

# **UT Southwestern** Medical Center

## **Uniform Guidance – Payroll Confirmation Process Audit**

**Internal Audit Report 18:18**

**May 15, 2018**

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## **Executive Summary**

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### **Background**

Based on the Uniform Guidance Administrative Requirements related to compensation, UT Southwestern Medical Center (Medical Center) requires Principal Investigators (PIs) to review the payroll sourced and charged to externally sponsored awards on a monthly basis, and confirm that all payroll sourcing and/or payroll charges align with the work performed.

As payroll charges typically make up the highest percentage of expenditures incurred on sponsored awards, the federal government requires institutions to regularly monitor the accuracy and allowability of payroll charges to ensure sponsors are reimbursing the institution for actual effort expended on the grant/contract. The monitoring system must be able to adequately identify whether or not the work performed is considered a direct or an indirect cost, consistent with the institution's established policies and 2 CFR §200.430, and must also confirm that:

- The total compensation paid to individual employees is reasonable according to the work performed on the sponsored project;
- The compensation is made in accordance with established policies of the organization and Federal and state laws and regulations;
- The compensation policies are consistently applied to both government and non-government activities.

Medical Center leadership, under the guidance of the Provost Office and Sponsored Programs Administration, has defined the minimum requirements to facilitate accurate and comprehensive review of payroll expenses on externally sponsored research awards, and ensure payroll sourcing changes contain appropriate justification before updates are processed within the PeopleSoft financial system.

### **Scope and Objectives**

The Office of Internal Audit has completed its review of the UT Southwestern payroll confirmation process for selected departments within UT Southwestern. This is a required audit for FY2018. Overall objectives for this review included: determining the adequacy and effectiveness of operational processes and internal controls to ensure effective and efficient achievement of objectives; compliance with key institutional policies and procedures; safeguarding of assets and accuracy of reporting to determine that the following key controls are in place:

- Timely and accurate review and approval of monthly grant payroll reports,
- Monitoring of monthly/quarterly/annual payroll expenses to budget amounts, and
- Education and follow up with principal investigators, study teams and financial management team members as needed.

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

## Executive Summary

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### Conclusion

Overall, the selected departments payroll confirmation operational processes and controls are operating as intended. Opportunities for control improvements were noted in the following areas: the PI Monthly Payroll Confirmation Form does not include a listing of the grants included in review and Medical Center guidance does not define timely completion for the monthly attestation form.

The following table provides a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (1)	Low (0)	Total (1)
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- #1 Improve Documentation Within the PI Monthly Payroll Confirmation Process** – The PI Monthly Payroll Confirmation Form does not define a standard for timely approval, which could result in delayed review and adjustments, if needed. In addition, for PI's with more than one grant who complete only one form, the form does not include summarization of all grants and their associated subledgers, which could result in incomplete PI monthly review.

Management has plans to address the issues identified in the report and in some cases has already implemented corrective actions. These responses, along with additional details for the key improvement opportunities listed above and other low risk observations are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

We would like to take the opportunity to thank the departments and individuals included in this audit for the courtesies extended to us and for their cooperation during our review.

Sincerely,

Valla F. Wilson, Associate Vice President for Internal Audit, Chief Audit Executive

## Executive Summary

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## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p><b>Risk Rating: Medium <span style="color: yellow;">n</span></b></p> <p><b>1. Improve Documentation Within the PI Monthly Payroll Confirmation Process</b></p> <p>The “PI Monthly Payroll Confirmation Form” (Confirmation Form) is missing key information to document timely review and approval of payroll expenses.</p> <p>Specifically, the Confirmation Form:</p> <ul style="list-style-type: none"> <li>- Is not consistently signed and approved by both the PI and the Department Administrator within 30 days of the end of the month, increasing the risk of untimely review and approval or adjustments, if needed.</li> <li>- Was not consistently completed monthly for all departments. Some departments completed the form quarterly through calendar 2017 and moved to monthly reporting in calendar 2018.</li> <li>- Does not include a listing of the grants reviewed by the Principal Investigator (PI) in the monthly certification, when multiple grants are approved on one Form.</li> </ul> <p>In addition, the supporting payroll reports utilized for review and approval of payroll activities are not standard across the departments, which could result in disparities in review and inaccurate expense reporting.</p>	<ol style="list-style-type: none"> <li>1. Update departmental instructions to define timely approval of monthly reports as 30 days after the reporting period ends (approximately 45 days after the end of the month).</li> <li>2. Update departmental instructions to include summarization on the Form of all grants and their associated subledgers included for PI review and approval.</li> <li>3. Define standard reports that should be utilized in the payroll expenses review to ensure consistency and accuracy of information provided to PIs.</li> </ol>	<p><b><u>Management Action Plans:</u></b></p> <ol style="list-style-type: none"> <li>1. Completion within 45 days after the end of the month will be added to the Payroll Confirmation form to ensure timeliness of review and approval.</li> <li>2. Form will be updated to include section to specifically list each of the grants included in the Payroll Confirmation Form.</li> <li>3. With the implementation of PeopleSoft 9.2, standard reports will be defined and included in the Payroll Confirmation procedures.</li> </ol> <p><b><u>Action Plan Owners:</u></b></p> <p>Director of Operations &amp; Analytics, Academic Affairs</p> <p><b><u>Target Completion Date:</u></b></p> <ol style="list-style-type: none"> <li>1. July 31, 2018</li> <li>2. July 31, 2018</li> <li>3. December 31, 2018</li> </ol>

## Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>The Confirmation Form was implemented in June 2017. During the period of March 2017 through June 2017, the Provost Office, in coordination with Sponsored Programs Administration, met with each department to review their existing procedures and discuss implementation of the Form.</p> <p>Incomplete or untimely review procedures could result in inaccurate reporting of payroll expenses for grants and the need for retroactive adjustments for corrections.</p>		

## Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<p><b>Risk Definition-</b> The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.</p>	<b>Degree of Risk and Priority of Action</b>	
	<b>Priority</b>	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	<b>High</b>	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	<b>Medium</b>	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.
	<b>Low</b>	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions.

It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.