



AUDIT AND ADVISORY SERVICES
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September 10, 2021

Vice Chancellor Marc Fisher
Administration

Vice Chancellor and Chief Financial Officer Rosemarie Rae
Finance

Vice Chancellors Fisher and Rae:

We have completed our audit of payroll cost transfers (direct retros) as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Berkeley Regional Services, the UCPath Operations Team, the Controller's Office, and Financial Planning and Analysis for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Jaime Jue
Director

cc: Assistant Vice Chancellor and Chief of Staff William W. Reichle
Assistant Vice Chancellor and Executive Director Seamus Wilmot
Associate Vice Chancellor and Controller Michael Riley
Associate Vice Chancellor and Chief People & Culture Officer Eugene Whitlock
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante
Associate Chancellor Khira Griscavage



AUDIT AND ADVISORY SERVICES

Payroll Cost Transfers (Direct Retros) Audit Project No. 20-739

September 10, 2021

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Jaime Jue
Director

**University of California, Berkeley
Audit and Advisory Services
Payroll Costs Transfers (Direct Retros)**

Table of Contents

OVERVIEW	2
Executive Summary	2
Source and Purpose of the Audit	3
Scope of the Audit	3
Background Information.....	3
Summary Conclusion.....	4
SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN	5
Position Funding.....	5

OVERVIEW

Executive Summary

The purpose of the audit was to evaluate the design of campus-level processes related to payroll cost transfers (direct retros) in the UCPATH (systemwide human resources and payroll system) environment. Areas of audit focus included business processes, procedures and internal controls for assigning and monitoring payroll funding sources, identifying errors, and processing and approving direct retros. Our scope did not entail a direct assessment of functionality or internal controls within the UCPATH system itself, which is managed on a systemwide basis.

Since March 2019, campus human resources, payroll, and benefits data and transactions have been managed within UCPATH. One of the numerous types of transactions that are processed within the UCPATH system is a direct retro, which is the mechanism by which payroll costs can be moved from one funding source to another to correct errors in initial payroll funding. Although direct retros are a necessary and allowable transaction type, ideally they should be used on an exceptional basis only as they entail compliance and financial risk, as well as operational inefficiencies.

In a research university setting where salary charges are frequently allocated to different and changing projects and funding sources, cost transfers are difficult to completely prevent, even with appropriate controls in place. We noted, however, that the implementation of UCPATH gave rise to a new set of additional challenges for campus departments in managing employee position funding and as a result likely drove an increase in direct retro activity.

At the time of our audit, procedures for creating and funding positions were largely stabilized, however, we note an opportunity for further optimization and standardization of processes across the campus to provide greater assurance that position funding is appropriately updated and to further minimize the need of payroll cost transfers on an ongoing basis.

Source and Purpose of the Audit

Our audit was performed as part of our fiscal year 2020 audit plan. The purpose of the audit was to evaluate the design of campus-level processes related to salary cost transfers in the UCPATH (systemwide human resources and payroll system) environment.

Scope of the Audit

The scope of our audit was limited to evaluating the current state and design of campus-level processes related to salary cost transfers (referred to as direct retros in the UCPATH environment) in place at the time of our audit.

Areas of audit focus included business processes, procedures and internal controls for assigning and monitoring payroll funding sources, identifying errors, and processing and approving direct retros. Audit procedures included process walkthroughs and interviews with units responsible for payroll and direct retro processing and monitoring, and the review of related process documentation as of January 2021.

Our scope did not entail a direct assessment of functionality or internal controls within the UCPATH system itself, which is managed on a systemwide basis. At the time of our audit, there were a small number of known ongoing UCPATH implementation issues affecting the processing of direct retros. Given that we understand that these issues are outside of direct campus control and had been reported by campus management for systemwide UCPATH support team resolution, these were accordingly not further evaluated during the course of our audit.

Background Information

Since March 2019, campus human resources, payroll, and benefits data and transactions have been managed within UCPATH, the University of California's systemwide enterprise system that replaced the decades-old campus IBM mainframe payroll personnel system (PPS) as well as a local implementation of PeopleSoft Human Capital Management (HCM) workforce administration (WFA) module.

One of the numerous types of transactions that are processed within the UCPATH system is a direct retro, formerly referred to as a payroll expense or salary cost transfer in the PPS environment. In order for payroll transactions to be successfully processed and posted to the general ledger, they must have a designated funding source and valid chart of account (chartstring) elements. Direct retros are the mechanism by which payroll costs can be moved from one chartstring to another and may be necessary, for example, when authorized pre-award spending on sponsored projects occurs before award set-up in financial system, if employee funding changes are not recorded on a timely basis in UCPATH, or to correct an error or omission in any of the elements of the chartstring to which payroll costs were originally charged.

Although direct retros are a necessary and allowable transaction type, ideally they should be used on an exceptional basis only and therefore controls should be in place to ensure accurate initial payroll funding information, as payroll funding discrepancies may later result in unbilled or disallowed expenses on sponsored project funds, impede effective spending monitoring, and entail administrative inefficiencies.

Summary Conclusion

In a research university setting where salary charges are frequently allocated to different and changing projects and funding sources, cost transfers are difficult to completely prevent, even with appropriate controls in place.

We noted, however, that the implementation of UCPath gave rise to a new set of additional challenges for campus departments in managing employee position funding and as a result likely drove an increase in direct retro activity. At the time of our audit, procedures for creating and funding positions were largely stabilized, however we note an opportunity for further optimization and standardization of processes across the campus to provide greater assurance that position funding is appropriately updated and to further minimize the need of payroll cost transfers on an ongoing basis.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Position Funding

Observation

Salary cost transfers are an important tool in helping to ensure that payroll expenses are allocated to the appropriate funding source when changes or errors in originally designated funding sources occur. Their use entails both compliance and financial risk, however, as well as operational inefficiencies, and therefore procedures and controls should be in place to minimize the need for such corrections.

Historically, the underlying factors contributing to cost transfers across campus departments have largely pertained to the complexity of managing payroll costs in a research university setting where salary charges are frequently allocated to different and changing projects and, therefore, funding sources and cost transfers are difficult to completely prevent, even with appropriate controls in place.

The implementation of UCPATH, however, gave rise to a new set of additional challenges for campus departments to manage employee position funding that we understand resulted in an increase in the number of cost transfers. Key drivers for this occurrence include the training and change management learning curve inherent in the implementation of any new system, and more directly, that longstanding campus procedures and workflow for creating and funding employee positions, as well as monitoring tools, had to be redesigned to align with UCPATH design, functionality, and processing timelines. Given the campus' regional services model, each region undertook this effort separately, with a variety of different approaches implemented.

At the time of our audit, processes for creating and funding positions were largely stabilized, however, we note an opportunity for further optimization and standardization of processes across the campus to align with leading practices and more effectively mitigate the risk of cost transfers. As currently designed in certain regions, for example, role assignment for position funding entry and maintenance is dependent on the type of fund or the specific department being supported, a practice which adds to the complexity of transaction processing and increases risk that accountability is not clearly designated. In addition, in more than one region, the routing of position creation and funding transactions remains dependent on email communications between individuals without consistent use of the reporting available through campus systems to identify potential errors or omissions in processing.

Although we understand the potential need for some variations in process depending on department and regional structures, direct retros should be used only on an exceptional basis and having clearly delineated and consistent role assignment and procedures for ensuring accurate position funding is critical to minimize their necessity and use.

Management Response and Action Plan

Management agrees with the audit observation and the opportunity to proactively examine current business processes across campus regions to reduce the need for processing direct retro transactions. In particular, to address the importance of accurate and timely funding entry for positions (as noted in the audit observations), BRS Central Services recently worked with regional teams to adjust business processes, including employing mass transaction upload capabilities into UCPath. Once the mass transaction upload entry project work is complete, BRS Central Services will begin to evaluate direct retro entry processes, with a focus on enhancing the efficiency of the data entry process once the need for a direct retro is identified. This effort is anticipated to be completed within the current fiscal year. As a longer term undertaking, Berkeley Regional Services will also explore opportunities to further study factors contributing to direct retros, including position creation and funding procedures, and related best practices.