

RIVERSIDE: AUDIT & ADVISORY SERVICES

June 17, 2013

To: Bobbi McCracken
Associate Vice Chancellor, Financial Services

Subject: Systemwide Audit – Eighteen-Month Review of the Payroll
Certification System

Ref: R2013-05

We have completed our Systemwide Eighteen-Month Review of the Payroll Certification System audit in accordance with the UC Riverside Internal 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 perhaps a limited review. Audit R2013-05 will remain open until we have evaluated the actions taken.

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

Gregory Moore
Director

xc: Audit Committee

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2013-05

SYSTEMWIDE EIGHTEEN-MONTH REVIEW OF THE
PAYROLL CERTIFICATION SYSTEM AUDIT

JUNE 2013

Approved by:

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UC RIVERSIDE
SYSTEMWIDE AUDIT – EIGHTEEN-MONTH REVIEW OF THE
PAYROLL CERTIFICATION SYSTEM
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I. BACKGROUND

The University of California (UC) requested the Department of Health and Human Services' (HHS) concurrence to implement a demonstration process using the Annual Payroll Certification System (PCS) as described in the Federal Demonstration Payroll Certification Project. 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 (ER) to PCS reporting, that the PCS 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 PCS formally makes Principal Investigators (PIs) 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, PIs 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. The PCS requires 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. PIs are responsible for both the research of and charges to the project. While PIs are aware of their stewardship responsibilities, the PCS formally documents the PI'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 ER. The timing of the PCS better aligns with the award project period and the financial status reporting.

4. Efficiency – The PCS 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 PIs and research administrators.
5. Transparency – Annualizing the reporting of award direct salary charges will allow for easier comparison to award budgets by the PI.
6. Timing – The PCS will be based on the award’s budget period established versus the quarterly reporting cycle currently used on ER. The timing of these certifications will more accurately reflect personnel salaries expended and reported on financial status reports.

II. PURPOSE, OBJECTIVES AND SCOPE OF WORK

UCR Audit & Advisory Services (A&AS), as part of its Audit Plan, performed reviews nine and 18 months into the PCS to determine:

- Whether the PCS was implemented in accordance with the proposal and the HHS approved system.
- Whether payroll certifications were completed timely.
- Whether the PCS covered completely all sponsored projects.
- The level of user understanding of the PCS.

The nine-month review report covered PCS processes relating to budget end months of April through December 2011 and was issued on April 30, 2012. The 18-month review covers PCS processes relating to budget end months of April 2011 through September 2012.

The review 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 in the 18-month review:

1. Preliminary Procedures

We conducted an entrance meeting and preliminary interviews with appropriate campus officials to update our 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. Metrics

We verified if the following metrics were collected 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 Payroll Certification. The items should be reviewed to ensure adherence to agency terms and conditions.

3. 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 PCS to ensure completeness. We determined whether any projects were left uncertified and calculated the Payroll Certification report completion rate.

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

- 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.

4. Training & Documentation

We evaluated training programs and documentation in order to identify any gaps that may affect user understanding. We identified new staff coordinators since the nine-month review to verify if they attended training.

5. Issue Resolution

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

6. Evaluation of Survey Results

As part of the requirements under the approved demonstration project, UC Office of the President (UCOP) Office of Ethics, Compliance, and Audit Services conducted a survey ('the survey') that was administered to end-users of payroll certification to gather feedback about preferences of using the new payroll certification approach versus ER to comply with the cost accounting rules outlined in federal guidelines. Our review included an evaluation of the survey results.

III. CONCLUSION

Based upon the results of work performed within the scope of the 18-month review of the PCS (system), it is our opinion, that in general, UCR's PCS has been implemented in accordance with the proposal and the HHS approved system. Please note, Accounting needs to further test one of the Metrics reports recently completed, explained in Section IV.1 - Observations and Management Action Plans – Metrics for 'Timely & Untimely Salary Transfers'.

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 & Human Resources 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 January through September 2012. PIs certified 100% of 700 required funds and were over 99% timely (within 60 days). The few late certifications primarily pertain to sponsors changing Budget Year end dates retroactively making the certifications automatically late. In comparison, for the period April through December 2011, PIs certified 100% of 628 required funds and were 100% timely. This is a significant improvement over the previous ER process.
- 3) Management has developed a number of reports and additional metrics, beyond the original proposed metrics, which have been completed, to obtain useful information and for evaluation purposes as follows:
 - a) Annual Certification Completed report - shows the payroll details associated with the certification as well as adjustments, cost sharing and comments entered by the department.
 - b) Funds Requiring Certification report – shows at a glance funds subject to certifications, the date certified if applicable, the certification period definition, and the fund start and end dates by fund, PI and department.
 - c) Certified Funds report - shows the actual certification information (dollars, certification statements, date certified, certifier name) for audit purposes.
 - d) Certification Aging report – shows the number of certifications issued and completed, percentage complete, and the aging by fund.
- 4) 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. On March 29, 2012, the Executive Vice Chancellor/Provost (EVC/P) sent a notification to UCR PIs that requests their

cooperation in completing the “Annual Certification Online Tutorial” for the PCS. We immediately saw an increase in the number of Academics/Pis taking tutorials (from zero to 111 over the next 5 months). A recent communication by the Associate Vice Chancellor-Financial Services & Controller to each of the Deans in March 2013 also increased the number of Academics/Pis taking the tutorial (89 in March through April 10, 2013).

- 5) 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.
- 6) Management and Computing & Communications (C&C) 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.
- 7) We reviewed the results of the survey conducted by UCOP Office of Ethics, Compliance, and Audit Services, which was administered to end-users of payroll certification to gather feedback about preferences of using the new payroll certification approach versus ER. The number of survey respondents for UCR totaled 207 (Pis and Staff), although not all responded to all the survey questions. The survey results are as follows:
 - a) 46% of UCR Staff indicated that ER requires more work than PCS, 30% indicated they are about the same, 17% indicated that they do not know, and 7% indicated PCS requires more work than ER.
 - b) UCR Pis and Staff overwhelmingly preferred PCS over ER.
 - i. 81% preferred PCS presentation (project-by-project basis), and 19% preferred ER presentation (employee basis).
 - ii. 53% of UCR Pis indicated that they prefer to use PCS to confirm salaries charged to federal funds, 36% had no preference, and 11% preferred ER.
 - iii. 71% of UCR Staff indicated they prefer PCS, 21% had no preference, and 8% preferred ER.
 - c) UCR Pis and Staff found PCS to be more logical than ER (67% found PCS to be somewhat or extremely logical while only 42% found ER to be somewhat or extremely logical).
 - d) The majority of UCR Pis and Staff (85%) indicated frequency of Annual PCS to be about right.
 - e) Specific comments on strengths/weaknesses of PCS compared to ER indicated that UCR respondents had more positive (41) and fewer negative comments (26) about PCS than ER (17 positive & 41 negative).

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

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Metrics

In our nine-month review, we noted that metrics for ‘Timely & Untimely Salary Transfers’ and ‘Number of Cost Notes by Type’ were still under development to ensure full compliance with the UC Details of Proposed Demonstration Project letter to HHS. The Accounting Office has completed these metrics and A&AS has verified the accuracy of the Cost Notes report on a test basis. Please note, although the salary report has been completed, management has indicated that the report has not been fully tested by Accounting. As such, we did not perform any procedures to verify the accuracy of such report. We will review the testing and verify the accuracy of the report as part of the follow-up procedures for the nine-month review.

2. Cost Sharing

In our sample selection of 10 Payroll Certifications, we noted that a fund administered by the Vice Chancellor of Student Affairs (VCSA), which required reporting of Cost Shared salary, did not fulfill such requirement. It is our understanding that the Cost Sharing was properly reported on a paper Cost Sharing Report. Online documentation on Cost Shared salaries for the Department Coordinator Role indicates:

“Cost Shared salaries associated with the award's budget year being certified should be entered. Only the cost shared salaries should be entered; please do not include benefits on the Annual Payroll Certification. The salary amounts should agree to the paper Cost Sharing Report for the same reporting period. The Full Accounting Unit (FAU) associated with the cost shared salaries is required and must be from a non-federal source. In the short term, the paper based cost sharing form will also be required on an annual basis. Beginning April 2012, the completed cost sharing report can be attached by uploading to the Annual Payroll Certification Report. The long term goal is to feed cost sharing information directly into the Annual Payroll Certification Report from an electronic cost sharing report.”

We have determined that adding the Cost Sharing amounts would require a recertification. In lieu of a recertification, we believe that the best course would be to attach the paper cost sharing form to the existing PCS, satisfying the requirement to report Cost Sharing as part of the PCS. The central Accounting Office has indicated that the Cost Sharing document has been uploaded to the referenced payroll certification. VCSA management has recommunicated the requirements for Cost Shared Salaries in the PCS and has made reference to online and other sources for information.

3. Training, Documentation & Understanding

The UCOP survey was completed in September 2012. Significant survey results include:

- 33 of 82 (40%) UCR PIs responding to the survey indicated that they **did not receive any training or review documentation**. This is consistent with results from the nine-month review where three of eight PIs surveyed indicated they did not receive training and two of eight indicated they were not provided with documentation.
- Five of 49 (10%) UCR PIs responding to the survey indicated **that no one was available to assist** them.
- Three of 33 (9%) UCR PIs and eight of 42 (19%) UCR Staff responding to the survey indicated that **training materials were not adequate** to support their function.
- 17 of 77 (22%) UCR PIs and 11 of 48 (23%) UCR Staff responding to the survey indicated that **documentation was not adequate**.
- 32 of 81 (40%) UCR PIs and nine of 48 (19%) UCR Staff responding to the survey indicated that they **are not knowledgeable regarding the special federal costing requirements** (i.e. National Institutes of Health Salary Cap, National Science Foundation 2-month salary limit, proposal preparation, clerical and administrative) under PCS.
- 21 of 83 (25%) UCR PIs and one of 49 (2%) UCR Staff stated that they **have a low level of understanding of the PCS process**.

We reviewed the training materials and documentation noting that the three online tutorials, training materials, and online documentation were easily accessible, covered key concepts, and were easy to understand. The Accounting Office communicated with and conducted mandatory staff training at the initial deployment of the payroll certification process and continues to communicate with staff on an as needed basis. Email notifications are sent to PIs providing them links to online documentation, instructions on how to access tutorials, and an email link to provide feedback. Although these tutorials are available and two of the three tutorials are designed specifically for the PIs, we note that PIs are not required to take the tutorials. Departments are to provide instruction to their PIs on the unit's process (e.g. how the information is being confirmed, what type of comments are being entered, what to do if adjustments are necessary, who to contact in the department with questions about the data, etc.) as needed, but it was noted in our nine-month review that training is not completely or consistently delivered nor monitored by departments. We saw a surge in PI completion of the Annual Certification Online tutorials following a March 2012 request by the EVC/P to PIs asking for their cooperation in completing the tutorials (111 over the next five months), and a more recent communication by the Associate Vice Chancellor-Financial Services & Controller to each of the Deans in March 2013, (89 from March through April 10, 2013). We note that the UCOP survey was completed over the summer of 2012, so the responses do not reflect this latest surge in PI completion of the tutorials, which could increase understanding of the PCS and knowledge regarding special costing requirements. However, in spite of the surge, 158 of 318 (49%) of certifying PIs in January through September 2012, have taken the PI or annual PI Web Reporting System (PIWRS) tutorial as of April 10, 2013.

Training materials and documentation could use a refresh/update with a focus on federal special costing requirements (this is supported by survey responses noted above regarding adequacy of training materials and documentation, knowledge regarding federal special costing requirements, and level of understanding of PCS). This was discussed with the Accounting Office and they concurred. Annual reminders to PIs requesting their cooperation in completing the tutorials appeared to make a difference in the completion of the tutorials, which should improve user understanding and knowledge.