CAPITAL PROGRAMS

PERSONNEL AND PAYROLL REVIEW

AUDIT REPORT #15-2102

Audit & Advisory Services

July 2015

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Background

In accordance with the Campus fiscal year 2014-15 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated procedures established to facilitate and govern personnel and payroll functions within the UCLA Capital Programs (CP) department.

The CP department is responsible for conceptualizing, planning, designing, and building major capital construction and renovation projects at UCLA. Projects having total costs of $750,000 and above are considered major capital construction. Since its establishment in 1986, CP has expended approximately $4.6 billion to complete a variety of new construction, renovation, and infrastructure projects: two replacement hospitals and related parking facilities; nearly 50 new buildings or complexes; 25 major building additions; and five new parking facilities. In addition, seismic renovations have been completed on approximately 40 buildings, and a large number of existing buildings throughout the campus have been modernized. CP develops financial strategies, obtains project approvals, reviews plans and specifications, completes environmental reviews, prepares and negotiates construction contracts, coordinates staging plans, and serves as a repository for project records and as-built plans.

The department's mission is to create projects that "support the instruction and research mission of the University by providing a physical campus environment that fosters excellence, creativity, and a sense of community." Capital projects are developed to take into account UCLA land use priorities, established physical designs, University policies and procedures, environmental and regulatory requirements, and community interests.

The CP department consists of the following three units:

Capital Planning and Finance – planning, environmental assessment, project budgeting, and project financial services including contracts administration. This area is led by an Associate Vice Chancellor who reports to the Vice Chancellor and Chief Financial Officer.

Design and Construction – project design, engineering, permitting and inspection services, project management, and construction management activities. This area is led by an Associate Vice Chancellor who reports to the Vice Chancellor and Chief Financial Officer.

Administrative Services – building operations, information technology (IT), and personnel. This area is overseen by a Director who reports to the Vice Chancellor and Chief Financial Officer.

As of May 14, 2015, the CP department had a total of 70 employees – 49 career, 18 contract, 2 casual, and 1 limited appointment.

Purpose and Scope

The primary purpose of the audit was to ensure that CP's organizational structure and controls surrounding its personnel and payroll processes are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated. The scope of the audit included:

- Accountability Structure
- New Hires and Separations
- Timekeeping and Reporting
- Employee Incentive Awards

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included tests of records, interviews, and other procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, internal controls over CP personnel and payroll processes were generally conducive to accomplishing the department's business objectives. However, controls and business practices could be further strengthened by implementing the following:

Accountability Structure

- Ensure that all CP department mandatory reviewers read their PANs in a timely manner in accordance with the UCLA Financial Policy. In addition, consider revising the range of transaction types that would generate a Post Authorization Notification (PAN) to executive management as a Mandatory Reviewer.

New Hires and Separations

- Ensure that logon IDs and all associated access to department and university automated systems are promptly disabled and removed when an employee separates or transfers from the department.
- Ensure that all active CP employees with access to department or campus automated systems, have a current Logon ID assigned from SAR department code 2700 (Capital Programs).
- Strengthen controls and promote better accountability over the key issuance and return process by updating the key listing to capture additional information, such as the date/signature of the employee acknowledging receipt of key(s) issued to them, date/signature of the employee issuing the key(s), date/signature when the separating employee returns their key(s), and date/signature of the employee receiving the key(s) from the separating employee.

Timekeeping and Reporting

- Implement business practices to periodically reconcile employee time reporting data from CapSTAR against what was recorded in the Campus Employee Database (EDB) system to ensure that the official employee time records are accurate and complete.

- Take appropriate measures to ensure that all department employees that meet the applicable personnel classifications, as defined in the UC Office of the President's (UCOP) Policy PPSM-23: Performance Management, receive a written performance appraisal by their immediate supervisor, at least annually.

The audit results and corresponding recommendations are detailed in the following sections of the report.

Audit Results and Recommendations

Accountability Structure

The CP department's financial accountability structure in the Distributed Administrative Computing Security System (DACSS) was evaluated as of February 3, 2015, to ensure that an effective delegation of authority for personnel and payroll transactions is being maintained and complies with UCLA Financial Policy on "Principles of Financial Accountability." The PAN system is a web-based system in which predefined mandatory reviewer(s) are required to log-in and review their PANs within two business days. Reviewers are established in the DACSS system by Process ID, which indicates the financial transactions they are authorized to review. PANs related to personnel or payroll transactions were examined to ensure timely review. A&AS also assessed the list of current mandatory reviewers for appropriateness. The following was noted during the review:

A. Post Authorization Notifications (PANs)

Individual queries were generated for each mandatory reviewer for department code 2700 (Capital Programs) covering calendar year 2014 activity, via the PAN Audit Review report that is available through the campus PAN System. Because the report includes weekends and holidays in measuring aging, the query was set to extract PANs "unread" at five days, to compensate for transactions occurring on a Friday evening and/or holiday and including the weekends. The UCLA Financial Policy specifies that PANs should be read within two working days.

Query results of unread PANs greater than five days were reviewed to identify whether any PANs went unread by a mandatory reviewer and, therefore, were out of compliance. The listing of unread PANs was then sorted to identify the number range of days unread. The queries were generated to facilitate two audit tests for timeliness of review – one for new hire transactions occurring during calendar 2014, and another covering all other activity for the year, regardless of the transaction type. A&AS test work indicated that not all mandatory reviewers are consistently reviewing their PANs within two working days of receipt, in accordance with the UCLA Financial Policy.

To evaluate PAN compliance for new hire transactions, A&AS selected a sample of five new employees hired during calendar year 2014 for department 2700. Of the five new hires, test work indicated that four of them had unread PANs related to the hiring process by a mandatory reviewer. The range of days varied from 7 to 22 days.

A&AS also assessed PAN compliance for all transaction types during the year. The PAN Audit Review report was reviewed to verify whether the CP department's mandatory reviewers had any unread PANs in excess of five days. Based on test work performed, A&AS identified five mandatory reviewers in the report that showed PANs unread for at least five days. The results of the review follow:

- Reviewer 1: 26 PANs were unread from 6 to 14 days
- Reviewer 2: 90 PANs were unread from 6 to 46 days
- Reviewer 3: 74 PANs were unread from 6 to 13 days
- Reviewer 4: 22 PANs were unread from 6 to 41 days
- Reviewer 5: 200+ PANs were unread from 6 to 19 days

Recommendation: Management should implement appropriate business processes to ensure that all CP department mandatory reviewers read their PANs in a timely manner in accordance with the UCLA Financial Policy. Management should also consider revising the range of transaction types that would generate a PAN to executive management as a Mandatory Reviewer. By doing so, the reviewer would be less likely to be inundated with large volumes of PANs from all transaction types, helping to facilitate greater compliance with the two-day review requirement set forth by the UCLA Financial Policy.

Response: We acknowledge that we need to consider revising the range of transaction types reviewed by executive management so they would be less likely to be inundated with large volumes of PANs to review and consequently more likely to be in compliance with reviewing PAN's within the two day requirement. However, we note that for several transaction types we have more than one mandatory reviewer in order to provide redundancy in reviewing. We understand the Financial Policy requirement that a mandatory reviewer post-review transactions within a two-day period as being concerned with ensuring that all transactions are reviewed in a timely manner. Our designation of multiple mandatory reviewers is intended to support that objective. It is not always practical to anticipate and reassign the responsibility when a reviewer is unable to review transactions due to sick leave, business travel, vacation, or other away from the office situations arise and technical system access problems are encountered. Nevertheless, Finance and Personnel mandatory reviewers are planning to meet and analyze transaction types and consider changes to the range of transactions to be reviewed by each mandatory reviewer and a reduction in the number of mandatory reviewers.

New Hires and Separations

Using the campus PAN system, A&AS generated a report listing all former CP employees that separated during calendar year 2014. From the report, a sample of five former employees was selected to review and test for compliance with applicable department and campus procedures, and California Labor Code (Sections 201(a) and 202(a)). Discussions were held with key IT and Personnel unit staff, and CP department employee separation documents were reviewed, including the "IT Departing User Checklist," "Checklist for Separations and Transfers Out of Department," and a listing of keys issued to employees.

B. Inactive Employee Access

Based on a February 3, 2015, A&AS review of the department's Accountability Structure for department 2700, the following was noted:

- One employee was on "Leave Without Pay" status, but continued to have an active Logon ID and access to three DACSS functions ("AP 710" – Campus Department Inquiry, "AP 720" – Campus Department Funds Inquiry, and "CTSVCREQ" – Communications Technology Services (CTS) Service Requester.") While the two "AP" function codes are for inquiry only, the CTS function code allows an employee to order CTS services based on assigned funds/accounts. In addition, this function code allows the employee to receive order status notifications.
- Four employees were identified as being separated in 2013 and 2014, but were still listed as having a Logon ID associated with department 2700. Two of the employees separated in July and August 2013, and the remaining two employees separated from UCLA in August 2014.

By not promptly disabling separated employees' logon IDs and access, department and university automated systems and information resources could be at risk to unauthorized additions, deletions, and edits.

Recommendation: Management should ensure that logon IDs and all associated access to department and University automated systems are promptly disabled and removed when an employee separates or transfers from the department.

Response: We acknowledge that employees on "Leave Without Pay" status are allowed to have an active Logon ID and access to DACSS functions granted and assigned. We consider these employees in good standing and see no reason to disable their access unless they are on investigatory leave or have been separated. We agree with the recommendation that separated employees and employees transferred out of the department should generally have their logon IDs and access promptly disabled and removed. Normal practice is for the personnel manager to coordinate with the IT group in determining the appropriate end-of-service date in advance of the separation. More generally, we acknowledge that our controls and practices can be strengthened based on the audit findings on separated employees.

C. Mismatched Logon IDs

As a part of our review of the department's Accountability Structure, A&AS also reviewed the Logon IDs for CP personnel to determine whether the IDs were current and that the home department code matched the System Access Request (SAR) department code. Based on the work performed, the following were noted:

- Two current CP employees, whose home department is properly listed as 2700 , continue to have a Logon IDs that were assigned to them by their former departments. The first employee transferred from department 3105 (Office of the Administrative Vice Chancellor) in December 2011, while the second employee transferred from department 0888 (Life Sciences South Administration) in August 2014.
- One employee that transferred out of the CP department in February 2008 still has a Logon ID assigned from SAR department code 2700.

Recommendation: Management should ensure that all active CP employees with access to department or campus automated systems, have a current Logon ID assigned from SAR department code 2700. With the exception of those employees that may have a split appointment among different campus units, the appointment and SAR department codes for employee Logon IDs should generally mirror each one another to help maintain sound system accountability.

Response: We agree that management should ensure that all active CP employees with access to department or campus automated systems have a current Logon ID assigned from SAR department code 2700 except for those employees who have a split appointment.

D. Key Accountability

CP maintains a listing whereby key ID numbers can be recorded when keys are issued to employees. The listing includes the employee's first name, last name, office location, and space for recording up to three key ID numbers. CP personnel indicated that the current practice is to record the key ID numbers on the listing when keys are issued to new employees and/or keys are exchanged for a particular reason. In addition, the practice includes manually drawing a line through the employee's entry to indicate that the keys have been returned once the employee leaves the department. The listing does not include a space for date issued/returned, nor a place to show that the employee assumed responsibility for keys issued by documenting their signature or initials. The listing also does not indicate who issued the keys to a particular employee.

Based on a March 2015 review of this listing, A&AS noted that two employees listed on the key log had separated from the department in January 2014 and June 2014, but did not have a line drawn through their names and key information to indicate that the keys had been returned to CP personnel. In following up on this issue with CP personnel, staff remembered that the two employees in question had returned their keys when they separated and the keys were subsequently re-issued to their replacements; however, the transfer was not documented. By not complying with its own internal procedure to properly annotate the key listing when employees leave the department, management cannot be assured that keys were actually returned to department personnel prior to separation.

Recommendation: Management could strengthen its controls and promote better accountability over the key issuance and return process by updating the key listing to capture additional information. Some additional elements that could be captured on the key log include: (1) date and signature of the employee acknowledging receipt of key(s) issued to them; (2) date and signature of the employee issuing the key(s); (3) date and signature when the separating employee returns their key(s);

and (4) date and signature of the employee receiving the key(s) from the separating employee.

Response: We agree with this finding and acknowledge that our controls and business practices can be strengthened to better monitor our key issuance and key return process. Our designated building manager is the only person who issues keys and she will update her log to include (1) the date and signature of the employee acknowledging receipt of key(s) issued to them; and (2) the date and signature of the person returning the separating employee's key(s). We do not let the separating employee pass along their keys to their replacement. This is only done through the building manager.

Timekeeping and Reporting

E. Time Reporting Reconciliations

Based on discussions with CP personnel, A&AS noted that periodic reconciliations of employee time accruals and usage are not performed to ensure that the information recorded in the department's CapSTAR system is accurately reflected in the official campus record – the EDB system. Department personnel indicated that there have been occasions in the past where audits of CapSTAR and EDB employee time reporting data were performed; however, no such audits have occurred in the past two years.

A&AS audit testing disclosed that two of ten CP employees reviewed for time reporting each had one instance where CapSTAR had more usage recorded for vacation or sick time than what was reflected in EDB. CP personnel indicated that this could have resulted from an oversight when manually entering CapSTAR information into EDB or that an adjustment could have been made after the fact in CapSTAR without updating the parallel information in EDB.

By periodically reconciling employee time reporting data, the risk of an undetected discrepancy between what was recorded in CapSTAR against what was manually entered in the EDB system for vacation or sick time accruals and usage would be reduced.

Recommendation: Management should implement a schedule to periodically reconcile employee time reporting data from CapSTAR against what was recorded in the EDB system to ensure that the official employee time records are accurate and complete.

Response: We agree with the recommendation that we periodically reconcile employee time reporting data from CapSTAR against what was recorded in the EDB system. The Personnel Manager and the IT Manager are discussing potential programming changes to CapSTAR that would provide more timely notice to the Personnel Manager if any changes are made to an employee's usage after the payroll deadlines. In the meantime, the Personnel Manager is currently reprinting prior biweekly and monthly reports every payroll period to reconcile any changes to usages. We want to limit the investment of time and resources in further system enhancements to close the loop here since when UCPath is implemented we expect to have a fully automated and timely upload of timesheet data from CapSTAR to the UCPath system that should eliminate these types of discrepancies.

F. Employee Performance Evaluations

Per UC Policy PPSM-23: "Performance Management," performance evaluations of each employee must be prepared in writing by the employee's immediate supervisor at least annually, or more frequently in accordance with local procedures. Section III (B) of the policy describes the purpose and benefits of regular, written appraisals of employees as "…an opportunity for the supervisor and employee to review whether previously discussed performance expectations and goals have been met, to discuss professional development opportunities, and to identify options for acquisition of additional skills and knowledge to foster performance improvement and career growth. Additionally, the appraisal provides appropriate documentation to support any recommended merit increases and/or other performance-based awards." Employees sign their written evaluation form to ensure they acknowledge and understand the evaluation.

A&AS selected a judgmental sample of 10 current CP employees who should have received evaluations during calendar year 2014 to determine the extent of compliance with Policy PPSM-23. Based on the supporting documentation available and work performed, the following were noted:

- In four instances, performance evaluations prepared covered a time period exceeding 12 months (19 to 20 months).
- In three instances, performance evaluations were properly prepared and covered a 12-month period.
- In one instance, a performance evaluation was prepared in March 2013 covering a period of 14 months.
- In one instance, a performance evaluation was prepared for the fiscal year 2011-12 time period, but was not signed or dated by the preparer or employee; no more recent evaluations exist because the immediate supervisor had forgotten to prepare any additional subsequent evaluations for the employee.
- In one instance, an employee, who was hired in August 2012, had not received a written evaluation as of March 2015 because the immediate supervisor separated in 2013.

In addition to not complying with UC policy, by not preparing written performance evaluations annually, employees are not receiving formal feedback about their current job performance and the expectations management has for them. Additionally, if employees do not sign the evaluation form, there is no evidence that the evaluation was discussed with them or that they acknowledged and understood the content provided.

Recommendation: Management should ensure that all department employees that meet the applicable personnel classifications, as defined in UCOP policy PPSM-23, receive a written performance appraisal by their immediate supervisor, at least annually.

Response: We agree that management should ensure that all department employees receive a written performance appraisal by their immediate supervisor on an annual basis. Currently, we encourage our managers to complete their evaluations in the month of May. We have completed appraisals for this year per the PPSM-23 requirement. As a practical matter, to account for vacations and other scheduling issues and recognizing that a manager may need several weeks or more to complete his/her performance evaluations, the "at least annually" requirement should be deemed satisfied if the performance evaluation for any particular employee is completed within, say, 15 months of the previous performance evaluation for that employee.

Employee Incentive Awards

Pursuant to UC Policy PPSM-34: "Incentive and Recognition Award Plans," direction and authority is provided for the development and approval of incentive and recognition award plans under which Management & Senior Professional (MSP) and Professional & Support Staff (PSS) employees may receive awards.

According to Section I of the policy, the purpose of the award program is "...intended to motivate individuals or teams to produce results that have been pre-defined and communicated to the participants in advance in accordance with an incentive award plan, and to reward them for achieving the stated performance objectives." Recognition awards are discretionary cash awards that are intended to recognize and reward excellence in University service, significant achievements and contributions, and outstanding individual and team performance. The amount of the recognition award is determined by the manager at his or her discretion, subject to local guidelines.

UCLA administers this program through Staff Policy 34 “Incentive and Recognition Award Plans,” more commonly referred to as the Staff Appreciation and Recognition (STAR) Plan. Under STAR Plan guidelines, awards are in the form of a lump sum and may not exceed 10% of an employee’s base salary or a maximum of $10,000, whichever is less. Organizations may establish lower award limits. The Chancellor has delegated authority for approval of any awards that exceed $5,000 to the Executive Vice Chancellor and Provost, Deans, Vice Provosts, and Vice Chancellors for employees within their jurisdiction. Policy covered staff must be on pay status for at least six months to be eligible to receive an award and must be on pay status at the time of the payout to receive an award. All awards require specific documentation of performance and achievements that are the basis for the award. In calendar year 2014, the CP department recognized 51 employees with STAR awards for a total expenditure of $189,377 – an average award of $3,713 per employee.

A&AS selected a sample of 10 award recipients to review for compliance with UC policies and campus guidance. Incentive award payments for the 10 sample employees selected totaled $42,272. Applicable UC policies, UCLA STAR Plan guidelines and procedures, incentive award payout documentation, and STAR Plan Nomination Forms for each sample employee were reviewed for proper approvals and to evaluate compliance with incentive program requirements.

There were no significant control weaknesses found in this area.