

UC RIVERSIDE: AUDIT & ADVISORY SERVICES

April 3, 2012

To: Bobbi McCracken
Associate Vice Chancellor – Financial Services

Subject: Nine Month Review of the Annual Payroll Certification System

Ref: R2012-06

We have completed our nine month review of the Annual Payroll Certification System in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or a limited review. Audit R2012-06 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Michael R. Jenson
Director

xc: Audit Committee Members
Assistant Controller Librenjak

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2012-06

NINE MONTH REIVIEW OF THE ANNUAL PAYROLL CERTIFICATION SYSTEM

APRIL 2012

Approved by:

Laura Bishin
Principal Auditor

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Assistant Director

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UC RIVERSIDE
NINE MONTH REVIEW OF THE ANNUAL PAYROLL CERTIFICATION SYSTEM
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I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the nine month review of the Annual Payroll Certification System (system), it is our opinion that except for some observations noted in Section III, University of California, Riverside has generally implemented the system in accordance with the proposal and Department of Health and Human Services (HHS) approved system requirements.

Accounting Services management (management) has taken a proactive approach in the implementation of the system as evidenced by the following positive observations:

- 1) Management has enlisted support of and communicated with various campus constituents including the Deans' Council, Audit and Controls Committee, Financial Officers Group, Department Chairs, Ethics and Compliance Risk Committee, and the Proposal & Award Management Information Systems (PAMIS) steering committee.
- 2) Management reviews metrics on the completion rate and timeliness of Payroll Certifications. We verified such metrics for the period April through December 2011. Principal Investigators (PIs) have certified 100% of 628 required funds and were 100% timely. This is a significant improvement over the previous Effort Reporting process.
- 3) Management has created extensive online documentation and three online tutorials through the Learning Management System. They have promoted these resources to end users through user group meetings, training, electronic mail (email), and online links.
- 4) Management has several feedback mechanisms for users: Computer Support Group Helpdesk, piwrsfeedback@ucr.edu email, key contacts in Accounting Services, online surveys, and user meetings. Management is responsive, prioritizes user requests and issues, and continues to make system enhancements.
- 5) Management and Computing & Communications have a collaborative relationship and are committed to the success of this project. Meetings are held weekly to discuss the system and the enhancements which are in process.

- 6) We interviewed 10 staff and eight PIs and noted that the majority of their comments were positive and complementary to the system, as well as constructive.

However, we observed some areas that management should address in a timely manner:

- 1) Metrics (Observation III.A).
- 2) Training, Documentation, Understanding & Compliance (Observation III.B).

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a nine month review of the Annual Payroll Certification System to determine:

- whether the Annual Payroll Certification System was implemented in accordance with the proposal and HHS' approved system
- whether Annual Payroll Certifications were completed timely
- whether Annual Payroll Certifications covered completely all sponsored projects
- the level of user understanding of the Annual Payroll Certification System

B. BACKGROUND

The University of California (UC) requested HHS' concurrence to implement a demonstration process using the Annual Payroll Certifications System as described in the Federal Demonstration Payroll Certification Project:

http://sites.nationalacademies.org/PGA/fdp/PGA_055834. 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 the President, UCI, and UCR.

UC believes, when comparing existing after-the-fact effort reporting to Payroll Certification reporting, that Payroll Certifications will provide greater accountability, accuracy, efficiency, and transparency, and better coordinate the timing of certifications with Federal financial reporting described as follows:

1. **Accountability** - The Annual Payroll Certification System formally makes Principal Investigators accountable for the accuracy of direct salary charges as reported to the Federal government on Financial Status Reports. Under traditional direct salary support and documentation systems, Principal Investigators attest to the accuracy of direct salary charges on a quarterly basis, but they do not confirm that the cumulative totals are accurate and acceptable for disclosure to the Federal government. Annual Payroll Certifications require certification of the cumulative totals making it clear that the accuracy of these totals is dependent upon the direct salary charges 1) benefiting the project and 2) complying with all of the government's special costing requirements.
2. Principal Investigators are responsible for both the research of and charges to the project. While Principal Investigators are aware of their stewardship responsibilities, the Annual Payroll Certification System formally documents the Principal Investigator's total accountability for direct salary expenditures, and thus helps to insure proper direct salary charges to Federally sponsored projects.
3. **Accuracy** – the concept of certification of direct salary/payroll charges incurred in benefit of the sponsored project is easier to understand for the certifier relative to effort reporting. The timing of the Annual Payroll Certifications better aligns with the award project period and the financial status reporting.
4. **Efficiency** – Annual Payroll Certification will be conducted based on the award's budget period and at the conclusion of the award's term. The reports will be produced by award/fund and list all individuals paid from the award/fund for the budget period in question. Effort reports are currently produced each academic quarter for each individual paid against a Federal contract and grant. Annualizing the reporting by award/fund will consolidate direct salary/payroll information reducing the overall volume of certifications and administrative burden on the Principal Investigators and research administrators.
5. **Transparency** – annualizing the reporting of award direct salary charges will allow for easier comparison to award budgets by the Principal Investigator.
6. **Timing** – Annual Payroll Certifications will be based on the award's budget period established versus the quarterly reporting cycle currently used on effort reports. The timing of these certifications will more accurately reflect personnel salaries expended and reported on financial status reports.

SCOPE

The audit is a nine month review (April – December 2011) of the Annual Payroll Certification System. An 18 month (April 2011 through September 2012) review is planned in FY 2012/2013.

The audit included evaluating whether UCR complied with the UC Details of Proposed Demonstration Project letter to HHS, UC, and UCR policies and procedures, sponsor regulations, and good business practice.

The following areas were covered:

1. Preliminary Procedures

We conducted an entrance meeting and preliminary interviews with appropriate campus officials to gain an understanding of the system requirements and processes. We evaluated administrative and accounting procedures, and internal controls based on interviews and documents reviewed. We performed a risk assessment to determine additional areas to be tested, beyond HHS required audit areas, and areas where additional detailed testing may be warranted.

2. Compliance with HHS Proposal

To determine if UCR met the Implementation Timeline requirements in Section 6 of the UC Details of Proposed Demonstration Project letter to HHS, we verified whether:

- Campus policies were disseminated by July 2011*
- Training commenced by July 2011*
- Payroll Certifications began with the April 2011 Accounting Period by August 2011*.

**Certifications were to originally begin with the January 2011 Accounting Period by April 2011. Campus policies were to be disseminated and training was to commence March 2011. UCR received the approval letter from HHS (University of California's Payroll Certification Demonstration Project (PCDP)-Approval-April2011.pdf) on or about April 14, 2011 stating that "beginning in August 2011 the PCDP will become effective with the April 2011 salaries". Without an approval letter to proceed, UCR would not publish a policy or implement a training program. Accordingly, we have revised the due dates for Campus Policy Dissemination and Training Commencement (from April 2011 to July 2011). This is consistent with the original timeline where policy dissemination and training commencement occurs one month before payroll certifications start.*

3. Metrics

We verified if the following metrics were generated, reviewed by management, and accurate:

- Timeliness of Payroll Certifications (60 days)

- Timely and Untimely Salary Transfers (60 days/special notation for >90 days)
- Number of 'Cost Notes' by type. Cost Notes are potential audit concerns identified in the Annual Payroll Certification. The items should be reviewed to ensure adherence to agency terms and conditions.

4. Payroll Certification Process

We downloaded all contract and grant activity from the UCR Data Warehouse for the audit period and identified which awards needed certification. We compared this information to the Annual Payroll Certification System to ensure completeness. We determined whether any projects were left uncertified and calculated the Annual Payroll Certification report completion rate.

We judgmentally selected a sample of 10 projects from the download and determined:

- Annual Payroll Certification reports were properly completed/certified by the PI
- The certified payroll information matched what was reported in the payroll system
- Adjustments were made in the following period, if applicable
- Cost Sharing and other key Cost Notes were appropriately determined and documented.

5. Training & Documentation

We evaluated training programs and documentation in order to identify any gaps that may affect user understanding. We judgmentally selected a sample of 10 staff and 10 PIs to verify if they attended training.

6. User Understanding

We surveyed a judgmentally selected sample of 10 staff and 10 PIs to understand their general awareness and level of understanding and compliance with UCR policies pertaining to the Annual Payroll Certification process.

We interviewed central administrative staff to understand challenges and issues related to the Annual Payroll Certification process and evaluated the management action plans to address such challenges and issues.

III. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

A. Metrics

We noted that metrics for ‘Timely & Untimely Salary Transfers’ and ‘Number of Cost Notes by Type’ are still under development to ensure full compliance with the UC Details of Proposed Demonstration Project letter to HHS.

RECOMMENDATIONS

We recommend that management continue to develop and complete the metrics for ‘Timely and Untimely Salary Transfers’ and ‘Number of Cost Notes by Type’.

MANAGEMENT RESPONSE

We concur. The Accounting Office will work with Computing & Communications to develop the reports by June 30, 2012.

B. Training, Documentation, Understanding & Compliance

We interviewed 10 staff and eight PIs (two PIs included in the sample did not respond) regarding training, documentation, understanding, and compliance and noted the following:

- a. Staff Training Feedback – Nine of 10 staff attended the required training. For the one staff that did not attend training, other individuals in their department did attend. Six of 9 staff said the training was adequate.
- b. PI Training Feedback – Five of eight PIs said they received training. Four of those five said the training was adequate. We note that while staff training is the responsibility of Accounting Services and is centralized, training of PIs is the responsibility of each department.
- c. Staff and PI Documentation Feedback – Nine of 10 staff said documentation received was adequate. One of eight PIs said they were provided with documentation, five were unsure, and two said they were not. However, we noted that emails were sent to the PIs providing them links to online documentation and instructions on how to access tutorials.
- d. Staff and PI Understanding & Compliance – Ten of 10 staff said they have a medium to high level of understanding of the Annual Payroll Certification System. Four of eight PIs said they have a medium to high level of understanding of the Annual Payroll Certification System (the rest were a low level). Ten of 10 staff and seven of eight PIs said they thought they were in compliance with the UCR Payroll Certification Policy. One of the eight PIs was unsure about the level of compliance although he certifies his payroll; he relies on the designated departmental staff to ensure compliance. Most of the PIs

queried rely on the department to understand the process and ensure compliance. Most individuals (staff and PIs queried) had not actually seen the UCR Annual Payroll Certification Policy. However, key components of the policy are covered in training, and included in online documentation and tutorials. A copy of the policy was distributed at staff training sessions.

We reviewed the training materials and documentation noting that three online tutorials, training materials, and online documentation were easily accessible, covered key concepts, and were easy to understand. However we noted some materials that could be updated. Although these tutorials are available and two of the three tutorials are designed specifically for the PIs, we note that no PIs have taken the tutorials to date.

Staff training is centralized, required, and attendance is monitored. Faculty training on the other hand is decentralized, but is not completely or consistently delivered, and attendance does not appear to be monitored. These factors may have resulted in lower rates of PI understanding and abdication of responsibility for compliance to departmental staff.

In audit report R2008-08A Contracts & Grants – Pre-Award, issued October 31, 2008, we noted in Observation III.A. - Faculty Training, that there was no mandatory faculty training program to orient or educate faculty on sponsored programs administration roles and responsibilities. We recommended to the Executive Vice Chancellor & Provost (EVC/P) that appropriate campus management consider making initial and ongoing faculty training a requirement for obtaining and maintaining PI eligibility. While EVC/P management concurred, the recommendation has not yet been implemented.

RECOMMENDATION – EVC/P

Consistent with our R2008-08A recommendation as stated above, management should request PI completion of relevant online tutorials and monitor completion via the Learning Management System since departmental training of PIs does not appear to be complete and consistent, level of understanding is low for some PIs, and responsibility for compliance is sometimes abdicated to departmental staff.

RECOMMENDATION – ACCOUNTING SERVICES

We recommend that management continue to update and improve online documentation, tutorials and training, as well as identify and communicate best practices and develop frequently asked questions (FAQs) reference materials.

MANAGEMENT RESPONSE – EVC/P

We concur. On March 29, 2012, the EVC/Provost sent a notification to UCR Principal Investigators that requests their cooperation in completing the “Annual Certification Online Tutorial” for the Annual Payroll Certification System.

MANAGEMENT RESPONSE – ACCOUNTING SERVICES

We concur. Many of the training materials were developed prior to deployment. Lessons learned from the pilot will be incorporated into the support site by June 30, 2012.