AUDIT AND ADVISORY SERVICES

Leave Management and Liability
Audit
Project No. 16-680

September 18, 2017

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September 18, 2017

Delphine Regalia
Assistant Vice Chancellor and Controller

Peggy Huston
Chief Operating Officer
Campus Shared Services

Assistant Vice Chancellor and Controller Regalia and Executive Director Huston:

We have completed our audit of leave management and liability as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are presented in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Central Payroll and Campus Shared Services for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit and Risk Executive

cc: Vice Chancellor Marc Fisher
        Interim Assistant Vice Chancellor Jo Mackness
        Director Janet Speer
        Associate Vice Chancellor and Chief Financial Officer Rosemarie Rae
        Associate Chancellor Khira Griscavage
        Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamente

University of California, Berkeley
Audit and Advisory Services
Leave Management and Liability

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Executive Summary

The purpose of the audit was to assess management's internal controls, processes, and practices for administering and managing employee leaves of absence. The audit scope included employee vacation leave, sick leave, and compensatory time off (CTO) and covered both exempt and non-exempt employees. Catastrophic leave and service credits were also included in the scope.

Based on the results of the audit work performed, we conclude that controls surrounding vacation leave, sick leave, and CTO are adequate, except as noted below. We also identified opportunities to reduce the risk of error and to improve work efficiency and have discussed these with the appropriate Campus Shared Services (CSS) and Central Payroll management for their consideration.

- Over 1,000 employees that were included in the initial scope of CalTime still do not utilize CalTime to report time and leave usage even though they accrue and use vacation and sick leave hours. Most of these employees hold post-doctoral scholar positions. Some of these employees are in smaller populations that correspond to particular job codes or bargaining units (such as library bindery). Given the upcoming implementation of UCPath and the anticipated interface between CalTime and UCPath that will be required to record time and leave usage, it appears appropriate to revisit any prior decision to exclude employee populations from electronic time reporting that will now feed directly to UCPath.

- We noted exceptions when testing the process for transferring service credit balances for employees hired with prior service at other campuses. The untimely posting of the service credits to the Payroll and Personnel System (PPS) can cause an error in the vacation leave accrual rate for the transferred employee. We also noted opportunities to improve the process of reconciling CalTime to PPS to ensure that discrepancies are researched and corrected on a timely basis.

Source and Purpose of the Audit

The purpose of the audit was to assess management's internal controls, processes, and practices for administering and managing employee leaves of absence. The audit was included and started as part of our fiscal year 2016 service plan and completed in fiscal year 2017. Audit fieldwork concluded in May 2017.

Scope of the Audit

The audit scope included employee vacation leave, sick leave, and CTO and assessed related processes from employee hire or transfer in from another campus, through ongoing administration and processing of employee leaves, to employee termination or transfer out to another campus. The scope included both exempt and non-exempt employees and also covered catastrophic leave and service credits. The audit did not specifically review individual campus department processes but did assess them from a campus-wide perspective.

The review covered related practices in several CSS units, including Timekeeping, Human Resources, Benefits and Leave, and Team 2 (formerly known as ERSO). The scope included Central Payroll practices related to the above and also touched on leave processing in CalTime, PPS, and to a lesser extent, the Human Capital Management system (HCM). The audit scope did not include Cal Performances, International House, and the Berkeley Art Museum and Pacific Film Archive because of their relative size and the fact that they are not supported by CSS.

Also, the audit scope did not include Academic Senate faculty, academic non-senate instructors and adjunct professors, and other academic employees that do not routinely record their hours worked. Employees who have semester appointments do not normally earn or use vacation or sick leave.

Background Information

The campus has approximately 8,000 employees who do not currently use CalTime for time reporting. These include approximately 1,000 employees who accrue vacation and/or sick leave, including post-doctoral scholars (post-docs) and other smaller categories of employees. The remainder of employees who do not use CalTime include Academic Senate faculty, academic non-senate instructors and adjunct professors, and other academic employees who have semester appointments and do not normally earn or use vacation or sick leave. Also included in this category are readers and tutors and transaction-based employees normally paid on an individual task basis.

The campus administers employee leaves of absences through Central Payroll, various CSS units, and campus departments. Central Payroll administers the campus' overall payroll and payment functions while CSS supports timekeeping activities for most of the campus and provides human resources support (in concert with Central Human Resources). Three campus departments are not supported by CSS: Cal Performances, International House, and the Berkeley Art Museum and Pacific Film Archive. These departments perform their own timekeeping functions and input data directly into CalTime. Individual campus departments are involved in reviewing time reporting and other leave management activities to varying degrees, depending on the department and its categories of employees.

Systems Used to Administer Leaves of Absence. The campus utilizes CalTime, PPS (via the Online Payroll Time Reporting System or OPTRS), and HCM to administer, process, support, and

monitor employee vacation and sick leave accrual and usage. Central Payroll, various CSS units, and campus departments access one or more of these systems for these purposes based on their responsibilities as outlined above.

CalTime – CalTime is the campus-branded version of a Kronos timekeeping system. The campus implemented CalTime for exempt employees in September 2012 and for non-exempt employees in November 2014. Not all campus employees use this system. Academic Senate faculty, non-senate instructors, and adjunct professors do not use CalTime in that they do not accrue vacation or sick leave. Other employees including post docs and some smaller populations that correspond to particular job codes or bargaining units (such as library bindery), while subject to recording use of earned vacation or sick leave, do not use CalTime. Employees not on CalTime typically use manual timesheets (either in paper or in standalone electronic forms). CalTime interfaces with PPS to send timekeeping information that allows for biweekly and monthly payroll production.

PPS – PPS is the system of record for calculating vacation and sick leave accrued. CalTime sends leave usage to PPS and once PPS calculates the leave accrued and adjusts the employee's leave balance to account for the leave taken by the employee, PPS updates CalTime with a new vacation and sick leave balance for that employee. OPTRS is a sub-system of PPS and is used for pay processing. Although the majority of employee hours are sent to PPS by CalTime, payroll administrators can also enter payroll time and leave adjustments directly to OPTRS. PPS is used across all UC campuses for payroll processing; however, each campus has a separate, locally customized instance.

HCM – This is a PeopleSoft human capital management and workforce administration personnel system adopted by UC Berkeley to capture core employee data used to support PPS. An employee's leave code is set up in the employee's job record in HCM. The employee record and leave code are passed to PPS through a daily interface.

Under the direction of UC Office of the President, all UC campuses are scheduled to replace their instances of PPS with the new UCPath payroll system. UC Berkeley's implementation is scheduled for December 2018 and will be in the final cohort of campuses to implement. The transition team planned to commence work in July 2017.

Vacation Leave Accrual Methods. The campus implemented the *factor leave accrual method* to calculate earned vacation leave effective with the pay cycle on November 5, 2014. It is used for both non-academic exempt and non-exempt eligible employees. This method multiplies a standard factor rate against an individual employee's hours on pay status in a given month to determine the amount of leave accrued. The *table accrual method* is used for those academic appointees that accrue leave. This method takes an employee's percentage of time on pay status and an accrual amount is granted based on a range. Eligibility requirements for leave accruals are based on approximately 15 union contracts and several UC policies, including, but not limited to, PPSM 2.210: *Absence from Work* for professional and support staff and APM-700: *Leaves of Absence/General* for academic positions.

Summary Conclusion

Based on the results of the audit work performed, we conclude that controls surrounding vacation leave, sick leave, and CTO appear adequate, except as noted below. We also identified

opportunities to reduce the risk of error and to improve work efficiency and have discussed these with the appropriate CSS and Central Payroll management for their consideration.

- Over 1,000 employees that were included in the initial scope of CalTime still do not utilize CalTime to report time and leave usage even though they accrue and use vacation and sick leave hours. Most of these employees hold post-doc positions. Some are in smaller populations that correspond to particular job codes or bargaining units (such as library bindery). Given the upcoming implementation of UCPath and the anticipated interface between CalTime and UCPath that will be required to record time and leave usage, it appears appropriate to revisit any prior decision to exclude employee populations from electronic time reporting that will now feed directly to UCPath.

- We noted exceptions when testing the process for transferring service credit balances for employees hired with prior service at other campuses. The untimely posting of the service credits to PPS can cause an error in the vacation leave rate for the transferred employee. We also noted opportunities to improve the process of reconciling CalTime to PPS to ensure that discrepancies are researched and corrected in a timely manner.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Employees not Using CalTime — Manual Timekeeping Processes

Observation

The CalTime system was implemented for exempt employees in September 2012 and for non-exempt employees in November 2014. Some exempt employees, such as most employees with academic-year academic appointments, were excluded from the planned implementation of CalTime because they did not accrue vacation, sick or personal time-off leave. We identified over 1,000 employees that were included in the initial scope of CalTime who do not currently utilize CalTime to report time and leave usage even though they accrue and use vacation and sick leave hours.

Most of these employees hold post-doc positions. These individuals, unlike other employees, do not accrue sick and vacation leave on a monthly basis but "are eligible to use up to twenty-four (24) work days of personal time off with pay at any time within each 12-month appointment period" per their bargaining agreement. "Personal time off not used within the 12-month period is not carried over into a subsequent appointment year." As a result, the standard factor leave accrual method for crediting vacation and sick leave based upon hours worked would not be applicable here. Although we do not necessarily disagree with the past decision to exclude this population from CalTime, we understand that post-doc employees are in scope for electronic timekeeping at campuses in early cohorts of the UCPath implementation.

The remainder of employees that accrue vacation and sick leave hours but do not record hours in CalTime are in smaller populations that correspond to particular job codes or bargaining units (such as library bindery).

Employees not on CalTime use paper timesheets (or other manual documents such as Microsoft Excel spreadsheets), for reporting time and leave usage. These information collection methods must be manually entered into PPS (via OPTRS). The administration of manual timesheets varies across departments and the CSS units that support them.

Given the upcoming implementation of UCPath and the anticipated interface between CalTime and UCPath that will be required to record time and leave usage, it appears appropriate to revisit any prior decision to exclude employee populations from electronic time reporting that will now feed directly to UCPath. During this period of UCPath development, it may also be worthwhile to consider the costs and benefits of enhancing the current CalTime system to allow these other populations to record time electronically to feed into PPS until UCPath is implemented locally.

Management Response and Action Plan

Controller's Office response: Academic Personnel Office and CalTime staff are currently planning to have Exempt Post-Docs (approximately 1200 employees) added to CalTime by

December 2017. Library Bindery's 10 employees and Lawrence Hall of Science employees are not in Cal-Time but we will consider adding both these departments.

Processing Leaves of Absence

Observation

Central Payroll and CSS functions, including but not limited to timekeeping, human resources, and benefits and leaves coordinate to administer payroll cycles and to identify items that require adjustment, including leaves of absence. During our testing, we noted the following areas where processes involving employee leave could be strengthened to ensure accuracy of information and timeliness of corrections.

Service Credits and Leave Codes
Service credits transferred from other campuses were not consistent with beginning service credits recorded in PPS in all cases reviewed. During testing of a sample of six employees transferred from other UC campuses, we noted that in each instance, the service credits had not yet been posted to PPS. We also noted that, in two instances, the service credits per the transferring campus documentation did not support the initial leave code.

The untimely posting of initial service credits to PPS can cause an error in the vacation leave accrual rate initially recorded for the transferred employee. These situations will likely result in subsequent manual adjustments to leave balances and leave accruals.

Timeliness and Completeness of Pay Production Control Activities
Central Payroll provides various reports to assist CSS timekeeping units to review timekeeping information, including leaves of absence, in support of each non-exempt pay period. The following items were noted during our review.

- The Reconciliation Report. This is a compilation of information that focuses on differences between CalTime and PPS. If anything is out of sync, it identifies and isolates the information by employee. The report is run just prior to the pay period close ("before" report) to allow for correction and run again immediately after the pay period close ("after" report) for reference.

  During our review of the Reconciliation Report (both the "before" and "after" reports) for the pay period ending December 3, 2016, we noted that two of three items selected from the "before" report had not been corrected and the correction reflected on the "after" report. In one instance, the appointment had not been renewed and pay for thirteen hours worked and payable to the employee remained unpaid as of that pay cycle. The appointment was corrected January 8, 2017, retroactive to November 1, 2016. In the other instance, an employee's start date was recorded as December 1, 2016, but should have been November 21, 2016. It appears that both items had been referred to CSS Human Resources to resolve so that an adjustment could be made by CSS Timekeeping prior to that pay period close.

- The Invalid Report. This report lists employees that CalTime may not have included in the CalTime export file due to distribution errors or other errors. Many of the errors must be corrected by CSS Human Resources. If an entry directly impacts pay (e.g., error reason of

"no rate found"), CSS Timekeeping contacts CSS Human Resources for follow-up and waits for a response. CSS Timekeeping does not forward the Invalid Report to CSS Human Resources for prompt resolution and tracking of those errors within the CSS Human Resources area of responsibility. While the errors may be addressed based on the contact initiated by CSS Timekeeping, or through other means if identified elsewhere, errors may also continue uncorrected for a period of time until they are eventually addressed.

For items identified in the Reconciliation Report and the Invalid Report, both CSS Human Resources and CSS Timekeeping may wish to examine and strengthen their processes to ensure that exceptions are addressed timely, particularly those that involve employee pay. Central Payroll or CSS Timekeeping may wish to consider forwarding the Invalid Report to CSS Human Resources for active follow up, tracking, and coordination with CSS Timekeeping.

Management Response and Action Plan

Campus Shared Services response: To address the Timeliness and Completeness of Pay Production Control Activities, CSS HR/APS will perform the following activities:

- At the end of every biweekly paycycle CSS Timekeeping will provide the CSS HR teams supervisors with a Google doc created from the Invalid Report and Reconciliation Report of all transactions that were not resolved by the end of the paycycle so supervisors can address any issues identified.
- CSS Timekeeping will follow up on any entry items that have not been resolved by the end of the following week and before the next paycycle end date.
- The Google doc created from the Invalid and Reconciliation Reports will have a column for who was initially contracted in CSS HR (including HCM and HR Partners) and what date the action item was actually completed to ensure proper follow up, tracking, and coordinating with CSS Timekeeping.
- CSS HR will create a leave milestone report to identify when employees reach a service milestone that impacts their leave accrual rate.
- CSS HR will develop turn around time metrics on leave accrual adjustments enabling the leave accrual adjustments to take place more timely.

We anticipate having these changes in place by December 21, 2017.