August 21, 2013

INTERIM VICE CHANCELLOR REESE

Subject: Audit Report No. M13A009
             Human Resources Audit

Attached is the final report for Audit No. M13A009: Human Resources. It includes action plans that were developed by members of your staff. These action plans will be entered into the TeamCentral Database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

I appreciate the assistance provided to me by the Human Resources department staff during the review. If you should have any questions, please feel free to contact me.

Todd Kucker
Internal Audit Director
UC Merced Internal Audit Services

Attachment

cc: SVP Vacca
       Chancellor Leland
       Assistant Vice Chancellor Dunlap

UNIVERSITY OF CALIFORNIA, MERCED
INTERNAL AUDIT SERVICES

Human Resources
Report No. M13A009

August 21, 2013

Work Performed by:
Todd Kucker, Internal Audit Director

Purpose and Scope

Internal audit has completed an audit of Human Resources, which was part of the fiscal year 2013 audit plan. The primary purpose of the audit was to evaluate processes in areas typically handled by Human Resources that include:
- Maintaining employee relations and a safe work environment;
- Compensation;
- Recruiting; and,
- Compliance with labor laws.

The audit objectives were:

- To evaluate campus procedures related to the recruitment, hiring, and separating of employees
- To evaluate procedures for reviewing employee compensation
- To review campus procedures related to Performance Management (annual evaluations)
- To review procedures that Human Resources currently has in place to manage compliance with labor laws
- To review procedures related to classifying employees and independent contractors

The scope of the audit included the Human Resources department within the Business and Administrative Services Division. The Academic Personnel Office was not reviewed during this audit. Testing included processes and procedures related to non-represented staff. Academic employees and employees represented by a union were not reviewed during this audit.

Background

The mission of Human Resources is to: "Manage programs and practices that make UC Merced a model employer, balancing support of institutional and individual needs through ethical and professional standards."

The Human Resources department at UC Merced is part of the Business and Administrative Services division. The department is composed of fifteen employees whose responsibilities include managing the following areas:

- Benefits;
- Employee and Labor Relations;
- Compensation and Classification;
- Retirement Services and Workers Compensation;
- Staff Employment;
- Professional and Organizational Development; and,
- Equal Employment Opportunity and Affirmative Action.

Human Resources handle represented and non-represented staff. A department in the Provost's Office, the Academic Personnel Office, manages the recruitment, appointment, advancement, and retention of faculty, other academic instructors, and research personnel.

Recent Focus on Management Training and Professional Development

One important area managed by Human Resources is training and professional development for employees. During Fall 2011, a task force proposed a "Talent Management Program" which would establish professional development and leadership training for UC Merced employees. The proposed program would utilize workshops, internships, and leadership mentoring.

In Spring 2012, the Professional and Organizational Development unit of the Human Resources department launched the Supervisory Certificate Program. The UC Merced Supervisory Certificate Program is a flexible, performance skills based program of learning that was designed and successfully implemented at other UC campuses to provide supervisors and supervisor aspirants with an opportunity to develop supervisory competencies. Professional and Organizational Development has adapted this program to meet the needs of UC Merced team members.

The Supervisory Certificate Program enhances skill development in setting expectations, communications, delegating, coaching, organizational awareness, team, leadership, and human resources management. This program encourages developmental communication between participant and his/her manager to facilitate transfer to the job. As of August 2013, there are 93 active participants in this program.

During 2012, 23 managers from UC Merced were nominated by their respective managers or department heads to attend the Management Development Program. This system-wide program is targeted for managers at the middle level and above, who manage supervisors, leads, managers, or complex organizational or campus-wide programs. It was designed to strengthen leadership capability in three important UC core competencies:

- People Management
- Employee Engagement
- Change Management

Although current leadership and supervisory training programs are not mandatory, the Human Resources department is contemplating making the Supervisory Certificate Program mandatory for all managers and supervisors with less than ten years of supervisory/management experience. A collaborative effort will need to be established alongside with Office of the Chancellor and the Provost's Office to implement this initiative at UC Merced.

Conclusion

Based on the review, we concluded that processes and procedures in most Human Resources' areas were adequately managed. We noted inadequate documentation of the hiring process by some departments that put the campus at risk of noncompliance with discrimination laws. Overall, we noted the following areas for improvement:

Areas for improvement

- During the hiring process, adequate explanations should be documented as to why a candidate was hired and why other candidates were not selected
- Human Resources should promote consistent employment practices by departments
- Improve the process for considering equity adjustments and reclassifications for employees
- Verify that correct approval is received for salary increases

Observations and Management Action Plans

1. During the hiring process, adequate explanations should be documented as to why a candidate was hired and why other candidates were not selected

To manage the hiring process, UC Merced currently utilizes a system to manage the hiring process called the "Personnel Application Web System" (PAWS). Job postings are set up in PAWS and candidates applications and resumes are maintained. Hiring managers are then able to review candidate information in the system and document whether candidates are qualified for the position, document which candidates are interviewed, and then document why a particular candidate was hired.

The process of documenting which candidates are qualified and selected is called the "disposition" process. Proper disposition is very important as it provides evidence that the campus has fulfilled the equal employment opportunity (EEO) and Affirmative Action requirements during the hiring process. UC Merced's EEO responsibility is to: "make good faith efforts to promote and maintain a discrimination and harassment-free workplace by demonstrating that it neither condones nor tolerates employment practices that discriminate against or harass any person or specific group or persons."

During the audit, we noted instances where:

- The hiring department did not complete the disposition of candidates in PAWS;
- All candidates not selected to interview were marked as "Not Qualified", although based upon their resumes it was difficult to determine why;
- Final disposition of the candidates had not been completed although a candidate was already hired weeks before;

- Different managers provided different amounts of information for disposition in the system. Some provided long explanations regarding why candidates were selected vs. not selected while others just provided very concise explanations (for example "Most qualified candidate", "Not as qualified as the most qualified candidate", etc.)

By not properly completing the disposition process, the campus is put at risk of noncompliance with laws prohibiting job discrimination. As a federal contractor who receives federal awards, UC Merced is always at risk of being audited by the Office of Federal Contract Compliance Programs (OFCCP), the Department of Labor Office that enforces EEO and affirmative action for job seekers.

We recommend the following ways to improve controls related to disposition.

- Provide training regarding the disposition of candidates to MSO's and hiring managers before they are granted access to PAWS.
- Utilize a system with more controls built in. For example, the system could require more explanation when a candidate is marked as not qualified. It could have standard answers regarding why a candidate was not selected. It could send reminders to the hiring managers to complete the disposition process.
- HR should require disposition of candidates in the system before signed offer letters are provided to departments.

Management Action Plan:

Human Resources will implement UC San Diego's "HireOnline". This proposal received budget approval in July 2013, with full implementation expected by no later than July 1, 2014.
- UCTalent (HireOnline) Platform is a technology solution specifically designed for higher education. The web-based solution enables organizations to: automate and streamline the hiring process; improve candidate communication; efficiently manage position descriptions; and develop compliant and defensible audit trails to defend talent management decisions.
- Higher education institutions are subject to Office of Federal Contract Compliance Programs (OFCCP) audits on a regular basis, and UCTalent (HireOnline) Platform addresses many of the common audit violations.
- The foundational design of the platform is set on the philosophy of configurable flexibility within a baseline of standardization. This approach allows for cohesive reports, as well as the ability to include additional functionality as needed. This approach also allows changes to be made across the organization quickly with minimal or no down time when implementing enhancements to the system to address new policies and state & federal laws.

- HireOnline will enable UCM to:
    a. Automate and streamline the hiring process
    b. Improve candidate communication.
    c. Efficiently manage position descriptions through library.
    d. Develop compliant and defensible audit trails to defend talent management decisions.
    e. Efficiently address OFCCP audits. To address common audit violations the system features include:

        - Defined disposition codes
        - Candidate pool tracking features
        - Candidate diversity recognition
        - Underutilization recognition
        - Custom and reviewable resume review and interview criteria
        - An ultimate audit report
        - Compliant recruitment workflow

This action plan will be completed by June 30, 2014.

2. Human Resources should promote consistent employment processes by departments

During the audit, we discussed hiring and separation processes with department MSO's and hiring managers. Human Resources have provided written guidance in order to educate departments regarding hiring requirements. For example, Human Resources' written guidance related to UC Merced Recruitment Processes states "Interviews should be consistently structured and focused on a predetermined set of questions ensuring that all candidates are measured against the same selection criteria. Interview questions may be reviewed by Human Resources for appropriateness."

By comparing Human Resources' written guidance with department practices communicated during discussions, we noted that there were some inconsistent practices among departments in the following areas:

- Reviewing interview questions;
- Documenting that at least three candidates were interviewed;
- Documenting reference checks;
- Getting offer letters reviewed by Human Resources;
- Disposition of candidates in PAWS (as mentioned above); and,
- Obtaining accurate information from outside search firms about candidates they screen on behalf of UC Merced to satisfy OFCCP guidelines.

Inconsistent hiring procedures and inadequate documentation puts the campus at risk of noncompliance with discrimination laws.

During discussions, we also noted that there is no requirement to conduct exit interviews with separating employees. Some departments complete exit interviews while others do not. As exit interviews are not currently required, the results of these exit interviews are not shared with Human Resources. As a result, if the former employee had difficulties with someone within the department, this issue would not be communicated outside of the department.

We recommend that Human Resources related training be required for department supervisors and hiring managers. The training should explain how properly documenting the hiring process (including disposition of candidates) and separation process reduces risks for the campus. We also recommend that Human Resources communicate to separating employees the option of an exit interview in order to identify potential issues in departments which might be causing employee turnover.

Management Action Plan:

In addition to HireOnline, Human Resources will be implementing additional recruitment process changes for staff over the course of the next business quarter. These processes will provide streamlining for recruitment efforts by our campus hiring managers, and allow greater accountability for compliance reporting. Specifically, we will be implementing the following:
- Providing guidelines for the campus on selecting search committees;
- Providing an Interview Question Database that must be utilized for developing the questions to be used with applicants;
- Provide Search committee/hiring manager training specifically focused on process and compliance;
- Providing a packet and consultative services to search committees, including forms for screening the pool, interview questions, applicant ratings and reference checking; and
- The EEO/Affirmative Action unit will certify applicant pools. Guidelines for certification are being developed.
- Human Resources will solicit support from the Chancellor and Cabinet to require HR approval for all offers of employment.

These additional recruitment process changes will allow Human Resources to adequately manage the hiring process and create consistent employment practices that are compliant with federal and state laws. Current procedures are outlined to mitigate compliance risks however without direct oversight by Human Resources practices may not be aligned with written procedures. In addition a review of background check procedures will be necessary to update current practices with recent federal agency directives.

This action plan will be completed by December 31, 2013.

Exit Interviews

As relates to conducting exit interviews:

- The Online Exit Interviews are ready to be launched. Human Resources are coordinating with payroll to receive notification of separation (prior to separation date, if possible).
- In Person Exit Interview questions are drafted. Human Resources have an additional FTE approved for Employee/Labor Relations and this will be one of the job responsibilities assigned to this position.

Live Interview (Pros and Cons)

Information Quality—Can gather more detail on each question
Customization—Interviewer can tailor interview questions based on employee responses
Lack of Anonymity—Employees are much less likely to speak candidly in an in-person interview if the organization does not use an independent, objective interviewer
Risk of Interpretational Bias—Interviewers' interpretation may bias answers
Difficulty in Reporting—Hand-written notes and lack of a centralized system in which to store the data complicates aggregate reporting

Online Survey (Pros and Cons)

Standardization—Online surveys can be administered consistently across employee segments and geographical locations
Minimal Interpretation Error—Online surveys do not require an interviewer to interpret responses
Benchmarking—Standard questions make benchmarking and trends analysis easier
Easy Administration—Surveys can be administers and compiled quickly
Anonymity—Employees may feel more comfortable being honest during an online survey than during an in-person interview

Procedures related to exit interviews will be in place by December 31, 2013.

3. Improve the process for considering equity adjustments and reclassifications for employees

During the audit, we reviewed equity adjustments and reclassifications that were approved and denied during fiscal year 2013. Equity adjustments are where an employee's compensation is reviewed to determine whether the employee is earning comparable amounts with employees of the same classification at UC Merced. A reclassification is where an employee has taken on responsibilities which are not in the employee's job description. As the additional responsibilities have caused the employee to be more comparable with higher level positions, the employee is reclassified to a

higher position (for example, a financial analyst 3 might be reclassified to a financial analyst 4).

During the testing, we noted that almost all employees considered for reclassifications and equity adjustments during fiscal year 2013 received them. Of the 76 requested equity adjustment and reclassifications during July 1, 2012 through June 14, 2013, 71 were approved and 5 were denied. Of the 5 denied, 3 resulted in temporary stipends and 1 request for a reclassification was changed to an equity adjustment. Overall, only 1 of the 76 requests resulted in an employee not receiving more compensation.

This unusual result in the testing means that employees are very dependent upon their managers to make the effort to put their individual cases through the evaluation process. In departments where managers are hesitant to put their employees forward for raises, the employees are not given the same opportunities as employees in departments where managers are willing to put together rationale as to why their employees deserve more pay.

During the audit, we spoke to managers from different departments regarding equity adjustments and noted that some incorrectly treated equity adjustments like merit increases. Comments included: "Human Resources didn't consider the person's background and performance when they came up with the amount of the equity adjustment". In considering an equity adjustment, Human Resources only compares the employee's compensation with other employees of the same classification. The Human Resources department doesn't have the information necessary to consider the performance and background of all other employees in the same classification.

We also noted instances where employees received multiple equity adjustments and reclassifications within a couple years. Overall, it appears that some departments are incorrectly attempting to use equity adjustments and reclassifications as a replacement for merit increases as it has been many years since the last merit increases at UC Merced.

The current process gives the impression of favoritism. If a manager favors an employee and is willing to put together the necessary documentation so the employee is considered for higher compensation, it is likely that the employee will receive the pay increase. If managers believe their employees are adequately compensated, their employees are not given the same opportunities as employees in some other departments.

Management Action Plan:

All UC campuses have noted increased requests for equity adjustments. It is felt that the lack of merit increases and salaries offered to new hires have fueled these requests. UCM Human Resources developed PPSM 30 – local procedure. The procedures were approved by the Cabinet. With the adoption of these procedures comes a new way of processing equity requests. Most notably, equity adjustments will be reviewed annually on a campus wide basis for non-represented staff positions. The funding level for equity adjustments will also be determined on an annual basis. One of the many benefits of processing equity

requests in this manner is that it will allow managers greater control and consistency in providing equity increases to their staff. This was approved by the cabinet and an announcement was sent out to campus. This action plan was completed before the report was issued.

4. Verify that correct approval is received for salary increases

During the audit, we reviewed that equity adjustments and reclassifications were properly approved. Personnel Policy for Staff Member (PPSM)-30 related to salaries requires approval from the Chancellor when an employee's total salary increase in a single fiscal year exceeds 25% of the employee's base salary. We noted three instances where the salary increase was over 25% but approval from the Chancellor was not obtained.

In one of the instances noted, an employee received a promotion early in the fiscal year and then a change in pay rate later in the fiscal year which caused her salary to increase by 40% during the year. As there were two separate pay increases during the year which were each less than 25%, the approval from the Chancellor was not obtained.

We recommend that Human Resources establish a process for reviewing that proper approval has been received from the Chancellor when annual salary increases are over 25%.

Management Action Plan:

Human Resources will improve the process to obtain Chancellor approval for increases over 25% in a fiscal year. If Chancellor approval is required, Human Resources will include either an approval line on the analysis for the Chancellor's approval and signature or check box to include Chancellor approval with the new eDocs that will be implemented for Compensation this coming fall.

A process will be established to review all salary increases for an employee during the evaluation of additional pay increases. Compensation will run a Fastrax salary query for individual reclassification/equities. This will help identify when an employee's base salary increases by more than 25% during a fiscal year.

The action plan will be completed by December 31, 2013.