

UCSF Audit & Advisory Services

Off-Cycle Payments

Project #25-009

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University of California
San Francisco



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Audit & Advisory Services

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SUBJECT: Off-Cycle Payments

As a planned internal audit for Fiscal Year 2025, Audit & Advisory Services (“A&AS”) conducted a review of Off-Cycle Payments. The purpose of this review was to evaluate whether controls are adequate and effective over off-cycle payment operations.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed and the preliminary draft report was provided to department management in December 2024. Management provided final comments and responses to our observations in March 2025. The observations have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance, and Audit Executive Committee and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit & Advisory Services



EXECUTIVE SUMMARY

I. **BACKGROUND**

As a planned audit for Fiscal Year 2025, Audit & Advisory Services conducted a review of off-cycle payment transactions to evaluate whether controls are adequate and effective over off-cycle payment transaction operations.

Off-cycle payments are processed to pay hours and/or earnings due to an employee that were not paid through the employee's regularly scheduled biweekly or monthly pay cycle. Off-cycle payments will have all of the normal deductions for health, tax, retirement, and voluntary deductions taken, and an earning statement will be provided through UCPATH¹ online (similar to on-cycle). According to the Supplemental Pay Changes guidelines noted on the UCSF Controller's Office website, "payments will be scheduled on-cycle in situations where employees are missing small-dollar or hour amounts and can wait until their next available pay cycle. Employees will also receive on-cycle payments in the following situations:

- Refunds for local deductions, taxes, retirement
- Retroactive pay owed to an employee due to:
 - Promotion or reclassification
 - Mass wage increase"

In addition, UCSF published new supplemental pay changes effective on October 1, 2022: "starting October 1, 2022, employees will receive most supplemental payments on their regularly scheduled (on-cycle) payday instead of receiving an off-cycle payment. Supplemental payments to be paid on-cycle include clinical incentives and SPOT awards; moonlight payments will continue to be paid off-cycle. These include payments for clinical incentives, SPOT awards, and additional supplemental payments (except moonlight payments; those will continue off-cycle). This change increases the timeliness of supplemental payments for our UCSF teammates and aligns with the broader UC standard processing for supplemental payments."

The off-cycle payment process at UCSF requires coordination between the UCSF Controller's Office and the UCPATH Center²(UCPC). UCPC aims to process off-cycle payments within five days from the day after the request is submitted to the issue date. The process begins with departments initiating and approving off-cycle payment transactions by completing the People Connect Management Action (PCMA) form. HR receives these PCMAs, creates a ServiceNow ticket, and submits them to Payroll. Payroll then reviews the submissions and forwards them to UCPC for processing.

HR has enhanced controls over off-cycle payment transaction processes since October 2022. As a result, the number of off-cycle payment transactions decreased significantly.

¹ UCPATH is the University of California's system-wide payroll, benefits, human resources, and academic personnel system.

² UCPATH refers to the overall system used by the University of California to manage employee payroll, benefits, and human resources, while UCPC (UCPATH Center) is the specific central hub located in Riverside, California, where all the transactions related to UCPATH are processed and where employees can contact for support and assistance with their HR and payroll issues; essentially, UCPATH is the system, and UCPC is the operational center managing it.

On November 30, 2023, there were 1,763 transactions totaling \$1.5 million. By June 28, 2024, this number had dropped by 45% to 539 transactions totaling \$697,161.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to evaluate the adequacy and effectiveness of controls in place off-cycle payment transaction process. The scope of the review covered transactions and activities for the period of July 1, 2023 to June 30, 2024.

Procedures performed as part of the review included the following: a review of relevant policies, procedures, and documentation related to off-cycle payment transactions; interviews with key stakeholders involved with the off-cycle payment transaction process; obtaining a population of off-cycle payment transactions for the audit period; conduct data analytics to identify any red flags and anomalies; transaction testing on a sample of off-cycle transactions to identify opportunities for improvements in off-cycle payment transactions; comparing the volume of off-cycle payment transactions to determine if it has been improved. For more detailed procedures, please see Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed December 2024.

III. SUMMARY

Based on the work performed, the controls for initiating and approving off-cycle payment transactions appear to be adequate and effective. Additionally, the controls ensuring that off-cycle payment transaction requests are submitted promptly to UCPath for processing are also adequate and effective.

There are opportunities for improvement in enhancing off-cycle payment governance, documentation, and the timely review and reconciliation of off-cycle payment transactions.

The specific observations from this review are listed below:

- 1) Formal governance documents (e.g., policies, procedures, guidelines, organizational charts, etc.) are not always in place to define roles and responsibilities/expectations.
- 2) Employee off-cycle transaction payments were not always processed in accordance with the off-cycle payment guidelines.
- 3) There is no off-cycle operation training in place to clarify roles and responsibilities.
- 4) Departments did not always review monthly payroll distribution reports and reconcile them to the General Ledger timely.

During the course of this review, a potential opportunity for improvement was noted for enhancing the operation by processing faculty compensation plan payments and stipends through on-payment rather than off-cycle to reduce the volume of transactions and process more efficiently.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCAs)

No.	Observation	Risk/Effect	Recommendation	Proposed MCA
1	<p>Formal governance documents (e.g., policies, procedures, guidelines, organizational charts, etc.) are not always in place to define roles and responsibilities/expectations.</p> <p>The current off-cycle payment policy/guidelines that exist on the controller’s website state that “payments will be scheduled on-cycle in situations where employees are missing small-dollar or hour amounts and can wait until their next available pay cycle. Employees will also receive on-cycle payments in the following situations:</p> <ul style="list-style-type: none"> • Refunds for local deductions, taxes, retirement • Retroactive pay owed to an employee due to: <ul style="list-style-type: none"> ○ Promotion or reclassification ○ Mass wage increase” <p>However, information, such as clear instructions to departments regarding justifications and approvals, is not in place to define the limitations and restrictions of the off-cycle payment process. Furthermore, the available guidelines do not define roles, responsibilities, and expectations in processing off-cycle payment transactions. Additionally, there is no organizational chart in place to clarify the hierarchical roles within the organization related to off-cycle processes.</p>	<p>Unclear and incomplete policies and procedures, including roles and responsibilities, can increase the risk of confusion, inconsistency, regulatory non-compliance, and reputational damage.</p>	<p>A formal policy and detailed guidelines, including clear instructions to departments regarding the definition of the off-cycle payment process and roles and responsibilities, should be implemented through the collaboration of HR and Payroll.</p>	<p>Considering the new Enterprise Resource Planning (ERP) system being implemented, develop detailed guidelines, including clear guidelines to the departments regarding a clear definition of the off-cycle payment process.</p> <p>Furthermore, implement a formal governance document to define roles and responsibilities/ expectations. Present to CFPO, Health Manager, and CP meetings.</p> <p>Responsible Party: Executive Director, HR Shared Services in collaboration with Director of Finance Services.</p> <p>Target Implementation Date: April 30, 2025</p>
2	<p>Employee off-cycle transaction payments were not always processed in accordance with the off-cycle guidelines.</p> <p>A review of a judgmental sample of 20 off-cycle payment transactions for salaried employees and 20 off-cycle payment transactions for hourly employees from various departments identified the following:</p> <ul style="list-style-type: none"> • Three out of 20 off-cycle payment transactions for salaried employees were retroactive pay due to promotion or reclassification. 	<p>Lack of oversight can lead to excessive off-cycle payments/ unallowable off-cycle payment transactions and potential legal disputes or financial</p>	<p>Departments should review payroll distribution reports timely and appropriately to avoid and minimize payments made through the off-cycle process.</p>	<p>Departments will review payroll distribution reports timely and appropriate to avoid and minimize payments through off-cycle going forward.</p> <p>Responsible Party: School of Medicine Director of Finance and Operations</p>

No.	Observation	Risk/Effect	Recommendation	Proposed MCA
	<ul style="list-style-type: none"> Six out of 20 off-cycle payment transactions for hourly employees were retroactive pay due to promotion or reclassification. <p>These transactions were not processed in accordance with existing off-cycle payment guidelines and should have been handled through the on-cycle process.³</p> <p>A review of the entire population of off-cycle payment transactions identified that 352 SPOT award payment transactions, totaling \$1.7 million, were processed through off-cycle payments rather than on-cycle payments as suggested under the Supplemental Pay Changes guidelines effective October 1, 2022.</p>	discrepancies/fraud		<p>Target Implementation Date: Implemented</p> <p>Responsible Party: Director of Staff Shared Services Target Implementation Date: Implemented</p> <p>Policies and procedures will be enhanced to communicate additional guidelines to the departments to ensure SPOT awards are processed through on-cycle rather than off-cycle payment.</p> <p>Responsible Party: Executive Director, HR Shared Services in collaboration with Director of Finance Services Target Implementation Date: Implemented</p>
3	<p><i>There is no off-cycle operation training in place to clarify roles and responsibilities.</i></p> <p>Currently, there is no training in place to clarify roles and responsibilities for the Controller's office, Central HR/Payroll, and Health/Campus departments.</p>	Unclear and incomplete policies and procedures, including roles and responsibilities, can increase the	Implement training courses for management and responsible parties to clearly define the roles and responsibilities for the Controller's	Considering the new ERP system being implemented, ensure training courses are developed for management/responsible parties to clearly define roles and responsibilities for the controller's office, central HR/Payroll, and ensure departments are aware of the guidelines for what

³ Based on the off-cycle guidelines, " Payments will be scheduled on-cycle in situations where employees are missing small-dollar or hour amounts and can wait until their next available pay cycle. Employees will also receive on-cycle payments in below situations:

- Refunds for local deductions, taxes, retirement
- Retroactive pay owed to an employee due to: Promotion or reclassification
- Mass wage increase"

No.	Observation	Risk/Effect	Recommendation	Proposed MCA
		risk of confusion, inconsistency, regulatory non-compliance, and reputational damage.	Office, central HR/Payroll, and Health/Campus departments	qualifies as an off-cycle payment (e.g., what limitations exist that preclude an on-cycle payment). Responsible Party: Executive Director, HR Shared Services in collaboration with Director of Finance Services Target Implementation Date: April 2026
4	<p>Departments did not always review monthly payroll distribution reports and reconcile them to the General Ledger timely.</p> <p>One department (Department of Veteran Affairs Medical Center) out of three did not reconcile the distribution of payroll expense reports from My Report for one employee. This issue caused an overpayment for the employee after a duplicate retroactive payment was processed on 3/6/2024. This issue was identified by HR in May of 2024 during a regular periodic review.</p>	Lack of oversight can lead to excessive off-cycle payments/unallowable off-cycle payment transactions and potential legal disputes or financial discrepancies/ fraud	Departments should review and reconcile the Distribution of Payroll Reports monthly to avoid excessive and unnecessary off-cycle payment transactions.	Departments will review and reconcile the Distribution of Payroll Reports monthly to avoid excessive and unnecessary off-cycle payment transactions. Responsible Party: Director of Finance Administration, Department of Veteran Affairs Target Implementation Date: Implemented

V. OPPORTUNITY FOR IMPROVEMENT

No.	Observation	Risk/Effect	Recommendation
1	<p>Continuing to reduce stipend payments and faculty compensation plans paid using the off-cycle process may enhance operational efficiencies and reduce financial discrepancies or the potential for fraud.</p> <p>During FY 2024, there were 151 stipend transactions processed through off-cycle payments. Although this number represents only 1% of the stipend population, it may indicate inadequate procedures for monitoring and tracking</p>	a) Lack of oversight can lead to excessive off-cycle payments/unallowable off-cycle payment transactions and potential legal disputes or financial discrepancies/fraud.	a) Procedures and policies should be developed for departments to monitor/track stipend payments to avoid stipend payments being paid through the off-cycle process.

No.	Observation	Risk/Effect	Recommendation
	<p>stipend payments. These shortcomings could result in stipends being paid through off-cycle payments.</p> <p>In addition, a review of a judgmental sample of 24 off-cycle payments for the faculty compensation plan identified that 21 out of 24 payments were related to the increase in pay related to merit promotion. This could occur due to late approvals of merit promotions.</p>	<p>b) Lack of timely submission or approval can create overpayments or underpayments for faculty, tax issues for faculty, and financial discrepancies/fraud.</p>	<p>b) Faculty compensation for merit promotions or pay increases should be reviewed promptly to ensure payments can be processed through on-cycle payroll, thereby avoiding late submissions.</p>

APPENDIX A

To conduct our review the following procedures were performed for the areas in scope:

- Reviewed relevant policies, procedures, and documentation related to off-cycle payment transactions.
- Interviewed the key stakeholders involved with the off-cycle payment transaction process.
- Generated a report of the population of off-cycle payment transactions from UCPATH for the audit period to review and determine if off-cycle payment transactions were appropriate.
- Reviewed a sample of off-cycle payment transactions to ensure transactions were approved prior to submission.
- Reviewed a sample of off-cycle payment transactions to ensure transactions were justified appropriately.
- Conducted data analytics of off-cycle transactions to identify any red flags and anomalies; performed transaction testing on a sample of off-cycle transactions; identified opportunities for improvements in off-cycle payment transactions.
- Reviewed a population of off-cycle transactions to determine if the volume of the off-cycle payment transactions has been reduced to indicate management action plans have been taking place.