

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA  
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Alexander Bustamante  
SENIOR VICE PRESIDENT  
CHIEF COMPLIANCE AND AUDIT OFFICER

July 6, 2018

**EXECUTIVE VICE PRESIDENT NAVA**

**RE: Final Report Project No. P18A010: Rehired Retirees**

Attached is a copy of the final report for: Audit Services Project No. P18A010 Rehired Retirees. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read 'Matt Hicks'.

Matt Hicks  
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante  
Vice President Duckett  
Executive Director Kalmijn  
Executive Director Pluzdrak  
Director Damico Murphy  
Interim Director Niess  
Systemwide Audit Manager Cataldo  
Local Procurement Manager Greene  
Systemwide Principal Auditor Seaborn  
Compensation Analyst Aldrete

UNIVERSITY OF CALIFORNIA  
ETHICS, COMPLIANCE AND AUDIT SERVICES  
OFFICE OF THE PRESIDENT  
SYSTEMWIDE AUDIT

Rehired Retirees  
Audit No. P18A010  
June 2018

Work Performed by:  
Systemwide Principal Auditor Seaborn

Work Reviewed by:  
Systemwide Audit Manager Cataldo  
Systemwide Deputy Audit Officer Hicks

# Executive Summary

## Introduction and Background

As part of the University of California Office of the President (UCOP) 2017 – 2018 fiscal year internal audit plan, Internal Audit performed an audit of rehired retirees at UCOP.

Each rehire appointment of a UC retiree is governed by UC Regents Policy 7706, Reemployment of UC Retired Employees Into Senior Management Group and Staff Positions, and its implementing procedures. The objective of the policy is to establish controls to both limit the unnecessary rehire of UC retirees when competent non-UC retirees are available and to ensure that the percentage of full-time employment and appointment durations for rehired retirees do not negatively impact the employee or the University of California Retirement Plan (UCRP). Failure to abide by the policy's requirements could jeopardize UCRP's qualified tax status under the Internal Revenue Service, negatively impact the rehired employee's health insurance benefits, and cause public perception problems for the university due to perceived "double-dipping" on the part of UC retirees.

Key requirements of UC Regents Policy 7706 include the following:

- There should be a legitimate business need as to why a UC retiree is being hired for the position, rather than a new or current employee who is not a UC retiree.
- There should be a 30-day minimum separation between the employee's retirement date and the date of rehire.
- The hiring department should actively recruit for the position for at least 30 days.
- The rehired employee should be limited to 43 percent or less of full time employment, measured over the course of a 12-month period.
- The rehire appointment should last no longer than 12 months.<sup>1</sup>
- Retirees who accepted a lump sum payout should not be rehired without an approved exception.
- Any exceptions to the requirements listed above need to be justified by the hiring department and approved by UCOP Local Human Resources and the UCOP Chief Operating Officer.
- The rehired retiree should submit a rehire notification form (UBEN 1039) regarding the rehire to UCOP Local Human Resources.
- The hiring department should submit a rehire approval form (UBEN 138) that needs to be reviewed and approved by the Local Director of Human Resources as well as the Chief Operating Officer, prior to the UC Retiree being officially rehired.

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<sup>1</sup> Note: This is a relatively new policy requirement (as of 2017). Prior to the implementation of the revised policy, the appointment limit was 24 months.

## Objective, Scope and Testing

The primary objective of this audit was to assess the adequacy of internal controls over the rehire of UC retirees at UCOP, and specifically to confirm that the appointment of UC retirees who were actively employed at UCOP during the 2016 and 2017 calendar years conformed to the requirements of UC Regents Policy 7706.

In an effort to confirm compliance with the policy for this group of rehired employees, we requested and reviewed both UCOP Local and Systemwide Human Resources Compliance reports for August 2017 and January 2018 (showing UC retirees who were active during the 2016 and 2017 calendar years, with rehire dates going back to 2012). These reports identified rehired retirees during the relevant time periods whose rehire appointments conformed with policy requirements as well as those for whom exceptions were required. For rehired retirees with identified exceptions, we requested copies of their UBEN 138 approval forms.

We also performed limited testing to ensure that independent contractors hired and active during the same period were not UC retirees who had received lump sum payouts from UCRP. Because the employment of lump sum payout recipients in any capacity could be considered “double dipping” – due to the fact that retirement compensation has already been received in full and cannot be suspended as it can for annuity recipients – there is a greater perception risk to the university when independent contractors who have received lump sum retirement payouts from UC are hired. Accordingly, we reviewed a list of UCRP lump sum payout recipients since 2014 from the UCOP Retirement Administration Services Center (RASC), and asked UCOP Local Procurement to reconcile this list of names with independent contractors hired during calendar years 2016 and 2017.

## Overall Conclusions

As a result of our review, we did not find any lump sum recipients hired as independent contractors. Although we observed a reduction in the number of appointments of UCOP retirees and exceptions over the course of the last two years, we did identify a number of areas of non-compliance for rehired retirees working at UCOP during the 2016 and 2017 calendar years, indicating that pre-appointment controls and post-appointment monitoring practices for rehired retirees can be improved.

Some specific areas of concern included the rehiring of individuals as career employees who had received lump sum payouts from UCRP, rehire appointments lasting longer than the allowable time frame and UBEN 138 approval forms that could not be located. See the table below for a complete breakdown of exceptions for the 36 retirees with rehire appointments during the 2016 and 2017 calendar years:

<u>Exception Category</u>	<u># of Instances</u>
Appointment % greater than 43%	2
Service break < 30 days	1
Appointments beyond allowable timeframes	16
Approvals that could either not be located;	12

or were not obtained prior to rehire	
Lump sum retiree rehired as career employee	2

For a detailed discussion of the issues and recommended corrective actions, please refer to the subsequent pages of this report.

## Opportunities for Improvement and Action Plans

### ***1. Approval documentation for UCOP Rehired Retirees could either not be located or was not obtained prior to rehire***

Our review of UCOP Local HR and Systemwide HR Compliance reports indicated that 12 out of the 36 UC retirees who were active rehires at UCOP during the 2016 and 2017 calendar years did not have the appropriate approval documentation in place. Additionally, when we asked the Senior HR Business Partner to locate the forms for each rehired retiree identified as an exception on the compliance reports reviewed for this audit, only 11 out of the 21 UBEN 138 Rehired Retiree Approval forms requested were located.

Failing to document approvals for rehired retirees contradicts the requirements of UC Regents Policy 7706 and leaves UCOP Local HR in a position where it is unable to verify that an appropriate review of each rehire occurred.

#### ***Action Plan:***

1. The UCOP Local HR Compensation Analyst will work with the Systemwide HR Compliance Director to obtain a current report of exceptions to the requirements of UC Regents Policy 7706 for existing rehired retirees. For any current retirees working at UCOP for whom a documented approval form cannot be located, the UCOP Local HR Compensation Analyst will work with the relevant hiring department to obtain a completed form UBEN 138 to be resubmitted for supplemental review by the UCOP Local HR Director, with a documented explanation regarding any exceptions.

Target Date: August 1, 2018

2. The UCOP Local HR Senior HR Business Partner will create a standardized, secure repository for storing UBEN 138 approval forms. Each HR Business Partner will locate all UBEN 138 approval forms for previously rehired retirees and save them in this repository, deleting any versions stored on local hard drives or in other locations. Moving forward, HR Business Partners will only store UBEN 138 approval forms in this repository and the process will be delineated in UCOP Local HR procedural documents.

Target Date: August 1, 2018

**2. *Two UCOP retirees who received lump sum payouts were rehired as career employees***

Our review of UCOP Local HR compliance reports revealed two retirees (out of 36 total retirees actively employed during our testing period) who were rehired as career employees despite having accepted lump sum retirement payouts. These retirees were rehired prior to the current UCOP Local HR team implementing its compliance review of rehired retirees and have since ceased employment at UCOP. Hiring retired employees who received a lump sum payout from UCRP as career employees may give the perception of “double dipping.” Additionally, both rehire appointments are considered exceptions to UC Regents Policy 7706.

***Action Plan:***

1. The UCOP Local HR Compensation Analyst will review a current report of exceptions to the requirements of UC Regents Policy 7706 for existing rehired retirees and identify any exceptions regarding career appointments for lump sum retirees. In the event a lump sum retiree is discovered in a career appointment, the UCOP Local HR Director will work with the hiring department and take the necessary actions to ensure compliance with UC Regents Policy 7706.

Target Date: August 1, 2018

2. The UCOP Local HR Compensation Analyst will work with Information Technology Services and UC Path to develop a mechanism (look up capability in UC Path) for Local HR to determine if a job applicant is a former UC retiree, and determine if the applicant accepted a lump sum retirement payout at the time of application (pre-hire). This may address any instances of omissions or untruths on the part of applicants regarding UC retirement status. The UCOP Local HR Director will incorporate this review step into its hiring process to ensure compliance with UC Regents Policy 7706.

Target Date: September 1, 2018

**3. *Rehired Retirees working at more than 43 percent of full time employment***

Our review of UCOP Local HR compliance reports revealed 2 rehired retirees (out of 36 total retirees actively employed during our testing period) whose rehire appointments at UCOP exceeded 43 percent of full time employment over a 12-month period. One employee worked at 100 percent of full time, while another worked at 80 percent of full time. These employment percentages indicate a lack of communication between UCOP Local Human Resources Compliance and relevant supervisors regarding percentages of full time employment, and are considered exceptions under UC Regents Policy 7706.

***Action plan:***

1. UCOP Local HR Compensation Analyst will review the current systemwide Rehired Retirees compliance report. For any identified exceptions involving retirees working at greater than 43 percent of full time, the UCOP Local HR Director will

work with the hiring department and take the necessary actions to ensure compliance with UC Regents Policy 7706.

Target Date August 1, 2018

2. The UCOP Local HR Compensation Analyst will work with Information Technology Services and UC Path to develop an automatic notification/report that will be provided monthly to relevant managers when an employee approaches the 43 percent of full time threshold (e.g., at 800 hours) and/or 12 months of duration for a rehire appointment (e.g., at 10.5 months). Processes will be updated to ensure that when a rehired employee crosses the 43 percent threshold, the UCOP Local HR Director and the relevant hiring department will take the appropriate action to ensure compliance with UC Regents Policy 7706.

Target Date: September 1, 2018

**4. *Cumulative employment as a rehire is greater than 24 months***

Our review of UCOP Local and Systemwide HR Compliance reports indicated that 16 (out of 36 total retirees actively employed during our testing period) rehired retirees accumulated greater than 24 months of employment as a rehired retiree. These long-term employment periods for retirees can cause “double dipping” perception issues for the university. Additionally, rehires with long term durations may inhibit the hiring of new or current employees for a particular position who might bring different skills or perspectives.

***Action plan:***

On a quarterly basis, beginning on July 1, 2018, the UCOP Local HR Compensation Analyst will review the systemwide rehired retirees compliance report from the prior quarter, for any identified exceptions regarding total employment for a particular rehired retiree lasting longer than 24 months. For any identified retirees whose total appointment (during retired status) period is greater than 24 months, the UCOP Local HR Director will reach out to the relevant hiring department and conduct a joint review of the business need for continuing to utilize the retired employee. The results of this review will be documented on a resubmitted UBEN 138 Approval form.

Target Date: July 1, 2018

**5. *Systemwide rehired retiree identification and compliance follow up by campus and laboratory human resources.***

From a systemwide standpoint, local HR offices do not have the necessary access to determine if a job applicant is a UC retiree. As a result, they do not have the necessary awareness of the total universe of rehired retirees at their locations to ensure that all instances of retired retirees working at their locations comply with the requirements of UC Regents Policy 7706.

***Action plan:***

The Director of HR Compliance will work with the UCPath team to develop a mechanism to store data from the UC Retirement System so that each location can identify if any new hires and current employees are retired UC employees. This will assist the campuses and labs, as they adopt the UCPath payroll system, in identifying and managing their rehired retirees.

Target Date: September 30, 2018.

**6. *Verification of retiree status for prospective independent contractors***

Although we did not identify any UC retirees who had received lump sum payouts among the list of independent contractors hired by UCOP during the 2016 and 2017 calendar years, there is currently no mechanism available for procurement and contracting staff to determine if a potential independent contractor is a retired UC employee.

***Action plan:***

The UCOP Business Resource Center's (BRC) Local Procurement Manager will add a question/prompt to the Request for Approval of Contractors and Consultants form, which is reviewed prior to the initiation of the contracting process by Local HR, to inquire if the individual is a UC retiree and if so, if he or she has received a lump sum payout. This question will also be added to the UC Procurement Professional's Contract Checklist, which is reviewed during the contacting process.

Additionally, prior to signing an agreement with an independent contractor, the Local Procurement Manager will check with the Retirement Administration Services Center to determine if the contractor is a retired UC employee; and, if the contractor is determined to have retired from UC, the Local Procurement Manager will take into account the compliance requirements of UC Regents Policy 7706 when advising the relevant contracting department regarding contract terms.

Target Date: August 1, 2018