

August 20, 2012

MARK E. COOPER
Director, Post Award Financial Services
0954

Subject:*Electronic Payroll Expenditure Transfer – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

The final audit report for *Electronic Payroll Expenditure Transfer – Post Implementation Review*, Audit Report 2012-07, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to schedule a follow-up review of the corrective actions.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to mail code 0919 or destroy them at this time.

Terri Buchanan
Interim Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

cc: L. Collins
 A. Cruz
 C. Kang
 D. Larson
 G. Matthews
 S. Relyea
 P. Trinidad-Charfauros
 S. Vacca
 M. Yao

AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
San Diego

**Electronic Payroll Expenditure Transfers
Post Implementation Review
August 2012**

Performed By:

Ken Daniszewski, Auditor
Aparna Handa, Auditor
Nai Hwang, Auditor
David Meier, Manager

Approved By:

Terri Buchanan, Interim Assistant Vice Chancellor

Project Number: 2012-07

*Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

Table of Contents

I.	Background.....	1
II.	Audit Objectives, Scope, and Procedures.....	2
III.	Conclusion	3
IV.	Observations and Management Corrective Actions	3
	A. Timeliness of Cost Transfers	3
	B. EPET Risk Classification.....	5
	C. Cost Transfer Documentation	6
	D. EPET Transaction Monitoring.....	7
	E. Uncompleted EPETs.....	8

*Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

I. Background

Audit & Management Advisory Services (AMAS) has completed a post-implementation review of the UCSD Electronic Payroll Expenditure Transfer (EPET) system as part of the approved audit plan for Fiscal Year 2011-12.

The EPET system replaced the previous paper payroll expense transfer process effective December 1, 2010. The system was designed to save time and resources for departments and central offices by automating the process, and providing built-in system edits to improve accuracy and compliance with UC and Federal policy. The major improvements provide by the EPET system include: capture of existing electronic payroll data versus redundant manual data input; elimination of hardcopy supporting documentation; automatic classification of transfers as high or low risk based on transaction attributes; and utilization of an email notification system to facilitate an efficient electronic workflow. All EPET users must complete the EPET Tutorial Training before obtaining access to the system.

The EPET system assigns a risk factor (high or low) to each transaction based on preparer responses to a set of standard questions. A decision tree approach is utilized to examine user input, and to prompt additional questions of the preparer as needed. Upon completion of all required data fields, the system creates an EPET journal voucher (JV) to transfer the payroll expense within the Integrated Financial Information System (IFIS). The JV is created in one of two document approval templates based on the assessed transaction risk factor, and is then routed for review and approval.

The EPET system automatically routes high risk transactions to the Office of Post Award Financial Services (OPAFS) for final review and approval to ensure the adequacy of the costs transfer justification, and completeness of the recipient listing for automatic email notifications. All EPETs associated with a federally sponsored project and which meet any of the following conditions, are considered high risk and must be approved by OPAFS:

- Project period dates for the “from fund” and “to fund” do not match;
- The original transaction date is more than 120 days old;
- The award is scheduled to terminate within 30 days;
- The payroll cost has already been transferred; and
- The “from fund” was in a financial overdraft condition.

EPETs classified by the system as low risk are completed and approved by campus departments, without the direct involvement of OPAFS, and are posted directly to IFIS operating ledgers. OPAFS periodically conducts post transaction audits for low risk EPETs to evaluate whether campus departments are properly preparing the EPETs,

***Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07***

adequately justifying the transfers, and maintaining the required supporting documentation required by policy.

During calendar year 2011, UCSD processed a total of 3,800 EPETs totaling \$35,892,248 for all extramural and general fund types.

Risk Classification	No. of EPET Documents	No. of Original Transactions	Total Payroll Costs Transferred
High Risk	1,657	6,952	\$11,974,088
Low Risk	2,143	12,702	\$23,918,161
Total	3,800	19,654	\$35,892,248

II. Audit Objectives, Scope, and Procedures

The objectives of our review were to: validate EPET system edits for classifying high risk and low risk transfers; to evaluate EPET transaction justifications and approvals; and to assess the OPAFS process for monitoring low risk transfers. The scope of our review was focused on calendar year 2011 EPET activity.

In order to achieve our objectives we completed the following:

- Reviewed University and campus policies and procedures for cost transfers;
- Interviewed selected personnel from Payroll, OPAFS, and Administrative Computing and Telecommunications (ACT) to gain an understanding of EPET processes, internal controls, and central monitoring practices;
- Reviewed central processes for granting EPET system access, and for monitoring activity;
- Examined the EPET Risk Assessment Decision Tree flowchart to evaluate the classification schema and workflow for transaction risk classification;
- Obtained and validated the EPET data downloaded from the EPET Query Link;
- Performed an analytical review of CY 2011 EPET transaction data versus the risk assessment decision questions and results;
- Selected a judgmental sample of 30 cost transfers that included 15 high risk and 15 low risk EPETs to evaluate the EPET system’s risk assessment process and resulting risk classification;
- Selected a judgmental sample of 30 cost transfers that included 15 high risk and 15 low risk EPETS to evaluate the adequacy of cost transfer documentation using the following selection criteria:
 - ♦ transfers made near or after the end of the federal fiscal year (September 30, 2011);
 - ♦ transfers more than 120 days from the date of the original expense;
 - ♦ transfers to federal funds;

*Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

- ♦ transfers made to/from overdrafted funds; and,
- ♦ transfers made to a terminated award.
- Verified that effort certification was completed after the transfer was completed;
- Evaluated on-line system reports in Financial Link, Employee Link, and BLINK where applicable; and
- Reviewed OPAFS processes for monitoring EPET activity.

III. Conclusion

Based on our audit procedures, we concluded that system edits in the EPET Risk Assessment Decision Tree functioned in accordance with the intended system design to assess risk as high or low based on transaction criteria in most cases. However, our substantive testing of selected transactions disclosed that some EPET transactions classified as low risk should have been classified as high risk.

In addition, our analytical review of transaction data indicated that cost transfers were not always performed timely, and were not consistently documented and authorized as required by policy. Although OPAFS had established practices for monitoring cost transfers, these practices could be improved by fully utilizing EPET Query Tools.

Opportunities to further improve the payroll cost transfer process and internal controls are described in detail in the balance of our report.

IV. Observations and Management Corrective Actions

A. Timeliness of Cost Transfers

Our analytical review of EPET data for calendar year 2011 indicated that 44% of EPET transactions were completed more than 120 days after the original date of the transaction.

OMB Circular No. A-21 & A-110, NIH Grants Policy Statement and University policies and procedures allow cost transfers to funded projects when they are reasonable, allowable, allocable, adequately supported and timely. Universities are required to develop written procedures and controls to ensure that each cost transfer is adequately documented. University policy further restricts the transfer within 120 days from the close of the month in which the original charge posted to the ledger (BFB A-47 V.7). If the adjustment is unavoidable and must be made beyond this period, a full explanation must be provided and include a well-documented account of all the events leading to the tardy adjustment.

When transfers are processed over 120 days after the original expense date, OPAFS sends an email to the preparer, the approver, and the Principal Investigator (PI) indicating that the EPET is denied on a preliminary basis due to

**Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07**

the lack of timeliness. The document is then assigned a status of Pending Approval for additional supporting documentation.

A summary of EPET transaction aging by risk category is provided in the table below.

Aging days	High Risk		Low Risk		Total			
	# of Trans	Amount	# of trans	Amount	# of Trans	Amount	% of Trans	% of Amount
<90 days	3,263	\$5,769,393	5,539	\$12,320,778	8,802	\$18,090,172	45%	50%
90 to 120	805	\$1,314,507	1,328	\$2,398,983	2,133	\$3,713,489	11%	10%
121 to 180	1,113	\$1,763,594	1,953	\$3,176,415	3,066	\$4,940,009	16%	14%
181 to 270	971	\$1,551,147	1,973	\$3,055,049	2,944	\$4,606,196	15%	13%
271 to 365	412	\$790,642	1,124	\$1,654,414	1,536	\$2,445,056	8%	7%
366 to 730	374	\$757,404	761	\$1,288,966	1,135	\$2,046,370	6%	6%
731 to 912	14	\$27,401	24	\$23,555	38	\$50,956	0%	0%
Totals	6,952	\$11,974,088	12,702	\$23,918,161	19,654	\$35,892,248	100%	100%
% Aging > 120 days	41%	41%	46%	38%			44%	39%

The PI and Management Services Officer (MSO) are responsible for the justification and supporting documentation for low risk EPETs completed and approved by the departments.

We noted the following justifications for EPETs over 120 days:

- Late award receipt.
- Late renewal/allocation notification, and expenses in advance request.
- Lack of communication between PI, fund manager, and department administration.
- A new fund number was assigned when the award was received.
- Waiting for index for start up expenses or correcting mistakes.
- Mid-year budget reductions.
- Department reorganization and/or staff turnover in the department or central offices.
- PI was not aware of fund changes and/or late request from the PI.
- Late fund expense billing at OPAFS.
- Award or fund number was assigned in error.
- Sub-contract was not renewed.
- Delay in grant fund transfers from other institutions.
- Late award notification from Office of Contract and Grant Administration (OCGA).

*Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

We also noted that in the following circumstances late cost transfers could not be avoided:

- Late receipt of the award due to long negotiations or redistribution of expense.
- Problems processing a request to spend in advance of the receipt of the award.
- Late receipt of a request to correct an error from the PI or another department.

Non-compliance with UC and Federal policy and guidelines requiring timely processing of cost transfers could potentially result in the loss of future grant funds, and harm to the University's reputation with sponsoring agencies.

OPAFS is working with the OCGA to explore the possibility of implementing a bridge financing model to provide an interim funding mechanism for instances where grant funding is delayed, and to reduce the number of EPETs resulting from the delay.

Management Corrective Actions:

OPAFS management will:

1. Share the audit at the next quarterly EPET Focus Group meeting, discuss best practices, and brainstorm ideas to improve the overall timeliness of cost transfers.
2. Develop a quarterly standard report of cost transfer activity to inform Assistant Vice Chancellors regarding activity in their areas, and to solicit their assistance in communicating with campus Department Business Offices on the importance of improving the timeliness of EPETs.

B. EPET Risk Classification

Our analysis of low risk EPET transactions revealed that 11 of the 15 EPETs reviewed should have been classified as high risk because costs were being transferred to federal funds.

We noted that in calendar year 2011, a total of 994 EPET documents totaling \$6,824,825, were misclassified as low risk. The misclassification occurred due to the lack of an automated prompt for additional information where the “to fund”

***Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07***

was a renewal (of a contract or grant). If the department entered “yes” as to whether the “to fund” was a renewal, then the system automatically classified the transfer as low risk. The misclassification of the transactions as low risk resulted in the transactions not being routed to OPAFS for final review and approval. Consequently, central review of the adequacy of the justification and supporting documentation was not performed.

Management Corrective Actions:

OPAFS will work with ACT to modify the EPET electronic decision tree to ensure that renewals are properly classified as high risk if they involve federal funds. The renewal box may be eliminated, once the potential impact of eliminating the renewal box has been fully evaluated.

C. Cost Transfer Documentation

EPET explanations did not always fully justify the cost transfers. A late approval or notification date was not always included in the explanation.

In order for a cost transfer to be approved and processed in conformance with federal guidelines and University policy, it must be supported by detailed documentation explaining: how the error occurred; what benefit the transfer would provide to the “to fund;” the method of proration used (if the transfers is less than 100%); and in cases where the transfer is more than 120 days after the original expense date, the action being taken to prevent late transfers from happening in the future.

Our analysis of EPETs identified that the documentation did not fully answer the four questions specified in the guidelines. Examples of explanations provided are including in the following table.

EPET Explanations	High Risk (15 EPETs)	Low Risk (15 EPETs)
Late award, late notification, award renewal,	7 (a)	9
PI request late	2	1
Fund oversight - staff turnover, two departments involved, employee visa changes, final award preparation	6	9
Incorrect index or fund, new index assigned	3	
Fund transfer from other universities	1	
General Accounting request	1	

(a) Only one late approval date was provided in the EPET explanation.

*Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

We noted that late approval or notification date was not required if the cost transfer was due to late notification from the awarding agency. The lack of a dedicated data field in the EPET for the preparer to provide the date of the agency approval created additional work for the approver (especially OPAFS) to retrieve this date information from other sources. It appeared that a required award notification date field would assist in streamlining the verification process.

In response to the question of how departments will prevent future costs transfers, we noted that only three explanations out of 30 (10%) stated that they plan to improve communication with PI and central offices. The three explanations addressed the intent to improve communication among related parties (PI, fund manager, department administer, and/or central offices); and/or to minimize the fund transfers as a result of terminated awards, overdraft funds, and incorrect accounting elements. Considering the entire process workflow, it appeared that OPAFS should facilitate improvements in communication as part of its EPET monitoring process.

OPAFS is developing a pilot program to coordinate with campus departments in improving department templates and approval hierarchies so that cost transfers are approved by the lead Department Business Officers. This should improve the quality of EPET document, however, in our opinion OPAFS should continue to be the final approver for high risk EPETs.

Management Corrective Actions:

OPAFS management will:

1. Continue to work with the EPET Focus Group to emphasize the documentation requirements for EPETs.
2. Work with ACT to evaluate the feasibility of creating a new dedicated data field for “agency approval date,” and having the data field automatically populated from the contract and grant information system (Coeus).

D. EPET Transaction Monitoring

The EPET Query Tool was not regularly utilized to monitor EPET transactions.

As part of the EPET system, OPAFS intended to develop and implement a post transaction audit process to evaluate a sample of low risk EPETs on a periodic basis and verify that appropriate information was provided. Several meetings

*Electronic Payroll Expenditure Transfers – Post Implementation Review
Audit & Management Advisory Services Project 2012-07*

were convened with a focus group in 2011 to review EPET transaction data. However, an audit process was not developed and documented.

The EPET Query Link Tool provided several queries that could be used to generate exception reports by risk type (high or low), risk category (EPET Risk Assessment Decision Tree prompts), approval status, EPET number, employee, preparer, fund sources, or department for a defined date or period. We noted that these reports were not being fully used to provide effective EPET oversight, to facilitate proactive communication with department, to minimize cost transfers, and to improve compliance with policy.

Management Corrective Actions:

OPAFS management will develop a written plan to document how the EPET Query Tool will be used to review low risk EPETs on a sample basis. The plan will also include detailed procedures implemented to generate the quarterly EPET activity reports for Assistant Vice Chancellors.

E. Uncompleted EPETs

Uncompleted EPETs were not periodically purged from the system.

EPET documents not completed by departments were not periodically purged from the system.

The process for electronically uploading EPETs to the Personnel and Payroll System (PPS) at the University of California Office of the President (UCOP) resulted in generating numerous error messages for *uncompleted* EPETs. This included a large number of error messages associated with *uncompleted* transactions that were over two years old. Transfers over two years old cannot be processed via EPET, and must be processed via a journal voucher. Consequently, they should be purged from the EPET System.

Management Corrective Action:

Payroll management will work with ACT to determine if *uncompleted* EPETs over two years old can be periodically purged from the EPET System.