**UC** **RIVERSIDE: AUDIT & ADVISORY SERVICES**

Date: June 29, 2021

To: John-Stephen Henderson

Associate Vice Chancellor, Human Resources

Subject: Audit of Human Resources Operations

Ref: R2021-02

We have completed our audit of Human Resources Operations in accordance with the UC Riverside 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 R2021-02 will remain open until we have evaluated the actions taken.

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

Gregory Moore

Director

xc: Ethics & Compliance Risk and Audit Controls (ECRAC) Committee

Veronica Ruiz, Chief Financial & Administrative Officer

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

INTERNAL AUDIT REPORT R2021-02

HUMAN RESOURCES OPERATIONS

JUNE 2021

Approved by:

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Gregory Moore

Director

**UC RIVERSIDE**

**HUMAN RESOURCES OPERATIONS**

**INTERNAL AUDIT REPORT R2021-02**

**JUNE 2021**

1. **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 Human Resources (HR) operations, with the exception of the issues noted in the Observations (Section III), is satisfactory and generally in compliance with applicable University policies and procedures.

However, we observed some areas noted below that need enhancements to strengthen internal controls and/or effect compliance with University Policy:

1. HR Fund Deficit Balances (Observation III.A)
2. Form I-9 Process (Observation III.B)
3. Salary Cost Transfers (Observations III.C)

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

1. **INTRODUCTION**
   1. **PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of HR operations to evaluate the adequacy and effectiveness of its system of internal controls and compliance with applicable University policies and procedures.

Included in the review were consideration and evaluation of significant processes and practices, specifically addressing the following components:

1. Management philosophy, operating style, and risk assessment practices;
2. Organizational structure, and delegations of authority and responsibility;
3. Positions of accountability for financial and programmatic results;
4. Process strengths (best practices), weaknesses, and mitigating or compensating controls; and
5. Information and communications systems, applications, databases, and electronic interfaces.
   1. **BACKGROUND**

Central Human Resources (CHR) is a central office that primarily serves and supports staff in both the University and UCR Health. CHR works closely with HR representatives, senior management, campus administrators, campus leadership, faculty, student, staff, and various groups to provide a strategic vision, and leadership in providing a quality customer service-oriented HR infrastructure that best serves the needs of a wide variety of campus stakeholders and positions UCR's competitive advantage as an employer of choice in an increasingly multi-cultural and multi-generational work environment.

CHR strives to be a dynamic, service-oriented team, providing expert consultation and support to foster an environment that inspires excellence within the University of California system and UCR community by establishing a framework to actively recruit, develop, and retain a diverse and talented workforce that fosters a safe and inclusive work culture.

Core services and competencies include talent acquisition and diversity outreach, employee and labor relations, employee and organizational development, total compensation, benefits, and workplace health and wellness.

Total HR expenditures for Fiscal Years (FYs) 2018-2019 and 2019-2020 are approximately $6.4 and $5.8 million, respectively.

* 1. **SCOPE**

We reviewed supporting documentation for transactions during FYs 2018-2019 and 2019-2020.

The review included evaluating the adequacy and effectiveness of internal controls over expenditures, non-payroll federal and non-federal cost transfers, payroll cost transfers, I-9 process and deficit balances.

However, due to Covid19 and our limited access to resources, the audit scope was limited and did not include some areas for testing such as procurement card and capital/non-capital equipment inventory.

The review was principally limited to the following areas:

1. **Preliminary Assessment –** Our preliminary assessment included an overview of the following areas:

* General Overview and Risk Assessment
* General Control Environment
* Business Processes
* Information and Communication Systems.

1. **Analytic Review –** Performed an analytic review of expenditures by account, description lines, department, budget category, and fund type during FYs 2018-2019, and 2019-2020.
2. **Overall Analysis**
3. **Internal Controls**

We reviewed and evaluated HR’s control environment, processes and procedures through interviews of appropriate personnel as well as our independent observations.

1. **Payroll Expenditures Analysis**

We conducted an analysis of overtime for payroll charges during FYs 2018-2019 and 2019-20, identified any significant and unusual variances and asked for explanations and proper justifications.

1. **Non-Payroll Expenditures Analysis**

We generated expenditure transaction reports from UCRFS Totals for FYs 2018-2019 and 2019-2020 and performed high level trend analysis to investigate any unusual changes, trends or irregularities.

1. **Cost Transfers Analysis**

We performed a high level analysis on non-payroll/payroll (federal and non-federal) cost transfers during FYs 2018-2019 and 2019-2020 to investigate any unusual changes, trends and irregularities.

* 1. **INTERNAL CONTROLS AND COMPLIANCE**

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

Internal control 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 during the months of July through December of 2020. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

1. **OBSERVATIONS, COMMENTS, AND CORRECTIVE ACTION PLANS**
   1. **HR Fund Deficit Balances**

OBSERVATIONS

We performed a budget/actual analysis for FY 2018, FY 2019, FY 2020 and noted deficit balances/variances below (see Tables 1-2-3 below):

**Table 1**

**FY 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Dept** | **Dept Description** | **ACTUAL** | **TEMP/Budget** | **Difference** |
| D01103 | Human Resources | 1,931,689 | 3,168,170 | 1,236,481 |
| D01104 | Employee and Labor Relations | 912,375 | 812,614 | (99,761) |
| D02038 | Talent Acq & Diversity Outreach | 481,232 | 481,232 | 0 |
| D02039 | Total Compensation | 892,606 | 866,683 | (25,923) |
| D02040 | Employee & Org Development | 831,393 | 883,683 | 52,290 |
| D02041 | Workplace Health and Wellness | 1,073,605 | 969,206 | (104,399) |
| **Grand Total** |  | **6,122,900** | **7,181,588** | **1,058,688** |

**Table 2**

**FY 2019**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Dept** | **Dept Description** | **ACTUAL** | **TEMP/Budget** | **Difference** |
| D01103 | Human Resources | 2,299,609 | 2,508,811 | 209,202 |
| D01104 | Employee and Labor Relations | 1,241,017 | 1,234,343 | (6,674) |
| D02038 | Talent Acq & Diversity Outreach | 496,065 | 499,065 | 3,000 |
| D02039 | Total Compensation | 971,864 | 1,006,886 | 35,022 |
| D02040 | Employee & Org Development | 506,374 | 506,957 | 583 |
| D02041 | Workplace Health and Wellness | 969,062 | 1,012,006 | 42,944 |
| **Grand Total** |  | **6,483,991** | **6,768,068** | **284,077** |

**Table 3**

**FY 2020**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Dept** | **Dept Description** | **ACTUAL** | **TEMP/Budget** | **Difference** |
| D01103 | Human Resources | 1,476,978 | 1,631,175 | 154,197 |
| D01104 | Employee and Labor Relations | 992,349 | 995,549 | 3,200 |
| D02037 | HR - UCPath | 113 | 0 | (113) |
| D02038 | Talent Acq & Diversity Outreach | 625,308 | 625,308 | 0 |
| D02039 | Total Compensation | 1,090,637 | 1,004,914 | (85,723) |
| D02040 | Employee & Org Development | 645,495 | 668,004 | 22,509 |
| D02041 | Workplace Health and Wellness | 966,467 | 1,035,202 | 68,735 |
| **Grand Total** |  | **5,797,347** | **5, 960, 152** | **162, 805** |

**Management Action Plans**

FY2018:

* The deficit in the amount of $99,761in D01104- Employee & Labor Relations is directly attributed to the addition of two positions; Labor Relations Rep and Employee Relation Rep. Vice Chancellor Planning, Budget and Administration (VC PB&A) provided one time funding in FY2019 and the deficit was corrected.
* The deficit in the amount of $25,923 in D02039- Total Compensation is directly attributed to the addition of a Comp/Classification Analyst position on temporary funds. Vice Chancellor Planning, Budget and Administration (VC PB&A) provided one time funding in FY2019 and the deficit was corrected.
* Workplace Health & Wellness (D02041) deficit of $104,399: Many of the Workplace Health & Wellness programs are funded by UCOP one year in arrears. The main drivers of the deficit are the Disability Management and Work Strong positions, which were funded by UCOP in FY2019. Similarly, the 2019 expenses were funded in 2020, and funding has been received from UCOP for FY20 expenses in FY21.

FY2019:

* Employee & Labor Relations (D01104) deficit of $6,674: The deficit is attributed to the Employee & Support Program fund. Individual department balances, within the HR division, are balanced against all available divisional resources. There was $209,202 in surplus funding in HR-D01103 at year end, however an adjusting entry was not processed before the end of the fiscal year. The deficit was corrected in FY2020.

FY2020:

* HR – UCPath (D02037) deficit of $113: This minor deficit is attributed to a Salary Cost transfer that was processed incorrectly by Central Accounting.  The deficit has not yet been corrected.  Central Accounting has communicated that they are currently working on correcting the issues and the reversals will post by fiscal close.  HR will be closely monitoring to ensure that the reversal is completed.
* Total Compensation (D2039) deficit of $85,723: Funding was provided for the HealthCare/Benefits facilitator position but recorded to the incorrect department code HR-D01103 in late FY2020. Funding should have been transferred to Total Comp -D02039, where expenses were incurred. An adjusting entry was made in FY21 to correct it.

**Expected Implementation Date**

July 10, 2021.

* 1. **Form I-9 Process**

OBSERVATIONS

Policy 650-28 states:

*“Department/Shared Service Center (SSC):*

*1. Reviews and ensures employees properly complete section one of the Form I-9*

*within Tracker.*

*2. Designates an HR/AP staff member to conduct Form I-9 verifications.*

*3. Ensures employees designated to conduct Form I-9 verifications have been*

*trained to use Tracker, understand USCIS I-9 employment eligibility requirements and the appropriate verification process for new hires and existing employees.*

1. *Establishes a verification process to ensure verifications are completed within*

*three business days of hire.*

*a. The three (3) business day Form I-9 completion date requirement is triggered by*

*pay or work. Therefore, if an individual is appointed to a position and does not*

*conduct work or receive pay, the three (3) business day period begins when the*

*first day of pay or work occurs.*

*For example, if an employee begins performing work on Monday, you must review*

*the employee’s documentation and complete section 2 on or before Thursday of*

*that week.*

*b. When a faculty member is assigned an appointment that allows pay prior to the*

*first day of work, refer to the Academic Personnel Manual for additional guidance*

*on 9/12 Academic Appointments or contact the Office of Academic Personnel.*

1. *Takes action to discontinue employment of an employee who cannot provide*

*proof of current work authorization by consulting with Employee & Labor Relations, as needed.”*

We observed that the I-9 process was not in accordance with the UCR I-9 policy. Specifically, I-9 tracking was done manually and tracking documentation needs improvement. There is a lack of supporting documentation according to the HR Principal Policy Analyst. Due to Covid-19 limitations and campus closure, the I-9 documentation were maintained on campus and we were unable to test the I-9 manual process.

**Management Action Plans**

1. Central HR will continue collaboration with Campus Support Center (CSC) and International Student and Scholars by meeting once a month to discuss changes in legislation, USCIS, UCOP, Tracker I-9, etc.
2. Central HR will conduct quarterly training.
3. Central HR will host monthly meetings to keep processors informed
4. As departments verify completion of their internal audits, Central HR will move the paper I-9s to central HR.

**Expected Implementation Date**

July 18, 2021.

* 1. **Salary Cost Transfers**

OBSERVATIONS

According to Business and Financial Services (BFS) Salary Cost Transfer (SCT) Guidance, *“the purpose of the Salary Cost Transfer (SCT) Request Tool is to facilitate departmental requests for cost transfers while ensuring the university’s requirements are met. When it is identified that an adjustment to an FAU used for payroll expenses is required, a salary cost transfer request should be initiated by the department transactor. The SCT Request Tool is designed to allow the transactor to quickly identify all related transactions and initiate a request with minimal key entry while providing a standard campus process and audit trail. The transactor will be guided to include and/or attach appropriate documentation to support the cost transfer request. The request will route to the department designated financial manager for approval. The use of the SCT Request Tool will help reduce FAU and key-entry errors through the use of FAU combination edits and validation of fund begin and end dates as well as ensure compliance with the 120 day UC cost transfer policy.*

*With the implementation of UCPath, the campus migrated to Shared Services Centers (SSC) for transactional processing. It is important to note the SCT Request Tool facilitates departmental requests for cost transfers; approved requests are then routed to the appropriate Shared Services Center for entry into UCPath. Information from the request is formatted specifically for SSC processing within UCPath’s “Direct Retro” page, as a direct interface does not currently exist in the UCPath environment. Once processed by the SSC in UCPath, the transaction should appear in the department’s ledger within a few business days. This is a significant improvement in timing over the previous system. In addition, departments can optionally set up notification of SCT postings to the general ledger using the UCRFS PAN Courtesy Copy role for source code SCT.”*

We conducted an aging analysis on SCTs during FYs 2018-2019 and 2019-2020. We identified the SCTs that exceeded 120 days. We selected a judgmental sample of six items to determine why the SCTs were not in accordance with the SCT Guidelines and Policy. We also requested HR to provide us with the justification documentation. We determined that the department did not have an adequate and timely review process in place over payroll (See Table 4).

**Table 4**

|  |  |  |
| --- | --- | --- |
| **# of Days** | **Comments** | **SCT #** |
| 365 | Due to issues that occurred with the implementation of UCPath, the stipend was recorded to the Subject Matter Experts’ (SMEs) home department. The SCTs were processed by the Home department, Engineering – Dean’s Office, then routed to HR and Planning, Budget and Administration (PB&A) for approval. The payment was issued on December 31, 2017. The home department (not HR) identified this issue and submitted an SCT in July 2018 (six months after) and due to system routing issues, the transaction was sent back and forth between the various units involved, over a period of an additional five months. Therefore, it was not processed until November 30, 2018. | 10112 |
| 350 | During the time period, there were two funding sources to be managed, UCOP funding (38070) and PB&A funding, formerly Business Administration System (BAS) (19900). Two Graduate Researchers were hired under UCOP funding (38070), however, the former Financial Operations Officer who supported HR directly separated from the university in October 2018 and did not have the opportunity to reconcile the expenses. | 106303 |
| 350 |
| 336 |
| 336 |

**Management Action Plans**

The HR Data Management and Financial Analyst took over the oversight procedures and began the monitoring/review of SCTs timely and consistently starting Fiscal Year 2020 (July).

**Expected Implementation Date**

The Management Action Plan stated above has been implemented and adequately addressed our audit observation, therefore this audit observation is now closed.