

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**School of Medicine
Department of Neurology
Financial and Administrative Practices Review
Project # 24-008**

January 2024

EXECUTIVE SUMMARY

I. BACKGROUND

As a planned audit for Fiscal Year 2024, Audit & Advisory Services (A&AS) conducted a review to assess the financial controls and administrative practices and procedures within the Department of Neurology.

The Department of Neurology provides patient care services, research, and multidisciplinary instruction through its 17 divisions.¹ The department's net position for FY 2023 and the prior three fiscal years are outlined below:

	FY 2023	FY 2022	FY 2021	FY 2020
Total Revenues	\$236,427,091	\$196,667,803	\$178,231,698	\$182,118,856
Total Expenses	\$222,421,310	\$192,168,282	\$175,604,081	\$172,983,212
Income/(Loss)	\$14,005,781	\$4,499,521	\$2,627,617	\$9,135,645
Total Other Changes	\$5,420,393	\$4,471,781	\$4,504,539	\$5,444,807
Increase/(Decrease) in Net Position	\$19,426,174	\$8,971,302	\$7,132,156	\$14,580,451

The Department of Neurology has had a positive operating income over the last four years and is supported by other funding transfers, including the Vice-Chancellor and the Dean's support. In FY 2023, net income increased from the prior year due to increased revenues in general state appropriations, student tuition & fees, gift revenue, and interest and investment income.

Academic departments are responsible for the oversight of financial, scientific, and compliance aspects of their clinical, research, and educational activities. Department oversight includes establishing, maintaining, and supporting a system of internal controls and ensuring that internal controls are operating as intended. Additionally, the department is responsible for identifying, capturing, and communicating reliable and relevant information in a form and time frame that enables management and staff to carry out their responsibilities efficiently.

Non-compliance with relevant policies and regulatory requirements related to sponsored awards may subject UCSF to repaying expenses that are later determined to be unallowable. This may impair UCSF's reputation and, in turn, adversely affect the campus' ability to compete for future research funding.

¹ 1) Alcohol and Addiction Research Group; 2) Benioff Children's Hospital Oakland Neurology; 3) Central Administration; 4) Child Neurology; 5) Cognitive Neurosciences/Neuroscape; 6) Epilepsy; 7) General Neurology; 8) Headache; 9) Mechanisms of Neurological Disorders; 10) Memory and Aging Center; 11) Movement Disorders & Neuromodulation; 12) Neurohospitalist; 13) Neuroimmunology and Glial Biology; 14) Neuromuscular; 15) Neurovascular; 16) San Francisco Veterans Affairs Medical Center; and 17) Zuckerberg San Francisco General Hospital.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the financial and administrative practices within the Department of Neurology to determine the effectiveness of internal controls and compliance with university policies and regulatory requirements.

The scope of the review covered transactions and activities during FY 2023. Procedures performed as part of the review included reviews of the administration of sponsored award expenses, monitoring and reporting of sponsored award expenses, review of state funds (1900) usage for compliance with university policies, general ledger verification and reconciliation, cost transfers, financial journals, purchasing of goods and services, and employee expense reimbursement. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in September 2023.

III. SUMMARY

Based on work performed, department financial and administrative procedures and practices were generally operating effectively and provided appropriate internal controls for general ledger verification, monitoring, and reporting on non-sponsored awards.

Opportunities for improvement exist in the areas of use of state funds for faculty compensation, purchases of goods and services, and journal entry documentation.

The specific observations from this review are listed below.

1. Unallowable components of faculty compensation for certain Health Sciences Compensation Plan members were charged to General State Funds in violation of university policies.
2. Employee expense reimbursements do not comply with UC policies.
3. Insufficient controls exist for ensuring appropriate Cost Transfers and Financial Journals.

Additionally, during this review, a potential opportunity for improvement was noted for enhanced process efficiency in monitoring unallowable expenses for federal awards using the Financial Management Dashboard.²

² The Financial Management Dashboard is an interactive web-based tool for visually highlighting financial risk and compliance metrics that may merit additional management review.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCAs)

No.	Observation	Risk/Effect	Recommendation	MCA
1.	<p><i>Unallowable components of faculty compensation for certain Health Sciences Compensation Plan members were charged to General State Funds in violation of university policies.</i></p> <p>General State Funds (1900) support education and faculty salaries.</p> <p>Of the 15 state-funded payroll transactions reviewed, we noted the following:</p> <ul style="list-style-type: none"> • 10 Health Sciences Compensation Plan (HSCP) faculty's differential portion (X-prime) of their base salary totaling \$173,196 was charged to state funds. • 10 HSCP faculty members' additional compensation (Y) for a total of \$275,677 was charged to state funds. <p>Based on discussions with the department, it was noted that the guidance "Changes to 19xx State Sources for Salary Support," issued at the time of UCPATH implementation in June 2020, lifted the restrictions on the earning (Ern) codes that could be used for charging compensation to 1900 funds. This was interpreted (based on guidance from SOM Dean's Office) as all components of the faculty compensation could be charged to 19xx state funds. However, the policy around the prohibition of the use of 19xx</p>	<p>Incorrect use of State funds violates the University's and State funding policies, and costs could be unallowed or denied by the State.</p>	<p>Neurology Department management should:</p> <p>a) Remove HSCP faculty salary support amounts above scale 0 for all faculty identified in the audit to a non-state funding source. Also, a review of all other HSCP faculty compensation charged to 1900 funds should be reviewed for compliance with policy.</p> <p>b) Develop procedures to regularly review payroll transactions on state funds to ensure compliance with university policies.</p>	<p>Action(s):</p> <p>a. Based on revised guidance to be issued by Academic Affairs/ SOM Dean's Office, the department will review the Earning Codes (ERN) for faculty compensation charged to 1900 funds to ensure that the correct ERN code is used and that no Y and Z components of faculty compensation will be charged to 1900 funds. This will be effective for FY25 faculty compensation.</p> <p>Target Completion Date: September 30, 2024</p> <p>b. Procedures will be developed for review of payroll</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>for salary support above scale 0 for HSCP faculty had not changed.</p> <p>Per UC Policy APM 670-18, Salary Administration: Health Sciences Compensation Plan, state sources cannot be used for salary support above scale 0 for HSCP faculty. No State funds shall be used for the portion of base salary that exceeds the Fiscal Year Salary Scales for the Plan member's rank and step for optional University additional compensation (Negotiated Additional Compensation (Y) and Incentive/Bonus Compensation (Z).</p> <p>APM-280-16- Appointment and Promotion- Adjunct Professor Series requires, as a minimum, one-half of the funding for the base salary of an Adjunct appointment shall come from funds other than State funds.</p>			<p>costs to ensure compliance with university policy and correct ERN use.</p> <p>Target Implementation date: July 1, 2024</p> <p>Responsible Party: Associate Chair, Finance and Administration</p>
<p>2.</p>	<p><i>Employee expense reimbursements do not comply with UC policies.</i></p> <p>Employee reimbursement requests are submitted through the MyExpense³ reimbursement system. Of the 15 MyExpense transactions reviewed, we noted the following:</p> <ul style="list-style-type: none"> 1 transaction of \$1,881 for a cell phone bill reimbursement did not include Appendix A in 	<ul style="list-style-type: none"> Without detailed support of the expenses, it is not possible to verify the appropriateness of the expense and can result in non-compliance with the University policy. 	<p>Neurology Management should ensure travel, entertainment, and electronic communication reimbursements contain sufficient supporting documentation and comply with University policy.</p>	<p>Action:</p> <p>Management will share audit findings with the entire team and review Controller's Office guidelines for processing and approving expenses with the team, emphasizing the requirement that all reimbursement requests include detailed</p>

³ MyExpense is the UCSF automated reimbursement system for employee travel and non-travel expenses (except employee relocation) and guest travel expenses.

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>the expense report as supporting documentation.</p> <p>Under UC BFB-G-46-, Guidelines for the Purchase and Use of Cellular Phones and Other Portable Electronic Resources, an employee may request reimbursement for the business use of a cellular phone or similar device purchased with the employee's own funds. However, prior to being reimbursed, the employee must complete and sign the Appendix A Agreement - Employee Agreement Concerning the Use of Electronic Communications Resources, confirming that the electronic communication device or services will be used primarily for official University business.</p>			<p>supporting documentation to determine the appropriateness and allowability of expenses.</p> <p>Target Completion Date: February, 29 2024</p> <p>Responsible Party: Associate Chair, Finance and Administration</p>
<p>3.</p>	<p><i>Insufficient controls exist for ensuring appropriate Cost Transfers and Financial Journals.</i></p> <p>Regular Cost Transfer (545 Source Code) journals transfer non-payroll expenses between chart strings when the source or target is a sponsored research project. Financial Journals (535 Source Code) record non-payroll adjustments or correct chart fields for non-sponsored funds and projects. Of the 15 journals reviewed, we noted the following:</p> <ul style="list-style-type: none"> • 1 financial journal of \$4,200 for freezer charges had no supporting documentation attached to the journal. 	<p>The lack of sufficient support documentation limits the ability to validate that the journal transaction is reasonable and accurate.</p>	<p>Neurology Management should ensure journals include sufficient supporting documentation.</p>	<p>Action:</p> <p>Management will share audit findings with the entire team and Review Controller's Office guidelines for processing and approving cost transfer journals, emphasizing the requirement that all cost transfer journals include detailed supporting documentation, such as Transaction Detail Reports or other financial reports that</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>The Controller's Office (CO) Supporting Documentation Guidelines require attaching documentation to support the amounts within the journal and the chart strings used. Examples of attachments include Transaction Detail Reports or other financial reports that show the credit side of the transactions, correspondence with details of the transaction and purpose, and methodology for determining the allocation for allocated expenses across award projects.</p> <p>Federal regulations require the allocation methodology to be "proportionate to the benefit derived."</p>			<p>show the credit side of the transactions, correspondence with details of the transaction and purpose, and methodology for determining the allocation for allocated expenses across award projects</p> <p>Target Completion Date: February, 29 2024</p> <p>Responsible Party: Associate Chair, Finance and Administration</p>

V. OPPORTUNITIES FOR IMPROVEMENTS

No.	Observation	Risk/Effect	Recommendation
1	<p><i>Unallowable direct cost expenses were charged on a federal award.</i></p> <p>Of the 15 awards reviewed, one federal award had unallowable General, Automobile, and Employee Liability (GAEL) for a total of \$85.82.</p> <p>GAEL expenses charged on federal awards are reversed monthly by Contracts & Grants Accounting (CGA) via a PeopleSoft journal.</p>	<p>Unallowable expenses on federal awards violate federal regulation policies and may result in disallowance and penalties.</p>	<ul style="list-style-type: none"> • Consider using the Financial Management Dashboard to monitor unallowable expenses on federal awards. • Work with GGA to resolve unreversed GAEL transactions identified on the federal award.

No.	Observation	Risk/Effect	Recommendation
	Per UCSF Cost Accounting Standards (CAS) Guidelines, GAEL expenses are treated as Facilities and Administrative (F&A) costs and are not chargeable as direct costs to federal awards.		

APPENDIX A

To conduct our review the following procedures were performed for the areas in scope:

- Reviewed relevant university and campus policies and procedures regarding the areas under evaluation.
- Interviewed department personnel to assess activities and procedures for in-scope areas.
- Reviewed financial management practices and administration of non-sponsored awards, including faculty discretionary funds.
- Reviewed expenses charged to sponsored awards for allowability, allocability, and reasonableness of expenses.
- Reviewed a sample of employee expense reimbursements to determine that expense reimbursements complied with relevant University policy, including the adequacy and appropriateness of review/approval.
- Performed data analysis on employee expense reimbursements to identify any anomalies for further review.
- Reviewed state funds (1900) usage for compliance with university policies.
- Reviewed the use of discretionary funds for appropriateness.
- Reviewed the controls over the purchasing of goods and services.
- Reviewed general ledger verification and reconciliation process.