

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO  
AUDIT AND ADVISORY SERVICES**

**Contracts and Grants  
Salary Cap Review  
Project # 21-042**

**June 2021**

**EXECUTIVE SUMMARY**

**I. BACKGROUND**

As a planned review for fiscal year 2021, UCSF Audit and Advisory Services (A&AS) completed a review to evaluate the processes and internal controls over salary cap application for federal and non-federal research awards to ensure compliance with sponsor requirements and enhance practices and controls.

A salary cap places a limit on the amount of salary at which an individual’s full-time effort over a twelve-month period can be charged on Department of Health and Human Services (DHHS) federal agencies including the National Institutes of Health (NIH), Health Resources and Services Administration (HRSA), and Centers for Disease Control and Prevention (CDC). The DHHS salary cap specifically follows the Executive Level II of the Federal Executive pay scale. Annually, The Office of Personnel Management releases new salary levels for the Executive Pay Scale. Effective January 3, 2021, the salary limitation for Executive Level II is \$199,300.

Non-federal agencies may also set salary cap limits including the California Institute for Regenerative Medicine, Susan G. Komen, the Cystic Fibrosis Society, and the Patient-Centered Outcomes Research Institute.

The Research Administration System (RAS) is UCSF’s system of record for post-award contracts and grants financial transactions the award lifecycle. At award setup, the salary cap rate and effective date are entered in RAS for sponsored awards subject to salary cap limits.

In June 2020, UCPATH, the UC systemwide human resources and payroll system, was implemented at UCSF. Sponsors with salary cap limits are uploaded in UCPATH, including the cap amount and effective dates. The University of California, Office of the President manages the process of loading new cap details into UCPATH. At the local UCSF campus, the Funding Entry Initiator at the position or department level enters into UCPATH funding subject to salary cap rates.

As of February 2021, total active sponsored awards with salary cap limits including federal, federal flow-through, and non-federal funds in FY 21 is shown below:

<b>Award Type</b>	<b># of Awards</b>	<b>Amount</b>
Federal/Federal Flow Thru	2200	\$3,001,452,316
Non-Federal	98	\$183,825,934
<b>Grand Total</b>	<b>2298</b>	<b>\$3,185,278,250</b>

**II. AUDIT PURPOSE AND SCOPE**

The purpose of this review was to assess the adequacy of internal controls over salary cap application for federal and non-federal research awards to ensure compliance with sponsor requirements and enhance practices and controls. The scope of the review covered transactions and activities with salary cap limits for FY2020 and FY2021 Year-to-Date.

Procedures performed as part of the review included:

- Interviews and process walkthroughs with relevant department personnel to identify internal controls and gain an understanding of the processes;
- Review of the salary cap attribute in RAS for selected awards;
- Verification that the salary cap is appropriate for sponsoring agency and correctly set up in UCPATH;
- Validation of a sample of payroll transactions to ensure accuracy of salary cap amounts and effective dates charged to awards, and
- Review of payroll expenses (including payroll transfers) charged to federal and non-sponsored awards with salary cap limits.

For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in April 2021.

### **III. SUMMARY**

Based on work performed, internal controls over salary cap application for federal and non-federal research awards were generally adequate. Opportunities for strengthening internal controls and processes were identified related to salary caps rate set-up in RAS, UCPATH, and in MyReports.

The specific observations from this review are listed below as well as in Section IV.

1. Salary cap rate and effective dates were not appropriately entered in RAS and UCPATH and led to unallowable cost charged to one sponsored award.
2. Salary cap amount and salary cost transfer details were not accurately shown on the Detailed Payroll Expense (DPE) report in MyReports for payroll transactions processed through the UC Payroll System.

**IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**

<b>No.</b>	<b><u>Observation</u></b>	<b><u>Risk/Effect</u></b>	<b><u>Recommendation</u></b>	<b><u>MCA</u></b>
1	<p><b><i>Salary cap rate and effective dates were not appropriately entered in RAS and UCPATH and led to unallowable cost charged to one sponsored award.</i></b></p> <p>Of the 15 awards reviewed, 1 federal flow thru award (A131357 in M_NeuSrg-General) did not have the salary cap rate manually entered into RAS and UCPATH at award setup. As a result, the Over-The-Cap (OTC) amount of \$316.87 was charged directly to the award instead of a non-federal/discretionary funding source.</p> <p>Under the National Institute of Health (NIH) Salary Cap/Salary Limitation 4.2.10 policy requirement, "None of the funds appropriated in the governing appropriation Act for the NIH (the Act), shall be used to pay the salary of an individual through a grant or other extramural mechanism at a rate in excess of that prescribed in the Act".</p>	<p>Salary cap not setup in RAS and UCPATH for specific award per sponsor requirements increases the risk for non-compliance and unallowable OTC charged to award.</p>	<ul style="list-style-type: none"> <li>• CGA should correct the award details in RAS to add the missing salary cap rate.</li> <li>• Neuro-Surgery Department should add missing salary cap rate to award in UCPATH.</li> <li>• Neuro-Surgery Department should remove unallowable OTC amounts on award to a non-federal/discretionary funding source.</li> </ul>	<ul style="list-style-type: none"> <li>• CGA has corrected the missing salary cap for the award identified in the review. Also, CGA is currently reviewing salary caps on all existing sponsored award to ensure cap details are complete and accurately applied in RAS. Moving forward, CGA will perform a monthly review of the salary cap assignment for all new awards.</li> <li>• CGA will follow up with Neuro-Surgery Department to ensure the salary cap and OTC amounts are corrected on award.</li> </ul> <p><b>Target date:</b> 09/30/2021</p> <p><b>Responsible Party:</b> Associate Vice Chancellor &amp; Controller</p>

No.	Observation	Risk/Effect	Recommendation	MCA
2	<p><b><i>Salary cap amount and salary cost transfer details were not accurately shown on the Detailed Payroll Expense (DPE) report in MyReports for payroll transactions processed through the UC Payroll System.</i></b></p> <p>The DPE report in MyReports provides payroll information for transactions processed through UCPATH and allows users to review and reconcile payroll transactions and to prepare r cost transfer adjustments.</p> <p>Of the 15 payroll transactions reviewed, three transactions did not have the salary cap amount displayed on the DPE report because the salary cap was not included in the labor ledger data sent from UCPATH due to an upstream defect in the General Ledger Data. This issue is under investigation by the UCPATH Center.</p> <ul style="list-style-type: none"> <li>• 135820A (M_Radiation Oncology)</li> <li>• 131555A (M_MED-CORE-HMON-ONCO-GEN)</li> <li>• 133702A (M_Neuro-Memory and Aging).</li> </ul> <p>Additionally, for this project, the retro payroll transaction of (\$294.47) for December 2020 had defects related to the salary cost transfer including incorrect percent of effort and earnings amounts. The defects are a result of the recent UCPATH enhancement to redistribute prior period leave accrual transactions using the funding source in effect on the earnings end date of the leave transaction recorded in HBS. The salary cost</p>	<ul style="list-style-type: none"> <li>• Missing information on payroll expense report reduces the ability to verify and monitor the accuracy of the salary cap amount charged on award.</li> <li>• Salary cost transfer defects increases the risk of inaccurate salary expenses charged to award and may result in potential penalties for non-compliance with federal regulation.</li> </ul>	<ul style="list-style-type: none"> <li>• Departments should review payroll transactions with missing salary caps to ensure correct salary amount is charged on award.</li> <li>• CGA to remind departments to report missing salary caps details and salary cost transfer defects to the Controller's Office Solution Center.</li> </ul>	<ul style="list-style-type: none"> <li>• Payroll Office will monitor missing salary cap and salary cost transfer defect issues and follow-up with UCPATH Center to get resolution.</li> <li>• At the next Research Administration Townhall CGA will reinforce to departments to review the DPE reports and to report missing salary caps details and salary cost transfer defects to the Controller's Office Solution Center.</li> </ul> <p><b>Target date:</b> 12/30/2021</p> <p><b>Responsible Party:</b> Associate Vice Chancellor &amp; Controller</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>transfer defects are currently under investigation by the UCPATH Center.</p> <p>UCSF works with the UCPATH Center to address defects in UCPATH system. The status of known issues that impact the UCSF community are listed on the UCSF-UCPATH website. The site reported that the missing salary cap on the DPE report was resolved in July 2020; however, the transactions identified were after the resolution date for pay periods December 2020 - March 2021.</p> <p>The inconsistencies in reporting of salary cap details on the DPE report has been re-reported to the UCPATH Center in April 2021 and is pending resolution.</p>			

**APPENDIX A**

To conduct our review the following procedures were performed for the areas in scope:

- Reviewed federal, non-federal, University, and local UCSF campus policies and procedures around the areas under examination.
- Interviewed personnel and perform walkthroughs to get an understanding of activities for the areas under examination.
- Reviewed salary cap attribute in RAS. Selected a sample of 15 federal and non-federal awards with salary caps. Verified salary cap was appropriate for sponsoring agency.
- Reviewed salary cap details in UCPATH. Selected a sample of 15 employees with salary caps charged on federal and non-federal awards. Verified salary cap amounts and effective dates were accurate.
- Reviewed payroll expenses in MyReports. Selected a sample of 15 payroll transactions (including salary cost transfers) with salary cap limits charged to federal and non-federal awards. Verified salary cap was appropriate for sponsoring agency and cap amount was accurate.
- Assessed salary cost transfers to determine appropriateness and cause. Verified salary cap amount was accurate and retro transactions posted to correct payroll period.