

**UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES**

**DEPARTMENT OF NEUROLOGY
Report No. 2011-201**

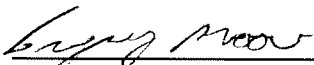
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IRVINE: INTERNAL AUDIT SERVICES

February 23, 2011

**STEVEN SCHREIBER, M.D.
INTERIM CHAIR
DEPARTMENT OF NEUROLOGY**

**RE: Department of Neurology
Report No. 2011-201**

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

Please let us know if we can provide additional support or assistance.



Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Ralph Clayman, M.D., Dean, School of Medicine
Sharon Mc Carthy, Department Administrator (Interim)
Audit Committee

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Audit Report No. 2011-201**

I. MANAGEMENT SUMMARY

In accordance with the Fiscal Year 2010-2011 audit plan, Internal Audit Services (IAS) reviewed certain operational processes of the University of California, Irvine (UCI) School of Medicine - Department of Neurology (Neurology). Based on the audit work performed, the internal controls need to be strengthened to ensure compliance with University of California (UC) and UCI policies. Specifically, we noted the following:

- Cash Handling Processes – Internal controls over cash handling procedures within the Muscular Dystrophy Association (MDA) UC Irvine Amyotrophic Lateral Sclerosis (ALS) Neuromuscular Center (ALS Center) need improvement regarding separation of duties, accountability and physical security over University funds and voided transactions. (Observations 2, 3, 4, and 5);
- Equipment Management and Clinical Engineering Processes – Employee training in equipment management processes needs improvement to assure adequate physical security and proper accounting for University equipment. In addition, clinical engineering services need improvement to ensure that equipment used in patient care is inspected in a timely manner, and that proper identification and/or preventative maintenance tags are placed on clinical equipment after inspection. (Observations 9 and 10);
- Other Business Processes – Non-University bank accounts need to include all required co-signers. Supporting documentation needs to be obtained to enable a reconciliation of certain accounts. Employee time sheets need to be reconciled monthly to key payroll reports and to the general ledger. Vacation leave needs to be documented and approved for all Neurology employees, and recorded and monitored by the Neurology business office. (Observations 1, 6, 7, and 8).

II. BACKGROUND

The primary mission of Neurology is research, clinical care and education. Neurology engages in a large number of research activities. Total Neurology governmental grants and contracts for the 2009-10 fiscal year was \$2.5 million. The department also received \$3.9 million in private grants and gifts.

Clinical care endeavors in Neurology are distributed across the UCI Medical Center, the UCI campus and a major affiliated hospital, the Long Beach Veterans' Affairs Medical Center. Neurological clinical care is provided in the Neuroscience Center in Pavilion I, Multidisciplinary clinics in Gottschalk Medical Plaza and the ALS Center,

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and at Eisenhower Medical Center in Palm Springs. The department trains 15 residents in general Neurology and various neurological subspecialties. Currently, there are 20 academic faculty, 14 academic researchers and 28 staff members in Neurology.

III. SCOPE AND OBJECTIVES

The scope of the audit included a review of key internal controls in several functional areas of Neurology business operations. The objectives of this review were as follows:

1. Determine whether cash advances are in compliance with University policy;
2. Determine whether cash handling and depositing processes in the ALS center are in compliance with University policy and/or good business practices;
3. Determine whether internal controls over the Quest system cash handling procedures are adequate;
4. Determine whether the processes and frequency by which accounts and funds are reconciled is appropriate, timely and complete;
5. Determine whether the processes and frequency by which payroll charges and adjustments are reconciled is appropriate, timely and complete;
6. Determine whether the processes for managing vacation accruals and leave usage are appropriate, timely and complete;
7. Verify that equipment is managed in accordance with University policy;
8. Verify that clinical engineering services are performed in accordance with University policy and/or contractual agreement.

IV. CONCLUSION

Business risks and control concerns were identified with cash handling, account reconciliation, payroll, leave reporting, and equipment management. Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

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V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. University Cash Advances - Non-University Bank Accounts

Observation

A review of cash advances disclosed that some Neurology principal investigators (PIs) have established non-University bank accounts in their own name to store advances. However, contrary to UCI policy, these bank accounts do not have either the Neurology chairperson or the department administrator as a co-signer on the account.

UCI Policy and Procedure 701-03, Payments to Participants (Human Subjects) states that "For each study, a non-interest-bearing checking account should be opened in the name of the PI and the department chair or administrator." Failure to have the proper co-signers on a non-University bank account circumvents the transparency of financial transactions and may result in a diversion of University funds.

Management Action Plan

Neurology management has notified both PIs that they are in violation of the University policies. They have been notified that their bank accounts need the chairperson or administrator as a co-signer on the account. Neurology management will work with them to resolve this issue immediately.

2. Cash Handling Processes - Patient Payments and Separation of Duties

Observation

Control procedures to ensure patients make proper and timely payments for services rendered and that an adequate separation of duties is maintained over ALS Center cash handling processes need improvement. Observations of cash handling processes disclosed the following concerns.

- a. Although processes are in place to identify each patient's payment requirement at the time of his/her visit, this information is not being documented and retained by ALS Center employees for later use in the deposit reconciliation process.
- b. The same staff member who verifies the patient's payment requirement also receives the payment from the patient. These incompatible duties do not provide an independent reconciliation of patient payment obligations to actual payments received in the ALS Center.

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- c. The same staff member who receives payments from the patients and retains custody of the funds also records payments in the Quest system.
- d. At the end of the business day, the same staff member who records the payments and safeguards the funds also prepares the deposit. In the deposit preparation procedures, there is no process in place by which the prepared deposit is reconciled and approved by a second, authorized person who is independent of the payment collection and recording processes. In addition, there is no process in place by which a list of payment obligations for patients visiting throughout the business day and payments recorded in Quest are independently reconciled, by a second, authorized person without cash handling duties, to the payments prepared for deposit.

Failure to document patient payment obligations based on patient visits, independently reconcile the number and amount of insurance payment obligations to the number and amount of payments actually received and recorded in Quest, and maintain an adequate separation of duties in cash handling and depositing processes, may result in diversion of University funds and/or a cash loss.

Management Action Plan

Neurology management created a policy that requires the patient admissions worker (PAW) to enter the amount of the payment on the daily schedule and on the encounter form at the time the payment is made as a cross check to ensure all payments are accounted for.

The Neuromuscular Center is in the process of hiring another PAW. At that time the center will assign one PAW to receive payments and one PAW to record payments. To ensure that cash is handled appropriately in the mean time, Neurology management created a policy that the staff will count the money in pairs (one PAW and one other staff from the neuromuscular staff) and add up the receipts in pairs to ensure that all monies are being accounted for during the business day. Neurology management created a policy that requires the PAW to enter the amount of the payment on the daily schedule and on the encounter form at the time the payment is made as a cross check to ensure all payments are accounted for. Staff have signed the policy to acknowledge that they have read and understand it.

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3. Cash Handling Processes - Payment Reconciliation-Quest Financial System

Observation

As patients make their cash payments to the ALS Center, a staff member accepts the payment and records it in the Quest system. A copy of each Quest payment receipt is retained by the ALS Center and deposited at the end of the day with the patient's payment to the Medical Center Cashiers Office (MCO). Control measures should be in place to assure that all cash received and recorded in the ALS Center is deposited daily to the MCO. However, there are three issues that make it difficult for the clinic personnel to ensure that all cash transactions recorded in the ALS Center are accounted for.

- a. The ALS Center deposit preparer cannot view or print out from Quest a batch total for payments recorded in Quest. As a result, neither the deposit preparer nor an independent deposit reviewer/approver can confirm from Quest the total number and amount of payments recorded throughout the business day.
- b. The Quest system does not assign sequential numbers at the clinic-level to recorded transactions. Instead, Quest assigns sequential numbers to financial transactions in the order that they are recorded, irrespective of which department/clinic has recorded the transaction. As a result, neither ALS Center personnel nor the MCO can use the sequential numbers printed on the Quest receipts to track their cash collections.
- c. The Quest-prepared patient receipts do not identify the clinic staff member who received the payment from the patient and/or recorded the payment in Quest. Patients cannot readily determine, from their receipts, the clinic staff member who assisted them.

With the implementation of the Quest system phase I an initial concern was identified regarding the ability for a department to sequentially track all transactions posted in the Quest system. As a result, possible solutions were discussed with Health Affairs Information Services (HAIS) personnel to modify the Quest application. However, it was determined the application software could not be modified.

To address this concern, it is our understanding that a Quest process was developed as a pilot, for subsequent evaluation. Based upon the evaluation, the MCO will propose a new procedure by which they will issue controlled, five-part, pre-numbered receipts to each cash collection site. These receipts can then be printed at the collection site and may be used by the collection site to help ensure a timely and accurate accounting of patient payments. The MCO will initiate a

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draft procedure that will assist clinic staff members in the verification of the daily transactions.

Management Action Plan

It is recommended that the action plan set forth is adopted across all 200 Medical Center cash collection sites. The MCO, along with department personnel will determine and perform the following:

- Identify hardware requirements;
- Identify Quest system software and enhancement requirements for pre-numbered receipt processing including information services resource allocation needs;
- Prepare cost analysis to include hardware requirements, printing costs, and identify the new and annual cost to each collection site to purchase pre-printed and numbered receipt forms;
- Prepare policy and procedure;
- Prepare final cost analysis/report and obtain approval from Finance Administration and the School of Medicine to implement the recommended plan;
- Train all collection site personnel (up to 600 staff members).

Estimated completion date of the analysis, management approval and implementation is August 2011. We will continue to follow the procedure set up by the MCO related to deposits.

4. Cash Handling Processes - Accountability and Physical Security

Observation

Control measures that ensure accountability and adequate physical security over cash handling activities in the ALS Center need improvement. Discussions with staff members and observations of cash handling operations disclosed the following concerns.

- a. After business hours, the ALS Center change fund and daily deposit are stored in a single compartment safe. However, access to the safe compartment is not limited to the staff member responsible for both the change fund and the funds for deposit, thereby compromising accountability over stored funds. In addition, safe keys are improperly stored and the safe combination is not recorded and maintained in accordance with UC policy.

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- b. The transport of University funds by ALS Center staff members is not performed in the manner prescribed by UC policy, and may put University employees and assets at greater risk.

Failure to maintain adequate accountability and physical security over University funds in accordance with UC policy may result in a diversion of University funds and/or result in injury to University employees.

Management Action Plan

Neuromuscular staff will commit to memory the safe combination. They will no longer store the combination in the vicinity of the safe, even if it is in a locked drawer. Beginning immediately, the neuromuscular staff will open the safe at the beginning of the day, count the money, and add up the cash receipts with two people present. The need for two people to have keys and the combination is required in case someone is out ill, on vacation, or at a conference.

The Neuromuscular Center staff will no longer go to the MCO during business hours to get change unless accompanied by medical center security and will also go in pairs.

5. Cash Handling Processes – Reductions of Recorded Cash Accountability

Observation

Processes by which voids and refunds in the ALS Center are explained and approved need improvement. A review of May-June 2010 ALS Center deposit documentation revealed a \$474 voided transaction that did not include either a written explanation for the voided transaction, or a manager's signature documenting approval for the void on the Quest receipt.

After a review of the \$474 voided transaction, we determined that this was a medical screening refund to the patient. The UCI Research Compliance Officer reviewed the issue with the PI. The PI stated the voided transaction was an occasional practice in the ALS Center charging a patient for medical screening, and then refunding the fee to the patient after-the-fact if the patient could be placed in a research study that would pay for screening expenditures. The PI was advised by the Research Compliance Officer that this refund policy could not be practiced unless refunds were offered to all patients, equally. The PI stated the practice would be discontinued.

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Management Action Plan

Effective immediately, all voided transactions will have a written explanation for the void as well as the manager's approval. All voids will be approved by the manager by the end of the day.

6. Account/Fund Reconciliation and Review

Observation

Control measures that ensure a timely reconciliation of medical record fee revenue received by the ALS Center need to be strengthened.

Funds are received in the ALS Center from patient payments and fees charged for making copies of medical records. Payments and medical record fees are each recorded in a separate account, and employees in different departments are assigned to reconcile each account. Payments are reconciled to the general ledger by the Professional Billing Group (PBG), and medical record fees are reconciled to the general ledger by the Neurology business office.

A review of the reconciliation processes for medical record fees disclosed that the business office employee responsible for the reconciliation is not able to retrieve the supporting documentation from the Quest financial system necessary to perform the reconciliation. As a result, payments received for medical record fees are not being reconciled to the general ledger.

Although the amount of revenue received annually from medical record fees is relatively small, failure to reconcile medical record fees to the general ledger in a timely manner may hinder the detection of any discrepancies in funds received in the ALS Center, and may result in a financial loss.

Management Action Plan

Effective immediately, the ALS Center will provide a copy of the Quest receipt for copy fees along with a copy of the request for medical records to the Neurology academic business office on a daily basis. The business office will reconcile these receipts and request for medical records against the deposits posted to the revenue account.

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7. Payroll – Expenditure Reconciliation

Observation

Control measures to ensure that Neurology payroll expenditures are reconciled in a timely manner need to be implemented. The Distribution of Payroll Expense Report (PPP5302 report) is produced once a month as part of the month-end reporting process. The PPP5302 report is not reconciled monthly to Neurology employees' approved time sheets and to the general ledger.

In addition, there occasionally may be some payroll transactions in the general ledger which are processed on a journal. The detail of these journal transactions may not appear on the PPP5302 report. These transactions should be reviewed, and the PPP5302 report reconciled monthly by an employee who does not have other payroll responsibilities.

Failure to perform a timely reconciliation of the PPP5302 report and/or a timely review of general ledger payroll transactions may limit the detection of discrepancies in payroll processes and may result in a financial loss.

Management Action Plan

The Interim Administrator recognized this as an issue and has trained an administrative staff to reconcile payroll ledgers on a monthly basis. This person has no direct contact with EDB transactions, time reporting or distribution of checks. This process began immediately.

8. Vacation Reporting

Observation

Control procedures by which requested vacation leave is approved and documented by Neurology employees, and recorded and monitored by the Neurology business office, need to be strengthened. A review of lost vacation hours in fiscal year (FY) 2009-10 for Neurology employees disclosed the following:

- a. A total of 2,337 hours of accrued vacation leave was lost by Neurology employees in FY 2009-10;
- b. Fourteen Neurology employees were responsible for 84 percent of the total amount of lost vacation leave in FY 2009-10. The fourteen employees held one of the following job titles: Professor, Associate Professor, Assistant Professor, Associate Clinical Professor, Assistant Clinical Professor,

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Associate Project Scientist, Specialist-UCI Retiree, and Administrative Assistant. Four of these employees were responsible for 32 percent of the total amount of lost vacation leave in FY 2009-10.

Discussions with Neurology business office employees disclosed that, although policies are in place for the approval and reporting of faculty and staff member vacation usage, some Neurology employees do not always follow them.

Failure to enforce control measures over vacation reporting and accruals may result in the abuse of vacation benefits provided to UC faculty and staff members.

Management Action Plan

Neurology management sent out a memo to all faculty positions from the Dean of the School of Medicine that requires faculty to submit requests for time off to be approved by the Department Chair. Neurology is also requiring the signature of the Interim Administrator. The Interim Administrator has created an on line calendar to track all physician time off requests that is available for review on the department shared drive. This will allow department personnel to track the number of faculty out on any given day for administrative or vacation time. The Interim Administrator also created an excel spreadsheet that totals faculty vacation/educational leave usage so that they can immediately address excessive use of educational leave. All approved requests are forwarded to the department timekeeper to enter monthly. Department personnel are notifying faculty/staff when they are nearing maximum accrual so that they can plan time off accordingly.

9. Equipment Management Processes

Observation

The Neurology Equipment Administrator is responsible for ensuring that all Neurology-owned or borrowed equipment is properly reflected in the department's inventorial equipment report, and Clinical Engineering Services (CE) inspections are performed on departmental equipment in a proper and timely manner. However, the Equipment Administrator has not received adequate training to ensure proper management and preventative maintenance of University equipment. In addition, control procedures related to adequate physical security over and proper accounting for University equipment need improvement.

Observations of sampled Neurology medical equipment items currently located and stored in the Neurology Sleep Laboratory (closed in December 2009), and the ALS Center disclosed the following concerns:

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- a. A significant number of high-dollar value equipment items owned by Neurology are currently stored in a locked, but unattended area in the Sleep Laboratory. Management should ensure that access to the area is limited to department personnel.
- b. An ECG System with monitor assigned to the ALS Center is recorded in University equipment records as belonging to the Medical Center Cardiology Laboratory;
- c. A ANCS/EMG/SEP System located in the ALS Center is correctly recorded in University equipment records as belonging to the Neurology department. However, according to equipment records, the equipment item is located in the new Social Science Lecture Hall at main campus.

Failure to properly train Neurology employees responsible for managing and maintaining departmental equipment may result in a loss of University equipment and/or injury to University employees and patients. In addition, failure to properly secure and account for University equipment increases the risk of assets being diverted, resulting in substantial financial loss to the University.

Management Action Plan

With regard to education and training, both the Interim Administrator and the Equipment Administrator checked UCI training regarding equipment management and maintenance and Medical Center training regarding equipment management and maintenance. There is no training that educates School of Medicine staff that equipment used on patients must be serviced by CE. Neurology management is now aware and will ensure that all equipment that is used on patients will receive the proper servicing as mentioned above.

In reference to item (a) above: Neurology has no other storage areas to secure the equipment from the sleep center at this time. As an added security measure Medical Center facilities personnel have changed the locks on the door for the equipment and the system administrator checks on the equipment several times during the week. No one has access to this location other than the equipment manager and security. The Equipment Administrator has to be given access by security to check on the equipment. Neurology management is looking at options for the equipment.

In reference to item (b) above: As the Mortara ECG system was originally recorded in equipment records as belonging to the Cardiology division, the corrective action was such that the Equipment Administrator contacted the PI to verify ownership of the item. Both the PI and Cardiology agreed that the ECG

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System belongs to the Neurology department. An “Equipment Inventory Modification Request” was submitted to change ownership.

In reference to item (c) above: Since the Viasys EMG System was recorded as belonging to the Neurology department and the location on the equipment states “Social Science Lecture Hall”, the Equipment Administrator corrected the data entry error on the EQS system that was entered by Equipment Management on the main campus.

10. Clinical Engineering Processes

Observation

Observations of sampled equipment items located and stored in the Neurology Sleep Laboratory (closed in December 2009), and other equipment items located in the ALS Center disclosed the following concerns:

- a. None of the four observed equipment items in the Sleep Laboratory had Philips ID tags or Philips preventative maintenance (PM) tags displayed on the equipment;
- b. Observations of equipment items in the ALS Center disclosed that two equipment items did not display Philips ID tags or PM tags. ALS Center management contacted CE to inspect and tag the two equipment items. However, one of the equipment items was improperly tagged by CE as equipment that does not require preventative maintenance. This equipment item is used in a clinical setting and makes physical contact with the patient. The tagging error was corrected during the audit fieldwork.

Medical Center CE policy requires that CE personnel be contacted by the custodial department when equipment that requires a PM inspection is delivered directly to the custodial department. Failure to obtain proper PM inspections on medical equipment before placing the equipment in service may place University employees, patients, and other individuals at a higher risk of injury.

Management Action Plan

Effective immediately Neurology personnel will contact CE and request PM inspections for all new equipment in patient care areas. Neurology management will monitor to be sure that all equipment is inspected on a regular basis and tagged.