SAN DIEGO: AUDIT & MANAGEMENT ADVISORY SERVICES
0919

September 6, 2019

DR. ROBERT N. WEINREB
Chair, Department of Ophthalmology
0946

Subject: ***Department of Ophthalmology***
Report 2019-15

The final report for *Department of Ophthalmology, Report 2019-15*, 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
Interim Director
Audit & Management Advisory Services

Attachment

cc: David Brenner
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Ophthalmology
Report No. 2019-15
September 2019

FINAL REPORT

Performed By:

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Approved By:

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Ophthalmology (Department) as part of the approved audit plan for Fiscal Year 2018-19. The objective of our review was to determine whether internal controls were adequate to provide reasonable assurance that operations were effective, in compliance with University policy, and resulted in accurate financial reporting

Based on our review, we concluded that improvement was needed to provide assurance that business operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. Opportunities for improvement were identified in several areas particularly in with regards to compliance with conflict of commitment policies, compliance with sponsored research award terms, gift fund management, transactional compliance for non-payroll expenditures, financial oversight, clinic activity management, and clinical trial invoicing procedures. These items are addressed further in the remainder of this report.

A. Conflict of Commitment

Department management will develop a formal process to ensure compliance with COC policies, including the collection and evaluation of disclosures for all personnel subject to the requirement and use of the Outside Activity Tracking System (OATS) certification system.

B. Award Compliance

Department management will:

1. Evaluate and transfer unallowable charges from the NIH awards and private grant to an appropriate fund source.
2. Re-evaluate effort for the key personnel on the awards to determine the correct percentage of effort on the award, and based on that review, either make the required payroll cost transfers or notify the agency.
3. Ensure prior approval is obtained for significant changes in key personnel effort in future.

C. Gift Fund Management

Department management will:

1. Transfer tuition fees for the Vice Chair from 57134A to an appropriate fund source.
2. Review gift fund balances and expenditures, and increase spending in a timely manner.

D. Financial Oversight

Department management will:

1. Ensure that all sampled transactions are appropriately reviewed and reconciled on a timely basis.
2. Review active service agreement and clinical trial indexes that relate to expired agreements and transfer any residual balances for index inactivation.
3. Update approval hierarchies to ensure expenses are not approved by and individual who reports directly or indirectly to the person incurring (claiming) the expenditure.
4. Ensure that Distribution Of Payroll Expenses (DOPE) reviews are performed and documented on a monthly basis, as required by policy.

E. Non Payroll Expenditures

Department management will:

1. Correct equipment classification and Use Tax for Express Card transactions.
2. Discontinue use of Express Card for charges on clinic funds (Org 434851) and transition to a Procurement Card managed by UCSDH.
3. Make efforts to locate the missing Express Card invoice and ensure a duplicate payment was not made to the vendor.
4. Require Express Cardholders take refresher training for awareness of Express Card policies and restrictions.
5. Obtain reimbursement for the two travel events which were over-reimbursed.
6. Revise departmental practices for travel transactions to ensure compliance with applicable University policy.

F. Clinic Activity

Department management will:

1. Coordinate with Equipment Management to perform an equipment inventory for Shiley clinic medical equipment.
2. Consider entering into a contract for maintenance of medical equipment for the Shiley clinic with Biomedical Equipment Services or continue utilizing a third party for equipment maintenance.
3. Develop a formal agreement with UCSDH for financial support for the Fourth and Lewis Ophthalmology clinic operations.
4. Coordinate with EH&S to ensure that Environment of Care (EOC) audits are performed for all Ophthalmology clinic locations.
5. Consider performing regular secondary verification of the drug inventory at the Fourth and Lewis clinic location, other than by the Lead Technician.
6. Coordinate with Health Information Management (HIM) to ensure that paper medical records are maintained and secured in accordance with policy.
7. Ensure all employees with cash handling responsibilities complete cash handling training at least once per year.
8. Develop a process to ensure cashier close batch reports on a daily basis.
9. Inform cashiers at the Fourth and Lewis location to make deposits timely in accordance with policy.

G. Clinical Trial Invoicing

Department management will:

1. Evaluate completeness of invoicing and payments for the two clinical trials (OPHDLZ05 and OPHDC01).
2. Implement procedures to regularly monitor all clinical trial revenues to ensure all revenues are invoiced and deposited to the clinical trial in a timely manner.

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 Ophthalmology (Department) as part of the approved audit plan for Fiscal Year 2018-19. This report summarizes the results of our review.

Ophthalmology is a department within the University of California, San Diego (UCSD) School of Medicine (SOM). The Department has 37 faculty members who provide training to medical residents and fellows through certified training programs, conduct research, and provide specialized clinical services to UC San Diego Health System (UCSDHS) and Veteran's Administration San Diego Health System patients.

Founded in 1991, the Shiley Eye Institute is an academic institution with comprehensive programs for the clinical care of patients with eye disorders, research on surgical techniques and the treatment of eye diseases, education in the field of Ophthalmology, and innovative outreach to the community. Ophthalmology operations are conducted in the Shiley Eye Institute, Fourth and Lewis Medical Offices, and the recently opened-Oculoplastic Clinic at the Perlman Medical Offices. The Shiley complex consists of the main facility, the Anne F. and Abraham Ratner Children's Eye Center, the Joan and Irwin Jacobs Retina Center, and the Hamilton Glaucoma Center. The Division of Community Ophthalmology operates the EyeMobile for Children, which provides eye testing services to children in San Diego County through the San Diego Head Start Program and San Diego County public schools.

The SOM Financial Management Alignment Program (FINMAN) Profit and Loss Statement as of January 2019 reported total Ophthalmology revenue of $12.6M. Of that amount, $4.9M (39%) was received from research contracts, grants and clinical trials, and $4.4M (35%) was clinical revenue. Federal awards contributed $3.9M to the total research revenue, primarily from the National Eye Institute, part of the National Institutes of Health (NIH).

Ophthalmology Business Office staff provided support for critical department business processes including pre and post award support of contracts, grants, and clinical trials, as well as financial analysis and reporting. Information system support was provided by Campus Information Technology Services (ITS) and UCSDH Information Services for Epic (Electronic Medical Record system). Faculty and payroll and personnel administration was provided by the Academic Resource Center (for academics) and Health Sciences Human Resources (for staff).

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to determine whether internal controls were adequate to provide reasonable assurance that operations were effective, in compliance with University policy, and resulted in accurate financial reporting. The scope of this review was limited to activities and business practices for the current Fiscal Year 2019 (through April 2019) and the Fiscal Year 2018. In order to achieve our objective, we performed the following:

- Reviewed applicable University policies and procedures;

- Reviewed Ophthalmology business documents and information including the department website, the organizational structure, and financial reports;
- Requested and reviewed departmental responses to internal control questionnaires and separation of duties matrices;
- Interviewed Ophthalmology staff including the Administrative Vice Chair (AVC), the Business Office Senior Analyst Supervisor, and Fund Managers to obtain information about the organizational structure and, department operational procedures for key business processes;
- Consulted with and obtained relevant information for Department expenses from Office of Contracts and Grants Administration (OCGA), Office of Post Award Financial Services (OPAFS), Disbursements, Travel, Express Card Administration, Advancement, Controller's Office, Equipment Management, and Environment, Health and Safety (EH&S);
- Evaluated the following for the Department:
    - Integrated Financial Information System (IFIS) approval templates, and the Business Unit Management Tool (BUMT) Marketplace roles,
    - Effort certifications recorded using the Electronic Certification of Effort Reporting Tool (ECERT),
    - Service agreement and clinical trials invoicing activity,
    - Department and clinic equipment inventory,
    - Transactional Sampling Management Report,
    - Deficit Analytics Report,
    - Gift Fund expenditures,
    - Environment of Care (EOC) and Infection Control reports for the clinic sites;
- Performed clinic site tours to evaluate patient safety procedures, medical records management, medication and cash controls; and
- Performed detailed testing of a sample of business transactions to verify that transactions were processed in compliance with regulatory requirements and University policy, as summarized in ***Attachment A***.

The scope of our review did not include detailed analysis of services provided by Health Sciences shared services centers, including those managed by the Research Service Core (pre- and post-award activity), Health Human Resources (payroll and timekeeping), Academic Resource Center (academic payroll and timekeeping) and, UCSDH IS (IT systems, security, and maintenance). Clinical research billing and clinic processes including appointment scheduling, and charge capture were also excluded from this review.

IV. CONCLUSION

Based on our review, we concluded that improvement was needed to provide assurance that business operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. Opportunities for improvement were identified in several areas particularly in with regards to compliance with conflict of commitment policies, compliance with sponsored research award terms, gift fund management, transactional compliance for non-payroll

expenditures, financial oversight, clinic activity management, and clinical trial invoicing procedures. These items are addressed further in the remainder of this report.

As of January 2019, the Department had deficits in operating funds of $5.9M and in sponsored project funds of $691K but there was regular communication with the Controller's Office on deficits that were to be carried forward to FY2020 (estimated at 177K). The clinic operations had sustained a net loss (after transfers) of $2M, attributed by the Department to the delayed opening for the Perlman clinic and loss of a clinical revenues from absence of a physician.

Attachment A provides the results of the business and retail process review. Specific recommendations are noted for those areas that were rated "improvement needed" or "unsatisfactory," as noted in the attachment. Our results are provided in more detail in the remainder of the report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Conflict of Commitment (COC) Reporting
The Department was not in compliance with the annual conflict of commitment/outside professional activities reporting requirements under University policy.	
Risk Statement/Effect	
Timely collection and review of COC disclosures assists management in identifying any potential faculty conflicts of commitment that could interfere with the successful performance of their University obligations.	
Management Action Plan	
A.1	Department management will develop a formal process to ensure compliance with COC policies, including the collection and evaluation of disclosures for all personnel subject to the requirement and use of the Outside Activity Tracking System (OATS) certification system.

A. Conflict of Commitment Reporting – Detailed Discussion

A conflict of commitment occurs when a University employee's commitment and time to an outside activity interferes with employee's performance of University duties. The University has established specific policies for disclosure and management of potential conflicts of commitment, including APM 671, Conflict of Commitment and Outside Activities of Health Sciences Compensation Plan (HSCP) Participants. This policy requires that eligible faculty must file an annual report of outside professional activities each fiscal year, even if the faculty member did not engage in outside professional activities during the year. Certain activities have an additional requirement for prior written approval from the Chancellor or designee, which for Health Sciences is the Associate Vice Chancellor for Academic Affairs. Each Department is individually responsible for ensuring its faculty comply with COC policy.

As of May 2019, the Department had 31 active faculty who were subject to the reporting requirements under APM 671. Faculty were usually informed of the COC compliance requirements as part of the onboarding process. However, the Department had not developed a process for collection and review of APM forms for these faculty in compliance with APM 671. Therefore, no disclosures had been collected or evaluated by the Department for the period in the scope of our audit.

B.	Award Compliance
Selected charges and effort reduction for key personnel for three awards did not conform with federal or sponsor requirements.	
Risk Statement/Effect	
Non-compliance with award terms and conditions increases the risk of disallowances or funding delays, and may negatively impact future awards.	
Management Action Plans	
Department management will:	
B.1	Evaluate and transfer unallowable charges from the NIH awards and private grant to an appropriate fund source.
B.2	Re-evaluate effort for the key personnel on the awards to determine the correct percentage of effort on the award, and based on that review, either make the required payroll cost transfers or notify the agency.
B.3	Ensure prior approval is obtained for significant changes in key personnel effort in future.

B. Award Compliance – Detailed Discussion

Unallowable Charges

NIH Grants Policy Statement (NIHGPS) states that "grant awards provide for reimbursement of actual, allowable costs incurred and are subject to Federal cost principles." The cost principles address four tests to determine the allowability of costs: reasonableness, allocability, consistency and conformance. A cost is allocable "if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received or other equitable relationship."

Our review of grant expenditures identified a few charges that did not appear allocable to the award as summarized below:

- One private grant (871ADA), had $58,422 in charges posted to the fund after the award end date of June 30, 2018, which could potentially not be allocable to the award. This included a travel event totaling $4,221 that occurred after the award end date. The grant proposal did not include any budgeted travel costs and the grant Notice of Award specified that any

remaining funds after the award ended were to be returned to the sponsor. It did not appear that a no cost extension was sought for the award.

- Award 2159BA included travel charge of $724 for an employee that was not named as a scholar (candidate) supported on the NIH research career development award (K12). The budget justification for the award included $10K per year for candidate travel funds but the travel charged to the grant did not relate to a candidate supported on the K12 award. An entertainment charge for a scholar recruitment dinner totaling $280 was charged on the same award. Although the budget justification provided $10K per year in travel funds for recruitment airfare costs, the entertainment costs were not budgeted, and appeared unallowable.
- Award 218C4A had three charges for general office and cleaning supplies that were not allocable to the award, totaling $138.

PI Effort Reduction

The NIHGPS (Part II, Section 8.1.2.6, October 2012) requires prior agency approval if "there is a significant change in the status of the PD/PI (Principal Investigator) or other Senior/Key Personnel specifically named in the NOA including but not limited to withdrawing from the project entirely, being absent from the project during any continuous period of 3 months or more, or reducing time devoted to the project by 25 percent or more from the level that was approved at the time of initial competing year award."

Our review of key personnel effort (named on the Notice of Award) for three awards (2159BA, 21D64A and 218C4A) identified one key personnel whose effort was either 25% or more below the budgeted effort per the grant proposal, which required prior approval. Discussion with Fund Managers for two of the awards (21D64A and 218C4A) indicated that PI effort is expected to be in line to budget in future grant years.

C.	**Gift Fund Management**
Certain gift fund expenditures did not appear to be consistent with donor intent and in some cases, gift funds were not spent timely.	
Risk Statement/Effect	
Lack of appropriate and timely expenditure of gift funds increases the risk that donor intent is not being met.	
Management Action Plans	
Department management will:	
C.1	Transfer tuition fees for the Vice Chair from 57134A to an appropriate fund source.
C.2	Review gift fund balances and expenditures, and increase spending in a timely manner.

C. Gift Fund Management – Detailed Discussion

Gift Fund Usage

University policy (Policy and Procedure Manual (PPM) 410-20) states that "gifts and bequests are allocated, reallocated and administered to benefit the University of California consistent with the legal and fiduciary responsibility to fulfill the donor terms of the gift and bequest."

We noted that spending on one gift fund, 57134A, was designated for the Department Vice Chair's research of Graves' disease related programs. Review of a sample of donor letters indicated that donations were primarily to support research for the Department, with a small portion of the gift intended for unrestricted use.

Our review of spending on the fund revealed that the gift fund was used to pay the Ophthalmology Vice Chair's Masters in Business Administration (MBA) tuition fees, which did not appear to be consistent with the gift fund purpose for research use. Tuition of $88,162 had been charged to the fund within the audit scope period (FY18 and FY19 as of May 2019), with an additional tuition of $41K prior to FY18. Although some of the donation letters indicated unrestricted use of the funds, those we located did not offset the amount of the tuition, and it is unclear how much of the gift fund can be attributed to unrestricted use to cover tuition costs.

Gift Spending

University policy (PPM 410-5, Policy on Timely Expenditure of Endowment Payout and Expendable Gifts) states that "the annual payout generated by any UC San Diego endowed fund, whether Regents or Foundation-held, should be expended within two fiscal years of receiving the payout. A Dean must submit a justification and plan to the Office of Donor Stewardship for payout accumulation beyond two years." In addition, the policy specifies that balances in expendable gift funds "must be spent within reasonable times specific to the unique circumstance of each gift. If no material spending occurs within five years of the receipt of a gift, a spending plan must be provided within 90 days of receiving notice from the Office of Donor Stewardship."

We reviewed the Department list of gift funds from the STAR database[1] and selected a sample of eight gift funds (three endowment and five current/expendable fund) for high level review of expenditures over the last few years. Two of the endowment gift funds (56219A and 86985A) annual payout was not expended within two fiscal years. We also noted one current gift fund, 86K31A, that did not have material spending of the expendable balance for the five years FY14-FY18.

[1] STAR (Stewardship, Transparency, Accountability, Reporting) is an online dashboard powered by Cognos to provide Advancement and UC San Diego staff with access to financial information related to University private support gift funds (both Foundation and UC Regents).

D.	Financial Oversight
Controls for monitoring and oversight of financial activities could be improved to ensure the appropriate use of funds and compliance with University policy.	
Risk Statement/Effect	
The absence of appropriate monitoring controls for financial activity increases the risk of inappropriate use of funds and/or the lack of supporting documentation for expenditures. Adequate oversight and monitoring of transactions is necessary to ensure that transaction errors are quickly identified and resolved.	
Management Action Plans	
Department management will:	
D.1	Ensure that all sampled transactions are appropriately reviewed and reconciled on a timely basis.
D.2	Review active service agreement and clinical trial indexes that relate to expired agreements and transfer any residual balances for index inactivation.
D.3	Update approval hierarchies to ensure expenses are not approved by and individual who reports directly or indirectly to the person incurring (claiming) the expenditure.
D.4	Ensure that Distribution Of Payroll Expenses (DOPE) reviews are performed and documented on a monthly basis, as required by policy.

D. Financial Oversight – Detailed Discussion

Transaction Sampling

Transaction Sampling is an operating ledger review process overseen by the Controller's Office in which the system randomly selects financial transactions for review during the monthly operating ledger reconciliation and account validation process. This sampling process is intended to reduce the ledger review workload inherent to 100% reconciliation of the ledger. Department participation is contingent on the timely reconciliation of all sampled items. Ledger review is a key internal control to ensure that expenditures are appropriate and supported by adequate documentation.

The Department utilized the campus Transaction Sampling process for monthly review of non-payroll expenditures in the operating ledger, including recharges (e.g. the Bookstore). However, we noted that a significant number of transactions that had been selected for review had not yet been reviewed during the audit scope period. Specifically, for FY18 and FY19 through December 31, 2018, 2,791 of 3,759 (74%) of sampled transactions had not been reviewed as of February 2019. We noted 1,453 (52%) of the transactions not reviewed related to FY18. In order for the Transaction Sampling process to be regarded as a valid method of ledger review, all sampled transactions should be reviewed on a

monthly basis. Lack of review of the full sample of transactions increases the risk of not detecting erroneous or inappropriate transactions in a timely manner.

Index Inactivation

During our review of service agreements and clinical trial agreements, we identified several service agreement and clinical trial indexes that remained active even though the agreement had expired several years ago, some as early as 2012. Comparison of active indexes under service agreement funds (60107A, 60108A, 60153A, 60155A, 60157A, 60158A, 60990A, 60156A, 60106A, and 60746A) to the active service agreement listing from Health Sciences Business Contracting Office, identified 53 active indexes for expired agreements. Twenty of the expired service agreement indexes were in deficit (totaling $141,934) as of March 2019, whereas others had a zero or positive balance. In addition, our review of a sample of clinical trial indexes identified three trials that had expired several years ago but indexes remained active with deficit balances.

Timely index inactivation procedures are indicative of good business practices and demonstrates stronger management of department funds, through timely management of deficits and ensuring cost recovery.

Approval Hierarchies

We noted that expense approval hierarchies allowed the approval of transactions by subordinate employees. University policy provides that payments for expenses should be reviewed and approved by an individual who does not report directly or indirectly to the person incurring (claiming) the expenditure (UC Policies *BFB G-28, Travel Regulations; BFB BUS-43, Material Management; BFB BUS-79, Expenditures for Entertainment, Business Meetings, and Other Occasions and; Accounting Manual D224-17, Delegation of Authority – Signature Authority*).

We reviewed the department's expense approval hierarchies to determine whether the hierarchies had been assigned in accordance with University policy. We also reviewed approvals as part of detailed testing of selected expenditures and analyzed transaction reviewers for Express Card holders for compliance with UC policy. The following observations were made based on our review:

- A Fund Manager was set up as an alternate approver for the Business Office Supervisor's transactions in the IFIS approval template.
- One travel event and one entertainment transaction for the Administrative Vice Chair was approved by a subordinate Business Office Supervisor and Fund Manager respectively.
- The Administrative Vice Chair approved reimbursement for the Department Vice Chair which was inappropriate since the Administrative VC was in a subordinate role.

The establishment of appropriate approval hierarchies helps ensure segregation of responsibilities within the procurement processes, and increases assurance that purchase transactions are bona fide University expenses that comply with applicable policy.

Review of DOPE Reports

University policy requires Distribution of Payroll Expense (DOPE) reviews to be performed monthly and that the review be routinely documented. UC Policy, IA-101, Internal Control Standards: Department

Payroll, requires DOPE reviews to be performed monthly and requires that this DOPE review be adequately documented. We noted that DOPEs were not being reviewed or reconciled monthly to departmental records or compared to budgeted amounts, as required by policy.

E.	Non Payroll Expenditures
Business processes for non-payroll expenditures could be improved to ensure compliance with policy.	
Risk Statement/Effect	
Inadequate controls over Express Card administration and travel expenses can increase the risk of restricted purchases, misuse of University funds, inappropriate reimbursements, and non-compliance with policy.	
Management Action Plans	
Department management will:	
E.1	Correct equipment classification and Use Tax for Express Card transactions.
E.2	Discontinue use of Express Card for charges on clinic funds (Org 434851) and transition to a Procurement Card managed by UCSDH.
E.3	Make efforts to locate the missing Express Card invoice and ensure a duplicate payment was not made to the vendor.
E.4	Require Express Cardholders take refresher training for awareness of Express Card policies and restrictions.
E.5	Obtain reimbursement for the two travel events which were over-reimbursed.
E.6	Revise departmental practices for travel transactions to ensure compliance with applicable University policy.

E. Non Payroll Expenditures – Detailed Discussion

Express Card

University policy (BUS 43 Material Management, Procurement Card Program) outlines requirements on use of procurement cards. UCSD's Express Card is a procurement option in the form of a Visa credit card for faculty and staff who have buying responsibilities, which simplifies buying routine, low-cost goods and services. Express Cardholders are responsible for abiding by Express Card usage guidelines. Designated Express Card Administrators are responsible for reviewing expenditures to make sure they are compliant with the University policy and program guidelines. Certain transactions are restricted on the Express Card, including inventorial equipment, gifts and exceeding the Express Card transaction limit for a single purchase.

Our review of a sample of Express Card transactions on the Department organizations, including the clinic organization, identified the following issues:

- We noted that Express Cards were used to purchase restricted purchases, particularly inventorial equipment, in three instances by two Express Cardholders totaling $40,886. One of the Express Cards has been since cancelled. The inventorial equipment was misclassified as a supply (sub 3) expense.
- Invoice for the purchase of drugs from a vendor, Besse Medical, of $44,400 in July 2017 was not provided by the Department. We noted that the Department had placed multiple Marketplace orders for the same amount with the vendor during this time period and all but one order (requisitioned on July 11, 2017 and thereafter cancelled) was fully paid. We were unable to determine whether the Express Card was used to make payment for a completed Marketplace order, potentially resulting in duplicate payment, or was separate from the Marketplace ordering system.
- Use Tax was also not appropriately calculated for two transactions. Use Tax totaling $586 was separately charged on the index even though sales tax had already been paid on the invoice.
- We also noted that Express Card was used for purchases on the clinic organization (434851). However, purchases under the clinic organization should follow the UCSD Health Procurement Guidelines which do not allow use of an Express Card. Although several of the Express Cards originally charging to the clinic organization were cancelled in November 2018, there are still a few recurring Express Card purchases on the clinic funds.

Travel Reconciliation

University Policy (G-28 Travel Regulations) describes requirements for prior approval and reimbursement of University business travel. In general, University policy governing travel requires all official UCSD travel to be preauthorized, submitted timely, and properly supported. Exceptions for reimbursement to coach and economy fare need to meet eligible criteria, for example, medical need or time restrictions.

Our review of a sample of 11 travel events identified two travel events in which the traveler was over reimbursed for charges amounting to $4,560. In one event the traveler appeared to be reimbursed for both first class and economy travel. No justification was provided for the first class travel. The other travel event included reimbursement for an additional hotel stay that was not for business purpose. Travel events should be appropriately reconciled and supporting documentation obtained in compliance with policy.

F.	Clinic Oversight
Controls for oversight of clinical activities, including equipment inventory, financial agreements, safety audits, drug inventory, cash handling, and paper records management could be improved to ensure the good asset management practices and compliance with University policy.	
Risk Statement/Effect	
Adequate oversight and monitoring of clinical activities is necessary to ensure adequate asset management practices, and manage patient information and employee safety risk.	

Management Action Plans	
Department management will:	
F.1	Coordinate with Equipment Management to perform an equipment inventory for Shiley clinic medical equipment.
F.2	Consider entering into a contract for maintenance of medical equipment for the Shiley clinic with Biomedical Equipment Services or continue utilizing a third party for equipment maintenance.
F.3	Develop a formal agreement with UCSDH for financial support for the Fourth and Lewis Ophthalmology clinic operations.
F.4	Coordinate with EH&S to ensure that Environment of Care (EOC) audits are performed for all Ophthalmology clinic locations.
F.5	Consider performing regular secondary verification of the drug inventory at the Fourth and Lewis clinic location, other than by the Lead Technician.
F.6	Coordinate with Health Information Management (HIM) to ensure that paper medical records are maintained and secured in accordance with policy.
F.7	Ensure all employees with cash handling responsibilities should complete cash handling training at least once per year.
F.8	Develop a process to ensure cashier close batch reports on a daily basis.
F.9	Inform cashiers at the Fourth and Lewis location to make deposits timely in accordance with policy.

F. Clinic Oversight – Detailed Discussion

Equipment Inventory and Maintenance

University Policy (BUS 29, Management and Control of University Equipment) requires that every department take a physical inventory of all University inventorial equipment, government equipment, other government property, and other inventorial items, at least once every two years. After an inventory effort has been completed, the department is responsible for the proper disposal and/or transfer of any equipment no longer in their custody. The Capital Asset Management System (CAMS) is UCSD's web-based inventory system used to track inventorial equipment with an acquisition cost of $5,000 or more.

We noted that an equipment inventory has not been performed for Ophthalmology clinic locations since 2015. CAMS report revealed 13 pieces of equipment with a total current value of $438,447 in equipment custody codes #0159 (CPO – Perlman and Lewis St), and 7394 (Shiley Eye clinic). However, during our tour of the Shiley Eye clinic in La Jolla, we identified several pieces of equipment that were not tagged. We were unable to verify whether this equipment has been appropriately recorded in CAMS.

There is also lack of clarity with regards to medical equipment maintenance for the Shiley Eye clinic location. Discussion with BioMedical Equipment Services (Biomed) revealed that a maintenance contract is in place for equipment maintenance for the Shiley Operating Room (3rd Floor) but this does not cover maintenance for the Shiley Eye clinic equipment (on the 1st floor). The Shiley Eye clinic has the option to service equipment on a recharge basis with BioMed or utilize a third party to maintain their equipment.

Clinic Agreement

We were informed by the Physician Group Finance and Department management that there is currently a verbal agreement for the Medical Center to compensate the Department for any losses incurred at the recently-opened Fourth and Lewis clinic location. The clinic operations were transferred from within the Hillcrest Medical Center space to the new location in November 2018. As of May 2019, the Fourth and Lewis clinic index (MSCBVJ3) had a reported loss of $204,474. A formal agreement to document financial support for the clinic has not been established to allow the Physician Group to process the necessary transfers of the loss. The Fourth and Lewis clinic loss would have a negative impact on the net amount transferred to the Department since the Department is not part of the CARE payment model[2].

Safety Inspections

University policy (PPM 510, Environment, Health and Safety (EH&S) states that "Principal Investigators (PI), Managers, and Supervisors are responsible for implementing the health, safety, and environmental management program… the EH&S department conducts audits and makes recommendations for improvement to responsible Principal Investigators, Chairs, Directors and Deans." In addition, UCSDH Policy 811.1 Environment of Care (EOC) Program states that UCSDH EH&S conducts regular EOC rounds to include all patient care areas at least every six months and all non-patient care areas at least annually.

We noted that the Shiley Eye clinics at both the La Jolla and Hillcrest location were subject to regular inspections by UCSDH Infection Prevention-Clinical Epidemiology Unit (IPCE). The IPCE Unit focuses its services on both the inpatient and ambulatory care settings and conducted regular assessments of infection prevention practices and guided quality improvement activities. UCSDH EH&S performed EOC audits at the Fourth and Lewis Ophthalmology clinic subsequent to their move in November 2018. In addition, the Campus EH&S performed fire inspections and laboratory inspections for the Shiley building in La Jolla.

However, we noted that there was a gap in that EOC audits were not being performed for the patient care areas in the Shiley Eye clinics located on the 1st floor of the Shiley Eye Center. There is confusion on whether UCSDH or Campus EH&S are the responsible department for the EOC rounds at this location. Campus EH&S generally does not conduct reviews in patient care areas. Regular EOC rounds are critical to ensure the workplace is free from safety and health hazards, and to ensure the University complies with safety and environmental regulations.

[2] Clinical and Reimbursable Event (CARE) Payment Model was implemented, wherein payments to departments are based upon a guaranteed amount per work Relative Value Unit (wRVU) indexed to physician specialty benchmarks.

Drug Inventory Management

The Ophthalmology clinics purchased some high-cost drugs (up to $2K/vial) and stored defined par levels of drugs at the clinics. For the Fourth and Lewis Ophthalmology clinic, we noted that high-cost medication inventory was maintained in lockable and temperature-controlled storage (Pyxis) accessible only to physicians and technicians. Ordering of drugs was automated to maintain par levels. However, we noted that only the Lead Technician had control of medication disposal/wasting, as well as receipt of shipment and restocking the storage. No secondary verification of drug inventory was performed. The Lead Technician was unable to provide an electronic record of the drugs inventory report during our site visit to confirm drug inventory on hand. The lack of segregation of duties in drug handling increases the risk of undetected errors in drug inventory or potential diversion of the drugs.

Cash Controls

University policy (BUS-49, Policy for Cash and Cash Equivalents Received) required cash handling training for all employees who handle cash, including when a new employee begins work in a cash handling job and once per year to refresh knowledge. The Department indicated that clinic cashiers completed cash handling training at the time of hire, but the Clinic Manager was not aware of the annual training requirement and consequently, this had not been enforced for the cashiers as required by Policy.

We also noted that deposits for the Fourth and Lewis clinic were not made timely as required by policy requirements which states that "Collections at Sub-cashiering Stations and Departments shall be deposited at the designated Main Cashiering Station at least weekly or whenever collections exceed $500." Our review identified one deposit (under $500) that was not performed weekly and another deposit that exceeded $500 but was deposited few days after the cashier batch report close date.

In addition, discussion with UCSDH Physician Group staff (who received and processed Shiley clinic deposits) and, the Shiley Clinic Manager revealed a gap in review for open cashier batch reports for a lengthy time period. Lack of timely closeout of cashier batch reports increases the risk that deposits are not made timely in accordance with University policy, or may be indicative of deposits being lost or misappropriated.

Medical Records Management

Medical Center Policy (MCP 325.2, Legal Medical Record) states that "Health records shall be maintained in a safe and secure area. Safeguards to prevent loss, destruction and tampering will be maintained as appropriate." The UCSDH Director of Health Information Management (HIM) is designated as the person responsible for assuring that there is a complete and accurate medical record for every patient. The medical staff and other health care professionals are responsible for the documentation in the medical record within required and appropriate time frames to support patient care.

Historically, Shiley Eye clinics maintain paper medical records but the Department is in process of transitioning to the electronic health record system, Epic. Discussion with Department leadership indicated that about half of the clinicians have transitioned to Epic to date and the remaining continue to use paper medical records. During our tour of the Shiley Eye clinic, we noted that paper medical records were maintained in a designated storage area on the first floor, with records older than six months sent to Iron Mountain and retrieved as needed. Although medical records retrieved from the

designated internal storage and off-site locations were logged, safeguards to prevent the loss, destruction and tampering of medical records on site could be improved. The records in storage were arranged on shelves, but we noted that storage space was tight. There were rows of carts with medical records on the hallway just outside of the storage room. In some cases, the records were not easily accessible and needed to be traced from the last appointment or visit. Paper medical records should be safeguarded until the transition to Epic is complete to ensure compliance with policy.

G.	Clinical Trial Agreement Invoicing
Invoicing and payments for selected clinical trial agreements was not timely or complete in accordance with the agreement terms.	
Risk Statement/Effect	
The lack of timely review and monitoring of invoices could result in missed or unpaid invoices, loss of revenue, and inadequate funding for supported activities.	
Management Action Plans	
Management will:	
G.1	Evaluate completeness of invoicing and payments for the two clinical trials (OPHDLZ05 and OPHDC01).
G.2	Implement procedures to regularly monitor all clinical trial revenues to ensure all revenues are invoiced and deposited to the clinical trial in a timely manner.

G. Clinical Trial Agreement Invoicing – Detailed Discussion

The Department has various clinical trials with outside sponsors which the Business Office is responsible for invoicing, tracking revenues and expenditures. The FINMAN Profit and Loss Statement reported $459K in clinical trial revenues as of January 2019.

We selected a sample of six active clinical trial indexes, but only three were related to a currently active agreement. The remaining clinical trial indexes should to be inactivated as summarized in *Finding E* above. Detailed review of the contract terms, invoicing and monitoring of revenue and expense activities indicated that billing for clinical trials was generally based on completion of case report forms data to the sponsor. However, certain events were considered separately invoiceable under the clinical trial agreements (OPHDLZ05 and OPHDC01) for example, startup costs, IRB fees and, initial review fees. However, based on review of revenues posted to the ledger, it did not appear that these expenses were timely paid by the sponsor, in accordance with the agreement terms. As of the date of this report, the Department had not provided clarification on the completeness of invoicing and payments for the selected clinical trials.

Department of Ophthalmology
Attachment A – Audit Results by Business Office Process
Audit & Management Advisory Services Project #2019-15

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion[1]	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Conflict of Commitment	√	√	√	Not applicable	No	Unsatisfactory	The Department did not collect or review annual Outside Professional Activity disclosures as required by APM 671. ***Report Finding A***
Contract & Grant Activity (Post Award Admin.)	√	√	√	Selected seven National Eye Institute (NEI) awards totaling $32.1M and evaluated expenditures on awards for reasonableness and key personnel effort for any significant changes that need to be reported to the agency.	No	Improvement Needed	Charges were generally reasonable, appropriate and appeared to be consistent with the award proposal. However, a few non payroll expenses totaling $59,564 were identified that were not allocable to the award. Also, key personnel effort for three awards represented a significant change that required prior approval in accordance with agency terms. ***Report Finding B***
Gift Fund Management	√	√	√	Reviewed list of gift funds for Department and judgmentally selected eight to review for timely spending per PPM 410-5 and five to test spending in accordance with donor intent.	No	Improvement Needed	One gift fund spending did not appear to be fully consistent with gift fund purpose/donor intent. We also noted that gift funds have not been expended timely in accordance with policy. ***Report Finding C***

[1] Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

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	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Operating Ledger Review & Financial Reporting	√	√	√	Examined operating ledgers, transactional sampling reports, approval hierarchies and financial reports.	No	Improvement Needed	The Department deficit balances were monitored by the Controller's Office. We noted that transaction sampling was not timely. In addition, several service agreement and clinical trial indexes need to be inactivated as they were for expired agreements. Approval for three transactions was performed by a person subordinate to the person incurring the expense. We also noted that DOPE reviews were not performed for Ophthalmology staff on a monthly basis. ***Report Finding D***
Express Card	√	√	√	Reviewed process and management of Express Cards. Reviewed 31 judgmentally selected transactions; traced to supporting documents.	No	Improvement Needed	Express Cards were used for restricted purchases and equipment was misclassified. In other cases, Use Tax was not appropriately calculated. The supporting invoice was not available for a large Express Card transaction. We also noted continuing Express Card transactions on the clinic organization funds. ***Report Finding E***

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Travel & Entertainment	√	√	√	Reviewed 11 judgmentally selected travel events and 10 entertainment transactions and traced to supporting documents and approvals.	No	Improvement Needed	Entertainment transactions generally appeared appropriate, although one entertainment expense was not approved by a subordinate and another was charged to an inappropriate fund source. ***Report Finding D*** Two travel events included reimbursement of excess charges to the traveler. ***Report Finding E***
Equipment Management	√	√	√	Reviewed inventory listing and most recently completed inventory for both Department and clinic equipment. Validated a sample of five equipment items not validated in prior inventory for Department custody codes.	No	Improvement Needed	A physical inventory was completed for the Department custody codes within the last two years in accordance with policy, but an equipment inventory had not been completed for the clinic custody codes since 2015. During physical verification of five selected pieces of equipment, we identified three items that did not have the equipment tag. The Department custodian thereafter took steps to ensure tags were placed on these equipment pieces. In addition, there was confusion on the equipment maintenance arrangement for the Shiley clinics. ***Report Finding F***

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Cash Handling	√	√	√	Reviewed deposit process for the Shiley Eye clinic and selected a sample of deposits from June for tracing to deposit slips and confirmation of receipt by the Physician Group.	No	Improvement Needed	Cash handlers have not completed the annual cash training. Also, deposits for Lewis clinic were not timely. Open Batch reports were not reviewed for completeness to ensure batches were closed and deposits made. ***Report Finding F*** The Department acknowledged that they do not inform Disbursement when scrip payments exceed $600. In addition, we noted that General Accounting Office records indicated a $300 change fund under the Shiley Clinic Manager which needs to be updated to reflect a split between two custodians of the change fund. The Department is aware of these issues for correction.

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Clinic Activity	√	√	√	Conducted a tour of the Ophthalmology clinics and reviewed drug inventory and medical records management. Obtained and inquired on safety inspections for the Shiley clinics	No	Improvement Needed	Safeguards to prevent loss, destruction and tampering for medical records at the Shiley Eye clinic and~~,~~ drug inventory at the Lewis location could be improved. We also noted a gap in EOC rounds for the Shiley Eye clinic patient care areas. ***Report Finding F*** During our tour of the Shiley Eye clinic, we noted a sample drug in the patient care area and that a full emergency kit was not maintained. The Department is aware of these issues for correction.
Service Agreement and Clinical Trial Invoicing	√	√	√	Selected a judgmental sample of 3 service agreements and 3 clinical trials for review of invoicing and accounts receivable practices.	No	Improvement Needed	We noted that invoicing and payments for selected clinical trial agreements was not timely or complete in accordance with the agreement terms. ***Report Finding G***
Cost Transfers	√	√	√	Verified appropriateness for 10 EPETs and 10 ENPETs per operating ledgers and business justifications.	Yes	Satisfactory	Controls over expense transfers appeared satisfactory.

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Effort Reporting	√	√	√	Reviewed effort certification reports for four periods for FY17 and FY18. Verified the 97% effort reporting compliance rule for a sample of principal investigators.	Yes	Satisfactory	All but one report was not certified (only partial certification). Department was informed the effort report was subsequently certified. Effort report certification were generally timely.