UT Southwestern
Medical Center

Uniform Guidance –
Payroll Confirmation Process Audit

Internal Audit Report 19:19

March 30, 2020

Executive Summary

Background

The Office of Management and Budget Guidance for Federal Grants and Agreements requires that charges to Federal awards for compensation for personal services (all remuneration including salaries and wages) must be based on records that accurately reflect the work performed. All compensation charged to externally sponsored research awards must be supported by a system of internal controls that provides reasonable assurance that the personnel costs incurred are accurate, allowable, and properly allocated.

Payroll charges typically make up the highest percentage of expenditures incurred on sponsored awards. As such, Uniform Guidance Administrative rules require 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.

The Provost Office and Sponsored Programs Administration (SPA) provides guidance to define the minimum requirements, to facilitate an accurate and comprehensive review of payroll expenses on externally sponsored research awards, and ensure payroll sourcing changes contain appropriate justification before updates are processed in the PeopleSoft financial system. In FY2019, the SPA team implemented a monitoring program to confirm that the minimum requirements are performed across the Medical Center.

On a monthly basis, Principal Investigators (PIs) review the payroll sourced and charged to externally sponsored awards and confirm that all payroll sourcing and/or payroll charges align with the work performed. After completion of this review, the PI must sign off on the accuracy of the charges using the PI Monthly Payroll Certification Form ("Form").

Executive Summary

Scope and Objectives

The Office of Internal Audit has completed its review of the UT Southwestern Payroll Confirmation process. This is a FY2019 risk based audit. 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; 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,
- 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.

Conclusion

Overall, adequate payroll confirmation activities are in place, however opportunities exist to improve the control environment. Actions taken to address opportunities include the development of an institutional Payroll Confirmation policy to define roles and responsibilities. Then, a creation of a centralized portal for attestation submissions to improve monitoring procedures. Finally, enhancing the Payroll Confirmation standard reporting package to provide additional detailed monthly payroll information will improve the Principal Investigator review and approval process.

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)

- **#1 Improve Monitoring of the Monthly Payroll Confirmation Process** – The PI Monthly Payroll Confirmation Forms are not consistently and accurately completed by the Principal Investigators and Department Administrators, increasing the risk of inaccurate financial reporting to grant agencies.

Executive Summary

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 opportunity listed above 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,

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium ● **1. Improve Monitoring of the Monthly Payroll Confirmation Process** Institutional monitoring is not in place to confirm timely completion of the "*PI Monthly Payroll Confirmation Form*" (Form) and resolution of any errors identified during the review. PIs are required to complete the forms monthly and are stored in departmental records. Incomplete or untimely review procedures could result in the need for retroactive adjustments for corrections and regulatory noncompliance, including inaccurate financial reporting of grant payroll expenses. Specifically: - Currently, guidance on completion of the Form is only available to employees via the Sponsored Programs Administration document library. An institutional policy is not available to provide guidance to Department Administrators and PIs and define key roles and responsibilities. - Completed Forms are maintained in departmental records and have to be manually retrieved when requested for SPA and regulatory review.	1. Develop institutional policy for the payroll confirmation process to provide formalized guidance to departments and define key roles and responsibilities. 2. Develop centralized portal for submission of completed Confirmation Forms to aid in SPA monitoring. 3. Update standard reports to be utilized in the payroll expense review to ensure consistency and accuracy of information provided to Department Administrators and PIs.	**Management Action Plans:** 1. Draft policy and process documents have been created and provided for review by stakeholders. This historically was one document but have separated out the requirement by policy and then the high-level process dependent upon the completion of the draft tool which was previously presented to Master Data Management. 2. A central repository needs to be created. OnBase and SharePoint have been considered. This will need to be a University-wide SharePoint and we are investigating cost, logistics, and security which will need to be incorporated into this repository. 3. A tool has been created to facilitate the standardization of reports to be utilized by the departments and to improve monitoring by the SPA team. It is currently in mock-up stage gathering feedback from stakeholders and leadership. There are revisions still in process by the Enterprise Data Warehouse (EDW) team based on continued feedback by the Assistant Vice President, Sponsored Programs Administration and team.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
- Inconsistent reporting was used to review and approve monthly Forms. SPA's FY2019 monitoring procedures identified six instances where incomplete reports were used (4) or detailed reports (2) were not used in the monthly review.		The current mock up removed all references to "effort" as well as includes stronger references to budget vs. actuals which were not considered in previous regulatory findings to present "reasonableness" factor of charges. Once final mock-up is complete and approved it will move to the testing phase by users to then be prepared for wide-spread training and distribution. **Action Plan Owners:** Assistant Vice President, Sponsored Programs Administration Assistant Director, Compliance and Education, Sponsored Programs Administration Vice President and Chief Operating Officer, Academic Affairs Associate Vice President, Enterprise Data Services and Chief Data Officer, Information Resources Director, Academic Administrative Data Services, Information Resources

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		Target Completion Date: 1. Communication and change management plans will be ongoing during April and May 2020. 2. Completed - The Policy Concept Form has been delivered to the Policy Office. 3. Policy and procedure documents will be delivered to the Policy Office by May 31, 2020. 4. Planned framework for the central repository will be ready for end- users by May 31, 2020. 5. User Acceptance training for Tool to achieve standardized reporting will be ready for delivery by May 31, 2020. 6. Education and distribution to department users will be completed by June 30, 2020.

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:

	Degree of Risk and Priority of Action	
Risk Definition- The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	**Priority**	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.
	High	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.
	Medium	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.
	Low	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.