

October 17, 2022

PROFESSOR ZEA BOROK, MD
Chair
Department of Medicine
0671

Subject: *Department of Medicine*
Report 2022-18

The final report for Department of Medicine, Report 2022-18, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings 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 management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
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 Rina Davison
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 Steven Garfin
 William Gentz
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 Ron Skillens
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AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Medicine
Report No. 2022-18
October 2022

FINAL REPORT

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Medicine (Medicine) at University of California San Diego (UCSD) as part of the approved audit plan for Fiscal Year (FY) 2021-2022. The objective of our review was to evaluate Medicine business operations to determine whether internal controls provided reasonable assurance that financial results are accurately reported, operations are effective and efficient, and activities are compliant with relevant policies & procedures. The evaluation of sponsored research was limited in this review due to cleanup efforts that were underway related to financial system transition at the time of our review. A future review will be performed to evaluate Medicine sponsored research oversight and management.

Based on our review, we concluded Medicine business operations required improvement to provide reasonable assurance that financial results are accurately reported, operations are effective and efficient, and activities are compliant with relevant policies and procedures and to ensure compliance with sponsored project award terms and conditions.

The implementation of Oracle Financials Cloud (OFC) has significantly impacted Medicine's financial operations. Due to resource constraints and effort needed to identify and resolve post-implementation issues, Medicine has not yet implemented routine monitoring for financial accounts. Medicine has indicated that the Financial Information System (FIS) implementation has significantly impacted their ability to review and monitor financial transactions and financial division, and has expressed a lack of confidence in the financial reporting available at the time of our review. Default accounts and deficit balances are two areas where the impact of these issues are noted. We noted that as of February 2022 the default project balance was \$4.3 million. The downstream impact of this balance is that expenditures that were incurred for the benefit of sponsored research projects are not recorded on the correct award account, therefore the University may not fully recover expenses related to sponsored research and the financial picture for individual projects may be misstated. In addition, we also noted operating fund deficit balances were \$23.8 million¹ and 111 sponsored projects had \$11.7 in deficit balances². Due to the focus of available resources on system post-implementation issues and priority matters, Medicine has not been able to fully address deficits to determine appropriate resolution. Finally, we noted that rates for 16 recharge facilities required review, including one with a \$2.1 million surplus.

We also observed an opportunity for improvement related to compliance with Clinical Compensation Plans, and a limited number of exceptions related to transaction review and authorization.

Management Action Plans to address our findings are summarized below:

A. Financial Management

1. Medicine administrators have been meeting with the Campus Support Team to identify and address causes of rising default balances, and related stabilization efforts.
2. Medicine will develop a process for overall central management and mitigation of default account balances. Formal guidelines will be released to Department Administration regarding this process, leadership reporting, and target timeframes. Institutional support for these efforts will be solicited as appropriate. Medicine has several positions in recruitment to assist in financial monitoring efforts.

¹ As of February 2022

² As of May 2022

3. Medicine has been utilizing the Campus Support Team and Health Sciences (HS) SWAT Team (SWAT Team) to increase focus on clearing backlog, as well as routine monthly review, of transactions within default projects and the Default Project Payroll and Project Portfolio Management (PPM) to GL reports to correct transactions and identify root causes.
4. Medicine has developed a monthly process for review of non-Sponsored Project balances and will develop processes for Sponsored Project balance review. This process will include documentation of the key controls to demonstrate compliance with Statement on Auditing Standards (SAS) 115 and will be properly segregated from those administrators responsible for transaction approvals.
5. Deficit Resolution Plans will be submitted in accordance with the financial deficit policy for any sponsored project deficits or any other deficits greater than \$25,000 from any funding sources.
6. Medicine is evaluating Sales and Services Educational Activities (SSEA) activities identified and will submit a revised recharge rate proposal and/or discontinuing recharge operations as necessary.

B. Compliance with Clinical Compensation Plan

1. Medicine and Division administrations will evaluate and modify Division Clinical Compensation Plans as appropriate to reflect actual incentive payment practices and include the Good Standing Criteria requirements of APM 670.
2. Medicine will implement guidelines for a standardized clinical compensation process across divisions, a central clinical compensation calculation model, and reconciliation processes between central calculations and those performed by Divisions.

C. Transaction Review and Authorization

1. Medicine is developing guidelines and a process for Special Entertainment to ensure compliance with applicable policies and will remind transaction approvers to monitor per-person gathering and dollar value thresholds for entertainment and ensure that special entertainment approvers and persons executing purchasing documents have delegated authority.
2. Medicine is evaluating Kuali and other systems to implement improved workflow and data analysis associated with authorization requests such as Special Entertainment; if feasible, systems will be implemented by the end of FY 2022-2023.
3. Medicine's SPO will provide a reminder for fund managers and the PI to ensure that sponsor pre-approvals and related Institutional Animal Care and Use Committee (IACUC) approvals are obtained prior to deviations in project scope, and approval of payment for related services.
4. Medicine SPO will ensure there is documented sponsor notification of the change in scope for the vendor provided research services transaction identified or will transfer these services costs to another funding source.
5. Medicine SPO will coordinate with the PI to request IACUC approval documentation from the parent company of the vendor for contracted services and retain these records in study project documentation.

Observations and related Management Action Plans are described in greater detail in section V. of this report.

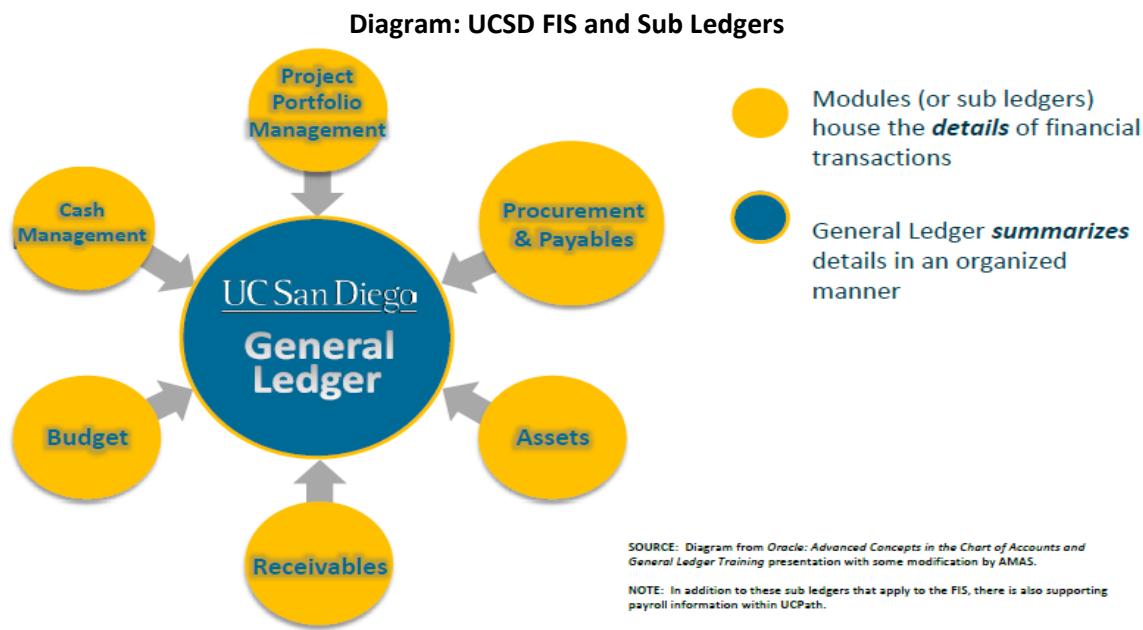
II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Medicine at University of California San Diego (UCSD) as part of the approved audit plan for Fiscal Year (FY) 2021-2022. This report summarizes the results of our review.

The Department of Medicine (Medicine) is the largest department within the UCSD School of Medicine. Medicine is comprised of 17 subspecialty Divisions with nearly 500 full-time faculty members and over 100 academic researchers. Medicine's Chair was appointed in April 2021. The Medicine central business office is led by the Administrative Vice Chair and supported by a Director, Associate Director, Supervisor, analysts, data scientists, and financial specialists. Medicine also supports research through its own Sponsored Projects Office (SPO) led by a Director, Assistant Directors, Manager, and research administrators. Administratively, a faculty chief is responsible for each subspecialty Division, the Division Chief is supported by a Division Administrator, and fund managers are responsible for preparing transactions and assisting Principal Investigators (PI) in the administration of University research funds. According to the UCSD Net Operating Loss Results/Fund Balance Report for the Fiscal Year Ended (FYE) June 30, 2021 Medicine had approximately \$259.5 million in total revenue, including contracts and grants of \$142.8 million (55%), and an operating loss of \$22.6 million for the year with a \$30 million Net Position and \$27 million of Available Resources.

FY 2020-2021 was a highly unusual year. On March 19, 2020, in response to the COVID-19 pandemic, the Governor of California issued a stay-at-home order except as needed to maintain continuity of operations of the federal critical infrastructure sectors. Although this was prior to FY 2020-2021, business operations would continue to be significantly impacted by the COVID-19 pandemic throughout that FY and into the subsequent FY.

In addition, UCSD experienced significant financial and information system changes in FY 2020-2021. On May 1, 2020, UCSD implemented the new University of California (UC) Human Resources and Payroll system, UCPATH. Also, UCSD implemented a new Financial Information System (FIS), Oracle Financials Cloud (OFC), and Concur, on July 1, 2020, which included implementation of a new chart of accounts. Financial reporting availability has significantly evolved since implementation of the OFC FIS. Along with the FIS implementation, UCSD changed from daily transactions recorded in the financial records on a cash basis, whereby expenses are recorded in the ledgers as the expense is paid, to an accrual basis, whereby expenses are recorded in the ledgers as the expense is obligated to be paid. Along with these changes, a set of sub ledgers was introduced, many of which did not exist in the prior financial system. The following chart provides information on the sub ledgers included within the FIS.



Within Medicine, changes in administrative roles and reporting were made to adapt to the new environment. Medicine and the Vice Chancellor for Health Sciences (VCHS) eliminated the original transitional use of project/task structure in favor of General Ledger (GL) accounting for non-sponsored projects. Information from activity hubs are being used to redevelop analytics systems within Medicine to provide Key Performance Indicators (KPI) and division-relevant reporting to mitigate risk and optimize expenditures. With the implementation of OFC and Concur, for travel and expense, new transaction roles were established, evaluated, and implemented. As such, Medicine re-delegated transaction approval from Division administrators to central Medicine administrators.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate Medicine business operations to determine whether internal controls provided reasonable assurance that financial results are accurately reported, operations are effective and efficient, and activities are compliant with relevant policies & procedures. In order to achieve our objective, we performed the following:

- Reviewed:
 - Applicable federal regulations, and requirements, and UC policies relating to core business operations, including the Academic Personnel Manual (APM), selected Business & Financial Bulletins and others;
 - Selected process workflows;
 - Outstanding 2020-2021 Annual Certifications of outside professional activity disclosures as of October 14, 2021;
 - Campus Asset Management System (CAMS) 2020 Inventory Report as of November 3, 2021;
 - Financial Analysis Office Recharge Operations by Fund Report as of May 2020;
 - Information regarding Medicine Shared Service costs; and
 - Medicine equity, inclusion, and diversity activities;
- Interviewed:
 - Associate Dean for Business Affairs, School of Medicine;

- Medicine Administrative Vice Chair;
- Medicine Director of the Business Office;
- Medicine Director of the Sponsored Projects Office;
- Vice-Chair of Equity, Diversity and Inclusion; and
- Selected Division personnel;
- Evaluated:
 - Financial system roles as of September 16, 2021;
 - Selected financial reports for the FYE June 30, 2021 and portions of FY 2021-2022;
 - Selected Division Clinical Compensation Plans;
 - Selected Medicine deficits and available approved deficit reduction plans;
 - Selected sponsored project deficits and available approved deficit reduction plans;
 - Selected default account balances and/or transactions;
 - Selected incentive payments for compliance with Clinical Compensation Plans; and
 - Federal awards ended in FYE June 30, 2021 for compliance with Uniform Guidance final Federal Financial Report compliance;
- Tested:
 - Selected gift fund transactions for compliance with gift fund restrictions and University policies;
 - Selected financial transactions for compliance with University policies; and
 - Selected sponsored project transactions for compliance with University policies, and award terms and conditions.

Our review did not include clinical operations and related professional, hospital and research billing processes. Although we evaluated a small sample of transactions on sponsored research awards in deficit for compliance with Federal regulations, the evaluation of sponsored research was limited in this review due to cleanup efforts that were underway related to financial system transition at the time of our review. A future review will be performed to evaluate Medicine sponsored research oversight and management.

IV. CONCLUSION

Based on our review, we concluded Medicine business operations required improvement to provide reasonable assurance that financial results are accurately reported, operations are effective and efficient, and activities are compliant with relevant policies and procedures and to ensure compliance with sponsored project award terms and conditions. Opportunities for improvement includes areas such as financial management (sponsored and non-sponsored fund) and compensation plan document and oversight.

The implementation of Oracle Financial Cloud has significantly impacted Medicine's financial operations. Due to resource constraints and effort needed to identify and resolve post-implementation issues, Medicine has not yet implemented routine monitoring for financial accounts. Medicine has indicated that the FIS implementation has significantly impacted their ability to review and monitor financial transactions and financial division, and has expressed a lack of confidence in the financial reporting available at the time of our review. Default accounts and deficit balances are two areas where the impact of these issues are noted. We noted that as of February 2022 the default project balance was \$4.3 million. The downstream impact of this balance is that expenditures that were incurred for the benefit of sponsored research projects are not recorded on the correct award account, therefore the University may not fully recover expenses related to sponsored research and financial picture for individual projects may be misstated. In addition, we also noted operating fund

deficit balances were \$23.8 million³ and 111 sponsored projects had \$11.7 in deficit balances⁴. Due to the focus of available resources on system post-implementation issues and priority matters, Medicine has not been able to fully address deficits to determine appropriate resolution. Finally, we noted that rates for 16 recharge facilities required review, including one with a \$2.1 million surplus. Timely review of these recharge facilities can ensure that operating expenses are recovered, but that users are not overcharged to the extent that significant surplus balances result.

We also observed that most Divisions were not calculating faculty incentive payments based on the incentive payment rates specified in the Division Clinical Compensation Plan. Therefore, Medicine and Division Clinical Compensation Plans did not reflect current practices for calculating incentive payments to clinical faculty, and did not include all Good Standing Criteria requirements of UCSD policy. Finally, we noted a limited number of exceptions related to transaction review and authorization.

Attachment A provides a summary of the results of business processes review. Opportunities for improvement are discussed in the balance of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Financial Management
<p>Due to resource constraints and effort needed to identify and resolve post-implementation issues, Medicine has not yet implemented routine monitoring for financial accounts. Ongoing efforts are being directed to addressing rising default project balances, mitigate deficits in operating funds and sponsored projects, and address surpluses in certain recharge operations.</p>	
Risk Statement/Effect	
<p>Adequate financial oversight is necessary to ensure that Medicine demonstrates stewardship of funds. Delays in the review of financial information increases the risk of overspending and unfunded project costs, as well as errors/irregularities that could remain undetected for extended periods of time.</p>	
Management Action Plans	
A.1	Medicine administrators have been meeting with the Campus Support Team to identify and address causes of rising default balances, and related stabilization efforts.
A.2	Medicine will develop a process for overall central management and mitigation of default account balances. Formal guidelines will be released to Department Administration regarding this process, leadership reporting, and target timeframes. Institutional support for these efforts will be solicited as appropriate. Medicine has several positions in recruitment to assist in financial monitoring efforts.
A.3	Medicine has been utilizing the Campus Support Team and Health Sciences (HS) SWAT Team (SWAT Team) to increase focus on clearing backlog, as well as routine monthly review, of transactions within default projects and the Default Project Payroll and Project Portfolio Management (PPM) to GL reports to correct transactions and identify root causes.

³ As of February 2022

⁴ As of May 2022

A.4	Medicine has developed a monthly process for review of non-Sponsored Project balances and will develop processes for Sponsored Project balance review. This process will include documentation of the key controls to demonstrate compliance with Statement on Auditing Standards (SAS) 115 and will be properly segregated from those administrators responsible for transaction approvals.
A.5	Deficit Resolution Plans will be submitted in accordance with the financial deficit policy for any sponsored project deficits or any other deficits greater than \$25,000 from any funding sources.
A.6	Medicine is evaluating Sales and Services Educational Activities (SSEA) activities identified and will submit a revised recharge rate proposal and/or discontinuing recharge operations as necessary.

A. Financial Management – Detailed Discussion

Default Projects

As previously discussed, UCSD implemented a new FIS, chart of accounts, and a change in financial accounting method on July 1, 2020. As a result, UCSD financial administrators experienced a significant learning curve in adapting new workflows and business process to adjust to these changes.

With the implementation of UCPATH and the new chart of accounts, transactions may be directed automatically to a default project within the general ledger and may not be captured as anticipated by departments in the PPM sub ledger. This may be the result of an incomplete chart of accounts chart string. Also, new controls were established restricting the transfer of funds between types of funding sources impacting the movement of transactions. These controls have since been modified to assist in accurate financial reporting. Transactions may circumvent the PPM when directed to the GL; therefore, the PPM should be periodically reconciled to the GL.

OFC controls also prevent expenses from posting to projects in certain cases, such as if the expenditure date is outside the project period of performance, or the award is closed. Therefore, proactive management of payroll on sponsored projects that are ending and reconciliation of the default projects is necessary to redirect transactions to the appropriate fund source. A Funding Issues report is available to identify potential issues related to funding that, if not addressed timely, will result in payroll transactions recorded to the department default. In addition, a new Default Project Payroll Report has recently been developed to assist administrators with identifying payroll that has posted to a default project, identify projects with funding entries in UCPATH that resulted in posting to a default project, and to identify direct retroactive or cost transfers to move charges off a default project. These reports can be utilized to identify, correct, and prevent payroll from incorrectly posting to default accounts.

As of FYE June 30, 2021, there was a combined default project deficit of \$3,491,432. For FY 2021-2022 through February 2022, there were an additional \$774,875 in transactions to default projects comprised primarily of payroll and benefit expenses for a combined default project balance of \$4,266,307 (**Attachment B**).

In Fall 2020, the SWAT Team was formed with representation from HS Controller's Office and other HS departments. The SWAT Team supports the departments to evaluate payroll charges on the Financial Unit Default Projects, and process direct retroactive transactions and/or funding changes on their

behalf, or manual journals for projects that had approved extensions for project end dates. Medicine participates in these efforts, however it remains a challenge to devote appropriate resources to evaluating the corrections needed for the SWAT team to process. Medicine should increase efforts to identify and correct root causes of transactions to default projects via available reports and develop a process to transfer transactions to the proper project to ensure accuracy of financial records. Without this review, the financial picture for individual projects may be misstated and the University may not fully recover expenses related to sponsored research.

Deficit Monitoring and Resolution

[UCSD Policy 300-2, Financial Deficit Policy](#), establishes the following:

Department Responsibilities for Financial Oversight

A. Principal Investigator (PI) or Fund Manager	B. Department Chair and Department Business Officer (or Equivalent Officer)
<p>a. For Sponsored Projects, the person(s) named as the PI, manager, or director in an award of a contract or grant accepted by UC San Diego, has primary responsibility for adherence to the conditions of the award and for ensuring that expenditures made are appropriate, allowable, and within the budgetary limitations of the award.</p> <p>b. For Projects other than Sponsored Projects, the Fund Manager is responsible for avoiding Financial Deficits, promptly resolving any Financial Deficits when they occur, or developing and implementing written action plans to eliminate.</p>	<p>a. Identify, avoid and resolve Financial Deficits</p> <p>b. Ensure that sponsored Projects' expenses do not exceed the cumulative amount of the award, allocation or budget and, if Financial Deficits do occur, ensure that corrective action is taken. With Financial Deficits that remain 120 days after a sponsored Project's end date and are moved by OPAFS to a consolidated Sponsored Research Deficit Fund, ensure that available, unrestricted PI and/or department resources are applied to clear the deficit before fiscal year end.</p> <p>c. Ensure that PI or Fund Managers develop a written plan under which Financial Deficits larger than \$25,000 will be eliminated before year-end. Any longer period for deficit resolution must be approved by the appropriate Vice Chancellor or Dean and by the Campus VC - CFO (see Procedures below).</p>

This University policy states that departments will not be permitted to carry over financial deficits exceeding \$25,000 without a deficit resolution plan that is approved by the Department Chair/Designee and Dean/Vice Chancellor. As of February 28, 2022, there were 95 operating funds with deficits meeting the \$25,000 threshold, totaling \$23,812,028⁵.

Sponsored Projects are managed at the project level, and, as of May 6, 2022, Medicine had 60 open sponsored projects with deficits greater than \$25,000 totaling \$6,063,841 and 51 closed projects with deficits totaling \$5,658,146, representing an overall total of 111 projects with \$11,721,987 of deficit balances. We selected three types of funds with deficits over \$1,000,000 and were advised by Medicine that some fund transfers would resolve some of these deficits and that deficit resolution plans had not been developed or updated at the time of our evaluation.

Recharge Rate Review

[UCSD Policy 300-87, Sales & Service of Educational Activities: Recharges by Academic Support Units, and Sales & Services to External Entities Policy](#), states that “[e]xpenditures to revenue reconciliation

⁵ In May 2022, the UCSD Health Chief of Staff provided a Medicine update to AMAS that the Campus Support Team has been meeting with Medicine to resolve deficits and Medicine has been making beneficial progress in resolving these balances.

must be performed at least annually to determine any necessary rate adjustments in accordance with the [UC San Diego Self-Supporting Activity Guidance](#). Every effort should be made to ensure the year-end surpluses or deficit does not exceed two months of the SSEA's annual expenditures. Significant surplus or deficit balances can be amortized over a period of several fiscal years with prior [Financial Analysis Office] approval, and projected year-end surplus or deficit balances must be included in subsequent year rate computations." In addition, the SSEA Review Matrix establishes a periodic rate review requirement between one and five years based on annual federal billings and risk.

We evaluated fund balances for Medicine recharge operating funds and identified several funds with Resources Available that appear to meet the requirements for a recharge rate review based on policy. Information on selected recharges subject to rate review, as of June 30, 2021, is provided in **Attachment C**. As of June 30, 2021, of the 16 recharges identified, there were 15 (94%) with a surplus or deficit balance exceeding two months of expenses, including one with the largest surplus of \$2,114,706 and \$268,520 in expenses. SSEA activities identified should be evaluated by Medicine to ensure that they meet the criteria for recharge rate review and submit a revised recharge rate proposal for review and approval and/or discontinued.

Financial Monitoring

The [Statement on Auditing Standards \(SAS\) 115, Communicating Internal Control Related Matters Identified in an Audit](#), is a financial reporting standard that establishes guidelines for determining the seriousness of internal control issues. As a result, UCSD strives to ensure that existing key controls are in place and that UCSD can demonstrate, through documentation, that they are operating as intended. Key controls include Fiscal Operations Review, Ledger Transaction Verification, Overdraft Funds, Payroll Expense Verification and several others.

Medicine has not implemented routine monitoring for financial accounts due to resource constraints and effort needed to identify and resolve post-implementation issues. In addition, Medicine has not expressed confidence in the financial reporting available at the time of our review. In Medicine's opinion, available reports had significant grouping issues for the multiple Medicine financial units and available reports required too much time to run. Medicine has indicated that the FIS implementation has significantly impacted their ability to review and monitor financial transactions and financial division. Medicine previously utilized analytical systems to manage deficits and identify transaction challenges under Integrated Financial Information System (IFIS). These systems have since had to be rebuilt through specific data processes and a portion of the transactional data is not available at the department-level which is considered essential by Medicine. As a result of these conditions, Medicine has focused resources on these efforts rather than performing overall financial review and monitoring of Medicine, its Divisions, most individual sponsored project awards, and had not been documenting the performance of financial monitoring for compliance with SAS 115.

Award Terms and Conditions Compliance

In addition to the Financial Management responsibilities and observations above, PIs and Medicine administrators have additional obligations due to the terms and conditions of sponsored projects. These terms and conditions include compliance with the [Office of Management and Budget's \(OMB\) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(Uniform Guidance\)](#).

As discussed above, resource constraints and system post-implementation issues have prevented most routine monitoring of financial accounts including sponsored research. Department personnel focused efforts on awards approaching end date, or other priority matters as they arose. In some cases, this

required significant ledger cleanup via UC Path Direct Retro or cost transfer. As a result, many cost transfers were not performed timely. As of April 1, 2022, we evaluated the Medicine High-Risk Cost Transfers Report for original transactions that occurred within FY 2021-2022. We determined that there were 5,937 high-risk cost transfers that were performed over 90 days after the original expiration date of the award, with a range of 97 to 623 days. According to Uniform Guidance (2 CFR Part 200.344(a)), all financial reports must be submitted no later than 120 calendar days after the end date of the period of performance, and, for a pass-through entity, no later than 90 calendar days after the end date of the period of performance. Therefore, these transactions are considered high-risk transfers, require additional approval and the retention of sufficient documentation supporting the transfer and may be disallowed by the Sponsor.

Medicine has been working with the VCHS to address cost transfers, and we understand that standard language has been developed for transfers from default projects to adequately justify those types of cost transfers and explain the untimeliness of the transfer in UCPATH. Improvements in proactive monitoring of award end dates and associated payroll should reduce high-risk transfers in the future.

B. Compliance with Clinical Compensation Plan	
Medicine and Division Clinical Compensation Plans did not reflect current practices for calculating incentive payments to clinical faculty and did not include all Good Standing Criteria requirements of APM 670.	
Risk Statement/Effect	
Current incentive payment practices that are not in strict compliance with Division Clinical Compensation Plans may result in variances in incentives payments and/or some elements of Good Standing Criteria which could be challenged by clinical Health Sciences Compensation Plan (HSCP) members.	
Management Action Plans	
B.1	Medicine and Division administrations will evaluate and modify Division Clinical Compensation Plans as appropriate to reflect actual incentive payment practices and include the Good Standing Criteria requirements of APM 670.
B.2	Medicine will implement guidelines for a standardized clinical compensation process across divisions, a central clinical compensation calculation model, and reconciliation processes between central calculations and those performed by Divisions.

B. Compliance with Clinical Compensation Plan – Detailed Discussion

The HSCP governs compensation for all Health Sciences faculty who have an appointment of 51% or greater and are in good standing. Under this plan, salary is based on rank and step (X), Academic Programmatic Unit (APU) or affiliation (X'), and a negotiated Y component, where applicable. Combined, these three components comprise the annual salary. HSCP faculty members may also receive incentives, which are paid as Z Payments. Division Clinical Compensation Plans describe the manner in which faculty members may earn incentive compensation beyond base and negotiated compensation. Only the earned income portion of salary (X and X') are the secured portion on income. Negotiated Y and Z payments are not guaranteed income.

Medicine has a Department of Medicine Specialty Divisions Clinical Compensation Plan, each Medicine Division with clinical faculty has a clinical compensation plan, and some Divisions have sub-specialty clinical compensation plan(s), for a total of 20 compensation plans. The Department of Medicine Specialty Divisions Clinical Compensation Plan specifies that faculty are primarily funded for clinical effort through Health System and/or UCSD Physician Group CARE payments received by the Department/Division. These CARE payments are calculated based on Work Relative Value Units (wRVUs) produced over a period of time. Dean, Department, and Division assessments are deducted from the CARE payments received as stipulated in the Division Clinical Compensation Plans. In addition, Division Clinical Compensation Plans specify a CARE payment per wRVU for incentive payments.

An Excerpt Example of a Division Clinical Compensation Plan is presented below.

Excerpt Example of Division Clinical Compensation Plan

CCP CARE Payment per wRVU Illustrative Model (Exclusive of any supplemental shift/session pay)			
Item	Inpatient	Outpatient	
GROSS CARE	\$ 55.81	\$ 55.81	
Department Tax	(5.58)	(5.58)	<i>Inpatient: 10.00%; Outpatient: 10.00%</i>
Division Tax	(5.58)	(5.58)	<i>Inpatient: 10.00%; Outpatient: 10.00%</i>
NET CARE	44.65	44.65	
Productivity Incentive (10.00%)	(4.47)	(4.47)	<i>Provided to faculty pursuant to Z Payment Schedule</i>
Quality Incentive (4.00%)	(1.79)	(1.79)	<i>Provided to faculty pursuant to Z Payment Schedule</i>
BASE CARE	\$ 38.39	\$ 38.39	
Base Care to X + X' + Y	\$ 32.63	\$ 32.63	<i>85.00% Base CARE paid monthly as salary*</i>
Earned Income Z	5.76	5.76	<i>15.00% Base CARE paid monthly as recurring Z*</i>
Monthly Base Care	\$ 38.39	\$ 38.39	

** subject to true-up / reconciliation as documented*

Z Payment Schedule			
Item	Rate	Payment Frequency	Description
Earned Income	15.00%	Monthly	Released monthly based on negotiated salary and trued up to actual productivity no less than twice per annum
Productivity Incentive	10.00%	Annually	Released annually after reconciliation of all clinical activity from the fiscal year. Upon complete fulfillment of clinical targets, may be released on a quarterly basis at the discretion of division leadership.
Quality Incentive	4.00%	Annually	Released no more than quarterly based on specified criteria.

In practice, most Divisions were not calculating the incentive payments based on the incentive payment rates specified in the Division Clinical Compensation Plan, but reconciling faculty member CARE payments received after assessments to total salary. This practice could be the result of subsequent adjustment to CARE payment rates after the compensation plan was approved and salaries were negotiated. For example, the CARE payment rates per wRVU were adjusted by UC San Diego Health following salary negotiations and budgeting, and these CARE payment rates vary by Division. We have provided two examples below where our calculation of expected incentives varied from the actual payments made and included in Distribution of Payroll Expenditure (DOPE) reporting:

Examples of AMAS Calculated Variances in FY 2020-2021 Incentive Payments to Compensation Plan⁶

Incentive Component	Faculty Member 1	Faculty Member 2
Incentive Payments per Distribution of Payroll Expense (A)	\$323,253	\$115,666
<i>AMAS Calculation</i>		
Earned Z	\$45,261	\$27,996
Quality	\$15,087	\$9,332
Productivity	\$30,174	\$18,664
Excess Z	\$211,655	\$50,333
Shift Pay	\$700	\$15,850
Calculated Total (per AMAS) (B)	\$302,877	\$122,175
Variance in Total Incentive Payment (A-B)	\$20,376	\$(6,509)

The practice of evaluating CARE payments to overall salary agrees with the description in the Department of Medicine Clinical Compensation Plan that faculty are primarily funded for clinical effort through CARE payments. However, it does not always agree with the incentive payment rates specified in the Division Clinical Compensation Plans due to changes in salary and/or CARE payment rates. As a result, in our evaluation of 15 judgmentally selected faculty member⁷ incentive payments across five Divisions, we were not always able to fully validate the department's incentive payment portion of total compensation made to faculty members as the departmental practice was not in strict conformance with the clinical compensation plan for incentive payments. Therefore, the Medicine and Division Clinical Compensation Plans should be modified to reflect the actual incentive payment practice.

[UC Academic Personnel Manual \(APM\) 670, Health Sciences Compensation Plan](#) requires written Good Standing Criteria to be included in the local Implementing Procedures. UCSD Implementing Procedures requires Good Standing Criteria to be included in Department's Compensation Plan Procedures. According to APM 670, Good Standing Criteria should include "1) a definition of Good Standing, 2) a description of the administrative review process that occurs when a member is determined to be out of Good Standing, 3) consequences for not being in Good Standing, and 4) the process by which a faculty member may return to Good Standing." In our review of the Department of Medicine Clinical Compensation Plan or Division Clinical Compensation Plans, we determined that not all of these elements were included in all of these Department Clinical Compensation Plan and/or the Division Clinical Compensation Plans. Department of Medicine and Division Clinical Compensation Plans should be modified to include the Good Standing Requirements of APM 670.

⁶ Revised CARE payment per wRVU rate was utilized for this calculation rather than the CARE payment per wRVU specified in the Division Compensation Plan.

⁷ All incentive payments were not fully evaluated to identify variances to the compensation plan as two Divisions had competing priorities. Based on our review of other Division incentive payments and based on the incentive payment validation evaluation performed for these Divisions, we determined that the primary cause of these variances in incentive payments was based on Division overall compensation CARE payment practices.

C. Transaction Review and Authorization	
We noted individual instances where transactions were not approved by the appropriate authority or in accordance with award terms.	
Risk Statement/Effect	
Transactions that are not approved by the appropriate authority or performed in accordance with the award terms and conditions increase the risk of inappropriate expenditures or disallowance.	
Management Action Plans	
C.1	Medicine is developing guidelines and a process for Special Entertainment to ensure compliance with applicable policies and will remind transaction approvers to monitor per-person gathering and dollar value thresholds for entertainment and ensure that special entertainment approvers and persons executing purchasing documents have delegated authority.
C.2	Medicine is evaluating Kuali and other systems to implement improved workflow and data analysis associated with authorization requests such as Special Entertainment; if feasible, systems will be implemented by the end of FY 2022-2023.
C.3	Medicine's SPO will provide a reminder for fund managers and the PI to ensure that sponsor pre-approvals and related Institutional Animal Care and Use Committee (IACUC) approvals are obtained prior to deviations in project scope, and approval of payment for related services.
C.4	Medicine SPO will ensure there is documented sponsor notification of the change in scope for the vendor provided research services transaction identified or will transfer these services costs to another funding source.
C.5	Medicine SPO will coordinate with the PI to request IACUC approval documentation from the parent company of the vendor for contracted services and retain these records in study project documentation.

C. Transaction Review and Authorization – Detailed Discussion

Delegation of Authority

As part of our review, we evaluated a judgmental sample of 15 transactions for the FYE June 30, 2021. We evaluated a \$2,310 graduation event transaction for 64 participants and determined that the costs exceeded the per-person threshold for programmatic activities and required special entertainment approval. There was an email attached to the documentation from Medicine that pre-approval had been received from the Associate Dean and Assistant Dean for Graduate Medical Education for the graduation event and reminded Medicine of the per-person maximum and that gatherings of up to 50 people were approved. However, we were unable to locate a special entertainment delegation of authority for the Associate or Assistant Deans for Graduate Medical Education. In addition, we also determined that the number of participants exceeded the allowable gathering threshold of 50 people at the time. Medicine transaction approvers should monitor per-person gathering and dollar value thresholds for entertainment and ensure that special entertainment approvers have delegated authority.

We also identified a Statement of Work (SOW) that was executed by a key personnel on a sponsored award. However, we were unable to locate a delegation of authority for this individual for the execution of purchasing documents. Proper delegation of authority should be exercised to ensure that the purchase and subsequent payment of services comply with policy and approved methods to ensure that these services meet business, agency, and legal requirements. Therefore, this individual should be informed of the process for execution of these documents.

Research Services Conducted in Accordance with Award

As part of our transactions review, we evaluated a \$18,345 transaction for services to be provided by a vendor related to a sponsored research award. A SOW was executed in March 2020, a requisition for these services was submitted by a faculty member, and approved by Medicine SPO in early April 2020. As part of our evaluation of transactions, we evaluate applicable University policies and compliance with relevant agency regulations. As part of that review, we determined that none of the models in the original or supplement proposals were consistent with the research model specified in the SOW. Therefore, the requisition and subsequent transactions for the SOW should not have been approved.

Uniform Guidance requires PIs to report deviations from budget, project scope and/or objective, and request prior approvals from the sponsor even if there is no associated budget revision requiring prior written approval. The PI specified the alternative model in a progress report, which the PI asserted served as notifying the sponsor after-the-fact. Since prior approval was required for a deviation from scope, it is possible that the cost would be considered unallowable, although we were advised that the sponsor project officer did not express concerns regarding this model in subsequent progress report communications. In addition, the PI in the Division of Infectious Diseases & Global Public Health was unable to provide evidence of IACUC approval for the SOW research model effective as of the date of service as the vendor is now non-operational. The vendor was an entity associated with a parent company that is currently operational; therefore, evidence of IACUC approval at the time of service for the services rendered by the vendor should be sought and retained as required for compliance with the record retention requirements of *Uniform Guidance* (§200.334).

ATTACHMENT A – Audit Results by Business Office Functional Process

AMAS Audit Review Procedures				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ⁸	Comments
Business Office Process	Analytical Review of Financial Data	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Operating Ledger Review & Financial Reporting	✓	✓	Examined operating ledgers and financial reports, including management of deficits, default projects.	No	Unsatisfactory ⁹	Opportunity for improvement was identified for overall financial review and monitoring and documentation of these activities, management of default projects, and deficit monitoring and resolution. Report Finding A
Recharge Rate Activity	✓	✓	Identified recharge activities from financial ledgers and evaluated specific Medicine recharge review dates on the Business and Financial Services, Financial Analysis Office, Operations by Fund report, version May 2020.	Yes	Improvement Needed	Opportunity for improvement was identified for recharge rate reviews. Report Finding A
Timekeeping & Payroll (Personnel Management & Payroll Transfers)	✓	✓	Recalculated a judgmental sample of faculty incentive payments based on compensation plans and compared to payments in the financial ledgers.	Yes	Improvement Suggested	Medicine utilizes shared services for human resources activities. Therefore, the focus of our review was on payroll incentives. Opportunity for improvement was identified for compliance with Clinical Compensation Plans. Report Finding B
Transaction Processing - Non-Payroll Expenditures	✓	✓	Reviewed a judgmental sample of transactions; traced to supporting documents; and evaluated in consideration of project restrictions.	Yes	Improvement Suggested	Opportunity for improvement was identified related to delegation of authority. Report Finding C
Contract & Grant Activity (Post Award Admin.)	✓	✓	Evaluated volume of high-risk transfers and reviewed a judgmental sample of transactions; traced to	Yes	Improvement Needed	Opportunity for improvement was identified for one research service conducted in accordance with one award, and high-risk transfers and

⁸ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

⁹ AMAS noted that some of the issues contributing to this conclusion are a result of processes impacted by the financial system implementation and related changes in business processes. The Department has indicated that they are working to re-institute processes impacted by the transition.

Business Office Process	AMAS Audit Review Procedures			Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ⁸	Comments
	Analytical Review of Financial Data	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
			supporting documents; and evaluated in consideration of award terms and conditions.			award terms and condition compliance. Report Finding A & C
Equipment Management	✓	N/A	Evaluated the CAMS 2020 Inventory Report by Financial Unit as of November 3, 2021.	No	Improvement Needed	Opportunity for improvement was identified in ensuring that equipment inventory is validated annually. This was verbally communicated to Medicine administration.
Conflict of Commitment	N/A	Y	Evaluated FY OATS status report as of October 14, 2021.	Yes	Satisfactory	At the time of review, 78% of annual certifications had been completed, 17% were in process, 5% had not been started.
Diversity, Inclusion & Equity	N/A	✓	Detailed testing not deemed necessary based on the overall risk assessment.	Yes	Satisfactory	Medicine has appointed a Vice Chair for Equity, Diversity & Inclusion within the department and are working on creating a Justice, Equity, Diversity, and Inclusion workgroup.
Export Controls	N/A	✓	Detailed testing not deemed necessary based on the overall risk assessment.	Yes	Satisfactory	Monitoring is performed via approval of transactions and review is as activity is identified.
Payroll Expenditure Transfers	✓	✓	These transactions were not separately evaluated. They were evaluated in conjunction with our Transaction Processing – Non-Payroll Expenditure sample and Contract & Grant Activity testing.	Yes	Satisfactory	See Business Process for Transaction Processing – Non-Payroll Expenditure and sample and Contract & Grant Activity (Post Award Administration).
Payroll & Non-Payroll Expenditure Transfers	✓	✓	Reviewed timeliness, and business justifications for reasonableness.	Yes	Satisfactory	See Business Process for Transaction Processing – Non-Payroll Expenditure and Contract & Grant Activity (Post Award Administration).
Travel & Entertainment	✓	✓	Travel and entertainment transactions were not separately evaluated. They were evaluated in conjunction	Yes	Satisfactory	A limited number of travel transactions we evaluated were well supported and conducted in accordance with UCSD policy.

Business Office Process	AMAS Audit Review Procedures			Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ⁸	Comments
	Analytical Review of Financial Data	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
			with our Transaction Processing – Non-Payroll Expenditure Sample.			
Information Systems Environment	N/A	✓	Detailed testing not deemed necessary based on the overall risk assessment.	Yes	Satisfactory	Medicine utilizes shared services for the information system environment. The San Diego Supercomputer Center (SDSC) houses the server and keeps the backups and patches the system. There are no significant systems within Medicine that are not housed at the SDSC. Therefore, a review of this area was not specifically performed.
Cash & Cash Equivalents Controls	N/A	✓	No transactions were selected for testing in our judgmental sample and processes were managed within the Division and were not evaluated based on the overall risk assessment.	Yes	Satisfactory	Cash was managed based on the activities within Medicine to the Business Service Office or Division. Some human subject gift cards may exist and would be managed within the Divisions. Cash transactions were subject to transaction testing; however, no cash transactions were selected.
Service Agreements	✓	N/A	Detailed testing not deemed necessary based on the overall risk assessment.	Yes	Satisfactory	Medicine had approximately \$3.6 million in service agreement income in FYE 6/30/2021 representing approximately 15% of Medicine total revenues. There were 209 active agreements as of June 30, 2021, decreasing to 79 active agreements as of December 6, 2021.
Effort Reporting	N/A	N/A	Excluded from review scope.	N/A	N/A	Effort reporting was paused on a campus-wide basis by Sponsored Projects Finance due to system issues.

ATTACHMENT B – FY 2021-2022 GL Default Project Balances Through February 2022

FinU	Project	Fund	Beginning Net Position	Total Resources	Total Expenses	Ending Net Position
3000010 - Medicine Administration	1501567 - DFLT 3000010	13991	(\$430,257)	\$0	(\$13,943)	(\$416,315)
3000011 - Medicine Cardiology	1501568 - DFLT 3000011	13991	(\$24,272)	\$0	\$930,039	(\$954,312)
3000012 - Endocrinology/Metabolism	1501569 - DFLT 3000012	13991	(\$9,039)	\$0	\$414,684	(\$423,723)
3000013 - Medicine Gastroenterology	1501570 - DFLT 3000013	13991	(\$7,284)	\$0	\$178,137	(\$185,421)
3000014 - General Internal Medicine	1501571 - DFLT 3000014	13991	(\$2,838)	\$0	\$5,338	(\$8,176)
3000015 - Medicine Genetics	1501572 - DFLT 3000015	13991	(\$9,494)	\$0	\$167,157	(\$176,651)
3000016 - Medicine Hematology and Oncology	1501573 - DFLT 3000016	13991	(\$28)	\$1,200	\$16,680	(\$15,508)
3000017 - Medicine Infectious Diseases	1501574 - DFLT 3000017	13991	(\$38,149)	\$0	\$310,508	(\$348,657)
3000017 - Medicine Infectious Diseases	1501574 - DFLT 3000017	20700	\$19,633	\$0	\$477	\$19,156
3000017 - Medicine Infectious Diseases	1501574 - DFLT 3000017	20701	\$0	\$0	\$0	\$0
3000018 - Medicine Nephrology	1501575 - DFLT 3000018	13991	(\$5,432)	\$0	\$482,511	(\$487,943)
3000019 - Physiology	1501576 - DFLT 3000019	13991	(\$239)	\$0	\$41,532	(\$41,772)
3000020 - HS Pulmonary	1501577 - DFLT 3000020	13991	(\$8,864)	\$0	\$443,172	(\$452,035)
3000020 - HS Pulmonary	1501577 - DFLT 3000020	20700	\$0	\$0	\$1,450	(\$1,450)
3000021 - HS Rheumatology	1501578 - DFLT 3000021	13991	(\$5,043)	\$0	\$124,094	(\$129,137)
3000021 - HS Rheumatology	1501578 - DFLT 3000021	20000	\$0	\$0	\$925	(\$925)
3000021 - HS Rheumatology	1501578 - DFLT 3000021	20700	\$0	\$0	\$3,202	(\$3,202)
3000022 - HS Bone Marrow Transplant	1501579 - DFLT 3000022	13991	\$0	\$1,200	(\$36)	\$1,236
3000023 - HC Hospitalist	1501580 - DFLT 3000023	13991	\$0	\$0	\$119,761	(\$119,761)
3000024 - Owens	1501581 - DFLT 3000024	13991	(\$8,482)	\$0	\$103,034	(\$111,515)
3000025 - Biomedical Informatics	1501582 - DFLT 3000025	13991	(\$621)	\$0	\$43,446	(\$44,067)
3000026 - HS Geriatrics	1501583 - DFLT 3000026	13991	(\$2,014)	\$0	\$49,213	(\$51,227)
3000027 - Global Public Health	1501584 - DFLT 3000027	13991	(\$3,773)	\$0	\$247,863	(\$251,636)
3000028 - HS Regenerative Medicine	1501585 - DFLT 3000028	13991	(\$406)	\$0	\$116,454	(\$116,860)
3000030 - HS Hepatology	1501587 - DFLT 3000030	13991	\$0	\$0	(\$63,486)	\$63,486
3000031 - HS Allergy	1501588 - DFLT 3000031	13991	(\$9,892)	\$0	\$0	(\$9,892)
Grand Total			(\$546,494)	\$2,400	\$3,722,212	(\$4,266,307)

ATTACHMENT C - Selected Recharges Subject to Recharge Rate Review as of June 30, 2021

FinU Description	Project Code	Project Description	Beginning Net Position	Total Resources	Total Expenses	Ending Net Position	Capital Assets	Resources Available
Medicine Cardiology	1010926	REC CARDIOLOGY MED CARDIOVASCULAR PHYSIOLOGY CORE	(\$97,102.55)	\$84,929.50	\$34,381.42	(\$46,554.47)	\$0.00	(\$46,554.47)
Endocrinology/Metabolism	0	No Project	\$0.00	\$0.00	\$370.56	(\$370.56)	\$14,643.23	(\$15,013.79)
Endocrinology/Metabolism	2008293	REC Radioimmunoassay Services	\$0.00	\$0.00	(\$62,456.85)	\$62,456.85	\$0.00	\$62,456.85
Medicine Gastroenterology	1010914	REC RC Anatomical Services	\$0.00	\$0.00	\$143.93	(\$143.93)	\$0.00	(\$143.93)
General Internal Medicine	1011076	REC RC STEM CELL GENOMICS CORE SOM STEM CELL GENOMICS CORE FAC R3	\$0.00	\$4,818.00	\$1,493.58	\$3,324.42	\$0.00	\$3,324.42
Medicine Genetics	0	No Project	\$0.00	\$0.00	\$119.00	(\$119.00)	\$0.00	(\$119.00)
Medicine Genetics	1010951	REC RC CTR RESEARCH BIOLOGICAL STRUC NEUROSCIENCES LAB FOR NEUROCYTOLOGY	\$0.00	\$2,565.40	\$0.00	\$2,565.40	\$0.00	\$2,565.40
Medicine Genetics	1010992	REC GENETICS DIFF INC IGM BIOINFORMATICS R3	\$0.00	\$0.00	(\$2,168.60)	\$2,168.60	\$0.00	\$2,168.60
Medicine Genetics	1010994	REC GENETICS IGM BIOINFORMATIC ANALYSIS RECHARGE	\$110,380.20	\$1,056,470.29	\$815,112.89	\$351,737.60	\$0.00	\$351,737.60
Medicine Genetics	1010995	REC GENETICS NAVIAUX LAB METABOLOMICS CORE R3	\$20,727.02	\$0.00	\$0.00	\$20,727.02	\$0.00	\$20,727.02
Medicine Infectious Diseases	0	No Project	\$0.00	\$0.00	\$3,264.00	(\$3,264.00)	\$0.00	(\$3,264.00)
Medicine Infectious Diseases	2001298	REC DIFF INC AVRC DATA RSRCH CTR (ADRC)	\$0.00	\$0.00	(\$759.80)	\$759.80	\$0.00	\$759.80
HS Rheumatology	1011061	REC RHEUMATOLOGY MED RDCC ANIMAL GENETICS CORE RCHG	\$16,473.57	\$42,847.33	\$8,418.04	\$50,902.86	\$0.00	\$50,902.86
HS Rheumatology	2001001	REC LCM Core	\$0.00	\$2,908.10	\$0.00	\$2,908.10	\$0.00	\$2,908.10
Biomedical Informatics	1010919	REC BIOMEDICAL INFOMATICS CLIN DEPT OF BIOMED INFORMATICS R3	\$12,881.84	\$0.00	\$0.00	\$12,881.84	\$0.00	\$12,881.84
CRC	1010945	REC CRC HIGH THROUGH ANALYTIC CHEM R3	\$2,189,447.92	\$193,777.66	\$268,519.84	\$2,114,705.74	\$0.00	\$2,114,705.74