

Compliance Mandates: Overdraft Management and Timely Cost Transfers

In the last 18 months, our campus has received two post-award management compliance mandates to which we must respond. The two mandates are:

- Decrease the amount of sponsored funds in overdraft
- Decrease the high rate of untimely cost transfers

The remainder of this communication:

- Provides more information about the mandates
- Introduces the results of preliminary efforts to determine potential root causes and identify enabling solutions
- Shares new and upcoming Extramural Funds (EMF) activities intended to support departments with compliance
- Lets you know what to expect as we seek to comply with the mandates

Mandates

Cost Transfers. In April 2006, UCSF received notice that an FY 2005 A-133 audit observation had been elevated to a finding that would be reported to federal agencies and federal flow-through sponsors. The observation was that 60% of the reviewed cost transfers were outside of a reasonable timeframe (defined as 120 days from initial posting). This matched an observation made in the FY 2004 A-133 audit. The finding requires that the campus:

1. Undertake due care to correctly allocate expenses to the benefiting sponsored projects, particularly at the beginning of the award or fund year for payroll distributions and at the time of order for non-payroll items
2. Ensure more regular review of expenditure reports by principal investigators (PIs). This PI review of actual payroll and non-payroll expenses against the award and/or fund year budget should occur no less than bi-monthly in order to prevent unnecessary cost transfers and to ensure any necessary cost transfers meet OMB Circular A-133, federal agency, and university guidelines.
3. Reduce the volume of untimely sponsored project cost transfers, including payroll expense transfers.

Overdrafts. In the spring of 2005, Internal Audit concluded that central monitoring of and enforcement of overdrafted sponsored funds does not occur, nor is there central enforcement of University Policy 300-19 Expenditures of Extramural Funds, section III. B. 4. This policy section provides that if a principal investigator does not clear an overdraft in a timely manner, the Controller's Office has the authority to transfer the over-expenditures to other funds. Given the volume of overdrafted funds at UCSF, the lack of monitoring and enforcement at the campus level places the institution at an undue level of risk. To close this open audit issue, our campus must institute central overdraft monitoring and enforcement.

Root Causes and Potential Enabling Solutions

In May, a group of department and school representatives from the four schools came together with EMF leadership to discuss these mandates and to brainstorm the root causes of and potential solutions for these compliance challenges. The meeting was productive and generated several ideas worth pursuing.

While EMF has a mandate to monitor and enforce, we also strongly believe that our institution's greatest compliance improvements will come via improving the business environment (streamlined processes, timely service, updated and clearly communicated procedures, etc.) within which department administrators and

PIs must manage research. Hence, it is EMF's intent to work collaboratively with departments, schools, other Controller's units, Office of Sponsored Research, and other central campus units to develop and implement solutions that will support and enable departments to increase compliance in each of these areas.

The following table contains examples of the brainstorming results from the May meeting. From the results, we will be working to identify those solutions that can be implemented in the short, medium or long term.

Root Causes	Potential Enabling Solutions
Monthly cycle for payroll transfers No systematic control over recharge center charges (e.g. requirements to update account-funds timely) Department research/finance staff turnover Subcontract execution delays Payment terms in contracts	Commitment control: reject over-budget transactions Campus benchmarks for research administrator portfolio management Automated speedchart re-routing Small balance fund closeout by EMF More frequent payroll transfer postings

New and Upcoming EMF Activities – Cost Transfers and Overdrafts

EMF is currently engaged in a sustained effort to implement needed changes to our existing business processes for managing sponsored funds. Recent areas of focus have included the implementation of new processes to manage awards in our new Research Administration System (RAS) and new award set up processes and timelines. The objectives of these changes are to:

- Provide better tools for EMF and the departments to use in managing sponsored funds
- Improve and standardize the services we provide to the campus
- Address several internal and external audit observations

We expect a number of new and upcoming changes in EMF to better support department efforts to comply with cost transfer and overdraft policies and guidelines, including changes in the following areas:

- Accounts receivable management
- Billing
- Closeout
- Cost transfer audit
- Compliance leadership
- Overdraft monitoring

Accounts Receivable Management. This fiscal year, we have engaged in a focused effort to clean up delinquent accounts receivable (AR) and to actively track, age, research and collect all AR items. From fiscal close last year through March 06, we decreased the number of open items by 64% and total AR dollars by 45%. Over the same period, the number of delinquent AR open items (aged over 366 days) fell by 85%. These results translate into fewer fund balance overdrafts due to late payments. With the implementation of RAS in April, we are currently integrating the new AR tools in that system into our ongoing AR processes.

Billing. One of the features of RAS is integrated set up, billing and AR. At the time of set up, EMF specifies when to bill the sponsor, the correct sponsor contact for billing, and/or when grant installment payments are due. Invoices are then automatically generated in the system from expenses charged to awards in RAS. Upon EMF review and approval of each invoice, AR is automatically generated, which initiates our AR reporting and collections processes. Also, RAS generates AR once installment payments are due for grants. These changes will result in reduced overdrafts due to late billing or late installment payments.

Closeout. In the next few months, EMF will implement a closeout process for the campus. The process begins with a notification to the PI and department award analyst that lists the steps required for the department and PI to complete a timely closeout. EMF will seek department concurrence on expenditures

prior to submission of a final invoice and/or FSR. After all payments are received, we will zero out the fund. We are currently investigating which actions we can take in our systems and in our encumbrment/disbursement processes to ensure future expenses are not charged to closed funds. We expect the entire process to reduce overdrafts and cost transfers due to late expenditures.

Cost Transfer Audit. In December, we implemented a sample-based post-audit strategy for reviewing cost transfer compliance from July 2005 forward. The compliance audit is completed monthly with a quarterly summary of results. One consistent result through March 2006 validates the A-133 audit finding; more than 50% of the cost transfer transactions in our sample were more than 90 days after the original post date of the expense. The quarterly summary provides our campus with greater transparency regarding the top compliance issues as well as compliance trends, while the detailed results provide EMF with the ability to target compliance interventions and support where it is most needed.

Compliance Leadership. In May, we significantly changed and received approval to post the Compliance Manager (MSP 2) position. EMF is aggressively recruiting for this position and hopes to fill it in the next two months. This position serves as the liaison and policy resource for campus departments for research financial compliance. The incumbent will define and produce compliance reporting, monitor and analyze those reports, and respond to the results. Responses could include campus and department trainings, campus communications, and targeted technical assistance. The appointee will use data to determine which campus levers will have the greatest impact on our compliance environment and to advocate for needed changes within those levers.

Overdraft Monitoring. EMF is developing a process to provide campus-level monitoring and enforcement of overdraft management. As departments have primary responsibility for financial management of funds, including overdraft management, EMF will focus only on large overdrafts (i.e., everything over a yet-to-be-determined dollar amount). At a high level, the process will include quarterly reporting to schools of all large overdrafts, with transfer of all large overdrafts occurring on three consecutive reports (9 months) to department or school discretionary funds. We will obtain input from department and school representatives before finalizing this procedure.

What to Expect

In the coming fiscal year, you can expect EMF to:

- Continue AR management and collections, automatically generated billings, and cost transfer post-audits
- Develop, communicate, and implement enabling cost transfer and overdraft compliance solutions, working with departments and central campus organizations
- Initiate an overdraft monitoring and enforcement process
- Implement a sponsored projects fund closeout process
- Hire a Compliance Manager to serve as a leadership resource for departments in financial research compliance

You can expect to receive additional communications over the next couple of months to provide more detailed information about the new process implementations. We look forward to working with all of you and welcome your comments and suggestions for ways to continuously improve post-award and compliance processes.