



AUDIT AND ADVISORY SERVICES

Human Resources—Classification and Compensation Audit Project No. 14-620

June 30, 2014

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June 30, 2014

John Wilton
Vice Chancellor
Administration and Finance

Vice Chancellor Wilton:

We have completed our audit of Human Resources—Classification and Compensation 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 expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of central campus Human Resources and Campus Shared Services—Human Resources 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 Executive

cc: Associate Vice Chancellor Jeannine Raymond
Director Rich Lau
Chief Operating Officer Thera Kalmijn
Director Suong Ives
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Associate Chancellor Linda Morris Williams
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University of California, Berkeley
Audit and Advisory Services
Human Resources—Classification and Compensation

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OVERVIEW

Executive Summary

Audit and Advisory Services (A&AS) completed our audit of Human Resources–Classification and Compensation as part of our annual service plan for fiscal year 2014. The overall objective of our audit was to assess the adequacy of internal controls designed to ensure the appropriateness, reasonableness, and accuracy of classification and compensation actions related to staff (non-academic) positions. The focus of our audit was on central campus Human Resources (HR) and Campus Shared Services–Human Resources (CSS HR) procedures and controls in place at the time of our audit and transactions processed during fiscal years 2013 and 2014.

Responsibility for determining job classifications resides with central campus HR, while authority to set salary (within parameters established by policy or by local campus procedure) resides with each unit Vice Chancellor and his/her delegates. Historically, the processing of classification and compensation actions was managed at the department level. In March 2013, the campus began migrating human resources transactional support to CSS HR.

Based on our work performed, central campus procedures and systems to ensure the alignment of market data with job classifications and salary guidance for positions appear adequate. Market studies are performed annually and Career Compass, the campus' classification framework for non-represented positions, and salary scales are evaluated for potential adjustments. Controls to ensure compliance with campus policies and standards, however, do not appear adequate. We noted opportunities to strengthen internal controls related to transaction processing and monitoring to help ensure classification and compensation action appropriateness, consistency, accuracy, and compliance with policy. CSS HR inherited from individual departments certain process gaps in these areas, such as a lack of automated controls to ensure the proper identification and routing of policy exceptions for approval that, at the time of our audit, had not yet been fully addressed. In addition, management does not currently have formal procedures in place to regularly monitor classification and compensation activity to verify ongoing compliance with policies or to identify potentially unusual activity. It is a best practice for internal controls to include both preventative (such as transaction approvals) and detective (such as post-transaction monitoring) activities.

Management agrees with the audit observations and has developed plans to implement both manual and automated internal controls to strengthen initial transaction review procedures and post-transaction monitoring.

Source and Purpose of the Audit

Audit and Advisory Services (A&AS) completed our audit of Human Resources–Classification and Compensation as part of our annual service plan for fiscal year 2014. The overall objective of our audit was to assess the adequacy of internal controls designed to ensure the appropriateness, reasonableness, and accuracy of classification and compensation actions.

Scope of the Audit

Our audit included an assessment of (i) procedures and controls as of December 2013 related to classification and compensation activities for non-academic staff positions and (ii) related classification and compensation actions processed during fiscal years 2013 and 2014 (through January 2014). Types of actions examined included initial job classifications, reclassification actions, salary increases, and stipends.

Activities and transactions related to both represented and non-represented staff were included in our audit, except for those activities governed by bargaining unit negotiation (i.e., the determination of represented staff pay steps).

The focus of our audit was central campus, including CSS, versus individual department activities. In March 2013, the campus began migrating human resources transactional support to CSS HR from individual departments. At the time of our audit, CSS HR had drafted procedures related to classification and compensation action processing, but specific internal controls, tools, and training to ensure the consistent performance and effectiveness of procedures had not yet been fully defined or implemented. Therefore, as part of our audit we were not able to assess the design or effectiveness of CSS HR internal controls.

Our audit procedures included interviews with central campus HR and CSS HR personnel, data analysis of classification and compensation activity recorded in the campus human resources and payroll systems (HCM and PPS, respectively), reviews of underlying business processes and, on a limited basis, transaction-specific documentation.

Background Information

Campus Classification and Compensation Activity

Staff jobs must be classified at hire as one of approximately 700 job standards approved by the campus as part of the classification system for non-represented staff or, for represented staff, as one of approximately 200 represented job titles subject to bargaining unit agreements. An individual staff member or position may also be reclassified into a different job title if the underlying scope and nature of assigned work changes and a competitive recruitment is not required. In fiscal year 2013, approximately 750 positions were classified as part of the initial hiring process and 250 existing positions were reclassified.

Campus wages and salaries for staff in fiscal year 2013 totaled approximately \$500 million for approximately 8,500 employees. The vast majority of salary expense is for base compensation. The campus also offers a recognition and achievement award program; in fiscal year 2013 recognition and achievement award payments totaled approximately \$1 million. Hiring bonuses are permitted but are given only on a very occasional basis. Personnel Policies for Staff Members (PPSM) 30 also permits the payment of stipends to non-represented staff who temporarily assume “responsibilities of a higher level position or other significant duties not part of the employee’s regular position”; in fiscal year 2013, approximately 400 staff employees received stipends totaling approximately \$1.5 million. Represented staff may receive temporary within range increases or temporary reclassifications depending upon temporary changes in the duties of the position. Salary increases for non-represented staff are given through University merit programs, which generally occur on an annual basis; the most recent merit program occurred in fiscal year 2012. Other frequent reasons for salary increases include equity cases, promotions, or upward reclassifications. In addition, the Chancellor has the authority to make campus wide adjustments to non-represented salaries to reflect market conditions. During fiscal year 2013, salary increases for staff totaled approximately \$1.4 million, with approximately \$600,000 associated with a campus wide market adjustment for non-represented staff, \$550,000 due to equity cases, and \$125,000 and \$140,000 due to job reclassifications and promotions accordingly. Salary increases for represented staff occur through bargaining unit negotiations at the local and systemwide level.

History

As an outgrowth of recommendations made the Compensation Advisory Committee convened by then Chancellor Berdahl in 2001, the campus has implemented a number of significant changes to the organization and management of staff classification and compensation activities over the past decade to enhance efficiency and consistency across departments, to support alignment with broader labor market job and salary data, and to provide a more meaningful framework for staff performance management and career progression.

These changes included:

1. The implementation of Career Compass, a job classification framework for non-represented positions based on market data, to replace the existing outdated classification system. This effort entailed developing over 700 new job standards based on market data and mapping existing jobs on campus to the new framework. Job standards were organized into job fields and families providing for a distinction between job scope and responsibility level and allowing for greater internal equity. In addition, because of the correlation of the new job standards to the broader labor market, the campus was able to develop a market-based salary range structure to help inform management decisions regarding salaries.
2. The decentralization and delegation of authority for salary setting to the unit level (from central campus).

Relevant Policies

Classification and compensation activities for non-represented staff are guided by University policies PPSM-36 “Classification of Positions” and PPSM-30 “Salary”. These policies establish certain minimum requirements and parameters that campuses must follow in the administration of classification and compensation activities, but permit campuses flexibility in designing specific implementing procedures. In general, PPSM-36 establishes that positions must be classified according to duties and responsibilities described in job descriptions, that positions with similar duties will be grouped together, and that when employee duties and responsibilities change, positions may be reviewed for reclassification. PPSM-30 establishes broad parameters around when salary increases may be granted, and certain other parameters and restrictions around when additional pay (such as stipends and perquisites) may be given.

As provided for by policy, the campus has developed implementing procedures for both policies, which outline procedural requirements and delegated authorities for decision-making.

Compensation action procedures, some classification actions, job titles, and pay levels for represented employees are negotiated and are outlined in each bargaining unit agreement.

Current State and Practices

Under the campus’ PPSM implementing procedures, each Vice Chancellor or his/her delegate(s) has the authority to make compensation decisions within established campus compensation ranges. Salaries for represented employees are constrained by bargaining unit agreement steps. Classification (and reclassification) decisions are made by central campus HR, except for management and senior professional (MSP) positions for which final classification decision-making authority resides at the Vice Chancellor level.

Until 2013, responsibility for the coordination of classification and compensation action approvals and the recording of actions in HCM and PPS resided at the department level. Department human resources personnel were also responsible for reviewing proposed compensation actions to verify their appropriateness and compliance with policy. From prior audit work performed, we understand that departmental processes were not uniformly robust to prevent errors or ensure compliance with policies.

In March 2013, the campus began migrating human resources transactional support to CSS HR from individual departments with the goal of standardizing procedures to bring greater consistency and efficiency to activities. CSS HR is currently working to define and implement standard operating procedures. As of March 2014, approximately 40% of departments were being supported by CSS HR. The implementation of CSS is expected to be completed in December 2014.

Summary Conclusion

Based on our work performed, central campus procedures and systems to ensure the alignment of market data with job classifications and salary guidance for positions appear adequate to achieve stated management objectives. Controls to ensure classification and compensation action compliance with campus policies and standards, however, do not appear adequate. At the time of our audit, accountability for (i) ensuring transactions are routed for necessary approvals, (ii) reviewing proposed compensation actions to verify their appropriateness, consistency, and compliance with policy, and (iii) ensuring the accuracy of information recorded in the campus human resources system was in progress of being transitioned to CSS HR from individual departments. CSS HR inherited from individual departments certain process gaps in these areas, such as a lack of automated controls to ensure the proper identification and routing of policy exceptions that, at the time of our audit, had not yet been fully addressed. In addition, management does not currently have formal procedures in place to regularly monitor classification and compensation activity to verify ongoing compliance with policies or to identify potentially unusual activity.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Transaction Processing Controls

Observation

As established by campus procedure, individual units have the authority to set salaries within set campus compensation ranges for non-represented staff. Steps for represented staff are negotiated at the local and systemwide bargaining unit level. Certain non-represented salary actions (e.g., salaries above the salary band midpoint, increases more than 25% within a single fiscal year, stipends lasting longer than 12 months) require Vice Chancellor (or his/her delegate) or central campus HR approval. Classification (and reclassification) decisions are solely made by central campus HR, except for MSP positions for which final classification decision-making authority resides at the Vice Chancellor level. Reclassifications of employees from non-represented to represented positions must be agreed to by the bargaining unit.

We observed that, both historically and in the current CSS environment, there are few system controls or other tools in place to help ensure that transactions are appropriately routed to obtain all required approvals or that potential policy exceptions are flagged for required special handling. Instead reliance is largely placed on the diligence and skill of department or CSS human resources staff to identify potential issues with proposed compensation actions and to properly route classification and compensation actions. In some situations, identifying potential policy violations or other concerns may require detailed analysis of employee records, which may be both time intensive and subject to human error. As well, we understand that the knowledge and experience level of the CSS HR staff assigned to transaction review and processing varies widely.

Absent automated internal controls or other tools to assist staff in transaction review and processing, there is a risk that actions may not be properly approved or that policy violations may not be identified and resolved.

Management Response and Action Plan

Based on the observations of Audit and Advisory Services in the review of Classification and Compensation at UC Berkeley, the central campus Compensation Unit and CSS HR have jointly developed the following action plans:

Compensation Unit:

1. Provide additional training to appropriate CSS HR staff involved with classification and salary increase recommendations.
2. Provide resource materials and build stronger partnerships with HR staff so questions that come up are addressed.

Initial training has already been provided, with plans to provide additional training at regular intervals, and as the Compensation Unit and/or CSS HR determines there is a need.

CSS HR:

1. Strengthen internal controls to provide a consistent procedure to identify potential over 25% increases and other compensation/classification actions requiring additional approvals prior to processing:
 - a. CSS HR has developed and begun using a Salary Proposal Sheet which identifies the June 30 salary from the previous fiscal year and displays a sample range of salary increases (i.e., 6% to 25%). The Salary Proposal Sheet displays the salary for a 25% increase so this threshold may be monitored for exception review approval if potentially warranted. The Compensation Unit was involved in the review of the Salary Proposal sheet which is in use at this time.
 - b. CSS will also implement the use of a checklist or other standard procedure to identify other types of transactions requiring special approval and ensure their appropriate routing.
 - c. Training to be conducted by the Compensation Unit on key areas in compensation and classification, including the topics of: over 25% increases and recommended stipends amounts and durations which require Compensation Unit approval.
2. CSS will implement ServiceNow, that will have an automated workflow and control point by end of 2014 for administrative units and by end of 2015 for academic units.
3. It is understood that staff are being re-assigned to CSS as part of implementation. Inherent in that is that CSS inherits staff skill disparities from the campus. CSS is in the process of defining the minimum skills required for all HR Partner roles and implementing/developing a plan by end of this year for those who fall short of minimum requirements.

The full implementation of the Salary Proposal sheet and additional checklists/procedures, and related training, are expected to be completed by October 1, 2014. The target implementation date for ServiceNow is July 1, 2015.

Post-Transaction Monitoring

Observation

It is a best practice for internal controls to include both preventative (such as transaction approvals) and detective (such as post-transaction monitoring) activities. Post-transaction monitoring provides an additional level of assurance that policies are being complied with and that activity appears reasonable. In addition, data monitoring and analysis can enable identification of units or process areas that may warrant additional scrutiny.

Management does not currently have formal procedures in place to regularly monitor classification and compensation transaction activity to verify compliance with policies or to

identify potentially unusual activity. According to management, this is due in part to staffing constraints and competing unit priorities. Ad hoc monitoring and reporting is performed, but without a routine monitoring program, there is a greater risk that potentially irregular compensation practices may not be identified or addressed.

In our review of classification and compensation action data, we identified a number of transactions that appeared inconsistent with current policy and implementing procedures. Examples include potential policy violations such as employees receiving increases totaling more than 25% of their original salary in a given fiscal year; potential violations of campus-specific procedures such as employees receiving a stipend for longer than a one-year period; and other irregularities such as individual employees receiving repeated equity increases over a designated timeframe. These anomalies may be explained by data entry errors or may have received exceptional approval; however, we have provided these items to management for further assessment.

Management Response and Action Plan

Based on the observations of Audit and Advisory Services in the review of Classification and Compensation at UC Berkeley, the central campus Compensation Unit and CSS HR have jointly developed the following action plans:

Compensation Unit:

1. Regularly monitor compensation actions through development of reports to identify employees with:
 - a. total salary increases that exceeded 25% to confirm if exception approval was obtained.
 - b. stipend actions that exceeded the threshold for compliance with UC policy both in stipend percentage and duration to confirm if exception approval was obtained.
2. Provide summary and detail reports to appropriate management levels on the non-compliant compensation actions for mitigation.
3. Identify specific organizational units and patterns where additional training and/or further action is warranted and alert appropriate management levels.

These actions are expected to be completed by January 1, 2015.

CSS HR:

1. As part of ServiceNow, a quality assurance practice will be implemented, which provides for random audits of HR processes/services to identify issues and proactive/improvement measures. The quality assurance is in the process of being defined and manually implemented at this time (prior to ServiceNow implementation).
2. CSS HR and the Compensation Unit are building a stronger partnership to proactively provide additional training based on:
 - a. specific compensation areas requested by CSS HR staff.

- b. compensation topics identified by the Compensation Unit based on the prevalence of the questions received from the CSS HR staff.

The target implementation date for ServiceNow is July 1, 2015. Other actions are expected to be completed by October 1, 2014.