

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.

UCIRVINE

The logo for Internal Audit Services, featuring the words 'INTERNAL' and 'AUDIT SERVICES' stacked vertically in an all-caps, serif font.

INTERNAL
AUDIT SERVICES

Post-UCPath Payroll Certification

Internal Audit Report No. I2021-109

August 3, 2021

Prepared By

Michael Shead, Senior Auditor

Reviewed By

Niran Joshi, Associate Director

Approved By

Mike Bathke, Director

August 3, 2021

**BEATA NAJMAN
DIRECTOR OF EXTRAMURAL FUNDS
ACCOUNTING AND FISCAL SERVICES**

**RE: Post-UCPath Payroll Certification Audit
Report No. I2021-109**

Internal Audit Services has completed the review of Post-UCPath Payroll Certification 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.

Sincerely,



Mike Bathke
Director

Attachment

C: Audit Committee
Warren Liang, Manager of Financial Systems IT – Office of Information Technology
Eric Taggart, Associate Director of Enterprise Applications – Office of Information Technology

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2020-21 audit plan, Internal Audit Services (IAS) performed an audit of Post-UCPath Payroll Certification. Specifically, IAS reviewed the payroll processes and workflows among the University of California's Payroll, Academic Personnel, Timekeeping & Human Resources System (UCPath), the Kuali Financial System (KFS), and the Payroll Certification System (PCS). Through these interrelated processes and workflows, certain UCPath payroll data is transformed into payroll data associated exclusively with payroll certification reporting required for federal awards.

In addition, IAS performed audit testwork to verify the continuous integrity of payroll data as it moves from UCPath to PCS. Specifically, a reconciliation was performed of payroll data as the data flows between the UCPath and KFS Systems, and then within KFS, from the Labor Ledger to the Payroll Certification Module.

Furthermore, IAS performed audit testwork to verify the amount and percentage of payroll certification reports that units completed late, resulting in non-compliance with UC Irvine (UCI) policy and with federal guidelines. Specifically, IAS analyzed a May 2021 report of delinquent payroll certification reports. Additionally, IAS discussed interventions for preventing late PCS reports with management.

In 2018, UCI contracted with the Huron Consulting Group to complete an analysis of UCI internal controls related to compensation charged to federal awards. In performing due diligence in the current audit, IAS also revisited the recommendations made in the consulting report.

The following concerns were noted:

Reconciliation: PCS to UCPath – A review of systems and system interfaces involved in the payroll certification process disclosed that processes did not exist that continuously validate UCPath payroll data flowing into PCS. Further details related to this issue are provided in Section V.1.

PCS Report Tracking and Escalation Processes – A sample review of PCS reports disclosed 255 federal awards with late PCS reports. The School of Medicine was responsible for more than half of the late reports. Further details related to this issue are provided in Section V.2.

School/Department PCS Subject Matter Experts - Discussions with contracts and grants (C&G) management indicated that problematic issues exist within the collaborative efforts of C&G Compliance and school/department C&G analysts. This issue is discussed in Section V.3.

Mandatory PCS Training - A review of PCS training revealed a number of gaps in internal controls that interfere with management's ability to provide adequate and

timely PCS training to key employees throughout the UCI campus and UCI Health. This issue is discussed in Section V.4.

II. BACKGROUND

As a recipient of federal funding, UCI is required to comply with the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) for tracking and reporting of payroll related costs (2 C.F.R.§200.430).

UCI fulfills the salaries and wages federal reporting requirement through a Payroll Certification Process and a Payroll Certification System that resides within KFS. The Payroll Certification Process requires that Principal Investigators (PIs) complete an after-the-fact review of salaries and wages charged to their federal awards and certify that they are accurate, allowable, properly allocated, and reasonable in relation to work performed. Payroll certification must take place at least every 12 months, and is due 90 days from the award budget period end date.

To produce PCS reports, PCS obtains payroll data from the campus payroll system. In December 2019, UCI replaced the legacy Payroll/Personnel System (PPS) with UCPath, which serves all UC employees. UCPath feeds payroll data into the KFS Labor Ledger. PCS then displays the eligible payroll records from the KFS Labor Ledger based on the payroll certification criteria. As with any large software implementation, there are a number of inherent risks surrounding how well the various systems will work together to produce complete, accurate, and timely PCS reports.

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of the audit was to verify that internal controls surrounding the PCS are sufficiently strong to ensure that PCS reports prepared from UCPath payroll data are accurate and complete. In addition, IAS performed a review of the timeliness of when UCI PIs complete and submit their PCS reports in compliance with federal guidelines and UC/UCI policy.

The audit scope included all UCI PCS reports that were due between December 2020 and May 2021, and that utilized payroll data supplied solely by UCPath.

The audit included the following objectives.

1. Review the interrelated payroll processes and workflows among UCPath, KFS, and PCS.
2. Complete a reconciliation of payroll data to verify the continuous integrity of the data as it moves from UCPath through the KFS Labor Ledger to the PCS.

3. Utilize the most current payroll data to verify the amount and percentage of payroll certification reports that are not completed on time (i.e., are late), resulting in non-compliance with UCI policy and federal requirements related to tracking and reporting salaries and wages charged to federal awards. Discuss with management potential interventions for late PCS reports.
4. Revisit recommendations made in 2018 by Huron Consulting Group from their independent review of UCI's payroll certification process and systems.

IV. CONCLUSION

Based on the results of the payroll reconciliation performed, internal controls involved with the completeness of payroll data transfers from UCPath to PCS are sufficiently strong to ensure that payroll data is not added, deleted, or otherwise altered in the process.

However, internal controls surrounding the accuracy of payroll data in UCPath need improvement. Since the inception of UCPath in December 2019, payroll data errors continue to be found. Current concerns exist with respect to Salary Cost Transfers/Direct Retros, vacation accruals and leave taken issues (i.e., wrong accounts, wrong distribution, no offsets), and incorrect percent pay. Other irregularities include payroll data that require detailed reviews and corrections, reactivation of previously closed budget periods, and often the reopening of previously closed awards. These payroll errors, until they are discovered and fixed, are transferred to the PCS system and included with payroll data reported in the PCS reports. At the present time, UCPath system controls are undergoing continuous reviews and system modifications due to the occurrence of errors in payroll data.

Finally, the timeliness of PCS reporting also needs improvement. As discussed above, undetected payroll data errors are transferred with normal payroll data from UCPath to the PCS, where the errors are assimilated into PCS reports. After the fact, when the payroll errors are detected, PCS reports must be reopened and payroll errors corrected. Then, the PI needs to re-certify the reports. As a result, PCS reports are often late. Additional resources may be required to quickly develop system controls that adequately enforce PCS reporting deadlines and detection of UCPath payroll aberrations in a timely manner.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Reconciliation: PCS to UCPath**Background**

IAS performed a review of the interrelated payroll processes and workflows among UCPath, KFS, and PCS. In addition, with the assistance of the Office of Information Technology (OIT) personnel, a reconciliation of sampled UCI payroll data was completed. The reconciliation involved two separate comparisons. The first comparison encompassed an inter-system evaluation between UCPath data output and KFS Labor Ledger input. The second comparison included an intra-system evaluation between KFS Labor Ledger output and KFS-PCS data input.

Observation

A review of systems and system interfaces involved in the payroll certification process disclosed that processes did not exist that continuously validate UCPath payroll data flowing into PCS. Currently, C&G Compliance only reconciles UCPath and PCS payroll data for individual PCS reports when departments question the accuracy of data. Other reasons for reconciling PCS payroll data include situations where salaries are flagged in PCS because a PCS report requires a review for compliance with the National Institutes of Health (NIH) salary cap or National Science Foundation (NSF) salary restrictions and during audits.

Failure to reconcile all payroll data in PCS back to UCPath creates a gap in preventive internal controls designed to ensure payroll data is not altered as it flows from UCPath to PCS. C&G Compliance is encouraged to complete periodic, automated reconciliations of payroll data in PCS and UCPath to ensure continuous integrity of payroll data flowing between the two systems. New monitoring report(s) also need to be developed to document the validation of payroll data in PCS. Furthermore, C&G Compliance should memorialized all processes and procedures in new/existing C&G Compliance policies and procedures.

Management Action Plan

1. C&G Compliance management will develop, with the assistance of OIT, an “on demand” automated process for reconciling payroll data in PCS to UCPath.
2. C&G Compliance management will determine the frequency with which periodic, automated reconciliations of payroll data in PCS and UCPath will be completed. Management will also create new monitoring report(s) to document the validation of payroll data in PCS. Management will retain monitoring reports for third-party review.

3. C&G Compliance management will update UCI’s payroll certification process and include automated reconciliations of payroll data in PCS and UCPath in C&G Compliance policies and procedures and on the PCS website.

Due date: March 31, 2022

2. PCS Report Tracking and Escalation Processes

Background

IAS performed a review of C&G Compliance’s May 2021 list of late PCS reports that had been completed and submitted after the reporting deadline or had not been completed at all. The population from which the list was gathered included all UCI PCS reports due between December 2020 and May 2021 that utilized payroll data supplied solely by UCPath.

Observation

The review revealed 255 federal awards with late PCS reports. Twenty UCI schools/departments were responsible for the late reports. The top five schools/departments were as follows:

<u>Rank</u>	<u>Schools/Departments</u>	<u># of Late PCS Reports</u>	<u>% of Reports to Total</u>
1.	School of Medicine	136	53%
2.	Office of Research	28	11%
3.	Biological Sciences	13	5%
4.	Information & Computer Sciences	13	5%
5.	Physical Sciences	13	5%
6.-20.	Other schools/departments	52	21%

With regard to the late reports, C&G Compliance performs PCS report tracking and follow up manually, without any assistance from automation. Information systems need to be automated to efficiently track PCS reports. In addition, C&G Compliance does not always send reminder and/or reprimand letters for late PCS reports to PIs and/or school/department C&G analysts. A lack of automated information systems, combined with ineffective, untimely reminder/reprimand letters, contribute meaningfully to the perpetuation of late PCS reports.

C&G management is encouraged to implement an already-approved JIRA that pertains to automating the distribution process of reminders/reprimand emails to PIs and school/department C&G analysts.

Moreover, current escalation processes for late PCS reports need improvement. Currently, there are few consequences to school/department employees for late PCS reports (i.e., no in-person meetings with senior administrators, etc.). C&G Compliance may need ongoing assistance from UCI executive management in establishing an effective escalation process for late PCS reports.

Management Action Plan

1. OIT, with the assistance of C&G Compliance, will implement automated reminders to all PIs and departmental administrators listed on the Primary Expense Account. These reminders will notify them of the upcoming payroll certification deadline, inform them of the PCS reports routed for an approval but not yet certified, and notify them about the past due reports that need their immediate attention.
2. C&G Compliance management will update UCI's payroll certification process and include automated notifications in C&G Compliance policies and procedures and on the PCS website.

Due date: March 31, 2022

3. School/Department PCS Subject Matter Experts (SMEs)

Background

Payroll certification is primarily the responsibility of the PI. However, PIs often depend on their school/department C&G analysts to manage all business aspects of the PI's awards, including PCS reporting. As a result, PCS reporting processes and the internal controls embedded in them are decentralized, occurring at the school/department level. To enable effective oversight of PCS reporting, C&G Compliance must maintain a strong, collaborative business relationship with school/department C&G analysts.

Observation

Discussions with C&G management disclosed that certain issues exist within collaborative efforts between C&G Compliance and school/department C&G analysts, as follows.

1. At times, individual PCS reporting reminders prepared manually by C&G Compliance are sent out late to school/department C&G analysts;
2. School/department C&G analysts that receive PCS reporting reminders from C&G Compliance may lack research compliance knowledge and/or are not at a sufficiently high organizational level to prevent PCS reports from being late.

C&G Compliance needs to have employee(s) appointed in each school/department who shall be solely responsible and accountable as SMEs for everything pertaining to payroll certification, including but not limited to, ensuring the timely completion of PCS reports. Each designated SME would serve as the key liaison between their school/department and C&G Compliance.

Failure to establish and maintain PCS SMEs at the school/departmental level will perpetuate late PCS reports and other, related concerns that have been an ongoing problem for C&G management. C&G management will likely need ongoing assistance and support from UCI executive management in creating school/department-level PCS SMEs.

Management Action Plan

1. C&G Compliance management, with the assistance of the UCI Controller, will work with schools/departments to establish PCS SMEs in each unit responsible for managing federal awards.
2. C&G Compliance management will establish a list of SMEs for each school/department and will ensure the proper training of the SMEs. Roles and responsibilities of this new SME role will be clearly described in the existing C&G Compliance policies and procedures and on the PCS website.

Due date: March 31, 2022

4. Mandatory PCS Training

Background

IAS performed a review of PCS training for school/department employees with PCS reporting responsibilities. In addition, IAS revisited the training recommendations from a 2018 consulting report completed by the Huron Consulting Group. Finally, IAS discussed the status of PCS training with C&G management.

Observation

The review revealed a number of gaps in internal controls that interfere with management's ability to provide adequate and timely PCS training to key employees throughout UCI campus and UCI Health.

C&G Compliance may need ongoing assistance and support from UCI executive management to:

1. Make all PCS training mandatory for affected employees;
2. Automate training classes by having them available as "on-demand" courses within the UC Learning Center (UCLC);
3. Track the timely completion of all PCS courses through UCLC;

4. Send out reminder letters through the UCLC to affected employees reminding them to register for new courses and/or refresher courses; and
5. Send out notifications through UCLC to affected employees who are behind in taking their mandatory new/refresher training courses.

For employees responsible for PCS reporting, in-depth knowledge of the payroll certification process is critical. Failure to provide adequate training to affected employees in a timely manner can result in a host of concerns including, but not limited to, a potential loss of federal funding for research and potential penalties/enforcement actions.

Management Action Plan

1. C&G Compliance management, with the assistance of the UCI Controller, will communicate, to the schools/departments, a plan to establish a training requirement for all newly hired employees responsible for the administration of contracts and grants and for existing employees that manage research awards who never completed recommended training or may need a refresher.
2. C&G Compliance management, with the assistance of the UCI Controller, will transition current C&G compliance training into online UCLC modules to allow for on-demand access for all interested UCI employees. C&G Compliance, in addition to four UCLC modules about cost transfers that transitioned online in December 2019, provides 12 to 16 two-hour training sessions each year. Current in-person and/or via Zoom training methods require a lot of effort from C&G Compliance team members and often interested employees cannot adjust their schedules to take advantage of this training at the time that it is being offered. In the new C&G training model, one two-hour in-person and/or remote via Zoom learning session will still be taking place four to six times per year. This training will be limited to providing help with ledger reading and with clarifying closeout activities, as well as answering more detailed research administration questions that are difficult to address in the online training modules.
3. C&G Compliance management will add the training requirement to the existing C&G Compliance policies and procedures and the C&G website, and will establish a new follow-up process in support of its timely completion.

Due date: March 31, 2022