UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES

PAYROLL CERTIFICATION SYSTEM
Report No. I2013-104

May 17, 2013

Prepared by:
Julie Chung
Senior Auditor

Reviewed by:
Mike Bathke
Interim Director

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SHERYL VACCA
VICE PRESIDENT/CHIEF COMPLIANCE & AUDIT OFFICER

RE: Payroll Certification System
      Report No. I2013-104

Internal Audit Services has completed the review of the Payroll Certification System and the final report is attached.

Please let me know if you have any questions regarding this document.

Mike Bathke
Interim Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
    Rebecca Tangen, Manager, Contracts and Grants Accounting

I. BACKGROUND

The University of California (UC) received Department of Health and Human Services (HHS) concurrence to implement a demonstration project using the Payroll Certification System (PCS) as described by the Federal Demonstration Partnership's Payroll Certification Project. UC's approved initial proposal and approved amendment allows two Campuses – Irvine (UCI) and Riverside (UCR) – to participate in the PCS demonstration project from April 1, 2011 through December 31, 2013. During this demonstration period, support for salaries charged to federal projects will document through the PCS, which replaced the Personnel Activity Reporting (PAR) System (effort reporting).

II. PURPOSE, OBJECTIVES AND SCOPE OF WORK

As part of the HHS proposal, UCI Internal Audit Services (IAS) was required to conduct an administrative review at 18-months into the PCS demonstration project. The purpose of this review was to evaluate whether UCI complied with the HHS Demonstration Project approval letter as well as policies and procedures, sponsor regulations, and good business practices.

Based on the IAS risk assessment and the required elements of the HHS proposal, the following objectives were established.

1. Determine whether the PCS was implemented in accordance with the proposal and the HHS approval letter.

2. Determine whether payroll certifications were completed timely.

3. Determine whether the PCS captured all sponsored projects.

The scope of the review included the PCS processes relating to budget end months of January – September 2012.

As part of the requirements under the approved demonstration project, UCOP Office of Ethics, Compliance, and Audit Services conducted a survey that was administered to end-users of payroll certification to gather feedback about preferences of using the new payroll certification approach versus effort reporting to comply with the cost accounting rules outlined in federal guidelines. IAS's review did not include an evaluation or audit of the survey results.

III. CONCLUSION

In general, the PCS has been implemented in accordance with the proposal and the HHS approval letter. However, there were some areas that need to be further developed, monitored, and tested to strengthen the system. These areas are presented below.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Metrics

Verify if PCS report metrics are collected and accurate.

1. Verify metrics for timeliness of PCS reports - completed within the 70 day time frame.

2. Verify metrics for timely/untimely salary transfers.

3. Verify statistics on optional signers of the PCS reports.

4. Verify metrics - number of cost notes by type.

Observations

PCS Report Timeliness Metric

IAS reviewed the PCS report timeliness metrics provided by Contracts and Grants (C&G) Accounting, which showed a total of 1,155 PCS reports due during the audit period and 71 percent (822 reports) completed in a timely manner. IAS recalculated the timeliness metric and determined that 70 percent of the reports (809 reports) were completed by the due dates, 29 percent were submitted late (339 reports), and less than one percent (7 reports) were outstanding.

PCS Report Salary Transfers, Optional Signers, and Cost Notes Metrics

IAS noted that C&G Accounting has developed metrics on optional signers and cost notes and they appear to be adequately monitored/tracked/determined. However, C&G Accounting has not yet developed metrics for payroll cost transfers.

Management Action Plan

PCS Report Timeliness Metric

The recording and computation of the timeliness metric was a manual process which resulted in minor errors. C&G Accounting has simplified the process by shortening the due date to correspond to the end of a month. While still a manual process, this change will help to assure the correct end date is used, and the timeliness metric should be more accurate in the future.

PCS Report Salary Transfers, Optional Signers, and Cost Notes Metrics

While C&G Accounting reviewed cost transfers for appropriateness, they did not establish a reviewable metric. C&G Accounting will inform Payroll Certification department coordinators to show, on the certification report, the number of transfers processed from the end of the budget year to the certification date. This will establish a metric for timely transfers. In addition, C&G Accounting staff will review transfers after the certification date to establish a late transfer metric.

2. PCS Process

IAS determined whether payroll certifications were 1) completed timely, 2) provided complete coverage of all sponsored projects, and 3) contained correct information and salary transfers were appropriate.

Observations

PCS Timeliness

As indicated in the Metrics section above, IAS determined the timely completion rate for PCS reports was 70 percent. While C&G Accounting eventually obtained certifications for all projects (100 percent), the certification process should provide completed certifications within the established timeframe.

PCS Completeness

In order to determine if the PCS is capturing all awards that require certification during the audit period, IAS created two contract and grant activity reports, which were then compared to the detailed C&G Accounting report used to monitor and track PCS reporting compliance.

The first report was created for each of the months of the audit period by using the PCS website procedures and selecting the Payroll Certification Monthly Fund

Query link. The second report was created by utilizing the UCI Data Warehouse and forming a Sponsored Projects/Contracts and Grants adhoc query with award end dates during the audit period.

IAS noted multiple differences between the reports created by IAS and the PCS report used by C&G Accounting to monitor/track compliance. IAS discussed the differences with C&G Accounting and was able to determine that many of the differences noted were due to award end date changes that had not been updated in the financial system.

PCS Report Information and Salary Transfers

IAS reviewed all 139 PCS reports due from the July 2012 budget end month to ensure they were properly certified, and that the payroll, cost sharing, and other key cost notes were appropriately determined and documented.

All of the PCS reports were properly certified and the cost sharing and other key cost notes appeared to be appropriately determined. However, IAS determined that for 20 PCS reports, changes were made to the total payroll expenses after the certifications were completed.

Management Action Plan

PCS Timeliness

Beginning with projects where the budget years ended in October 2012, C&G Accounting changed the published due date for the departments to complete the PCS report to 45 days. This provides a 15-day period to follow-up with department/school staff to hopefully ensure completion of the PCS report by the 60th day (the real due date). C&G Accounting determined that it needed more time to ensure timely financial report preparation and made the decision to move the due date from 70 days to 60 days.

C&G Accounting will formalize their follow-up process during the 15-days prior to the 60 day due date. During this period, C&G Accounting will implement the following processes to achieve timely PCS reporting compliance.

1. Around the 47th day, C&G Accounting will notify the Department Administrator and the Payroll Certification Coordinator that a PCS report needs to be processed immediately.

2. If the PCS report is not completed by 54th day, C&G Accounting will notify the Assistant Dean for Administration, the Principal Investigator (PI), the

Department Chair, the Department Administrator and the Payroll Certification Coordinator regarding the need to immediately certify the payroll charges.

3. After the 60th day, the Vice Chancellor for Research, will be notified.

G&G Accounting believes this new process will greatly enhance the timely completion of the PCS reports.

PCS Completeness

C&G Accounting will conduct additional research on the completeness issues noted to ensure accuracy in the future. For the projects/funds with award date changes that were not properly updated in the financial system, C&G Accounting has updated the appropriate fields and will contact the departments to let them know a certification needs to be completed. In addition, C&G Accounting will communicate with their accountants the importance of submitting their change requests when the budget end dates update/change.

PCS Report Information and Salary Transfers

C&G Accounting determined that for the 20 PCS report differences IAS noted above, 13 PCS reports were printed and certified before the last month's salaries were posted. In addition, C&G Accounting noted one instance when cost sharing was added and another instance when a retroactive payroll action caused the difference. Also, there was one instance where a project had acceptable pre-award salaries, but the financial system did not compute the correct after-the-fact amount. Finally, there were four instances where, subsequent to certification, salary transfers were made.

C&G Accounting has not been monitoring PCS reports that were printed prior to having the 12th month of salaries posted to the system. C&G Accounting is now monitoring for this and has notified departments to be sure to run Payroll Expense Reports after the posting of the 12th month of salary expenses. The one instance noted above relating to a retroactive salary payment is an acceptable expense for the subsequent budget year, and C&G Accounting will remind departments to check for cost sharing requirements prior to certification. The other instance, relating to the system problem, has been referred to the Office of Information Technology for their review. C&G Accounting will begin monitoring payroll cost transfers made after the budget end date to ensure compliance. As new issues arise, C&G Accounting will communicate to PIs and staff the importance preparing accurate PCS reports.

3. <u>**PCS Training**</u>

Determine whether training programs and documentation are adequate and if training has been delivered to all key staff and faculty.

Observation

Although C&G Accounting continues to provide PCS training to key individuals (which appears to be adequate), IAS noted that 12 awards (relating to three departments already identified in the nine-month review as not attending PCS training) did not have anyone from the related department attend training.

Management Action Plan

While C&G Accounting provides formal in-classroom-style training, the goal is to train all staff involved with the PCS, and not to have everyone attend a class. Training is available through web pages and telephone conversations. C&G Accounting believes the individuals who did not receive the formal classroom training, were adequately trained. However, in February 2013, C&G Accounting contacted the three departments that did not receive the classroom-style training and provided their staff with specialized training to meet their needs.