

September 13, 2021

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Assistant Vice Chancellor / Controller, Business & Financial Services
UC San Diego
0951

**Subject: Health Sciences Cost Transfers
 Report 2021-09**

The final report for the AMAS review of the Health Sciences Cost Transfers, Project #2021-09, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to our recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued.

If you have any questions regarding this report, please call me at 534-1191.

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AUDIT & MANAGEMENT ADVISORY SERVICES

Health Sciences Cost Transfers
Report No. 2021-09
September 2021

FINAL REPORT

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TABLE OF CONTENTS

I. EXECUTIVE SUMMARY 1

II. BACKGROUND..... 3

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES 5

IV. CONCLUSION..... 6

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION 6

 Cost Transfer Allowability 6

 High-Risk Cost Transfers..... 7

 Cost Transfer Justification 10

ATTACHMENT A – Payroll Funding and Posting, and Payroll Variance Flowchart (from Payroll Reconciliation Toolkit)

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Health Sciences (HS) Cost Transfers as part of the approved Fiscal Year (FY) 2021 internal audit plan. The objective of our review was to evaluate allowability of costs transferred to sponsored research funds as part of the cleanup of HS default accounts, which was required due to post-implementation transition issues following the replacement of campus payroll and financial systems, which resulted in the need for a large volume of cost transfers in Health Sciences to post payroll charges to the correct sponsored research accounts.

We concluded that the cost transfers processed by the SWAT Team from Financial Unit Default Accounts to sponsored research projects were generally allowable based on award documentation (proposals and/or progress reports). However, we identified two cost transfers that were transferred to an inappropriate project number and need resolution.

We also noted that system deficiencies and local award accounting processes prevented several cost transfers from being flagged as high-risk, which resulted in the UCPATH questionnaire not being completed (for 13 direct retros) and/or direct retros not being approved by the Office of Post Award Financial Services (OPAFS) (for 27 direct retros). This issue has broader implications beyond the HS SWAT Team efforts, as it means that the campus processes for identifying high-risk cost transfers to ensure appropriate review and documentation were no longer functioning as they did prior to UCPATH and Oracle Financial Cloud (OFC) implementation. In other cases when the UCPATH questionnaire was completed, we identified 10 direct retros where the justification could be improved to explain why the error occurred and why the transfer was untimely. Management action plans are summarized below:

A. Cost Transfer Allowability

1. The HS SWAT Team will coordinate with the two departments to ensure that payroll charges are transferred to the appropriate project for the two employees.

B. High-Risk Cost Transfers

1. The HS SWAT Team has discontinued batching of direct retros since batched direct retros have not been appropriately flagged as high-risk in UCPATH, when applicable.
2. The HS SWAT Team has implemented a process to automate cost transfers for the future cleanup of Financial Unit Default Project. The automated process also requires the answering of the questionnaire in UCPATH for all direct retros, regardless of whether the direct retro was classified as high-risk.
3. For those high-risk direct retros that were processed but did not have a completed questionnaire to justify the transfer, the HS SWAT Team will collect and document adequate justification for these retros, outside of the UCPATH system as appropriate.
4. The Controller's Office will explore options to mitigate the risk of inadequate justification and approvals for cost transfers that are not being flagged as high risk. This could include exploring integration opportunities within OFC and UCPATH to bring in award end dates for validation in UCPATH, integrating WalkMe in UCPATH to guide users on cost transfers, and generating reports on a quarterly basis for inter-fund cost transfers for risk assessment and post monitoring.

C. Cost Transfer Justification

1. The HS SWAT Team has developed standard language (for transfers from the default accounts) to adequately justify the cost transfer and explain the untimeliness of the transfer in UCPATH.
2. For those high-risk direct retros that were processed but did not have adequate justification, the HS SWAT Team will collect and document adequate justification for these retros, outside of the UCPATH system as appropriate.

Observations and related management action plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Health Sciences (HS) Cost Transfers as part of the approved Fiscal Year 2021 (FY21) internal audit plan. AMAS had originally scheduled an audit of the HS Research Service Core (RSC) for FY21. However, more immediate risks related to post-implementation transition issues following the replacement of campus payroll and financial systems emerged, which impacted research administration personnel, including RSC. These transition issues resulted in the need for a large volume of cost transfers in Health Sciences to post payroll charges to the correct sponsored research accounts. Therefore, the planned review was repurposed to review this topic. This report summarizes the results of our review.

Enterprise System Renewal (ESR) Program

In 2018, UCSD launched a focused effort to renew business processes and systems over the coming years through the Enterprise System Renewal (ESR) Program. On January 21, 2020, UCSD went live with Kuali Research (KR) as the campus-wide research administration system for sponsored research, replacing the Coeus contract and grant system. Effective May 1, 2020, the payroll and personnel system (PPS) was replaced with UCPATH. UCPATH introduced new technology to unify and standardize payroll, benefits, and human resources for all UC employees. On July 1, 2020, Oracle Financial Cloud (OFC) (financial system) and Concur (travel and expense system) were launched as part of UCSD's Financial Information Systems (FIS) project. This entailed implementing the new UC Common Chart of Accounts (CCOA), and all UCSD numbering was changed to be consistent with the CCOA.

OFC includes the Project Portfolio Management (PPM) module for grant management, project costing, and project billing and contracts. A project is used as a collection of financial activities, similar to the fund sources/indexes in the former financial system. The PPM module is used for different types of projects, including general, sponsored, capital and default projects. For sponsored projects, the award and funding source is set up in KR, and project numbers are created automatically through integration with KR.

Default Accounts

The ESR project resulted in several transition issues which impacted financial processes, posting of payroll data, and reports. One transition issue relevant for this review was that certain expenditures did not post to the applicable sponsored research award, and instead posted to a "default" account. Payroll charges would redirect to these default accounts if certain conditions are present, both in UCPATH and in Oracle.

The UCPATH department default is a chart string set up in UCPATH, and payroll expenses post to this chart string in UCPATH Labor Ledger when no position funding was entered (error code FND), UCPATH funding end date was exceeded (END), and/or funding chart string entered was no longer valid (CMB).

Payroll charges could also re-direct to the Financial Unit Default Project in Oracle (note that this may be the same chart string as the UCPATH department default). Oracle controls prevented expenses from posting to fund sources / projects based on system controls (for example if the expenditure date is outside the project period of performance, the award is closed, etc.) Consequently, department financial officers were expected to regularly review any expenses that have been redirected to their

Financial Unit Default Project, and work with their Fund Managers to ensure expenses are being charged appropriately. There may be legitimate reasons why expenses may be charged to an award after the period of performance has ended, including that the costs were incurred prior to the award end date and the expenditure item date needs to be adjusted, or the department is awaiting modification from the agency to extend the end date of the award. Cost transfers (processed via direct retros in UCPath) were necessary to correct any charges that did not route to the appropriate fund source.

A flowchart depicting the payroll funding and posting process is documented in the Payroll Reconciliation Toolkit, presented in **Attachment A**. It is important to note that some payroll charges may intentionally post to the default account, particularly for smaller departments or recharge units. Therefore, in some cases, it may be appropriate to have charges in the default accounts.

Following the implementation of OFC, and as a result of this control, several charges redirected to the Financial Unit Default Accounts rather than to the appropriate sponsored research fund source. These were primarily related to payroll charges redirecting to default for projects with lapsed end dates in the system and/or awards that had expired. Reports and job aids were not available until October 2020 to identify when this was occurring, resulting in a significant backlog of transactions that need to be cleared out of the default accounts.

For sponsored projects, it is critical to ensure all costs were accurately posted to the award for invoicing and submission of accurate financial reports to the sponsor. The Office of Management and Budget (OMB), under Uniform Guidance, and federal sponsor policies have specific requirements that must be met when charging or transferring expenses to the awards. Cost principles require that for costs to be allowable, they must be reasonable, allocable, consistent and conform to the terms and conditions of the award. The National Institute of Health (NIH) Grants Policy Statement¹ has specific requirements for cost transfers to be adequately supported by documentation that explains how the error occurred, and that the transfer be certified by a responsible organizational official.

[HS SWAT Team](#)

In October/November 2020, the Office of Post Award Financial Services (OPAFS) conducted an analysis of payroll expenses posted to the default accounts from July – October 2020, and shared the results with fund managers and Management Service Officers of the affected awards and projects. There was a total of \$12.5M in the Financial Unit Default Project for all VC areas for the period July-October 2020. Health Sciences (HS) represented a majority of the total with \$8.6M (69%). In November 2020, OPAFS processed bulk cleanup for half of the HS payroll charges in the default, based on feedback received from departments and/or approved award extension requests. However, departments still needed to review remaining charges to determine whether cost transfers and/or award extensions were required to move expenses from default accounts to sponsored research projects.

In response, a HS SWAT Team (SWAT Team) was formed with representation from the RSC, HS Controller's Office, and other HS departments. The SWAT Team would support the HS departments to evaluate payroll charges on the Financial Unit Default Projects, and process direct retros and/or funding changes on their behalf, or manual journals for projects that had approved extensions for project end dates. Direct retros were processed by temporary staff in the HS Controller's Office and

¹ See <https://grants.nih.gov/policy/nihgps/index.htm> for the complete policy statement.

other members of the SWAT Team, and department financial staff or RSC supervisors approved the transfers as appropriate.

SWAT Team efforts were initiated in January 2021. Over the subsequent months, several cost transfers were processed as part of the first round of Financial Unit Default Project cleanup for charges between July and December 2020. This represented a large volume of cost transfers, and several were untimely transfers to federal awards which are considered high-risk.

High-risk cost transfers require additional approval from OPAFS as they represent greater institutional risk. It is critical that adequate justification is provided for such cost transfers, in accordance with sponsor requirements. UCPATH requires completion of a questionnaire² for direct retros flagged as high-risk, which assists in ensuring that adequate explanation of the error is provided.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

This objective of our review was to evaluate allowability of costs transferred to sponsored research funds as part of the cleanup of HS default accounts. In order to achieve our objective, we performed the following procedures:

- Participated in SWAT Team meetings;
- Provided input on SWAT Team access concerns and approval process;
- Evaluated documentation on HS SWAT team SharePoint used for documentation;
- Evaluated the Financial Unit Default Project master file as of April 29, 2021;
- Selected a judgmental sample of 26 employees with high-risk direct retros;
- Evaluated each sampled direct retro for allowability and reviewed justifications and approvals of the direct retro in UCPATH, and available grant documentation (proposal or progress reports) from KR and the National Institute of Health (NIH) electronic Research Administration (eRA) system;
- Obtained information from selected departments as needed to support the allowability of the direct retro; and,
- Obtained an understanding of the high-risk criteria with the local UCPATH team, and evaluated the logic for the sampled direct retros.

This review is limited to payroll cost transfers (i.e. direct retros) processed by the HS SWAT Team for the Financial Unit Default Project only. Any funding changes to correct future postings, or manual journals processed for projects with approved extensions were not evaluated as part of this review. Going forward, the SWAT Team may also support HS departments through other ESR post implementation issues, including discrepancies between general ledger and PPM costs, and cleanup of other default accounts, but those were not in scope for this review.

² The questionnaire in UCPATH includes four questions:

1. Explain how the error occurred and why the transfer is being requested. If partial transfer, explain the basis for proration and/or split.
2. Who approved the transfer of funds? (e.g. Name of PI, Department CAO)
3. How does the transfer benefit or impact the new funding source being charged?
4. Explain the untimeliness if transfer is > 120 days after original transaction date and/or > 90 days after the fund end date.

IV. CONCLUSION

Based on our review procedures, we concluded that the cost transfers processed by the SWAT Team from Financial Unit Default Accounts to sponsored research projects were generally allowable based on information on award documentation (proposals and/or progress reports). However, we identified two cost transfers that were transferred to an inappropriate project number and need resolution.

We also noted that system deficiencies and local accounting processes prevented several cost transfers from being flagged as high-risk, which resulted in the UCPATH questionnaire not being completed (for 13 direct retros) and/or direct retros not being approved by OPAFS (for 27 direct retros). This issue has broader implications beyond the HS SWAT Team efforts, as it means that the campus processes for identifying high-risk cost transfers to ensure appropriate review and documentation were no longer functioning as they did prior to UCPATH and OFC implementation. In other cases when the UCPATH questionnaire was completed, we identified 10 direct retros where the justification could be improved to explain why the error occurred and why the transfer was untimely.

The table below summarizes the overall observations from our review of the sampled high-risk direct retros for 26 employees with a total of 32 direct retros³:

Observation Noted	# of Employees	# of Direct Retros
Cost transfer to an inappropriate project	2	2
Questionnaire not completed	13	13
No OPAFS approval	22	27
Justification limited / insufficient*	8	10
Transfer did not move all the payroll charges for the period identified ⁴	7	11

* This was evaluated for the 19 direct retros for which the questionnaire was completed.

These observations are discussed further in the remainder of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Cost Transfer Allowability
Our review identified cost transfers for two employees that were unallowable and required correction.	
Risk Statement/Effect	

³ There could be multiple direct retros processed for the same employee

⁴ These are to be corrected as part of a second round of default account clean ups. Of the seven employees, direct retros for four employees in this observation were in relation to relatively minor negative balances remaining in the default account due to vacation accrual reversal postings, and possibly attributed to expenditure item date posting inconsistencies in the months for July-September 2020.

Unallowable cost transfers pose a significant audit risk to the University. They put the University’s reputation for effective governance of resources, including sponsored awards, at risk with potential impacts on future access to resources. Federal agencies may disallow charges on the award, and/or require the recipient to take corrective action by imposing additional terms and conditions on the award.

Management Action Plans

A.1	The HS SWAT Team will coordinate with the two departments to ensure that payroll charges are transferred to the appropriate project for the two employees.
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A. Cost Transfer Allowability – Detailed Discussion

Our review for the allowability of cost transfers identified two direct retros (for two different employees) that were transferred to an incorrect or invalid project number. One of the direct retros was transferred to an invalid project number. The project number existed in KR, but did not appear to relate to any award. Upon our inquiry, the department acknowledged the error, and provided the SWAT Team with an updated chart string to transfer payroll for the impacted employee.

The other direct retro was transferred to an NIH award. However, our follow up with the department determined that the department provided the incorrect project for this employee, and the employee’s payroll should be transferred off of the NIH award to a different award. The department will be initiating the cost transfers to correct this error.

In both cases, it was noted that the department provided the incorrect project number to the SWAT Team for processing. However, the transfers need to be corrected to ensure that charges are captured on the appropriate award to reflect that employee’s effort.

B. High-Risk Cost Transfers

System issues and local award accounting processes prevented certain high-risk cost transfers from being flagged as high-risk, which prevented the transfer from requiring the completion of the UCPath questionnaire, and routing to OPAFS for approval.

Risk Statement/Effect

Frequent or late movement of costs can indicate weak internal controls or inattention to the effective management of resources. As such, the University requires prompt attention to all financial transactions to ensure they reflect accurate accounting of all costs and, if necessary, fully justify, with appropriate oversight and approvals, any costs that may have to be transferred.

Management Action Plans

B.1	The HS SWAT Team has discontinued batching of direct retros since batched direct retros have not been appropriately flagged as high-risk in UCPATH, when applicable.
B.2	The HS SWAT Team has implemented a process to automate cost transfers for the future cleanup of Financial Unit Default Project. The automated process also requires the answering of the questionnaire in UCPATH for all direct retros, regardless of whether the direct retro was classified as high-risk.
B.3	For those high-risk direct retros that were processed but did not have a completed questionnaire to justify the transfer, the HS SWAT Team will collect and document adequate justification for these retros, outside of the UCPATH system as appropriate.
B.4	The Controller's Office will explore options to mitigate the risk of inadequate justification and approvals for cost transfers that are not being flagged as high risk. This could include exploring integration opportunities within OFC and UCPATH to bring in award end dates for validation in UCPATH, integrating WalkMe in UCPATH to guide users on cost transfers, and generating reports on a quarterly basis for inter-fund cost transfers for risk assessment and post monitoring.

B. High-Risk Cost Transfers – Detailed Discussion

As a standard established in federal regulations and grant policies, the University requires all transactions in federally funded awards and projects to be reviewed and confirmed in a timely manner (monthly) to minimize the need for cost transfers. Therefore, any untimely cost transfer requests are reviewed by OPAFS with close scrutiny to determine whether an adequate and documented reconciliation and confirmation of expenses took place within the accounting period by the department and then ascertain the circumstances of why adjustments are now required prior to review for possible approval of the cost transfer. Further, the NIH Grants Policy Statement requires recipients to support all transfers with “documentation that fully explains how the error occurred... An explanation merely stating that the transfer was made to ‘correct an error’ or to ‘transfer to correct project’ is not sufficient.”

UCSD has historically operationalized the review of cost transfers which are considered high-risk, in order to ensure appropriate oversight and documentation to meet the requirements above. UCPATH defines high-risk direct retros as transfers that increase the cost to a federal or federal flow-through fund, and are either:

- more than 120 days after the original transaction pay period end date; and/or
- where the grant or fund end date is more than 90 days in the past.

The criteria used by UCPATH for flagging high-risk is slightly different in comparison to the criteria historically used by UCSD to flag cost transfers⁵. However, some of the historical high-risk scenarios are addressed through OFC controls to prevent such charges posting to sponsored projects. High-risk direct retros require additional approval by OPAFS, and force completion of the questionnaire in

⁵ UCSD historical criteria for flagging high-risk payroll cost transfers: 1) if the original transaction date occurred outside the project period of the fund receiving the expense; 2) transaction date is too old (90 days for NIH transfers, and 120 days for non-NIH federal funds); 3) transfer to a federal fund within the last 30 days of the originating award; 4) the cost was previously moved; 5) a fund is in an overdraft condition; 6) transfer includes an unallowable account code for a federal fund.

UCPath before submission to ensure the University retains sufficient documentation supporting the cost transfer, as required by federal funding agencies.

However, during our review into the sampled transactions, we identified 13 direct retros that were processed but did not have a completed questionnaire to justify the transfer, and therefore would not meet the federal documentation requirements. We also noted that 27 of the sampled 32 high-risk direct retros did not route to OPAFS for approval as should have occurred. However, all direct retros were approved by department financial officers or RSC supervisors and/or designated staff prior to processing. In these cases, the direct retros were not flagged as high-risk for appropriate oversight by OPAFS.

Upon further analysis and discussion with the local UCPath team, we identified the following root causes for this condition:

- **Direct Retros in Processed in Batch:** Direct retros that were processed in a batch and included pay periods that were within and outside the 120-day window were not properly flagged as high-risk by UCPath. Consequently, these direct retros did not force completion of the questionnaire in UCPath to justify the transfer, and also did not route to OPAFS for approval. This batch issue was also identified by another UC campus and a ticket was opened with the UCPath Center by that campus. Our local UCPath team tracked the issue, and, in June 2021, it was reported that the UCPath Center has resolved the issue but the ticket remained open pending testing of the fix. Our local UCPath team intends to participate in testing of the fix for the batch issue.
- **Transfers Within the Same Fund:** In addition to the batch issue, our analysis of the sampled direct retros also revealed that transfers to and from the same federal or federal flow-through fund number did not flag as high-risk. This was communicated to the local UCPath team, and it was explained that the UCPath high-risk logic is based off the fund, and not project information. With the implementation of the CCOA and OFC locally, each award is associated to a project number in the PPM, and a fund be could comprised of multiple projects. The interface between Oracle and UCPath sends chart segment values, which relays information on whether the fund falls in the federal hierarchy, but project attributes are not sent. Consequently, transfers between different awards that are within the same fund number, even though they may relate to different awards/projects, do not get flagged as high-risk. The resolution of this issue by UCPC is contingent upon adoption of the CCOA by all UC campuses, which could take several months or a few years to be fully implemented.
- **Awards Ending:** Since project information, including project/award dates, is not sent to UCPath, the high-risk logic where the grant or fund end date is more than 90 days in the past also does not get applied for direct retros. The end dates for the award are set at the project level, not fund level, which results in this information not being relayed to UCPath to apply the high-risk logic.

This system defect and our campus' award accounting process have prevented direct retros from being flagged as high-risk if they met the criteria defined above. The SWAT Team indicated plans to automate the direct retros in the future, without batching the periods into one transfer, therefore eliminating the batch issue. However, the issue of transfers between the same federal/federal flow-

through fund number, and transfers for grants with an end date more than 90 days in the past still remains, and needs resolution if the campus is going to continue historical practice of ensuring additional oversight for these high-risk transfers. In the interim, such transfers should be adequately justified by responding to the questions in UCPATH, regardless of whether the system forces completion of the questionnaire.

We were informed that the University has initiated a multi-year phased initiative, the General Ledger (GL) Re-Design Project, to focus on improving, simplifying, and increasing compliance and data accuracy with UCPATH. One of the areas of focus for process improvement, scheduled to start in September 2021, is salary cost transfers. Rather than relying on the UCPATH functionality (direct retros) to process a large volume of complex transfers in UCPATH production, the simplification process would consider developing a new process to accommodate campus needs. The UCSD UCPATH team is participating in this project and can consider options to help ensure adequate justifications and approvals are obtained for high-risk cost transfers.

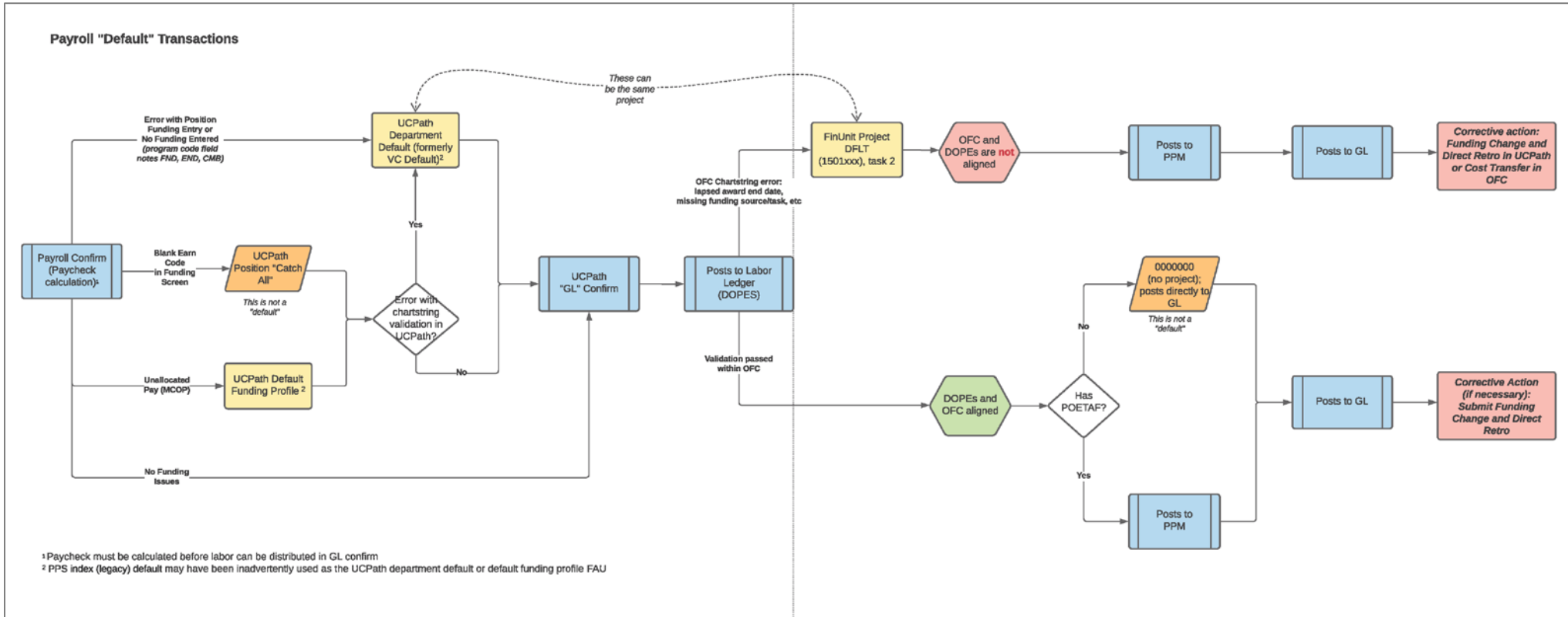
C.	Cost Transfer Justification
In some cases, cost transfers did not have adequate justification to explain why the error occurred and/or why the transfer was untimely.	
Risk Statement/Effect	
Timeliness and completeness of explanation of transfer are important factors in supporting allowability and allocability in accordance with federal requirements.	
Management Action Plans	
C.1	The HS SWAT Team has developed standard language (for transfers from the default accounts) to adequately justify the cost transfer and explain the untimeliness of the transfer in UCPATH.
C.2	For those high-risk direct retros that were processed but did not have adequate justification, the HS SWAT Team will collect and document adequate justification for these retros, outside of the UCPATH system as appropriate.

C. Cost Transfer Justification – Detailed Discussion

Although the issues described above prevented some direct retros from being flagged as high-risk, we noted that preparers did complete the questionnaire for some direct retros even though the system would not have required completion of the questionnaire prior to submission.

In cases where the questionnaire was completed, we noted 10 direct retros which did not sufficiently address the questions to explain why the error occurred and/or why the transfer was not timely. This information is important to retain to document the rationale for the cost transfer, and in event of future audit. The SWAT Team could benefit by developing some standard language to adequately address the questions going forward since all transfers are related to the default account and system conversion issues.

PART 2 STEP-BY-STEP | Visualizing the Payroll Funding & Posting Process



PART 3 STEP-BY-STEP | Troubleshooting Payroll Variance Flowchart

