

RIVERSIDE: AUDIT & ADVISORY SERVICES

July 14, 2010

To: Bobbi McCracken
Associate Vice Chancellor, Financial Services

Subject: Internal Audit of Employee Time Reporting

Ref: R2010-14

We have completed our audit of Employee Time Reporting 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 R2010-14 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 me.

Michael R. Jenson
Director

Attachment

xc: UCR Audit Committee Members
Director of Payroll, Payables & Travel Nwandu
Finance & Business Operations Assistant Vice Chancellor Carlson

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2010-14

EMPLOYEE TIME REPORTING

JULY 2010

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UC RIVERSIDE
EMPLOYEE TIME REPORTING
INTERNAL AUDIT REPORT R2010-14
JULY 2010

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the audit, it is our opinion that, overall, the system of internal controls over employee time reporting at the various departments is generally operating satisfactorily and consistent with University policies.

Positive observations included:

- In most departments, personnel files were well-organized. Furlough/Salary Reduction Plan forms were completed, signed by authorized signatories, and placed in the personnel files.
- The departments included in our sample selection indicated that representatives from their departments attend the Payroll/Personnel System (PPS) and UCR Financial System (UCRFS) Users meetings regularly. Department representatives share with other employees the meeting agenda and minutes.
- The Payroll and Human Resources Offices, through their websites, disseminate to all campus departments the information and guidelines pertaining to the Furlough/Salary Reduction Plans.

We observed some areas that need enhancement to strengthen internal controls and/or effect compliance with University policy:

1. The intended salary savings through furlough were not met by the reduction in pay under the Staff and Academic Reduction in Time (START) Program for four employees. (Observation III.A.2)
2. Employees with payroll processing responsibilities receive and distribute payroll checks in violation of University policy. (Observation III.B.2)
3. Time Records (UPAY 100R) were discarded, in violation of record retention requirements, by a department after one year. (Observation III.B.3)
4. One department did not have written procedures and disaster recovery/emergency plans for its timekeeping system. (Observation III.B.4)
5. Payroll processing errors were noted affecting seven (13% of 54) employees included in our sample. (Observation III.C)

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

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of the Employee Time Reporting controls and procedures of selected campus departments to evaluate compliance with certain University policies and procedures, and the adequacy of certain internal controls.

The specific audit objectives are to determine:

- The validity and propriety of certain payroll/personnel actions such as furlough/salary reductions.
- The reasonableness of employee wages paid based on their Time Records and appointments.
- Compliance with established University policies and procedures relating to time reporting and the Furlough/Salary Reduction Plans.

B. BACKGROUND

Salaries and wages constitute the single biggest expenditure at UCR. In fiscal years 2007-2008 and 2006-2007, salaries and wages totaled \$272 million (54% of total current fund expenditures of \$503 million) and \$244 million (54% of total current fund expenditures of \$453 million).

Most campus departments use the Time Record (UPAY 100R) for time reporting. Departments with employees situated in various buildings or facilities on-campus such as Physical Plant and the University Library utilize automated time reporting systems that generate employee time reports. These automated time reporting systems do not interface with the Payroll/Personnel System (PPS). Attendance information from the employee time reports is input to the monthly PPS Time Rosters for payroll processing.

On 7/16/2009, the UC Regents approved a systemwide Furlough/Salary Reduction Plan (FSRP) for UC employees as part of a strategy for coping with state budget cuts. The plan calls for employees to take from 11 to 24 days off without pay, beginning 9/01/2009 for a 12-month period. Pay reductions range from 4% to 10%. The furlough plan is based on salary,

with those who earn more absorbing a larger pay reduction than those who earn less.

Instead of furlough, employees can opt to sign up for the START program that started on 7/01/2008 and originally scheduled to end on 6/30/2010. The minimum reduction in time under START is 5%. On 5/25/2010, the START program was extended up to 12/31/2010. If the START contract yields the same or greater salary savings as the Furlough/Salary Reduction Plan, then placement on furlough is not required. The 5% minimum reduction in time under START may be adjusted to a lower percentage when necessary in limited circumstances to accommodate employees whose percentage reduction would otherwise be lower under the furlough/salary reduction plan.

Employees can also opt to have a reduced appointment percentage. Under this option, some employee benefits (leave accruals and service credit) are reduced equivalent to the percentage reduction. Under both the Furlough/Salary Reduction Plan and START program, employees retain most of their benefits.

C. SCOPE

The audit encompassed assessing Employee Time Reporting procedures and controls, and compliance with applicable University policies and procedures in selected campus departments. The review was principally limited to the following procedures:

1. We selected for review a judgmental sample of 11 campus departments from which 54 employees (staff and students) were judgmentally selected. Also, we selected for review seven academic employees who participated in the Furlough Exchange Program (FEP).
2. For each department selected, we obtained an understanding of significant processes and practices employed in employee time reporting including any departmental time reporting system used; conducted an internal control evaluation of employee time reporting procedures in each of the 11 campus departments; and evaluated the adequacy of internal controls over employee time reporting.
3. For each employee selected, we reviewed their Time Records from July 2008 through December 2009 and traced to the Distribution of Payroll Expense (DOPE) reports the leave taken, compensatory time earned/off, and/or overtime payments. For departments with in-house automated time reporting systems, we obtained the system-generated employee time reports and traced to the DOPEs.
4. We verified each selected department's implementation of the University Furlough/Salary Reduction Plan.

- For employees who were on the Furlough/Salary Reduction Plan, we verified their salary reduction percentages from the UCR Furlough/Salary Reduction Plan Implementation Guidelines to verify the accuracy of their Salary Reduction-Base (SRB) percentages and agreed to the employees' Payroll/Personnel System (PPS) database record.
 - For employees who opted to participate in the START program, we verified the percentages from their signed agreements and agreed them to PPS.
 - For academic employees who opted to participate in the FEP, we verified whether their FEP agreements had the required approvals and the accuracy and validity of the FEP percentages and the funding sources for the FEP.
5. We obtained from Human Resources (HR) a list of employees reclassified or given equity increases effective between 9/01/2009 and 3/01/2010. We verified whether the furlough/salary reduction percentage (Salary Reduction-Base or SRB) was correspondingly applied to the current salary rate.
6. We reviewed the departments' DOPEs and verified for evidence of reconciliation.

The review did not include the determination of the propriety of sick time use and whether all leave taken had been reported in the Time Records. Therefore, there is a risk that opinions stated in this report could prove to be inaccurate since we did not test these areas.

D. 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 February through June 2010 (not inclusive). 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

The observations contained in this report were communicated to the departments involved in separate memos or electronic mail (email) messages.

A. Salary Reduction Programs

1. Summary

Of 54 employees from 11 departments included in our sample, 31 were in the Furlough/Salary Reduction Plan, 16 in START, 3 had reduced appointments, 3 were hourly employees not subject to furlough, and 1 was not subject to furlough per the employee's bargaining unit contract. The FSRP percentages for all 31 employees were in accordance with the percentages allotted for their salary bands ranging from 4% to 10%. The furlough percentages were determined using the employees' salary rates as of 1/01/2009, in accordance with the FSRP.

For employees on START or reduced appointments, we tested whether their total pay reduction under START or their reduced appointments was equivalent to the pay reduction required under the FSRP.

For academic employees who participated in FEP, we verified the accuracy of the FEP percentages and funding sources. Our review of seven academic employees disclosed the FEP percentages were accurate, the funding sources were valid, and their FEP agreements had the required approvals.

Our observations are discussed below.

2. START Program

The intended salary savings through furlough were not met by the reduction in pay under START for four employees.

COMMENTS

The UCR Furlough/Salary Reduction Plan (Plan) Implementation Guidelines for Staff, provides, among other things, that "Employees whose START reduction is less than required under the Plan will require individual handling; departments will need to work with employees in this situation to either increase the time reduction under START so that it equals or exceeds the Plan, or cancel START so that only the Plan would apply."

Originally, the START program will end on 6/30/2010. In an update memo dated 5/25/2010 posted in the HR website, START participation is extended through 12/31/2010 and that "the 5% minimum reduction in time

under START may be adjusted to a lower percentage when necessary in limited circumstances to accommodate employees whose percentage reduction would otherwise be lower under the furlough/salary reduction plan.”

The intended salary savings through furlough were not met by the reduction in pay for four Physical Plant employees who opted to participate in START at 5% for seven or eight months ending 6/30/2010. To achieve the intended salary savings, the period of the employees' participation in START should be extended by two months with the second month at 3%. It is possible that the same situation exists for other Physical Plant employees who participated in START.

RECOMMENDATIONS

We recommend the following:

- (a) Extend the four employees' START end dates by two months with the first month at 5% and the second month at 3%.
- (b) Review the pay reductions for other Physical Plant employees on START and determine whether their START pay reductions equate to the intended salary savings under the FSRP. For those who did not, implement recommendation (a).
- (c) Complete START forms for the four employees to reflect the necessary change in end dates and have the forms signed by the four employees and management.

MANAGEMENT RESPONSE (Physical Plant)

We concur with the recommendations made by Audit & Advisory Services, and will work with our employees to adjust the end dates as requested once the percentage reduction reaches the level targeted in the Furlough/Salary Reduction Plan. Expected implementation date is 10/01/2010.

3. Furlough/Salary Reduction Plan - Reclassifications and Equity Increases

The pay reductions for employees reclassified or given equity increases after the implementation of the FSRP on 9/01/2009 were reviewed. A list obtained from HR disclosed 24 employees reclassified and 26 employees given equity increases with effective dates between 9/01/2009 and 3/01/2010.

Our review disclosed the furlough reduction percentages for three employees who received salary increases were applied to their previous

salary rates rather than their current salary rates. The departments were notified of this observation and immediately processed the necessary adjustments on the employees' prior months' wages. We verified the employees' PPS database records and the DOPEs for the departments involved and we confirmed that the adjustments had been entered or processed.

B. Internal Controls

1. Summary

Internal controls over employee time reporting at the various departments are generally operating satisfactorily. Also, the controls in three departments' automated time reporting systems were adequate.

Our observations are discussed below.

2. Payroll Checks

Employees with payroll processing responsibilities receive and distribute payroll checks.

COMMENTS

In three of 11 departments reviewed, payroll checks were received and distributed by employees having payroll processing responsibilities in violation of University policy. In one department, payroll checks were received and distributed by the PPS primary preparer. In another department, payroll checks were received and distributed by the PPS backup preparer. The alternate is the PPS primary preparer. In the third department, the designated alternate to receive and distribute payroll checks was also the Financial Operations Manager who reviews the PPS post-audit notifications and reconciles the DOPE.

Business and Finance Bulletin (BFB) IA-101, *Internal Control Standards: Departmental Payrolls*, provides, among other things, that "An employee authorized to approve payroll documents may not also have responsibility for reviewing Distribution of Payroll Expense reports (PPP5302) or for distributing paychecks or earnings statements." BFB IA-101 is posted in the Payroll Office's website under "Policies". Recently, the Payroll Office added direct links in its website for BFB IA-101. However, this should be communicated to all campus departments in conjunction with the other website enhancements discussed in III.C.

RECOMMENDATIONS

Payroll checks should be received and distributed by employees who do not have payroll processing (as preparers and reviewers) responsibilities.

MANAGEMENT RESPONSE (Theatre Facility Unit)

Because of limited staffing, we will request the CHASS Dean's Office to receive and distribute the payroll checks effective July 1, 2010. We will inform our employees of this change.

MANAGEMENT RESPONSE (Environmental Health & Safety)

We concur with the recommendation. Within the next few months, it is expected that responsibility for distribution of payroll checks for those EH&S employees who receive a paper check will be assumed by the Physical Plant, Transportation and Safety (PPTS) service center. In the meantime, a log will be kept of the release of paper checks to EH&S employees. The person who releases the check(s) will be an EH&S employee with no payroll responsibilities. That person, as well as the recipient of each check, will print and sign their name on the log, which will be reviewed periodically by the Director of Administration for PPTS. Expected implementation date is 10/01/2010.

MANAGEMENT RESPONSE (Chemistry)

At the time of referenced check distribution, the assigned individual as well as the backup individual were both out on medical leave. A second back-up was assigned effective June 11, 2010.

MANAGEMENT RESPONSE (Payroll Office)

*On June 24, 2010, departments via PPS-NEWS were reminded about the importance of segregation of duties when it comes to check distribution. The link to UCOP Business and Finance Bulletin (BFB) IA-101, Internal Control Standards: Departmental Payrolls, was included on the notice. The recommendation on III.C was also communicated on a separate e-mail notice. Here's the web link:
<http://www.ucop.edu/ucophome/policies/bfb/ia101.pdf>.*

3. Time Records

Time Records (UPAY 100R) were discarded by a department after one year.

COMMENTS

The Time Record contains the leave balances as of the end of the prior month and bears the notation, "retention period: 5 years". The department instead used a similar timesheet in an excel format that contained two balances for each type of leave. A comparison of the department-

developed timesheets against the Time Benefits Roster disclosed discrepancies for two employees' leave balances.

RECOMMENDATIONS

All employees should use the Time Record (UPAY 100R) for time reporting. The Time Record should be certified by the employees and approved by their supervisors, and retained for five years.

The department should verify the leave balances and make the necessary corrections.

MANAGEMENT RESPONSE (Theatre Facility Unit)

We will use the system-generated timesheets and retain them for five years effective immediately.

We will comply and make the necessary corrections effective immediately.

4. Timekeeping System

One department did not have written procedures and a disaster recovery/emergency plan for its timekeeping system.

RECOMMENDATIONS

The department should develop written procedures and a disaster recovery/emergency plan for its timekeeping system.

MANAGEMENT RESPONSE (University Library)

We will develop back-up file procedures and recovery plans by July 31, 2010.

C. Payroll Processing

Payroll processing errors were noted affecting seven (13% of 54) employees from three departments included in our sample.

COMMENTS

Our review disclosed the following payroll processing errors:

1. Hours worked by hourly employees reflected in their Hours Worked Report generated from a department's in-house timekeeping system, were input incorrectly in the PPS Time Roster.

2. Overtime/compensatory time was incorrectly paid/calculated due to incorrect identification of overtime hours that should be paid/compensated at premium and straight-time.
3. Overtime hours at the premium rate were multiplied at one and one-half, and then input to the Payroll Time Rosters which then multiplied the hours at one and one-half. This resulted in overpayments to the employee.
4. Sick leave of a student employee was not included in the hours for payment.
5. An employee was allowed to use vacation leave before it was accrued. The employee should have been on leave without pay for the vacation hours not covered by leave credits.

While the departments involved indicated reviewers “review” the DOPEs, the same types of error continue to occur. Prior audits had disclosed the above payroll processing errors and despite audit recommendations to improve department review processes, the errors continue to occur.

While the Campus Payroll Office and Human Resources continue to provide training and guidance through policy interpretations, better resources may be considered to provide employees a ready reference for questions encountered during the payroll process. Presently, references are contained in two websites: Campus Payroll Office and Human Resources. However, locating specific answers to their questions using these websites may be daunting to some employees.

Recently, the Payroll Office enhanced its website by creating a direct link to the “UC Contracts by Topic” that provides a list of all payroll/personnel topics such as leave, overtime, furlough, and hours of work for each bargaining unit. Likewise, the Payroll Office is in the process of posting in its website the “Time Reporting Manual”.

The recent changes/enhancements to its website and the need to ensure adequacy of internal controls should be communicated to all campus departments by the Payroll Office.

RECOMMENDATIONS

The departments involved should immediately process payroll adjustments. The departments involved should review the payroll records of other employees within their departments who were paid overtime since it is likely that similar errors may have occurred in those employees’ overtime payments and wages. Any errors identified should be adjusted accordingly.

The Campus Payroll Office should consider enhancing its website by adding a section on frequently asked questions that would include how to determine straight-time and premium overtime, and separation of duties for internal control purposes.

MANAGEMENT RESPONSE (Environmental Health & Safety)

We concur. A review for accuracy and completeness of all hourly time entry into PPS will be done, using the monthly payroll roster, by the EH&S financial manager, and such review will be adequately documented.

As part of the review of payroll time input, a review of overtime earned and used or paid will be done and adequately documented.

We will work with the employee's current department to process the additional sick leave. This problem should be prevented from reoccurring in the future because of the review of payroll time input, as well as by a change in the timekeeping system used for hourly EH&S employees that will allow the employee to make entries for sick leave after it is used, rather than having to have someone other than the employee do so. Expected implementation date is 10/01/2010.

MANAGEMENT RESPONSE (Chemistry)

We have re-reviewed the rules with the appropriate supervisors and payroll personnel. The requested adjustments were made on 6/14/2010.

MANAGEMENT RESPONSE (Physical Plant)

We concur with the recommendations made by Audit and Advisory Services and will be careful to record the time as it appears on the time record report.

MANAGEMENT RESPONSE (Payroll Office)

*On June 24, 2010, departments were notified about a website created and maintained by Human Resources that deals with policies and contracts arranged by topics. A user can easily access the rules for overtime for a bargaining unit or units by scrolling down the web page since the topics are in alphabetical order. Clicking the appropriate row and column will present the user with the results desired. Here's the web link:
<http://humanresources.ucr.edu/?content=PoliciesAndContracts/policyfinderst aff.htm>.*

On June 24, 2010, departments via PPS-NEWS were reminded about the importance of segregation of duties when it comes to check distribution. The link to UCOP Business and Finance Bulletin (BFB) IA-101, Internal Control Standards: Departmental Payrolls, was included on the notice. Here's the web link: <http://www.ucop.edu/ucophome/policies/bfb/ia101.pdf>.