

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UCI' and 'RVINE' parts.The text 'INTERNAL AUDIT SERVICES' in a bold, all-caps, serif font, positioned to the right of the UCIrvine logo.

Cost Transfers

Internal Audit Report No. I2019-101

June 1, 2019

Prepared By

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INTERNAL AUDIT SERVICES
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June 1, 2019

**BEATA I. NAJMAN
DIRECTOR, EXTRAMURAL FUNDS ACCOUNTING
ACCOUNTING AND FISCAL SERVICES**

**Re: Cost Transfers Audit
Audit No. I2019-101**

Internal Audit Services has completed an internal audit of Cost Transfers and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

Brian Fahnstock– Interim Assistant Vice Chancellor and Controller, AFS
Marc Guerra – Associate Controller, Accounting and Fiscal Services
Andrea Stewart – Compliance Officer, Contracts and Grants

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2018-19 audit plan, Internal Audit Services (IAS) reviewed UC Irvine (UCI) cost transfer processes for federally-funded projects. Many internal controls within cost transfer processes appear to be functioning satisfactorily. However, opportunities exist to improve the cost transfer reporting capabilities of certain financial systems and to strengthen certain cost transfer processes to ensure compliance with University policies and federal guidelines. The following opportunities were noted.

Financial System Reporting for Cost Transfers – Certain financial systems utilized in cost transfer processes are not designed to identify and route late transfers or transfers with other compliance issues to Contracts and Grants Compliance (CGC) for follow-up. As a result, CGC staff members must complete many offline, manual tasks to identify problematic cost transfers, which hinders and slows their review processes. This observation is discussed in section V.1.

Verification of Payroll Transfers – Many departments do not prepare and post their payroll transfers in a timely manner. In addition, departmental explanations for payroll transfers do not always include key information required by UC policy and federal guidelines. This observation is discussed at V.2.

Verification of Non-Payroll Transfers – Many departments do not prepare and post their non-payroll transfers in a timely manner. Furthermore, departmental explanations for non-payroll transfers do not always include key information required by UC policy and federal guidelines. This observation is discussed in section V.3.

II. BACKGROUND

In managing federally-funded projects, principal investigators (PIs) and their support staff are responsible for identifying and properly recording project expenses in a timely manner. PIs and staff are also responsible for monthly monitoring and reconciliation of project expenses, limiting the number of cost transfers, and correcting errors in a timely manner, with proper explanation.

CGCs’ responsibilities for monitoring federally-funded projects include the completion of post audit reviews for late cost transfers and for expenses posted to specific, higher-risk object codes. UC policy defines late cost transfers as transferred payroll and non-payroll expenses that are posted to a federal/federal flow-through account more than 120 days after the original ledger date. Late cost transfers are non-compliant with UC/UCI policies, and can be ruled unallowable in a federal audit. To provide a current overview of late cost transfers on federally funded projects, the following estimates were developed from analyses of payroll and accounting records for both payroll and non-payroll transfers.

For calendar year (CY) 2018, approximately 30 percent of all payroll transfers were estimated to be late. Furthermore, for CYs 2016-18, 17 percent of all non-payroll transfers were estimated to be late. Additional estimates were determined for UCI schools with the highest percentage of late cost transfers, as follows.

CY 2018 - Late Payroll CTs		CY 2016-18 - Late Non-Payroll CTs	
<u>School</u>	<u>Percent</u>	<u>School</u>	<u>Percent</u>
School of Medicine	42%	School of Medicine	39%
Office of Research	15%	Engineering	15%
Engineering	8%	Physical Sciences	13%
Physical Sciences	6%	Office of Research	10%
Education	6%	Biological Sciences	10%
Other	23%	Other	13%
Total	100%	Total	100%

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess the adequacy of internal controls over cost transfers on federally-funded projects to ensure that cost transfers are accurate, authorized, allowable, allocable, reasonable, and timely, and otherwise adhere to University policies and federal guidelines. The scope of the audit included cost transfer activities for fiscal year (FY) 2018 and FY to-date 2019 on federally-funded projects.

The following audit objectives were included in the review.

1. Cost transfer processes: determine the general adequacy of internal controls over cost transfer processes for federally-funded projects.
2. Cost transfer documentation:
 - verify that cost transfer documentation clearly states the reason for the transfer and why the transfer was late, as required by UC policy.
 - verify that cost transfer documentation indicates how the transfer is allowable, allocable, reasonable, consistently applied and conforms with the terms and conditions of the award, as required by Uniform Guidance.
3. Cost transfer monitoring: verify that monitoring processes identify late cost transfers and other cost transfer compliance issues. Verify that supporting documentation is maintained for late cost transfers/other compliance issues that require CGC follow-up with departments.

IV. CONCLUSION

Many cost transfer processes appear to be functioning satisfactorily. However, opportunities exist to improve processes in the following areas.

1. **Financial System Reporting for Cost Transfers** – Certain financial systems utilized in cost transfer processes are not designed to identify and route late cost transfer information and/or other cost transfer compliance issues to CGC for follow-up. As a result, CGC must complete additional offline, manual tasks to identify problematic cost transfers, at a significant cost to efficiency.
2. **Cost Transfer Policy Compliance** – Explanations provided by departments in cost transfer documentation do not always clearly describe the reasons why a cost transfer was necessary and/or late, as required by UC/UCI policies. In addition, explanations do not always state how a transferred cost is allowable, allocable, reasonable, consistent in application and compliant with the terms and conditions of the award, as required by Uniform Guidance.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Financial System Reporting for Cost Transfers

Observation

A survey was completed by CGC to describe cost transfer monitoring practices and key internal controls for cost transfers. In addition, certain financial systems utilized in cost transfer processes were evaluated, and cost transfer reports were reviewed. Opportunities may exist to improve current capabilities of financial system reporting for cost transfers, as follows.

1. **Personal Payroll System (PPS)** – PPS is the current system utilized at UCI for payroll recording/reporting. However, PPS is not designed to provide a “hard stop” for late payroll transfers so they can be routed to CGC for review and approval before they are posted. Instead, PIs/departments prepare and process their own payroll transfers, and CGC can only review payroll transfers after they have been posted. In addition, PPS is unable to identify and route to CGC any payroll transfers that have other types of compliance issues.

Due to PPS system limitations, CGC can only identify late payroll transfers and transfers with other compliance issues through a series of cumbersome, multi-step, manual processes. These processes include downloading historical PPS payroll data, completing spreadsheet analyses, and utilizing the UCOP WEBPan system to locate required information. In addition, CGC may need to contact the campus departments to obtain additional payroll transfer documentation and/or justification.

2. **Payroll Certification System (PCS)** – PCS is the current system designed to record and report the proper substantiation of salaries charged directly to federally-funded projects. However, PCS is not designed to alert CGC about PCS reports that need to be re-certified due to a late payroll transfer, or to other causes. When CGC reviews late payroll transfers, they must also manually locate and review PCS reports to determine the need for payroll re-certification.

Certain financial systems utilized by CGC to monitor and report cost transfers do not provide adequate, timely identification and routing of late cost transfers and other cost transfer compliance issues. The utilization of staff resources to complete several off-line, manual tasks to identify problematic cost transfers reduces the amount of resources available for cost transfer monitoring and follow up.

Management Action Plan

1. In the interim, Accounting and Fiscal Services has taken a major step in addressing departmental research administration needs by providing PIs and departmental administrators with an Award Balance Overview (ABO) report which currently includes salary and benefits details, in addition to the details of all other expenses recorded to contracts and grants. Easy to view, access, and up-to-date ABO reports are expected to play an essential role in reducing a number of cost transfers processed to contracts and grants. In addition, UC Path is expected to provide Campus with new reporting options that should help improve projections, and consequently reduce a number of cost transfers.

The CGA Director has provided several members of the UC Path reporting team with examples of the reports that would aid C&G administrators and C&G Compliance in helping ensure that payroll expenses are clearly identified, projected for, and transferred if errors are detected. Once the UC Path reporting capabilities are identified and specified, CGA will evaluate them and provide feedback and C&G related guidance.

2. Two major modifications have been included on the KFS-PCS list of proposed upgrades: a modification that would allow for the payroll reports to be flagged when previously certified salaries changed and a re-certification is required; and a modification allowing for viewing in KFS-PCS all salary details for each employee whose salaries are being certified. KFS programmers are working on both modifications with a plan to roll them out before January 31, 2020.

2. Verification of Payroll Transfers

Observation

A sample of payroll transfers was selected for review from payroll transfer transactions completed in September, October and November 2018. Opportunities for improvement in payroll transfer processes were noted.

1. **Late Payroll Transfers** – Departments do not always complete their payroll transfers in a timely manner. Late payroll transfers sampled for review were posted between 123 and 359 days after the original payroll amount was posted, which is beyond the 120-day limit permitted by UC policy.
2. **Cost Transfer Policy Compliance** – Explanations provided by departments in their payroll transfer documentation did not always include key information required by UC Business and Finance Bulletin A-47, University Direct Costing Procedures, and with Uniform Guidance. In the departments' payroll transfer documentation, explanations did not always include the following required information.
 - a. Explanations did not always clearly state why the payroll transfer was necessary, in accordance with Policy A-47. Policy A-47 requires that payroll transfers only be utilized to correct an erroneous recording, to record a change in previous decision, to redistribute high numerical but small/minor individual charges, and/or to redistribute payroll costs based on the after-the-fact verification of effort reported.
 - b. Explanations did not describe how the payroll transfer was allowable, allocable, reasonable, consistent in application and compliant with the terms and conditions of the award to which payroll costs were being transferred, as required by Uniform Guidance.
 - c. Explanations did not always describe why the payroll transfer was late, as required by Policy A-47.

Late payroll transfers are non-compliant with UC/UCI policies and may be deemed unallowable in a federal audit. Furthermore, payroll transfer explanations that lack required information are non-compliant with UC policy and federal guidelines, and may lessen transparency in the transfers.

Management Action Plan

1. The CGA Director and C&G Compliance continuously train and advise departmental research administrators and managers about a necessity of processing cost transfers timely, and about proper ways to justify and document payroll cost transfers. This training takes place during the C&G Fund Accounting training sessions provided in person and Online, Quarterly Research Administration Management (QRAM) forums, in-person and phone meetings with departments, and via email correspondence. At this time, our current payroll personnel system (PPS) doesn't provide C&G Accounting with any access that would allow for the late cost transfers to be detected, approved, or disapproved by CGA before they are processed by the department. Departments are responsible for monthly reviews of expenses posted to C&G funds, and are responsible for timely corrections of errors. As requested by the Department of Accounting and Fiscal Services, on an annual basis CGA will complete payroll cost transfers reports and submit them to the Controller.
2. CGA reviews cost transfers after the fact to the extent possible and some cost transfers are clarified and/or reversed during this process. Due to limitations of our payroll and reporting systems, there is an expectation that departments have internal processes and forms that are used to ensure that payroll cost transfers are properly documented and justified.

In an effort to strengthen UCI's compliance in research administration, CGA has updated its website and included information about cost transfers under the following link <http://www.accounting.uci.edu/cg/post-award/cost-transfers.html>. Furthermore, CGC is responsible for granting access to payroll cost transfers via the SAMS access approval process, and CGC doesn't approve access to payroll cost transfers for new employees until they document their completion of the C&G cost transfers training modules in the UC Learning Center. In addition, CGC has added into the current in-person training some examples of proper justifications of cost transfers, and received an approval to purchase software that would allow for a revision of the current UCLC online training modules. New training modules will emphasize timelines and proper justification of payroll and non-payroll cost transfers. At least half of the new online training will be

completed before January 31, 2020, with a full UCLC implementation being planned for June 30, 2020.

In the interim, the C&G Director and CGC will start working on a new payroll cost transfers process, as soon as the details of the UC Path capabilities and system processes become available.

3. Verification of Non-Payroll Transfers

Observation

Non-payroll transfer transactions were sampled for review from transactions completed in June and December 2018. Opportunities exist for improvement in non-payroll transfer processes.

1. **Late Transfers** – Departments do not always complete their non-payroll transfers in a timely manner. Late payroll transfers sampled for review were posted as long as 268 days after the original ledger date, beyond the 120-day limit outlined in UC/UCI policies.
2. **Cost Transfer Policy Compliance** – Explanations recorded by departments in non-payroll transfer documentation do not always include key information required by Policy A-47, as follows.
 - a. Sampled explanations did not clearly state why the transfer was necessary, as required by Policy A-47.
 - b. Sampled explanations did not describe how the transfer was allowable, allocable, reasonable, consistent in application and compliant with the terms and conditions of the award to which costs were being transferred, as required in Uniform Guidance.

Late non-payroll transfers are non-compliant with UC/UCI policies and may be deemed unallowable in a federal audit. In addition, explanations for non-payroll transfers that lack required information are non-compliant with University policy and federal guidelines, and may reduce transparency in the transfers.

Management Action Plan

1. The CGA Director and C&G Compliance continuously train and advise departmental research administrators and managers about a necessity of processing cost transfers timely, and about proper ways to justify and document non-payroll cost transfers. This training takes place during the C&G Fund Accounting training sessions provided in-person and Online, Quarterly Research Administration Management (QRAM) forums, in-person and phone meetings with departments, and via email correspondence. As requested by the Department of Accounting and Fiscal Services, on an annual basis CGA will complete cost transfers reports identifying late non-payroll cost transfers and submit them to the UCI Controller.
2. Late cost transfers are clarified and/or reversed during a review of the late GECs when they are routed in KFS for approval to CGC, and to some extent during a post-audit of expenses recorded under specific object codes. GEGRs are prepared only by C&G accountants and only when a proper justification is provided by the department.

In an effort to strengthen UCI's compliance in research administration, CGA has updated its website and included information about cost transfers under the following link <http://www.accounting.uci.edu/cg/post-award/cost-transfers.html>.

Furthermore, CGC is responsible for granting access to non-payroll cost transfers and doesn't approve new employees' KFS access to GECs until they document their completion of the C&G cost transfers training modules in the UC Learning Center. In addition, CGA has added into the current in-person training some examples of proper justifications, and received an approval to purchase software which would allow for a revision of the current UCLC online training modules. New training modules will emphasize timelines and proper justification of payroll and non-payroll cost transfers. At least half of the new online training will be completed before January 31, 2020, with a full UCLC implementation being planned for June 30, 2020.