November 8, 2012

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0602

Subject: *Personnel Agreement Process Re-Engineering*
                        Audit & Management Advisory Services Project 2012-61

Audit & Management Advisory Services (AMAS) has completed an evaluation of the University of California San Diego (UCSD) Health Sciences and Veterans Medical Research Foundation (VMRF) Personnel Agreement process re-engineering project in accordance with the Fiscal Year 2011-12 audit plan. This report summarizes the results of our review.

Background

The affiliation between UCSD and Veterans Administration San Diego Healthcare System (VASDHS) provides significant benefits to each institution, as they share the same core missions of teaching, research and patient care, and each contributes significant financial and functional resources to help ensure that joint objectives are achieved. In 1999, UCSD and VMRF, a research foundation for the VASDHS, entered into a separate affiliation agreement to facilitate the administration of non-VASDHS funded research conducted in VASDHS facilities by faculty with joint UCSD-VASDHS appointments.

Personnel Agreements (PAs) were implemented to facilitate UCSD employee participation in research projects conducted in VASDHS/VMRF space at least 50% of the time. The PA was designed to allow UCSD research staff vested in the UC retirement system to provide services to VMRF administered research projects without forfeiting their UCSD retirement service credit and associated benefits. The following Table provides historical information related to UCSD PAs, which shows that PAs have continued to be used on a consistent basis.

Year	Number of PAs	Total Salary Expense
2000	18	$253,367
2001	92	$1,923,475
2002	189	$3,807,636
2003	241	$4,876,710
2004	219	$5,028,747
2005	234	$5,016,631
2006	287	$6,739,745
2007	343	$6,911,912
2008	328	$6,936,987
2009	336	$6,418,865
2010	387	$7,075,841
2011	322	$4,731,598
2012[1] (Projected)	193	$4,514,471

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[1] The number of PAs for 2012 was projected based on the 145 active agreements with a total salary expense of $3,385,853 that were completed as of August 21, 2012.

Through prior AMAS reviews of the UCSD/VASDHS/VMRF Affiliations and PA processes, AMAS reported the following audit findings related to PA processing and associated risks to Health Sciences management:

- *Streamlining the PA Process* – Currently, PAs are executed annually for each staff member on each award. Because many awards extend over a multiple year period, PAs must be renewed multiple times for each award. The PA approval and administrative process involves staff resources in several UCSD offices and at VMRF; and is time consuming to complete. Originally proposed process changes would reduce PA processing time 64% from an average of 70 days to 25 days.

- *PA Content and Format* – Because certain terms and conditions of employment are currently included in the PA, the employee's signature is required. Removal of employment terms from the contract would eliminate the need for the employee's signature, which would assist with streamlining the process.

- *Modification of the Facilities & Administrative (F&A) Rate* – An F&A rate of 16% is assessed on the total salary, benefits, and Next Generation Network (NGN) charges for each PA. The private award overhead rate of 26% was discounted to 16% as an interim measure prior to the execution of the UCSD/VMRF Affiliation Agreement in 1999. However, the administrative fee should be re-evaluated to ensure that it is still supportable based on current PA administrative costs, and to provide UCSD with assurance that Federal sponsors do not subsidize the F&A costs of other research sponsors.

The resolution of these findings was deferred based on competing management priorities. However, because PAs have continued to be used to conduct inter-institutional research, Health Sciences convened an inter-departmental team in 2011 to re-engineer the PA process.

Audit Objectives, Scope and Procedures

The objectives of our review were to evaluate the team composition involved in the PA process re-engineering project; and determine whether the current re-engineering efforts were addressing the business risks previously identified, which were associated with contract format, approvals, processing, and F&A rate.

We performed the following procedures to achieve the project objectives:
- Evaluated prior audit reports;
- Reviewed applicable guidance;
- Performed inquiries and interviews regarding the PA process re-engineering project;
- Reviewed VMRF/UCSD PA Process Improvement meeting minutes; and
- Evaluated the re-engineering process improvement presentations.

Conclusion

We concluded the UCSD/VMRF Personnel Agreement Process Improvement Team (Team) included appropriate UCSD stakeholders. Those stakeholders included representatives from departments that were involved with processing PAs or would be consulted during the re-engineering project. AMAS also verified that the Team will be addressing the business risks previously identified and implementing the outstanding management corrective actions (MCAs) from prior reviews.

Those MCAs include:

1. Vice Chancellor Health Sciences (VCHS) management, in collaboration with VASDHS and VMRF, is pursuing electronic sharing of information, routing, and approval of PAs to the extent possible.

2. VCHS management will ensure that personnel responsible for PAs have the expertise to prepare these agreements and identify errors.

3. OCGA will provide a standard template for PA salary projections and publish it on the OCGA website.

4. VCHS and OCGA managements will coordinate with Campus Counsel and other appropriate parties to:

   a. Modify the PA contract and overall processes as needed to:
      - Eliminate employment related terms and conditions;
      - Reduce the number of PAs executed and the frequency of execution;
      - Manage reasonable fluctuations in salary during the life of the award;
      - Establish a reasonable amendment method; and
      - Address reimbursement terms and conditions.

   b. Consider whether the UCSD-VMRF Affiliation Agreement should be revised as a result of changes to the PA contract and processes.

   c. Identify a method to appropriately notify employees performing research under these agreements of their responsibilities and other terms of their activities.

5. VCHS management, in consultation with the UCSD/VASDHS Joint Operations Team, will:

   a. Consider increasing the PA administrative fee to the Organized Research – Off Campus rate; or that an alternative rate be identified, based on appropriate rationale; in conjunction with PA process reengineering efforts. If an alternative rate is supportable, concurrence should be obtained from the Financial Analysis Office; and,

   b. Consider capturing additional data to identify the percentage of research for each location to derive the minority portion of research being conducted. This information would be useful when re-evaluating the reasonableness of the administrative fee in future years.

AMAS appreciated the cooperation and assistance provided during the review.

UC policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them at this time.

The MCAs included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings.

If you have any questions regarding this report, please call me at 534-1187.

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