CAPITAL PROGRAMS

PERSONNEL AND PAYROLL

AUDIT REPORT #23-2102

Audit & Advisory Services

October 2023

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# Background

In accordance with the Campus fiscal year 2022-23 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and business practices over key personnel and payroll functions within the UCLA Capital Programs department.

Purpose and Scope

The primary purpose of the audit was to ensure that Capital Programs’ internal controls and business processes related to personnel and payroll functions are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University policies and procedures was also evaluated.

The scope of the audit focused on the following activities:

* Accountability Structure
* New Hires and Separations
* Training
* Performance Evaluations
* Employee Awards / Equity and Merit Increases
* Workers’ Compensation
* Limited Appointment Employees

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests of records, and other auditing 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 Capital Programs’ personnel and payroll processes are generally conducive to accomplishing the department’s business objectives. However, controls and business practices could be further strengthened by implementing the following:

*New Hires*

Capital Programs management should ensure the following:

* Maintain a record of the selection process for each interviewee, including job-related standards used to screen the applicants; questions used for the interviews, including those used by search committees and panels; rating guides used by all interviewers; and notes prepared as a result of any reference checks. Ensure that standards and means for evaluations are consistent across candidates, such as by using the same questions across the interviews.
* Obtain background check results for all applicable employees prior to their employment.

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

Audit Results and Recommendations

Accountability Structure

In UCPath, there are three roles – Human Capital Management, Pay Administrator, and General Ledger. In addition, there are three levels of access – Initiator, Approver, and Inquiry. Specific sets of function codes are associated with a role type and its level of access.

A&AS held discussions with the Capital Programs Human Resources (HR) Manager to determine the authorized initiators and approvers within UCPath for the following transactions: new hires, separations, equity and merit increases, and STAR awards. Discussions were also held with the UCLA Payroll Partner Business Intelligence Supervisor II to determine whether controls have been programmed into UCPath to require the approver of personnel and payroll transactions to be a different user from the initiator of the transaction. In addition, A&AS reviewed Distributed Administrative Computing Security System (DACSS) reports as of May 17, 2023, to verify that access is only granted to authorized employees, and that the roles and access levels currently assigned ensure an effective accountability structure and separation of duties. A&AS selected a judgmental sample of one new employee hire, one employee separation, one equity increase, and one STAR award for audit testing. We reviewed the UCPath approval history logs to verify that these sample transactions were approved by authorized individuals.

Only three Capital Programs employees have been granted access to UCPath. The Capital Programs HR Manager is responsible for initiating personnel and payroll transactions in UCPath. Capital Programs’ Finance Supervisor and Accounting Manager are responsible for approving these transactions. For the judgmental sample of four personnel and payroll transactions, A&AS determined that all were approved by authorized personnel in UCPath. Logic has been programmed into UCPath that requires a separate individual from the initiator of a personnel or payroll transaction to approve the transaction.

There were no significant control weaknesses noted in this area.

New Hires and Separations

New Hires

UCLA Procedure 20 (Recruitment) and UCLA Procedure 21 (Appointment) include the following requirements for new hires:

* Job postings that include required qualifications, prior work experience, educational requirements, and licenses or certifications. Jobs are to be advertised on UCLA’s Career Opportunities website and other external websites in accordance with minimum posting periods based on the job position.
* The methodology used for assessing candidates' qualifications is consistent and applied fairly to all candidates. A record of the selection process should be maintained by the department for reporting and auditing purposes, and should consist of: the University application form and resume for each interviewee; job-related standards used to screen the applicants; questions used for the interviews, including those used by search committees and panels; rating guides used by all interviewers; and notes from the reference checks.
* Background checks are required for candidates hired into critical positions that have sensitive administrative/programmatic/managerial duties and responsibilities that could potentially cause human, financial, or property loss or other significant risk to the University.
* Job offers are approved by authorized personnel.

A&AS conducted meetings with the Capital Programs HR Manager to obtain an understanding of their new hire process. In addition, a judgmental sample of five Capital Programs employees hired during fiscal year 2022-23 was selected and documentation from their personnel files was reviewed noting the following:

* The job postings for all five new hires included: required qualifications, prior work experience, educational requirements and licenses or certifications, and were advertised on UCLA’s Career Opportunities website and other external websites in accordance with minimum posting periods.
* The HR Manager stated that the interviews, hiring committee meetings, and reference check calls were conducted verbally. Records to support the selection process for the five new hires were not consistently maintained.

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| --- | --- |
| Records | Records Maintained |
| Job applications, cover letters and resumes | 5 of 5 new hires |
| Interview questions | 3 of 5 new hires |
| Rating guides / evaluation applicants | 2 of 5 new hires |
| Reference checks | 3 of 5 new hires |

* Background checks were performed and clear for four of the new hires. For the one remaining new hire, the background check was clear; however, UCPD did not share the results with Capital Programs personnel because UCPD did not know which department the background check was for.
* Job offers for all five new hires were approved by the director of the pertinent Capital Programs unit and respective leader (each is headed by an AVC).
* A new hire checklist or workflow was utilized to ensure that key tasks have been completed.

Recommendation: Capital Programs management should ensure the following:

* Maintain a record of the selection process for each interviewee, including job-related standards used to screen the applicants; questions used for the interviews, including those used by search committees and panels; rating guides used by all interviewers; and notes prepared as a result of any reference checks. Ensure that standards and means for evaluations are consistent across candidates, such as by using the same questions across the interviews.
* Background check results are received for all applicable employees prior to their employment.

Response:

**Planned Corrective Action:**

Capital Programs has implemented standardized forms for applicant screening, interviews, and reference checks.

The HR Manager and members of the Hiring Committee will utilize the standardized forms to ensure that standards and means for evaluation are consistent across candidates. Records of each job posting will be stored in Capital Programs’ SharePoint Personnel Folders.

Going forward, Capital Programs will follow up with UCPD whenever a background check is conducted off-campus to ensure all results are filed.

**Expected Completion Date:**

Implemented. After receiving the Personnel and Payroll Draft Audit Report #23-2102 from UCLA Audit & Advisory Services on June 26, 2023, the proposed corrective actions were implemented immediately.

Separations

Capital Programs HR utilizes a checklist for separations to help ensure that key documents and information are obtained from and provided to employees including: resignation letters, notices of involuntary terminations, parking cancellation, Termination of Employment Benefit Fact Sheet, and Employment Development Department Handbook. In addition, an electronic workflow is used to notify staff responsible for key tasks such as collecting University property and disabling system access for separated employees.

A&AS reviewed a judgmental sample of 10 CP employee personnel records for those who separated during fiscal year 2021-22 to verify the following:

* Employees were properly separated in accordance with University procedures.
* Personnel and payroll requests were complete, properly approved, and processed in a timely manner.
* The appropriate staff was notified to ensure that access to University property and systems was revoked for terminated employees.

We also reviewed separation checklists and workflows for the 10 separated employees noting the following:

* Separation documents (e.g., resignation letters/notification of involuntary terminations) were properly received, an Employment Development Department Booklet was provided to the separated employees, and separation checklists were completed and signed by the employees and HR.
* Final paychecks were issued to the separated employees in a timely manner.
* University property (laptops, keys) issued to employees were retrieved and access to computer systems were deleted for those separated employees reviewed.

There were no significant control weaknesses noted in this area.

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.

In conjunction with A&AS’ employee incentive awards and equity and merit increases audit test work, a judgmental sample of 10 employee incentive awards and 10 employee equity and merit increases were reviewed, noting the following: the sampled employees received performance evaluations, their performance ratings met the minimum requirements for the incentive awards or supported their equity or merit increases, and were determined to be in compliance with Policy PPSM-23.

There were no significant control weaknesses noted in this area.

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. 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 UCLA Procedure 34 “Incentive and Recognition Award Plans,” more commonly referred to as the Staff Appreciation and Recognition (STAR) Plan. Under STAR Plan guidelines for FY 2021-22, awards could not exceed 10% of an employee’s base salary or a maximum of $5,000, whichever is less. All STAR awards require written justification of demonstrated performance or contribution. In addition, all STAR awards require the endorsement of the employee’s immediate supervisor and approval by the respective departmental AVC and VC/CFO. In fiscal year 2021-22, UCLA Capital Programs recognized 26 employees with STAR awards for a total expenditure of $98,300 – an average award of $3,781 per employee.

A&AS identified the top 10 employees who received the most STAR awards between July 2019 and May 2023, and also tested the largest award for the period. We reviewed the STAR Award Nomination Forms for the sample employees and the associated approval documentation, noting the following:

* None of the awards in the sample group exceeded 10% of the employee’s base salary or $5,000
* All 10 STAR awards had a written justification of demonstrated performance or contribution for the award.
* All 10 STAR awards were approved by the respective AVC and VC/CFO.

There were no significant control weaknesses noted in this area.

Equity and Merit Increases

Equity and merit increases are two types of salary increases for staff members that can be provided because of a variety of factors. Merit increases are designed to reward performance and can be provided to staff members whose performance evaluations are rated “Meets Expectations” or higher. Equity increases can be provided because of expanded duties without reclassification, staff retention, changing market conditions, and internal equity within the unit.

A&AS selected a judgmental sample of 10 of the largest equity and merit increases from July 2019 through May 2023 to verify that the salary adjustments were properly authorized and the associated performance evaluations supported the increases. Based on A&AS’ review of the supporting documentation for the sample items tested, justification for the salary increases was provided, increases were properly authorized by the respective Capital Programs AVC and Vice Chancellor/Chief Financial Officer, and associated performance evaluations supported the salary increases.

There were no significant control weaknesses noted in this area.

Compliance

Workers’ Compensation

The University of California Office of the President requires that at least 90% of all workers’ compensation claims be reported to the third-party administrator, Sedgwick, within five days of the employer’s knowledge of the incident. A&AS requested a timeliness report of all workers’ compensation claims for Capital Programs from UCLA’s Insurance and Risk Management (IRM) for the period of July 1, 2022 to May 8, 2023, to evaluate whether work-related injuries were reported timely. IRM stated there were no workers’ compensation claims reported by Capital Programs employees during that period.

There were no significant control weaknesses noted in this area.

# Limited-Appointment Employees

Limited-appointment employees are those who work fewer than 1,000 hours within a 12-month period. Employees on a limited appointment who work more than 1,000 hours within a 12-month period transition to career employees. It is the responsibility of campus departments to monitor accumulated hours worked for these employees and to ensure that employees on a limited appointment do not inadvertently exceed the 1,000-hour threshold and become career employees.

Discussions were held with the Capital Programs HR Manager regarding how work hours are monitored for limited-appointment employees to ensure that they do not exceed the 1,000-hour limit and convert to career employees.

Capital Programs currently only has one limited appointment exempt employee. The Capital Programs HR Manager reviews the UCPath “Person Organizational Summary” report to ensure that the employee's total hours will not exceed 1,000 hours. In addition, the CapStar timekeeping system will send notifications to the HR Manager and the employee's supervisor for limited-appointment employees who are approaching 1,000 hours within the 12-month period.

There were no significant control weaknesses noted in this area.

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