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

PAYROLL CERTIFICATION SYSTEM
Report No. 2012-602

April 9, 2012

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SHERYL VACCA
VICE PRESIDENT/CHIEF COMPLIANCE & AUDIT OFFICER

RE: **Payroll Certification System**
     Report No. 2012-602

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

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

Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

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

I. BACKGROUND

The University of California (UC) requested the Department of Health and Human Services' (HHS) concurrence to implement a demonstration process using the Payroll Certifications System (PCS) as described in the Federal Demonstration Payroll Certification Project. The proposal was for two UC Campuses – Irvine (UCI) and Riverside (UCR) – to participate in this demonstration project. The proposal was consistent with previous discussions between HHS, UC Office of President, UCI and UCR.

II. PURPOSE, OBJECTIVES AND SCOPE OF WORK

As part of the proposal, the UCI and UCR Internal Audit Services (IAS) departments are required to conduct administrative reviews at nine-months, and eighteen-months, into the PCS demonstration project. The purpose of this review was to evaluate whether UCI complies with the UC Details of Proposed Demonstration Project letter to HHS as well as policies and procedures, sponsor regulations, and good business practices.

Based on 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 HHS' approved system.

2. Determine whether PCS reports were completed timely.

3. Determine whether the PCS had complete coverage of all sponsored projects. Were any projects left uncertified?

4. Determine the level of user understanding concerning the PCS.

The scope of the audit included the PCS processes conducted during the initial nine-month (April to December 2011) review.

III. CONCLUSION

In general, UCI's PCS has been implemented in accordance with the proposal and HHS' approved system. However, there are several 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. Compliance with HHS proposal

Determine if campuses met the implementation timeline requirements in Section 6 of the UC Details of Proposed Demonstration Project letter to HHS as follows:

1. By July 2011 – Campus policies disseminated;

2. By July 2011 – Campus training commences;

3. By August 2011 – Payroll certifications begin effective with the April 2011 accounting period.

Observations

Policies Disseminated

PCS policies and procedures were created and disseminated within the proposed timeline. In April 2011, a mass communication email was sent to the UCI Research Community announcing the PCS pilot program. The communication also contained a link to internal PCS "How To" guidelines, Frequently Asked Questions, examples, and contacts. Also, the campus Controller presented the PCS model at the April 2011 Quality Research Administration Meeting.

Training Commences

PCS training did not commence by July 2011. The first formal PCS implementation training took place on July 21, 2011.

PCS Reporting Commences

PCS reporting did not commence by August 2011. The PCS process started with the April 2011 accounting period on August 25, 2011.

Management Response

The UCI campus Controller met with HHS management in September 2011 to discuss the progress of the PCS and informed them of the late implementation date. HHS management understood that the summer was probably a difficult time to bring up the PCS due to many faculty being off campus during this time. HHS management did not have any concerns about the late implementation date.

2. 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 Metrics

Because of the late roll-out of the PCS, the due dates for the budget month end dates of April 30, 2011, May 31, 2011, and June 30, 2011 were revised to September 16, 2011. The metrics provided by Contracts and Grants (C&G) Accounting take into account the revised due date.

A total of 915 PCS reports were due during the audit period (budget month end dates of April 30 to September 30, 2011/PCS report due dates of September 16, 2011, October 17, 2011, November 15, 2011, and December 14, 2011). The PCS report timeliness metrics provided by C&G Accounting revealed that 62 percent of the reports (568 reports) were completed by the revised due dates, 28 percent were submitted late (252 reports), and 10 percent (95 reports) are outstanding. Sixty-nine of the outstanding PCS reports (73 percent) are 90 or more days past due.

IAS recalculated the timeliness metrics to ensure accuracy and noted a couple of insignificant differences between the summary metrics provided by C&G Accounting and the detail monitoring/tracking reports. The differences were discussed with C&G Accounting management who explained the discrepancies as errors.

IAS also noted that the dates used to calculate the timeliness of PCS reports were slightly higher than the 70 day time frame proposed. For example, the budget end month date of September 30, 2011 has a December 14, 2011 PCS report due date, which is 75 days, not 70 days from the budget month end. IAS did note in the proposal that the within 70 day time frame was not always consistently stated. For example, in Section 1, page 5 the chart states that the due date for PCS reports is approximately 70 days after the end of the budget year.

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

C&G Accounting has not been keeping metrics on PCS report payroll cost transfers, optional signers, and cost notes. C&G Accounting has only been reviewing the PCS reports for the salary limitation for the National Science Foundation (NSF) and National Institutes of Health (NIH) cost notes (notes 1 & 2).

Management Action Plan

C&G Accounting will start calculating PCS report timeliness from the 70 day time frame. In addition, they will start tracking payroll cost transfers, optional signers, and cost notes and provide these metrics during the 18-month review.

3. **PCS Process**

Determine whether payroll certifications were completed timely and whether payroll certifications had complete coverage of all sponsored projects.

Observations

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 detail 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 fund number changes/corrections. Further review by C&G Accounting revealed that the other unexplained differences were due to award end date changes that had not been updated in the financial system.

PCS Reports

IAS reviewed a sample of 25 completed PCS reports to ensure they were properly certified and that the payroll, cost sharing, and other key cost notes were appropriately determined and documented.

IAS noted that two reports contained NSF and NIH salary limitation cost notes (notes 1 & 2). IAS discussed the cost note issues with C&G Accounting management who stated that the "NIH salary cap exceeded" cost note errors will need to be corrected/re-certified. C&G Accounting management explained that the "NSF salary limitation" cost note errors were due to the PCS tracking NSF salary limitation by calendar year; however, it was subsequently discovered that some departments/units have approval from Sponsored Projects to track by fiscal period. So, there are instances when the cost note appears on the PCS report but the salary is correctly charged based on fiscal year.

For the rest of the sample of PCS reports reviewed, the payroll, cost sharing, and other key cost notes appeared to be appropriately determined.

Management Action Plan

PCS Completeness

C&G Accounting will conduct some 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 contacted the departments to let them know a certification needs to be completed. In addition, C&G Accounting will communicate with the accountants the importance of submitting their change requests when the budget end dates update/change.

PCS Reports

C&G Accounting will contact the department with the NIH salary cap issues so that this can be corrected and re-certified. In addition, C&G Accounting has requested a system update for the PCS to calculate NSF salary by fiscal year to ensure salary limitation issues are appropriately determined. Sponsored Projects will send an announcement to the research community that the NSF period at UCI will be the fiscal year.

4. **Training and Documentation**

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

Observations

The training programs and related documentation appear to be adequate. C&G Accounting has created PCS "How To" guidelines and Frequently Asked Questions websites, report examples, and added the PCS course to their C&G Fund Accounting Series training.

IAS obtained the population of awards that required certification during the audit period, and then compared a sample of departments/units/individuals to training rosters to ensure attendance. IAS sampled 323 awards that required certification and noted that 62 awards (made up of nine different departments/units) did not have anyone from the related departments/units attend training prior to or after implementation of the PCS. Seventeen department/units (261 awards) had at least one individual attend training.

Management Action Plan

Some departments/units utilize centralized functions for award fund management so C&G Accounting will review the identified departments/units with IAS that lacked training to ensure accuracy. For those departments/units that lacked training, C&G Accounting will contact the departments/units and will ensure appropriate training is provided.

5. User Understanding

Determine the level of user understanding concerning the PCS.

Observations

IAS interviewed a sample of administrative management/staff with oversight and/or administrative responsibilities over the PCS process. Overall, the majority of individuals stated that they had a high level of understanding of the PCS process and believed they had a high level of compliance with UCI PCS policies and procedures. Only one individual interviewed had not completed PCS training and some individuals had attended more than one training session. However, the one individual, a chief administrative officer, who had not attended training, stated she was unaware of the PCS and related processes.

Several individuals stated that it would be helpful if more than one notification was sent to remind department/units of the certification deadline.

Management Action Plan

In conjunction with the Training and Documentation Management Action Plan (#4 above), C&G Accounting will ensure all departments/units/individuals with oversight and/or administrative responsibilities over the PCS processes are appropriately informed and/or trained.