date: July 31, 2023

3. There is a lack of separation of duties for benefit account reconciliations.

Due to limited staffing resources, the employee responsible for completing the benefit account reconciliations is also the employee who creates the vouchers for benefit transactions. Furthermore, no compensating controls were noted to reduce the risk related to the conflicting duties.

¹ The State of California's Interagency Intercept Program intercepts tax refunds from the California Franchise Tax Board and transfers them to pay an individual's debts to agencies/colleges.

Without appropriate separation of duties, the risk exists that an employee who is perpetrating a fraud may be able to conceal the fraud from management.

Recommended Action Plan: Until additional resources can be identified, the UCPATH Controller will incorporate a compensating control to require that detailed reviews on both the vouchers and the reconciliations be performed by a supervisor. Evidence of completion of such review will be noted on both the voucher and the reconciliation as support. Upon identifying an available resource, the UCPATH Controller will reassign reconciliation duties to another staff member who is not responsible for creating the vouchers.

Target date for implementation of compensating controls: September 30, 2023

Target date for implementation of separation of duties for benefit account reconciliations: December 31, 2023

4. GL entries for workers compensation and FSA have not been posted in a timely manner.

While conducting interviews with the GL team it was noted that workers compensation and FSA entries were behind for a number of months due to the limited staffing resources available to prepare and post the entries. During the course of the internal audit, an open position was filled, and the GL group was able to catch up on all FSA entries and workers compensation entries for posting at fiscal year-end.

Late entries may lead to financial statement users not having an accurate view of the University's performance which could result in the users not making optimal decisions. Furthermore, inaccurate information could lead to noncompliance with financial reporting requirements.

Recommended Action Plan: UCPATH has hired and trained additional resources and has posted all workers compensation and FSA entries by fiscal year-end closing 06/30/22. Going forward, all entries will be completed in a timely manner as required by the UC accounting manual, and the UCPATH Controller will implement detective controls (e.g., month-end account variance analysis) to verify entries were not missed or entered incorrectly.

Status: Completed July 15, 2022

Internal Audit will validate this action as part of its standard follow-up process to verify implementation of corrective actions resulting from this audit.

Inadequate or Outdated Procedures

5. Procedures are not in place to validate that all GL entries are recorded timely.

While Internal Audit (IA) did not note any observations around the accuracy of transactions, IA did identify the lack of a process in place within the GL team to verify the completeness of all transactions each period. The GL group noted that they do not have a list of expected journal entries for each period to confirm that all transactions have been posted. However, they do verify that all regular monthly and biweekly payrolls have been posted.

The lack of a documented process could lead to processes not being completed which may lead to inaccurate financial statements and possible noncompliance with financial reporting requirements.

Recommended Action Plan: The UCPATH Controller will develop a monthly close checklist with all expected journal entries to track the completion of key GL close activities. This checklist will require GL entry preparer and reviewer to initial next to each entry as evidence of completion.

Target date: September 30, 2023

6. User access was not reviewed.

There was not a process in place for monitoring system user access to the Oracle AR and GL modules. The AR team requested a list of users for this audit, but this was the first time they had received a list for review. They now receive and review the report weekly. The GL team also requested a list of users for this audit; they had not received or reviewed such a list previously.

The lack of a process to review user access could lead to unauthorized users having access to perform functions that could corrupt the application or allow someone to perpetrate a fraud.

It was noted during walkthroughs that management was in the process of hiring a contractor to oversee access management which will include a process for reviewing user access.

Recommended Action Plan: The UCPATH Executive Director hired a cyber security and access management contractor who is tasked with assisting in the development of procedures for reviewing system user access and performing the steps agreed upon periodically as part of a review and implementation of an overall UCPATH access management plan. The access management assessment is complete, and the report of findings is being prepared. UCPATH will review the assessment and implement the recommendations to strengthen the access management posture.

Status: Access management assessment was completed as of February 07, 2023. The next phase will be to review any noted deficiencies and implement corrective actions. Target completion date is September 3, 2023.

Internal Audit will validate this action as part of its standard follow-up process to verify implementation of corrective actions resulting from this audit.

7. Procedures are outdated.

Opportunities exist for strengthening procedures around the following processes identified during interviews and/or the review of documentation provided:

- During the interview with the AP team management it was noted that the procedures were outdated.
- For the AR team, there was no evidence that procedures had been reviewed or updated in the past year.
- The GL and Benefits teams did not have current documented procedures available for review. This included procedures for training new employees.

Not having up-to-date documented procedures increases the risk of operating inefficiencies or noncompliance. In addition, noncompliance for certain reporting requirements could result in monetary penalties.

Recommended Action Plan: The UCPATH Controller will develop a plan to review financial management procedures on a periodic/rolling basis. Any missing processes or procedures will be

developed, outdated processes and procedures will be updated, and then reviewed on a cycle consistent with the period determined for existing processes. This would include AR procedure and map documents updates.

Target date: December 31, 2023

Additional Recommendations

Internal Audit identified the following additional recommendations for UCPATH to consider to better align its processes with leading practices.

Access to PeopleSoft Query Manager

UCPATH should consider granting appropriate groups within applicable departments access to the PeopleSoft Query Manager. For example, the Tax group currently does not have access and as such has a cumbersome process to complete reconciliations. Having access to the query tool would allow the Tax group to complete reconciliations in a more efficient manner.

Contractor Training

UCPATH should consider initiating discussions with leadership to develop a documented process to validate that all contractors have completed training equivalent to training required for employees as part of their onboarding process. Please note that the contractor training issue is not an observation isolated to UCPATH but is a systemwide issue that requires assistance from systemwide leaders.