

The logo for UC Irvine, featuring the text "UCIRVINE" in a large, serif font. The letters "U", "C", and "I" are significantly larger than the other letters, and the "R" and "V" are also larger than the "I", "N", and "E".

UCIRVINE

The logo for Internal Audit Services, featuring the text "INTERNAL AUDIT SERVICES" in a smaller, serif font, stacked in two lines.

INTERNAL
AUDIT SERVICES

Department of
Radiological Sciences
Internal Audit Report No. I2016-203
July 13, 2016

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

June 13, 2016

**SCOTT C. GOODWIN, M.D.
PROFESSOR AND CHAIR
DEPARTMENT OF RADIOLOGICAL SCIENCES**

**RE: Department of Radiological Sciences Audit
Report No. I2016-203**

Internal Audit Services has completed the review of the Department of Radiological Sciences and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Aashi Arora, Chief Administrative Officer, Radiological Sciences

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) conducted a review of the Department of Radiological Sciences (Radiological Sciences). In general, departmental controls and processes appear to be functioning as intended. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures and/or best business practices. Specifically, the following concerns were noted.

Check and Credit Card Handling – Collections were not properly handled in accordance with the University policy. Mailed remittances were processed and verified by one individual instead of two individuals. The transfer of checks were not documented to maintain individual accountability. The date checks were received was not evidenced and appeared to be deposited untimely. The deposits were not prepared under dual custody. Lastly, two employees handling checks had not completed the formal cash handling training. The details related to these issues are provided in Section V.1.

Ledger Reconciliations - General ledger reconciliations of all accounts have not been performed for quite some time to verify that expenditures and deposits have been accurately recorded. When reconciliations were performed it was untimely and the person preparing the deposits was also performing the reconciliation which is inadequate separation of duties. These observations are discussed in Section V.2.

Research Services – Management of research services need strengthening. Recharges for set-up fees were not posted timely to the general ledger. Also, the internal spreadsheet used as a monitoring tool was not always updated to reflect up to date information. This observation is discussed in Section V.3.

Equipment Inventory – Tag numbers were not affixed to equipment or were placed in areas not easily visible. The equipment database was not updated with serial numbers and/or the correct room numbers, as a result make it difficult to perform an adequate physical inventory and properly manage equipment inventory. This is discussed in Section V.4.

Personnel Practices– Faculty leaves were not consistently monitored to ensure that the maximum time allowed for outside professional activities and conferences was not exceeded. Controls surrounding overtime need improvement. The amount of overtime for two employees was excessive, there was no evidence that overtime was approved in advance or monitored. Also, employees did not sign for direct deposit earnings statements upon receipt. These observations are discussed in Section V.5.

Fiscal Officer Role – Day to day Quali Financial System (KFS) transactions such as recharges and check and credit card deposits were not reviewed by the Fiscal Officer to ensure accuracy and completeness. This observation is discussed in Section V.6.

II. BACKGROUND

Radiological Sciences is part of the University of California, Irvine (UCI) School of Medicine (SOM). Radiological Sciences' mission is to provide high-quality and cutting-edge radiology services, thus ensuring the best clinical care to patients; to provide top-notch and state of the art training to the next generation of radiology residents, fellows, technologists and healthcare professionals; and to support research programs in basic sciences, translational and clinical imaging research.

The doctors of Radiological Sciences are a combination of physician, scientist and UC faculty members fostering groundbreaking biomedical imaging research with the potential to improve diagnostic imaging and lifesaving interventional radiological procedures. Radiologists performs approximately 180,000 radiological exams per year using imaging modalities including conventional radiography, angiography, ultrasonography, CT, MRI and nuclear medicine.

More than 30 faculty radiologists and 30 staff including administration, research and students make up Radiological Sciences. Over the past year, Radiological Sciences has experienced changes in key administrative staff. The Chair, who serves as the academic leader and administrative head, reports directly to the SOM Dean. The Chief Administrative Officer, who reports to the Chair, directs the administrative operations.

III. PURPOSE, SCOPE AND OBJECTIVES

The primary purpose of the audit was to perform a general review of Radiological Sciences' operations to assess business risk, internal controls and compliance with University policies and procedures. The scope focused on certain operational and financial activities for the current FY 2015-2016.

The audit included the following objectives:

1. Verify that research services were monitored, properly approved and recharges were accurately and timely processed;
2. Verify that check and credit card collections were appropriately handled, recorded and deposited in compliance with University policy;
3. Verify that cash handling employees were properly fingerprinted and completed formal cash handling training;
4. Assess payroll and personnel practices related to overtime and faculty leaves and verify proper approval was obtained and was adequately supported;
5. Evaluate controls surrounding personnel separations and payroll check/statements distributions for adequacy;
6. Verify that purchasing transactions were properly authorized and supported;
7. Verify that travel and entertainment reimbursements were properly authorized, reported and reimbursed in accordance with University policy and;
8. Assess whether equipment inventory was properly tagged and accurately reflected in the equipment inventory database.

IV. CONCLUSION

In general, departmental controls and processes appear to be functioning as intended. However, business risks and internal controls and processes could be further enhanced in the areas of cash handling, general ledger reconciliations, research services, equipment inventory, faculty leaves, overtime, distribution of direct deposit earnings statements and the fiscal officer role.

Observation details and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Check and Credit Card Handling

Background

Check and credit card handling processes were evaluated to determine whether the proper controls exist over the recording and depositing of the collections and compliance with Business and Finance Bulletin "Policy for Handling Cash and Cash Equivalents (BUS-49) was also reviewed. Compliance with these policies and procedures ensures that University cash and cash equivalents are protected, accurately and timely processed and properly reported.

Observations

A sample of deposits collected and prepared on campus and the medical center were reviewed. Testing found that check and credit card recording, handling and deposit controls need improvement. The following concerns were noted.

- a. No evidence of cash handling training could be located for two employees. Upon audit notification, training was completed in June 2016. BUS-49 policy states, campuses will develop and deliver cash handling training to all employees who handle cash. The training will be offered: When a new employee commences work in a cash handling job and at least

- once per year for all cash handling employees to refresh knowledge concerning policies, procedures and techniques and to provide updated information on internal and external policy.
- b. Mailed remittances were not verified and processed by two employees.
 - c. Checks received on campus were not restrictively endorsed immediately upon receipt and were then sent via interdepartmental mail to the Main Cashier's office.
 - d. The date checks were received was not documented. Without such information the timeliness of the deposit could not be determined and checks appeared to be deposited untimely. Deposits ranging from \$1,298 to \$5,192 were deposited seven to 25 working days from the check date. Policy states, collections at sub-cashiering stations and departments shall be deposited at the designated main cashiering station at least weekly or whenever collections exceed \$500.
 - e. Deposits were not validated and prepared under dual custody.
 - f. A check was transferred between three employees however individual accountability was not maintained and evidenced.

Management Action Plan

- a. All cash handling staff have completed the formal cash handling training on-line. The Finance Manager will ensure that training is kept up to date for all employees who process check and credit card deposits in accordance with University policy.
- b. As of July 1, 2016 mailed checks will be verified by both the residency and fellowship program coordinators. On campus, the analyst will verify checks with a student. A check log was created to evidence the verification of two employees.
- c. The campus analyst will obtain an endorsement stamp from the Main Cashier's office so checks received can be endorsed immediately upon receipt. This process will be in place by August 1, 2016.

- d. As of July 1, 2016, staff will start using a check log to document the date checks are received to ensure timely deposits.
- e. As of July 1, 2016 all deposits will be prepared under dual custody and evidenced on the check log.
- f. This will no longer occur now that Radiological Sciences is fully staffed and trained on deposit procedures. The person receiving the check will prepare the deposit.

2. Ledger Reconciliations

Background

UCI Administrative Policies and Procedures Sec. 701-08: Procedures for Control of Expenditure and Income Funds specify that each activity manager, who is directly responsible for the financial affairs of that activity, maintains procedures that monitor and verify transactions in order to reconcile balances monthly to the general ledger.

Observation

Due to major changes in key staff, ledger reconciliations have not been performed or were completed untimely. Although a process was recently implemented to reconcile restricted accounts, unrestricted accounts have not been reconciled for quite some time. Without timely reconciliations of all accounts, discrepancies may go undetected. For example, a deposit in September 2015 for \$4,218.50 was recorded in the wrong ledger account and only upon audit request of documentation was the error identified and moved into the correct account, eight months later in May 2016. Another deposit on August 2015 wasn't reconciled until nine months later in May 2016. Furthermore, the person performing the campus deposits is also performing the ledger reconciliations which is an inadequate separation of duties.

Management Action Plan

This will no longer occur now that Radiological Sciences is fully staffed. Designated finance staff are now electronically reconciling all restricted

accounts on a monthly basis. The finance assistant is currently undergoing reconciliation ledger training of unrestricted accounts and will be completed by August 1, 2016. Management will also ensure that the person preparing deposits is not also reconciling the general ledger.

3. Research Services

Background

Radiologists work with colleagues throughout SOM to provide ancillary services for research endeavors to improve patient care and health outcomes. The services range from radiography to leading edge imaging techniques in CT, MRI, nuclear medicine and ultrasound.

All requests must undergo the outlined approval process which includes an application, submission of study protocol, and approval by Sponsored Projects Administration (SPA). Once approved, Radiological Sciences will receive notification from Clinical Research Finance Administration (CFRA) to process the one-time setup fee.

Observations

A sample of studies were reviewed and found that internal controls need improvement.

1. Recharges for the one-time setup fees were not always processed timely. Four of the five studies reviewed were posted 14 days to six months after the study was approved.
2. All research service requests are tracked and monitored through an internal spreadsheet recording study name/number, principal investigator in charge, modality, date request received, SPA approval date, status, etc. Review of the spreadsheet found:
 - a. Three studies identified as "Approved with Set up Fees" however recharges had not been posted until more recently upon audit notification;

- b. 17 studies were recharged however not reflected as such on the spreadsheet; and
- c. That the spreadsheet also had missing SPA approval dates and IRB approval numbers.

Management should ensure the spreadsheet is reviewed and updated regularly to allow for timely processing of recharges, proper monitoring and oversight of research services.

Management Action Plan

There is currently no electronic system in place to appropriately notify the Radiological Sciences when a study is to begin. Radiological Sciences is reliant on other groups to identify study start dates. As of July 1, 2016, Radiological Sciences has established a goal to enter recharge set-up fees within a month from when a study is to begin. Furthermore, this issue was due to a lack of appropriate staffing in Radiological Sciences, which has now been resolved. The Research Assistant is now reviewing the internal spreadsheet regularly, if not daily, to update, track studies and ensure recharges are entered timely.

4. Equipment Inventory

Background

Radiological Sciences maintains various equipment mostly used for research purposes. An employee is responsible for performing an annual physical inventory and maintaining the equipment inventory database. The last physical equipment inventory was performed in August 2015.

Observation

A sample of equipment was reviewed and the following was noted.

1. The tag numbers could not always be located on the equipment as some were not affixed on the equipment but were filed and not placed on the equipment until more recently during audit's review of the physical inventory. Some also may have been placed in areas not easily visible.

2. The KFS equipment database maintained by Radiological Sciences needs to be updated. Six of the ten were missing serial numbers and another had the incorrect serial number. Also, three pieces of equipment had incorrect room numbers.

University policy requires that campus departments conduct periodic physical inventories of assigned equipment and to verify and update departmental equipment records, including verifying the room location of each item, and writing in any missing serial numbers (or correct erroneous ones). Insertion of missing serial numbers is particularly critical in reporting or tracing lost or stolen property.

Management Action Plan

Due to staffing shortages and change in management over several years, equipment inventory was not a consistent process. Radiological Sciences has now instituted a process by which the Finance Manager is immediately notified of all equipment purchases, identifies if it needs to be on medical center or department inventory, and will work with the Research Manager to ensure the location, room numbers, serial numbers, costs, maintenance agreements, and tagging are all in place.

5. Personnel and Payroll Practices

Background

Personnel and payroll policies establish standards and procedures in regards to overtime, leaves and distribution of payroll check and earnings statements. Compliance with policies and procedures was examined through discussions with staff and review of supporting documentation and reports.

Observations

a. Faculty Leaves

SOM memo dated January 2014 state that each faculty member will be allowed to use up to 48 days for outside professional activities and academic time away.

Although Radiological Sciences is in the process of implementing a new physician scheduling software system sometime in August 2016, faculty leaves have not been consistently monitored to ensure faculty do not exceed the maximum amount of time allowed for combined outside professional activities and academic time away. Without an adequate tracking tool, faculty may exceed the maximum number of days allowed for outside professional activities and academic time away.

b. Overtime

Overtime was evaluated to ensure appropriateness and properly approved in advance. Review found that the amount of overtime worked by two employees was excessive. Between July 2015 to April 2016, Radiological Sciences paid a total of about \$41,000 in overtime and two employees earned \$35,256; about 86 percent of the total. No evidence of advance approval documentation could be located. Furthermore, there is no monitoring tool to ensure that overtime is effectively managed and overtime opportunities are equally distributed amongst employees.

c. Direct Deposit Earnings Statements

A review of the payroll check distribution log revealed that employees who received paper direct deposit earnings statements did not sign for them upon receipt as required by policy. University states that payroll checks and direct deposit earnings statements shall be distributed in accordance with earnings disposition forms signed by the employees, within the distribution options provided by campus policy.

Management Action Plan

- a. The new tracking tool will be implemented by October 1, 2016. This new system will also capture for FY 2015-2016 and moving forward.
- b. On a case by case basis, Radiological Sciences policy requires that overtime be approved in advance by the employee's direct supervisor and documentation maintained. Management will communicate to staff the department overtime policy. A report will be developed to monitor the amount of overtime worked and paid by employee for the

department. The Financial Manager will monitor the overtime on a quarterly basis to ensure overtime is not excessively being used and is effectively managed. This will be implemented by July 1, 2016.

- c. As of August 1, 2016, employees will be required to sign for paper direct deposit earnings statements upon receipt and documentation will be maintained.

6. Fiscal Officer Role

Background

KFS features a built in electronic workflow system, which provides an automated approval process for each KFS document before it is finalized and posted to the General Ledger. The Fiscal Officer role is an essential internal control and is responsible for approving day to day activity on accounts.

Observation

Transactions such as recharges and cash and credit card receipts were not reviewed and approved by the Fiscal Officer. Certain accounts in KFS are not set-up with a fiscal officer to review and approve transactions for accuracy and completeness.

Management Action Plan

As of July 1, 2016, the Fiscal Officer role has been updated so all KFS credit card and check deposits and recharges are now routed to the Fiscal Officer. The Fiscal Officer will be reviewing the transactions for accuracy and completeness.