

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Bixby Center FACES Program
Payroll Verification Process Review
Project # 22-039**

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University of California
San Francisco

Audit & Advisory Services

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SUBJECT: Bixby Center FACES Program - Payroll Verification Process Review

At the request of the Department of Obstetrics, Gynecology & Reproductive Sciences (OB/GYN) leadership, Audit & Advisory Services (“A&AS”) conducted a review to assess the adequacy of the internal controls over the payroll verification process for the University of California, San Francisco (UCSF) Bixby Center’s FACES Program, including mitigation actions implemented to address the Kenya Medical Research Institute (KEMRI) reconciliation of advance funds provided to the Ministry of Health (MOH).

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 October 2021. Management provided final comments and responses to our observations in October 2021. The observations and corrective actions 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 Board, 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 and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

At the request of the Department of Obstetrics, Gynecology & Reproductive Sciences (OB/GYN) leadership, Audit & Advisory Services (A&AS) conducted a review to assess the adequacy of the internal controls over the payroll verification process for the University of California, San Francisco (UCSF) Bixby Center's FACES Program, including mitigation actions implemented to address the Kenya Medical Research Institute (KEMRI) reconciliation of advance funds provided to the Ministry of Health (MOH)¹.

The UCSF Family AIDS Care & Education Services (FACES) Program was launched in September 2004 to provide high quality health care services for HIV-affected families in Kenya's Migori, Homabay, Kisumu and Nairobi counties. The FACES Program, a 15-year program funded by the Centers for Disease Control and Prevention (CDC) is in its final year, (Year 5 award of \$6,047,393 budget period ending September 30, 2021) that has a no-cost extension through June 30, 2022. Since 2016, the FACES Program was implemented only in Kisumu County.

The UCSF FACES Program is co-led by KEMRI who manages the program technical staffing in Kenya for KEMRI and direct service providers at Kisumu County MOH clinics. UCSF has established a subcontract with KEMRI for the purposes of funding KEMRI for their technical team and MOH payroll but has no direct relationship with the Kisumu County MOH. Under UCSF policy and within grant terms, as a foreign subrecipient, KEMRI is provided annual working capital advance funds; the general practice being to provide two months of advance funds based on estimated costs. KEMRI then provides a portion of these advance funds on a monthly basis to the MOH to ensure payroll obligations can be met. KEMRI invoices UCSF on a monthly basis for actual KEMRI and MOH payroll costs incurred and UCSF payment to KEMRI is based on those documented costs. Since 2018, the UCSF Global Programs Office in Kenya (UCSF GP-Kenya) provides financial and administrative advice and support to KEMRI for payroll verification and invoicing, funded from the FACES project.

The monthly payroll payment verification consists of a three-tier verification process as follows:

1. KEMRI uploads electronic (pdf) copies of pay slips and timesheets for all KEMRI and MOH payroll and a draft invoice is prepared. UCSF GP-Kenya conducts the initial review which includes reviewing 100% of the actual payroll against the approved budget and the previous month's payroll and verifying each payslip and timesheet for accuracy, and reconciling the MOH current month payroll against the prior months MOH payroll advance payment. Since March 2021, an additional verification step of the review of the KEMRI provided MOH bank report listing payroll payments to each employee is performed. Following the initial review, the invoice and supporting documents are submitted to UCSF-FACES Program.

¹ On 1/13/2021, UCSF Office of Sponsored Research was informed of an incident at the Ministry of Health (MOH) in Kenya, relating the Bixby FACES Program. UCSF Global Programs Kenya in working with KEMRI on their internal review of payroll advance funds provided to MOH, identified fraudulent payroll transactions conducted at the MOH from February 2020 to November 2020 amounting to \$64,000.

2. UCSF FACES program and financial staff then conduct a detailed second tier review which includes 100% review of the KEMRI and MOH payroll for an exact match for each employee against the prepared invoice and payroll workbook to identify potential discrepancies.
3. UCSF Contracts & Grants Accounting (CGA) Compliance conducts the final review by sampling a subset of employees' supporting documents against the invoice.

II. **AUDIT PURPOSE AND SCOPE**

The purpose of this review was to assess the adequacy of the internal controls over the payroll verification process for the UCSF Bixby Center FACES Program, including mitigation actions implemented to address the reconciliation of KEMRI to MOH advance funds in terms of the payroll fraud identified in Q3 FY21. The scope of the review covered transactions and activities for FACES KEMRI and MOH payroll review procedures effective March 2021.

Procedures performed as part of the review included:

- Review of prime and subaward agreements as well as policies and procedures to gain an understanding of the UCSF FACES Program and payroll verification processes.
- Understand roles and responsibilities for payroll processing and validation amongst KEMRI, UCSF GP-Kenya, and UCSF FACES Program.
- Conduct process walkthroughs with relevant personnel to gain understanding of UCSF GP-Kenya and UCSF FACES Program verification process and controls for FACES KEMRI and MOH payroll and to identify potential control gaps.
- Validate a sample of payroll transactions to determine the completeness and accuracy of the transactions.
- Review of the MOH payroll advance reconciliation processes.
- Evaluate the mitigation actions taken by UCSF GP-Kenya and KEMRI as a result of the payroll fraud identified in Q4 FY21.

For more detailed steps, please refer to 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 in October 2021.

III. **SUMMARY**

Based on work performed, internal controls over the payroll verification process for the UCSF Bixby Center FACES Program are operating well. UCSF FACES Program has a robust monthly payroll verification procedure that includes a 100% review and validation of all MOH and KEMRI employees' pay against supporting timesheets. We confirmed that the MOH payroll advance was reviewed against the prior month payroll and reconciled by UCSF GP-Kenya. Additionally, the review of new hires and staffing changes for the payroll month were approved by the FACES Director, pay slips matched the current month's payroll workbook, and gratuity payments were found to be accurate and compliant.

Opportunities for improving processes and internal controls were identified related to verification of allowance payments, the alignment of effort to hours recorded on the timesheet, completeness of contract documents and delegation of approval for payroll advance. Additionally, enhancements to the verification process deployed by CGA were identified.

Details of the improvement opportunities are shown on the next page.

IV. OPPORTUNITIES FOR IMPROVEMENT AND RECOMMENDATIONS

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>Management Response</u>
1	<p><i>The payroll verification procedures and controls could be further enhanced to ensure the completeness and accuracy of payroll payments.</i></p> <p>Review of payroll verification procedures and validation of May 2021 wage payments for 25 selected MOH employees identified the following:</p> <p>a. Unmatched timesheet hours: For one employee the hours (15 hours) entered on the timesheet for the FACES project did not agree with the project total of 40 hours shown in the summary section. As a result of the discrepancy, the timesheet did not accurately reflect the 40% effort as shown on the payroll workbook.</p> <p>Per UCSF FACES Program, the discrepancy on the timesheet was an error; the employee’s actual effort was 40% (based on prior periods payments) and the pay amount on the payroll workbook is correct.</p> <p>b. Procedures for verification of allowance payments are not in place:</p> <p>One KEMRI employee receives monthly allowance payments (such as commuter allowances, housing allowances, etc.) in addition to their basic salary. However, the itemized allowance payments are not reviewed by UCSF FACES as part of their verification process to ensure allowances paid were appropriate and allowable. Additionally, the employee’s</p>	<ul style="list-style-type: none"> • Inaccurate timesheets may result in under/overpayments of wages. • Not reviewing itemized allowance payments increases the risk that inappropriate/ unallowable payments may occur. • Not having documented delegation procedures in place can increase the risk that funds are not used for authorized purposes. 	<ul style="list-style-type: none"> • Timesheet discrepancy identified in the review should be corrected to ensure total hours worked on FACES project are correct and agree to effort % on payroll workbook. • Procedures for reviewing itemized allowance payments should be implemented. Future employment contracts or letter of appointment should stipulate the allowances payable. • Payroll verification procedures should be updated to reflect the designated staff member(s) authorized to approve MOH payroll advance requests. 	<p>Identified timesheet discrepancies are followed up and corrected in the following months. Our SOP is not to delay payment of entire month for over 700 employees due to small corrections such as this timesheet effort error. The correction is made and reflected in the following months invoice and back-up documentation is saved on box.</p> <p>UCSF does not dictate KEMRI’s compensation policies which includes various kinds of allowances. KEMRI includes these allowances as components of the salary. UCSF only covers salary and benefits as agreed per terms of the subcontract.</p>

No.	Observation	Risk/Effect	Recommendation	Management Response
	<p>employment contract does not list the itemized allowances to enable verification of the allowance amounts against the contract agreement.</p> <p>c. Delegation of approval of the payroll advance voucher was not documented:</p> <p>Per the documented payroll verification procedures, the MOH payroll advance voucher (PAV) request is reviewed and approved by UCSF GP-Kenya prior to KEMRI transmitting the advance funds to MOH.</p> <p>During the review it was noted the MOH PAV was approved by the UCSF GP-Kenya FACES Program Administrator, not by the UCSF GP-Kenya FACES Director as stated in FACES Payroll Processing Manual. Per UCSF GP-Kenya, the approval task was delegated to the UCSF GP-Kenya FACES Program Administrator; however, the delegated authority was not documented.</p>			<p>All approval delegations will be noted going forward.</p>
2	<p><i>The invoice review procedures can be further improved.</i></p> <p>Contracts & Grants Accounting (CGA) conducts the final review of the payroll invoice from KEMRI. Each month CGA selects a random number of samples of pay slips and timesheets for KEMRI and MOH employees and matches against the payroll details on the KEMRI subcontract invoice. However, CGA does not maintain a tracking worksheet to document the review and sample of invoices or any issues identified.</p>	<p>Review of subcontract invoice cannot be demonstrated if it is not sufficiently documented.</p>	<p>CGA should consider developing procedures for documenting the sub recipient invoice review procedures.</p>	<p>CGA has a consistent KEMRI invoice review process that has been in place for many years. This includes a sampling of salary costs as well as working capital advance reconciliations. However, it was never finalized and documented to the current handling of these invoices. CGA will document their invoice review procedures.</p>

No.	Observation	Risk/Effect	Recommendation	Management Response
3	<p><i>There is opportunity to further improve consistencies in MOH employment contracts.</i></p> <p>Of the 25 MOH employment contracts reviewed, it was noted one employment contract was missing the employee ID number. It is a standard procedure at MOH to include the employee ID on employment contracts. Including the employee ID number ensures the employee's record is uniquely identified and correlated regardless of duplicate names.</p>	<p>Not consistently including the employee ID number increases the risk of error.</p>	<p>FACES Program should consider developing procedures to ensure employment contracts include the employee ID number.</p>	<p>This is noted and will be addressed in the future.</p>

APPENDIX A

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

- Reviewed the prime and subaward agreements as well as the procedures related to the monthly KEMRI and MOH payroll review processes related to the FACES Program.
- Obtained an understanding of roles and responsibilities for payroll processing and validation amongst KEMRI, UCSF GP-Kenya, and UCSF FACES Program Staff.
- Interviewed personnel and perform walkthroughs to get an understanding of activities for the areas under examination.
- Verified MOH payroll advance request reflects the approved budget, including inclusion of employer contribution statutory payments and bank charges.
- Reviewed MOH payroll advance request against the prior month's actual payroll (total amount, number of payees to ensure consistency) to ensure salary matched the prior month or contracted amount if a new hire.
- Verified approval of the MOH payroll advance.
- Verified the MOH current month payroll total reconciled against the prior months MOH payroll advance payment provided.
- Verified KEMRI and MOH employees have a current employment contract in place.
- Reviewed KEMRI and MOH employee timesheets and pay slips. Verified the effort and pay match the payroll workbook.
- Reviewed list of new hires or staffing changes for the payroll month. Verified approval obtained by the FACES Director.
- Reviewed gratuity calculations for accuracy and to ensure gratuity figures correspond to the effort on the federal grant.