



Office of Internal Audit

July 9, 2015

Dr. Kirk A. Calhoun, President
UT Health Northeast
11937 U. S. Hwy 271
Tyler, TX 75708

Dear Dr. Calhoun:

As part of our FY 2015 Audit Plan, we have completed an audit of employee leave management which focused on employees with little to no leave recorded in Kronos for the period September 2013 through March 2015. Our objective was to assess controls for leave management by reviewing activity in the system for accuracy and completeness.

Controls and processes should be improved to ensure supervisors or department heads approve all employee leave taken, supervisor approval is adequately documented, departments have processes in place to promptly submit leave slips by the end of the payroll period in which the leave is taken, and policies for approving timecards are enforced. Processes need to be implemented for better managing approval authorities in the Evolution and Kronos systems.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Kris I. Kavasch
Chief Audit Executive

Enclosure

cc:

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Employee Leave Management Audit

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**UT HEALTH NORTHEAST
OFFICE OF INTERNAL AUDIT
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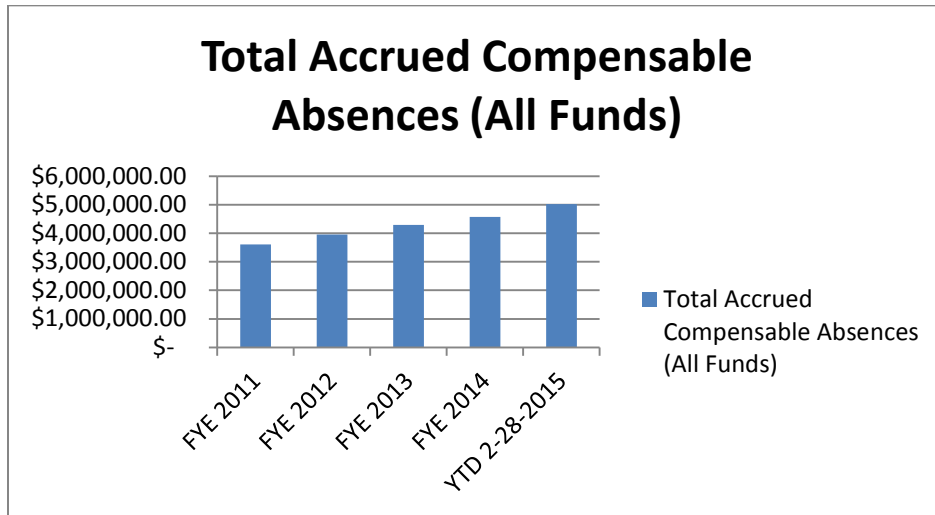
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Audit Report

BACKGROUND

This audit was completed as part of our FY 2015 Audit Plan. The engagement was included in the plan due to management’s interest in the institution’s growing balances in compensable absences liabilities that have continued to rise from year to year. These institutional liabilities have grown from approximately \$3.6 million in FY 2011 to around \$5 million as of February 28, 2015. These balances represent employee vacation earned but not taken for which the institution is responsible for payouts when an employee terminates or retires.



There are several ways that compensable absences liabilities balances can increase over time which are allowable and consistent with policies, including:

- Employees earn vacation at a greater rate than what they are using annually resulting in carryover hours.
- New hires that are direct transfers from other state agencies or universities often transfer in large amounts of compensable leave liabilities.
- UT Health Northeast follows state vacation carryover rules which allow employees to accumulate and carryover from year to year from around 22 to 66 days depending upon the employee’s years of state service. Time earned in excess of what is allowable for carryover is swept to an employee’s sick leave balance.

Compensable absence liabilities may also rise inappropriately due to inadequacies in managing and monitoring employee absences. As a result we focused our procedures on exempt and non-exempt employees with either no leave or little leave recorded during the period under review. We also reviewed their departments’ processes for managing employee leave.

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AUDIT OBJECTIVE

The objective of the audit was to assess controls for leave management by reviewing activity in the system for accuracy and completeness.

AUDIT SCOPE AND METHODOLOGY

The scope of the audit included employees who had little to no vacation leave recorded during the time period under review (September 1, 2013 through April 1, 2015). We judgmentally selected ten full-time employees and one part-time employee from eleven different departments who have recorded vacation leave of between 0-40 hours for the entire period. We selected employees from a cross-section of varying disciplines across the institution. Departments whose processes were included in our review include the Office of the President, Institutional Advancement, Biomedical Research, The Center - DSRIP Projects, Cellular and Molecular Biology, Department of Medical Oncology, Plant Operations, Emergency Department, and Information Technology.

Much of the time and attendance process has been delegated to the departments. Department Heads and supervisors are responsible for monitoring their employees' attendance and absences. Employees within the departments typically initiate their own leave slips in the Evolution system and electronically route them to their supervisor or delegate for approval. Automated e-mail messages are activated to notify supervisors when a form has been routed to their Inbox for approval. When the leave form is approved by the supervisor the system automatically routes the form to a designated staff member in Time and Attendance. Time and Attendance staff access the electronically signed forms in their Evolution Inbox and manually post leave used and corrections in the Kronos timekeeping system. With the most recent upgrade of Kronos that was completed in FY 2015 automated e-mail notifications are activated for each pay period to remind employees and supervisors when they need to approve timecards in Kronos. Since responsibilities are divided between the departments and Time and Attendance, for each employee selected we reviewed their department's processes and documentation along with processes in place within Time and Attendance for recording leave within the Kronos system. We reviewed controls within the Information Technology systems used in the processes, including the Evolution leave slip system and Kronos timekeeping system along with the pertinent system documentation to support transactions.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

RESULTS

Since non-exempt employees badge in and out, are paid an hourly rate, may be paid for hours worked in excess of 40 per week, and may receive reduced pay if their timecard has errors or missing punches, for these employees we found that departments and Time and Attendance generally have better processes and controls in place for monitoring absences and ensuring corrections and leave slips are completed by the end of the payroll period. For exempt employees who are not eligible for overtime pay for hours worked in excess of 40 per week for whom default work weeks are pre-populated in the timekeeping system some department heads

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and supervisors place less importance on monitoring employees' absences and leave used, approving leave slips, and validating and approving timecards as directed by institutional time and attendance policies.

Controls and processes should be improved to ensure supervisors or department heads approve all employee leave taken and their approval is adequately documented, departments have processes in place to promptly submit leave slips by the end of the payroll period in which the leave is taken, policies for approving timecards are enforced, and procedures are in place for adequately reviewing and updating approval authorities in the Evolution and Kronos systems.

Process and controls that need improvement include the following:

Issue	Control Type/ System	Effect
#1. For one employee tested vacation and floating holiday leave accrual balances were overstated by 88 hours since the department had not submitted any FY 2015 leave slips to Time and Attendance to adjust the employee's leave accruals for the period 9/1/2014 – 4/1/2015. The department immediately corrected the error upon notification.	Manual	Inaccurate/ incomplete leave reporting IHOP Policy 6.01.24 Time and Attendance Policy Violation
#2. Institutional records are not sufficient to validate whether employee leave records are accurate and complete, especially for exempt employees. There is no institutionally prescribed requirement or method for tracking an exempt employee's attendance. Some departments monitor attendance closely for these employees but some do not.	Kronos/ Manual	Increased risk for abuse of time
#3. Processes in place do not ensure employee leave is approved by the employee's supervisor. Some departments have employees assigned to approve employee leave slips and timecards when they have no supervisory authority over the employee. In some instances the employee signing off on the payroll records has no direct knowledge of the employee's attendance or work.	Manual/ Evolution and Kronos	Failure to properly authorize employee leave Inadequate controls over payroll transactions IHOP Policy 6.01.24 Violation

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Issue	Control Type/ System	Effect
#4. For exempt employees, the institution has not addressed whether, as an institution, equivalent time is allowed for hours worked in excess of 40 or how departments are expected to manage equivalent time. Departments are currently applying diverse rules for equivalent time and some track equivalent time and some do not.	Manual	Increased risk for abuse of time
#5. Many departments are not complying with Time and Attendance policies which require employee and supervisor validation and approval of timecards. For the departments in our sample, only 3 of the 11 were validating and approving timecards per policy. Time and Attendance has no processes in place for alerting management and administration of a department's failure to comply with the policy requirements relative to timecard validation and approval.	Manual/ Kronos	Increased risk for inaccurate/ incomplete leave records Inadequate monitoring of payroll transactions IHOP Policy 6.01.24 Violation
#6. For a recent payroll period (April 19 - May 3, 2015) there were 70 incomplete leave slips retained in the Evolution system. This represents leave slips initiated but not approved by department heads/supervisors. Not all incomplete leave slips represent unrecorded leave since some of the leave may have been verbally disapproved or forms may have errors or may have been initiated in duplicate. We found there is no process in place for reviewing and closing out these incomplete leave slips each pay period to ensure all leave used is correctly recorded in the timekeeping system.	Evolution	Increased risk for inaccurate/ incomplete leave records
#7. Some departments are not following the institution's policy requirements for timely submission of leave slips which are supposed to be submitted to Time and Attendance before the payroll period closes. Time and Attendance has no processes in place for enforcing the policy requirements.	Manual	IHOP Policy 6.01.24 Violation
#8. The Evolution leave form system is not set up to restrict the routing and approval of leave slips to each employee's supervisor. Since access to this system is based off Active Directory network access, forms may be routed for approval to anyone with access to the network	Evolution	Increased risk for inappropriate approval of leave transactions

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Issue	Control Type/ System	Effect
including former employees and non-employee users who have active network access.		Inaccurate/ Incomplete leave records
#9. In the Evolution leave form system when a user's Active Directory Network access is de-activated, there is no process in place for removing these users from the Evolution system routing selections for directing leave slips for approval.	Evolution	Increased risk for errors and misrouted forms
#10. Non-employees, former employees, vendors and contractors who have access to Active Directory also have access to the Evolution leave slip system. This access allows these users access to initiate or sign off on leave slips as they are included as viable routing selections in the system for authorizing transactions.	Evolution	Increased risk for errors or irregularities
#11. Departments and Time and Attendance have no processes in place for monitoring leave slips to ensure they were approved by the appropriate supervisor.	Manual/ Evolution	Increased risk for inappropriate approval of forms or errors
#12. When employees who are listed as assigned managers in the Kronos system leave the institution there is no process in place for consistently updating Kronos to reassign employees to a new manager in the system.	Kronos	Increased risk for inaccurate/ Incomplete leave records
#13. Assigned Managers in the Kronos system have access to delegate their timecard approval authority to anyone who is listed as an Assigned Manager in Kronos; however, there is no review or higher level approval of this delegation to ensure the appropriate authorities are signing off on timecards.	Kronos	Increased risk for inappropriate approval of timecards and IHOP Policy 06.01.24 violations
#14. The Office of Human Resources does not have processes in place to ensure that institutional policies within the Institutional Handbook of Operating Procedures Human Resources section are reviewed and updated by their expiration date. UT Health Northeast does not have mechanisms in place to monitor IHOP policies as needed to ensure institutional policies are reviewed and updated by their expiration date.	Manual	Increased risk that policy guidance is outdated or inaccurate. IHOP Policy 01.05.01 Policy Review, Approval and Communication violation

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Recommendation: The Controller should collaborate with the Director for Payroll Services, Vice President, Chief Information Officer, Office of Human Resources management and other key leaders as needed to improve employee leave management controls and processes by resolving the fourteen issues identified.

Management's Response: The Controller will organize a team to include management from payroll, information technology, human resources, and other areas as needed. The team will be responsible for developing and implementing an action plan for resolving the fourteen employee leave and related information system issues identified.

Implementation Date: Policies Updated and Action Plan Developed: October 31, 2015
Substantial Implementation of Action Plan: December 31, 2015
Complete Implementation of Action Plan: March 31, 2016

CONCLUSION

Controls and processes should be improved to ensure supervisors or department heads approve all employee leave taken and their approval is adequately documented, departments have processes in place to promptly submit leave slips by the end of the payroll period in which the leave is taken, policies for approving timecards are enforced, and procedures are in place for adequately reviewing and updating approval authorities in the Evolution and Kronos systems.



Kris I. Kavasch
Chief Audit Executive

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SUMMARY OF PRIORITY FINDINGS

According to The University of Texas System, a priority finding is defined as “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. Standard factors for determining a priority finding have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks”.

In view of the above requirements, the Employee Leave Management Audit for FY 2015 had no priority findings.