

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



University of Oregon: Payroll Practices

Summary

The University of Oregon (UO) administration became aware of potential payroll violations involving federal grants in January 2013 and requested a review by the Internal Audit Division for the Oregon University System (OUS). The audit uncovered inappropriate payroll adjustments for research personnel paid by federal grants in the Institute of Neuroscience (ION). In addition, several OUS payroll audits of universities, including UO specifically, recommended better payroll practices. The Secretary of State Audits Division was asked by OUS to determine the extent of payroll discrepancies.

We examined payroll records for a number of UO employees and obtained emails for the business or payroll managers of selected departments to examine for potential misuse of overtime and full-time equivalent (FTE) changes.

Based upon our review of the emails we received, we identified a number of concerns related to overtime and other payroll practices that we believe warrant UO leadership's attention; specifically, the use of overtime to circumvent payroll reductions due to state-enforced furloughs and salary freezes, and other adjustments to temporarily increase employees' pay. We also found a few instances where managers in academic and research units discussed FTE increases as an option to increase an employee's pay without a clear expectation the employee would work more hours.

We recommend UO leadership communicate general expectations and establish better controls over compensation, vacation time, and overtime. In addition, we recommend they review the other payroll issues we identified and consider seeking reimbursement from employees for unearned compensation.

Agency Response

The agency response is attached at the end of the report.

Background

The Oregon University System (OUS) is comprised of seven universities providing educational opportunities to about 100,000 students. The universities are primarily funded through student tuition and fees, but also receive funds from the state's general fund, private gifts, and federal grants. For the 2011-2013 biennium, OUS operated under a legislatively adopted budget of \$5.2 billion, \$670 million of which was state general fund monies, with about 13,000 full-time equivalent (FTE) staff.

From 2009 to 2013, Oregon experienced a serious budget crisis, and the Governor sought administrative actions to create savings, including salary freezes and unpaid furlough days. The Governor's directive was incorporated into the state's collective bargaining including those agreements between OUS and SEIU Local 503, OPEU.

In March 2013, an internal audit requested by the University of Oregon (UO) uncovered inappropriate adjustments to payroll for several Institute of Neuroscience (ION) personnel paid by federal grants. For example, records listed an employee at a higher FTE than what the employee was known to work, and it appeared this was done intentionally. The internal auditors reported to OUS and UO leadership their concerns that payroll records for other UO personnel were inappropriately adjusted for FTE changes or overtime. Subsequently, the Oregon Audits Division was asked by OUS internal auditors to perform an audit to determine the extent of payroll discrepancies.

OUS has been subject to multiple payroll audits since 2001. Those audits found questionable salary increases and opportunities for universities to improve *payroll* and *leave reporting* processes.

Audit Results

We examined UO payroll data and identified employees who had more than 125 total hours of overtime, or appeared to have patterns of overtime from July 2008 through March 2013. We then examined the payroll records of 38 employees in 18 departments whose overtime showed a consistent pattern to determine if the overtime award complied with UO policy.

We examined emails of the departments' business or payroll managers to examine for evidence of inappropriate FTE and overtime adjustments. We did not identify any indications of FTE adjustments to justify further review of payroll records.

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Circumventing Payroll Reductions

The Governor's directive for salary freezes and furloughs applied to some university employees covered by the affected collective bargaining agreements. At UO, classified staff were the only employees required to take furloughs during the 2009-2011 and 2011-2013 biennia. Communications from UO leadership to employees expressed leadership's preference that no employees be required to take furlough days, but recognized that UO must comply with collective bargaining agreements. In these communications, UO leadership encouraged employees to make up losses due to the mandatory furloughs by working overtime when justified by operating requirements, or to work extra hours taking online training if their departments had operational barriers to offering overtime.

We reviewed timesheets for 38 UO classified staff in 18 departments who had regularly occurring overtime from April 2010 through March 2013. We also reviewed emails of selected employees from those departments. We identified consistent amounts of overtime recorded each month for 13 ION classified staff. Further review of emails indicated those staff did not receive payroll reduction in accordance with the Governor's furlough directive. To appear to meet their furlough obligations, the 13 staff recorded furlough days, albeit on days they actually worked. To offset the fiscal effect of the recorded furlough days, overtime was also recorded on their timesheets. Many of the timesheets showed overtime recorded in total for the month, not on specific days. In addition, in many instances, the overtime appeared to be recorded in handwriting different from that in

which the regular hours were recorded. Emails confirmed payroll personnel would add overtime to the timesheets if employees forgot to record it.

Unearned Compensation

Collective bargaining agreements required UO classified staff to forego salary increases from fiscal year 2009 through 2013. In order to provide a raise for an ION employee in the midst of the salary freeze, one supervisor approved adding overtime hours each month to the employee's timesheet. The "overtime raise" has been provided to the employee since 2004. It appeared the overtime was added after the employee submitted the timesheet for approval.

A second ION employee received a pay increase through changes in FTE. The employee's supervisor arranged to increase the employee's FTE from 0.5 to 0.86 FTE (from 20 hours to 34.4 hours per week). It was evident from the supervisor's and business manager's emails discussing this decision that the employee was not expected to work more than 20 hours per week, even after the increase.

Other Payroll Concerns

Inadequate Supervisory Review

Our review of timesheets identified numerous instances where some controls over payroll were not evident. Effective payroll procedures require an employee's direct supervisor or manager to verify recorded work hours, overtime, and leave time; and to indicate this verification by approving the employee's timesheet. Payroll personnel should enter information into the payroll system from approved timesheets only. Changes to a previously approved timesheet should be re-approved by the employee and supervisor. In addition, payroll units should have procedures to ensure time recorded in the payroll system agrees with approved time on timesheets.

We reviewed approximately one-thousand timesheets for 38 classified employees for the period of April 2010 through March 2013. Of those timesheets 115 supervisors' signatures were missing; 122 showed overtime that did not agree to overtime recorded in UO's payroll system; and 94 showed overtime recorded only in total, rather than on specific days. We were unable to complete all our reviews because UO personnel were unable to locate 46 original timesheets that we requested for 10 employees. We confirmed that two of the timesheets had been destroyed in accordance with UO's records retention schedule.

More Involvement of UO Leadership Needed in Payroll Decisions

In our review of emails we noticed discussions of options for increasing employees' pay and other isolated decisions by managers affecting employee pay or leave time. We believe these discussions warrant UO leadership's attention to determine whether the resulting action occurred, and if so, was appropriate. We noted the following email discussions relating to employees' pay and leave time:

- Adjustments to adjunct instructors' FTE to provide a pay increase after increase requests were denied. One discussion involved an adjunct who was at a base pay of \$36,747 when others in the pool were at \$54,000. The adjunct at the \$36,747 rate was at .4937 FTE for teaching one class.
- An increase in FTE to 100% for 3.5 months to provide an employee an additional \$12,000 in pay; the reason for the increase was not noted in the email.
- A slight increase in FTE for one adjunct instructor over the agreed upon FTE to align the employee's pay with the prior salary rather than on actual time worked.
- Two employees who were not eligible for overtime were instructed to increase their regular hours; for example, an employee was instructed to multiply 37.5 regular hours by 1.5 and record 56.25 regular hours, effectively receiving overtime. A second employee's regular time was also multiplied by 1.5 to pay overtime.
- Discussions about supplementing salaries with stipends, or rewarding staff with additional funds for research or travel.
- Employees in more than one department were instructed not to record leave time when office hours were reduced or the office was closed during spring break.
- Employees were paid overtime to increase wages during the pay freeze.
- Adjustments to travel claims to reimburse for costs that could not be reimbursed or that exceeded the allowed rates. For example, adding per diems for additional rental car costs, adding transportation costs, and adding claims for items that do not require receipts (taxi, parking, lodging taxes) to make up for lodging costs that exceeded the allowed rate.
- An instance where three unclassified and temporary employees worked holidays for which they were not approved for compensation; to offset, a manager directed them to not record the work on the holidays and, as compensation, to take unrecorded time off at a later date.
- An instance where a business manager informed an employee that instead of a 3.5% raise they would receive 40 more hours of vacation.

Recommendations

In order to facilitate equality and consistency among UO departments' payroll practices, we recommend UO leadership and management:

- ensure compliance with the spirit of state-mandated directives;
- determine the extent of compensation to employees for time not worked and consider seeking reimbursement of wages not earned;
- strengthen controls over payroll processing to ensure recorded time is verified, approved, and accurately entered into the payroll system, and adequate supporting documentation is retained; and
- review other payroll concerns noted above in order to establish and communicate general expectations regarding compensation, vacation time, and overtime.

Objectives, Scope and Methodology

The objectives of our audit were to identify possible payroll improprieties and opportunities to improve payroll practices at the UO.

To meet our objectives, we reviewed current payroll practices, payroll data, timesheets, and managers' and staffs' email for multiple departments. We reviewed about 1,000 timesheets for 38 employees in 18 departments and tested selected controls over the payroll process. We also tested the accuracy of timesheet information recorded in UO's payroll system.

We provided relevant information to investigators from the Oregon Department of Justice and the Office of the Inspector General, in the US Department of Health and Human Services.

We focused on the period from April 2010 through March 2013 for our timesheet review. We reviewed emails from 2003 through May 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



UNIVERSITY OF OREGON

Sent via electronic mail (v.dale.bond@state.or.us; michelle.n.searfus@state.or.us)

October 17, 2013

Mr. Gary Blackmer
Director, Audits Division
Oregon Secretary of State Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Re: University of Oregon Payroll Report

Dear Mr. Blackmer:

The University of Oregon would like to thank the Secretary of State Audits Division for its comprehensive review of the University's payroll concerns. We appreciate your team's time, effort and consideration. The University agrees with the report's recommendations. Outlined below are actions we have already taken or are in the process of working on to address the report's recommendations.

Ensuring Compliance with State Directives

The University strongly believes that compliance with state and federal directives is essential. As noted in the report, upon discovering payroll concerns, the University immediately requested a review by the Oregon University System (OUS) Internal Audit Division (IAD) to investigate the concerns and determine their scope. Based on information received from OUS IAD, the University and OUS self-reported the concerns to the U.S. Department of Health & Human Services Office of Inspector General (OIG) and other relevant agencies. We have also taken the following actions.

- March, 2013: UO assigned new management staff to the Institute of Neuroscience (ION) to review and oversee payroll matters and other grant related activity. This new management staff reports to the Office of Vice President for Research, not to supervisors within ION, in order to provide central oversight.
- April, 2013: UO implemented changes to the grant administration process by requiring advance submission of grant related material to allow for additional payroll related reviews by Sponsored Projects Services.

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- April, 2013: Interviewed all principal investigators with submission due in April and early May prior to submission of documents to outside agencies to ensure accuracy of payroll accounting
- May, 2013: UO implemented a requirement that all principal investigators complete an online certification demonstrating that they understand their responsibility regarding payroll reporting on grants. (This replaced the interviews outlined above.)
- July, 2013: Standardized timesheet templates from the Human Resources office were implemented for ION staff to consistently track time, enabling easier verification and internal review.
- September, 2013: UO added a new segment to faculty orientation that identifies appropriate university resources relating to federal grant administration.
- September, 2013: UO conducted training on payroll and personnel actions to academic department heads and research Center and Institute Directors at Department Heads retreat.
- September and October, 2013: UO conducted training on payroll and personnel actions at monthly payroll and business managers meeting.
- October 16, 18, and 23: UO conducted training for ION and Institute for Molecular Biology (IMB) principal investigators and staff on payroll, employment procedures and effort reporting.

The University is also in the process of developing new mandatory training classes for principal investigators and grant administrators that includes sections on payroll processing, personnel oversight and fiscal management.

Determine Extent of Compensation to Employees for Time Not Worked and Consider Seeking Reimbursement of Wages not Earned

In March of 2013, the University sought the services of an outside accounting firm, StoneTurn, to perform trend analyses, review payroll documents, and interview certain employees to determine whether any employees paid from federal grants were incorrectly paid overtime or had their effort reported inaccurately. Based on StoneTurn's findings, the University concluded that available payroll and timesheet records did not conclusively document that overtime charged was worked in accordance with state and institutional policies for seven employees from ION and one employee from IMB. In addition, the

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University could not determine that the FTE appointment for one ION employee and one IMB employee accurately reflected the amount of time those employees were expected to work. Accordingly, the University notified OIG in July that it would repay each federal granting agency the amount it could not conclusively document was worked by these employees. In addition to these retrospective actions, as noted above, the University has acted to address these concerns prospectively. The University is also evaluating additional actions as part of its ongoing commitment to responsible fiscal stewardship.

The report identifies approximately 15 additional employees from several academic and research units, and one administrative unit, who may have received increased FTE appointments, overtime or undocumented leave. The University is in the process of investigating these new matters and will take appropriate actions.

Strengthen Controls Over Payroll Processing to Ensure Recorded Time is Verified, Approved, Accurately Entered into the Payroll System, and Adequate Supporting Documentation is Retained

In addition to replacing key staff in ION and implementing the trainings and certifications outlined above, the University is engaging in the following activities.

- In fiscal year 2010, we initiated a financial statement sub-certification process that supports and enhances the annual financial statement audit process. The Vice-President for Finance and Administration (VPFA) or Controller meet individually with senior campus management to discuss the internal control structure and processes in each of their areas. Payroll controls are highlighted in these meetings.
- The University is in the process of installing a new data warehouse and reporting tool. This Integrated Data and Reporting project (IDR) provides a basis for trend-analysis reports that combine financial and payroll system data elements. The IDR is configured in such a way that users, including those not directly performing financial duties, can design and run queries against the base data. This flexibility will allow for independent verification of financial and payroll data.
- Standardized timesheet templates are available to the campus community on several open websites, including Human Resources and BAO Payroll. Departments are encouraged to utilize these templates. Standardizing time tracking allows for easier verification and internal review processes. (As noted above, mandatory use of these templates has already been imposed for the ION unit.)

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October 17, 2013
Page 4 of 4

We anticipate these actions will help strengthen control over payroll processing and ensure recorded time is properly verified, approved, and accurately entered into the payroll system, and that supporting documentation is properly retained.

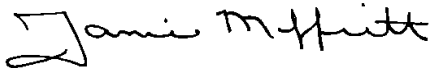
Review Other Payroll Concerns Noted Above in Order to Establish and Communicate General Expectations Regarding Compensation, Vacation Time, and Overtime

As noted above, the University previously identified 10 employees for whom available payroll documents could not conclusively demonstrate that salary paid reflected the amount of time worked. The audit report identified approximately 15 additional employees whose records must be reviewed. The University has already started that review.

Furthermore, as previously mentioned, over the past two months the University has embedded trainings for department heads, business managers, and payroll administrators in various meetings, retreats and orientations that highlight the University's (and their) responsibilities related to payroll processing and reporting. We anticipate that these communications will help emphasize the University's expectations.

In closing, thank you again for your Division's work, insights and constructive feedback. We appreciate the collaborative manner in which the audit was conducted. Based on the audit report and the StoneTurn findings mentioned above, we do not believe there are systemic payroll or management problems at the University. Rather, this review has identified specific and isolated concerns that the University looks forward to addressing.

Sincerely,



Jamie Moffitt
Vice President for Finance and Administration/CFO

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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

Mary Wenger, CPA, Deputy Director

V. Dale Bond, CPA, CISA, CFE, Audit Manager

Michelle Searfus, CPA, Principal Auditor

Jason Butler, CFE, Senior Auditor

Shawna Binning, MBA, Staff Auditor

Joseph Flager, Staff Auditor

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phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

The courtesies and cooperation extended by officials and employees of the Oregon University System and the University of Oregon during the course of this audit were commendable and sincerely appreciated.