RIVERSIDE: AUDIT & ADVISORY SERVICES

June 2, 2011

To: Andy Plumley, Assistant Vice Chancellor
Housing, Dining, & Residential Services

Subject: Internal Audit of HDRS - Employee Time Reporting

Ref: R2011-B

We have completed our audit of Housing, Dining, & Residential Services' (HDRS) 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 R2011-B 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 Nwandu

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2011-B

HOUSING, DINING, & RESIDENTIAL SERVICES - EMPLOYEE TIME REPORTING

JUNE 2011

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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 Housing, Dining, & Residential Services (HDRS) is generally operating satisfactorily and consistent with University policies and procedures.

Positive observations included:

- An organizational restructuring was implemented on July 1, 2010 at Housing Services with HDRS emerging as the department name and the following departments placed under the HDRS umbrella: Housing Services Administration, Housing Services, Dining Services, and Child Development Center (CDC). Campus Apartments and Community Living and Residence Halls were eliminated; the employees in those departments were re-assigned to Dining Services or Housing Services.

- HDRS continues its ongoing project of implementing the Kronos Timekeeper Upgrade V6.1 (Kronos), an upgraded version of its in-house timekeeping system that is used by employees and student workers at HDRS. Transportation and Parking Services (TAPS) and the Recreation Department also use Kronos. Upgrade testing was completed on April 5, 2011. Additional features and automatic uploads to the Payroll/Personnel System (PPS) were completed on April 30, 2011. Full implementation will take six to twelve months. Automatic upload of data into payroll and consequent elimination of manual data entry is dependent on the new PPS Replacement System.

- Due to initial discrepancies identified in CDC's prior years' payroll, HDRS proactively performed a five-year review of CDC's payroll, from Fiscal Years (FY) 2004-2005 to 2008-2009. Payroll records of 44 employees were reviewed by HDRS Human Resources (HR)/Payroll Unit and the results were shared with Audit & Advisory Services (A&AS) for review.

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

- A&AS verification of the five-year review of CDC's payroll by HDRS HR identified discrepancies in wages paid and leave accounting on four of our six selections. (Observation III.B)

- Payroll processing errors were noted affecting four (13% of 30) employees included in our sample. (Observation III.C)

These items are discussed in Section III. 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 HDRS' Employee Time Reporting controls and procedures 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 and overtime payments.
- 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 benefits constitute the single biggest expenditure at HDRS. In fiscal years (FY) 2007-2008, 2008-2009, and 2009-2010, salaries and benefits totaled $18.8 million (44% of total expenditures of $43.2 million), $20.3 million (41% of total expenditures of $49.4 million), and $22.5 million (45% of total expenditures of $50.2 million), respectively. FY 2010-2011 salaries and benefits are projected at $24.3 million.

Maintenance, Dining Services, and student employees use the Kronos Timekeeper System while HDRS management and Housing Services administration staff use the UCR Time Record (UPAY 100R) for time reporting. Kronos does not interface with the Payroll/Personnel System (PPS).

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 called for employees to take from 11 to 24 days off without pay, beginning 9/01/2009 for a 12-month period. Pay reductions ranged from 4% to 10%. The furlough plan was based on

salary, with those who earned more absorbing a larger pay percentage reduction than those who earned less.

Instead of furlough, employees had the option to sign up for the START program that started on 7/01/2008 and was originally scheduled to end on 6/30/2010. The minimum reduction in time under START was 5%. On 5/25/2010, the START program was extended up to 12/31/2010. If the START contract yielded the same or greater salary savings as the Furlough/Salary Reduction Plan, then placement on furlough was 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 also had the option to have a temporary layoff or a reduced appointment percentage. Under these options, some employee benefits (leave accruals and service credit) were reduced equivalent to the percentage reduction. Under both the Furlough/Salary Reduction Plan and START program, employees retained 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. Conducted an internal control evaluation of employee time reporting procedures and evaluated the adequacy of internal controls over employee time reporting.

2. Selected for review a judgmental sample of 30 employees.

3. Reviewed the selected employees' Kronos timesheets and/or Time Records from January through December 2010 and traced to the Distribution of Payroll Expense (DOPE) reports the leave taken, compensatory time earned/off, and/or other payments such as overtime and shift differential.

4. Verified HDRS' 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.

5. Reviewed the departments' Distribution of Payroll Expense (DOPE) reports and verified for evidence of reconciliation.

6. Tested the results of HDRS' review of 44 CDC employees' Time Records and payroll for five fiscal years: 2004-2005, 2005-2006, 2006-2007, 2007-2008, and 2008-2009.

7. Inquired of the status of the implementation of the Kronos Timekeeper Upgrade V6.1 from HDRS' Information Technology staff.

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 January through February 2011. 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

A. Kronos Timekeeper Upgrade

HDRS' Kronos Timekeeper System has been in place for almost 15 years and needs to be upgraded to meet HDRS' needs. The current system does not have the functionality of identifying straight-time and premium overtime hours. This task is done manually by PPS preparers reviewing each employee's Kronos timesheet. Likewise, the current system does not interface with PPS; payroll information from the Kronos timesheets has to be manually input to the PPS Time Rosters.

The upgraded version will be capable of calculating overtime using the rules contained in the various bargaining unit agreements and/or UCR policies. The upgraded version will provide more functionalities than the current system that include:

- Time clock configuration to allow employees to record into multiple locations
- Configuration options for pay rules
- Cascading pay code edits (e.g., vacation, sick, etc.)
- Employee calendar views and schedule requests
- Cost center and project code list expansion for Dining reports
- Workforce alerts to advise employees and managers

Upgrade testing was completed on April 5, 2011. Additional features and automatic uploads to PPS were completed on April 30, 2011. Full implementation will take six to twelve months. Automatic upload of data into payroll and the consequent elimination of manual data entry are dependent on the new PPS Replacement System.

A recent UC announcement informed the campuses that within four years, a single UC payroll system will be deployed allowing all campuses and medical centers to pay employees from a single university-wide payroll system. HDRS Information Technology Unit is confident of the future interface of Kronos with PPS since Kronos is flexible and has the capability to interface with any system.

B. HDRS Audit of CDC Payroll

CDC became part of HDRS in July 2009 and its financial functions, including payroll/personnel, were assigned to HDRS Business and Finance. HDRS initially identified some errors in payroll processing and decided to conduct a complete review of CDC payroll for five fiscal years (FY), from FY 2004-2005 to 2008-2009. The results of the audit were shared with A&AS for verification of accuracy and reasonableness of identified errors.

HDRS' review covered the payroll records of 44 CDC employees. HDRS identified processing errors in the payroll records of 18 (41% of 44) employees. We selected and reviewed six of the 18 employees' payroll records wherein HDRS identified errors of wage over/underpayments of $100 or more. While A&AS agrees with HDRS that there were payroll processing errors in the six CDC employees' records, the results of the A&AS review of four of six employees' records did not correspond to the results of the HDRS audit. This was mainly due to the methodology used by HDRS in calculating holiday pay and leave without pay. For represented employees, the provisions of the corresponding bargaining agreement should be used and for non-represented employees, the UCR Policies and Procedures for Staff Members (PPSM) should be utilized.

Based on A&AS review, the significant errors identified in the four employees' records included the following:

1. An employee with a 63% appointment actually worked five hours daily or 25 hours weekly. Generally, she was paid 63% but should have been paid at 62.5%. Also, she recorded leave taken and leaves without pay at six hours per day. Additionally, errors in the percentage of time to be paid were identified.

   Significant overpayments were made on two dates:

   - 2/28/2006 - The employee was paid 100% although there was no evidence or hours recorded in her Time Record to show that she worked full-time during this month. The overpayment amounted to $1,048.

   - 1/31/2006 – The employee was on leave without pay for four days but was still paid at her 63% appointment rate. The overpayment amounted to $490.

   The remaining discrepancies were attributed to CDC's incorrect calculation of holiday pay and wages during months when the employee had leaves without pay. On the overall, we identified the employee owes the University $2,520 in overpaid wages. However, because the employee reported leave taken of six hours instead of five, she had been overcharged 67 hours vacation and 39 hours sick. Seven hours furlough she had not taken as of 1/31/2011 were forfeited.

2. An employee who had a limited appointment and converted to career status upon reaching the 1,000 hour threshold on 5/01/2009, was not paid for the hours she worked 15 days prior to her career appointment. The employee's May 2009 time record covered the period 4/16/2009 to 5/15/2009 and showed 88 hours worked on 4/16-30/2009 and 88 hours worked on 5/1-15/2009, for a total of 176 hours. Since there were only

168 working hours in May 2009, this was processed as 100% (168 hours) and eight hours overtime at regular rate. The following month she was paid for the entire month of June 2009. The payment for 5/31/2009 was actually for the entire month of May 2009 and therefore, the 4/16-30/2009 hours worked had not been paid. In effect, the employee was underpaid 80 hours (eight hours were paid as overtime). The employee was also not paid for some holidays. Overall, we identified the employee was underpaid for 105.75 hours amounting to approximately $1,170.

Likewise, the employee was entitled to sick leave accruals when she had the 50% limited appointment for nine months. During months that she worked at least 50%, her Time Records did not show any sick leave accruals indicating that the leave code in her Payroll/Personnel System (PPS) record must have been incorrect because the PPS did not automatically calculate her sick leave accruals. As a result, the employee is owed 93 sick leave accruals.

3. A third employee who was eligible for holiday pay was not paid for such. Overall, we identified the employee was underpaid 44.25 hours amounting to approximately $375.

4. A fourth employee was overpaid for 14 hours amounting to approximately $154 but was owed 35 hours vacation mainly due to a posting of 32 hours vacation not reflected in the Time Record and five hours sick leave accruals.

For the remaining 12 of 18 employees' payroll records with HDRS identified errors, we reviewed the type of errors and the amounts involved. The amounts, which are not significant, and nature of the identified errors are as follows:

- Incorrect number of vacation and sick leave hours posted in PPS.

- Over/underpayments of wages ranging from $5 to $71 due to incorrect number of overtime hours or incorrect percentage of time posted in PPS.

The 26 employee records that HDRS reviewed and concluded there were no errors appear reasonable, since most of them had 100% appointments and only intermittently claimed overtime hours. Likewise, since HDRS was able to identify the above 12 employee errors that appeared to be minor in terms of the amounts involved, it is likely that if there were any significant errors in the 26 employees' payroll records, those errors would have been identified by HDRS. Therefore, no further audit work was performed on those records.

RECOMMENDATIONS

We recommend the following:

- For the employee who was overpaid, the employee involved should make arrangements with HDRS management and the Campus Payroll Office to refund the University.

- For the employees who were underpaid, HDRS should process payroll adjustments to pay those employees.

- Adjustments should be processed to credit the two employees for the vacation and/or sick leave hours owed to them.

- Adjustments for the errors identified in the other 12 employees' payroll records should be processed.

Because of the difference in audit results by HDRS and A&AS, we recommend that HDRS refer to the Campus Human Resources website for University policy and provisions of bargaining agreements on holiday pay.

MANAGEMENT RESPONSE

We concur and will implement the recommendations listed in the CDC Payroll Audit Section of this audit. The payroll entries will be processed by July 1, 2011 for those underpaid, credit for vacation and or sick leave hours and the adjustments for the errors identified in the other 12 employees.

For the employee who was overpaid, we will have discussions with both the Campus Payroll office and Labor Relations to determine appropriate arrangements for repayment. This will also be completed by July 1, 2011.

C. Payroll Processing

Payroll processing errors were noted affecting 4 (13% of 30) employees.

COMMENTS

Our review disclosed the following payroll processing errors:

1. Salaries of student employees who worked full-time during the summer months were incorrectly recorded resulting in wage under/overpayments. Generally, in July and August, student employees work more hours or full-time. Because of payroll cut-off dates, there were instances when a student employee's recorded hours

appeared to have exceeded the monthly regular working hours. In instances like these, the department processed the excess hours as straight-time overtime (OTS). For one particular employee, the overtime premium and holiday pay were not identified and processed since the employee's working hours had already exceeded the month's regular working hours.

2. Holiday pay for two hourly employees was not paid because of incorrect identification of the hours that should be the basis for calculating the holiday pay. UC policy and bargaining agreements generally provide that holiday pay should be paid proportionally to the percentage of time on pay status if on pay status at least 50% of the time during the month, excluding holidays.

3. The calculation of a stipend due for a portion of a month was incorrect resulting in underpayment for one employee. In the calculation of an employee's stipend for 13 days, the monthly stipend was divided by 30 days instead of the month's actual regular working days of 22 resulting in an underpayment.

We noted new staff working at HDRS HR since we last audited them. While there had been improvements in HDRS payroll processing particularly in overtime payments since our last audit (R2008-14), payroll processing errors could be further reduced if HDRS developed desk-top procedures to guide the HDRS HR staff particularly the new staff.

RECOMMENDATIONS

We recommend the following:

- Salaries of students who work full-time during the summer months should be recorded in the actual months they worked. This process should start in the mid-July payroll cut-off when a student employee starts working full-time or eight hours daily. This would result in accurate calculation of regular pay and facilitate the calculation of holiday pay. Likewise, this would avoid reporting any "excess hours" as overtime since generally, there should be no hours in excess of the monthly regular working hours. No adjustments are recommended since the student employees involved have separated from the University.

- In accordance with bargaining unit agreements, holiday pay should be calculated in the pay period when the 16^{th}-30^{th} working hours were recorded in the timesheets. This would mean processing holiday pay in the next month following the month when the holiday occurred. No adjustments are recommended since the student employees involved have separated from the University.

- Any stipends or similar compensation pertaining to a portion of a month should be calculated using the month's actual regular working days or hours. Adjustments should be processed for the stipend underpaid to the employee involved.

- HDRS HR should review current student employee payroll records and determine whether employees eligible for holiday pay had been accurately paid. Also, non-full month stipends given to current employees should be reviewed for accuracy.

- Desk-top payroll processing procedures should be developed by HDRS HR for use as ready reference when processing payroll transactions such as holiday pay, stipends, by-agreement payments, and overtime.

MANAGEMENT RESPONSE

We concur with the recommendations. Immediately we will: record student salaries in the actual months worked; calculate holiday pay in the correct pay period as agreed upon by bargaining unit agreements; and calculate stipends using the month's actual regular working days or hours. We will review our current student employees and correct any discrepancies pertaining to holiday pay and stipends by July 1, 2011.

A desk top payroll processing procedures will be designed with a completion date of December 2011.