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

DIETARY SERVICES
Report No. I2013-206

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Prepared by:
Mike Shead
Senior Auditor

Reviewed by:
Mike Bathke
Interim Director

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DAVID ELGARICO
EXECUTIVE DIRECTOR, ANCILLARY SERVICES
UC IRVINE MEDICAL CENTER

Re: **Dietary Services**
      Report No. I2013-206

Internal Audit Services has completed the review of the UC Irvine Medical Center Dietary Services 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
Interim Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
    Terry Belmont, Chief Executive Officer, UC Irvine Medical Center
    Alice Issai, Chief Operating Officer, UC Irvine Medical Center
    David Yasutake – Director, UC Irvine Medical Center Dietary

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2012-2013 audit plan, Internal Audit Services (IAS) reviewed contractual requirements, business operations and financial activities of the University of California, Irvine (UCI) Medical Center Dietary Services Department (Dietary). Based on the audit work performed, certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Contract Billing/Revenue Sharing – Management of the Dietary's daily business operations has been outsourced. Processes by which Ancillary Services management review and approve the contractor's bi-weekly invoices and annual revenue-sharing computations need improvement. This observation is discussed in section V.1.

Employee Overtime – Increases in requests for catering and other Dietary services, coupled with increases in the patient census have substantially increased employee overtime in the Dietary. Processes for pre-authorizing and monitoring overtime hours need improvement. This observation is discussed in section V.2.

Employee/Food Safety – Dietary's vendor delivery dock entrance may be unsuitable for the current business volume. In addition, the doors securing the entrance may not adequately protect Dietary employees, food inventories and equipment. This observation is discussed in section V.3.

Protection of Patient Information – Paper tickets placed on each patient meal tray by Dietary staff help ensure that each patient receives the correct meal. However, protected health information (PHI) is recorded on the tickets, and there is no accountability over the tickets once they leave Dietary. This observation is discussed in section V.4.

Meal Coupons – Several types of meal coupons are issued by Dietary and by other Medical Center departments to employees, patients and other individuals. Each coupon may be redeemed for food in the cafeteria. The contractor bills the Medical Center for the cost of all redeemed coupons. Several internal control concerns exist with the current meal coupon programs. This observation is discussed in section V.5.

Payment Card Industry (PCI) DSS Compliance Validation – There is no merchant PCI compliance validation for a credit card machine used by Dietary. In addition, the contract with vendor does not include an acknowledgement of PCI requirements. This observation is discussed in section V.6.

II. BACKGROUND

Dietary is responsible for providing patient dietary and nutritional services, cafeteria operations, catering services, and other special functions at the Medical Center and other off-campus sites. In 1993, the Medical Center outsourced daily management responsibilities of Dietary. However, Dietary staff members continued on as Medical Center employees. Under the current management agreement, the contractor is "at-risk" for the primary business operations and financial activities of Dietary.

The contractor submits bi-weekly invoices to the Medical Center to obtain reimbursement for certain Dietary expenditures. Other expenditures are billed directly to the Medical Center. However, the contractor reimburses the Medical Center for all Dietary staff member payroll expenses.

Currently, the Dietary has seven managers (all employees of the contractor) and 99 Medical Center staff members. Staff members include nine full-time salaried registered dietitians, 69 full-time casual employees, and 21 part-time employees. The Dietary Director, an employee of the contractor, reports to the Medical Center Executive Director of Ancillary Services.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the review focused on FY 2011-2012 Dietary business operations. The primary purpose of the audit was to verify that contractor billing for dietary services is appropriate, timely, and accurate; and is properly reviewed prior to being approved for payment. In addition, other Dietary processes were evaluated to determine whether sufficient control measures are in place to prevent or detect fraudulent and/or non-compliant transactions, while ensuring the overall efficiency and effectiveness of business operations.

The following audit objectives were included as part of the audit.

1. A review of contractor billing for appropriateness, timeliness, accuracy, and proper review and approval by Ancillary Services management.

2. A review of contractor revenue-sharing computations for accuracy and contract compliance, and proper review and approval by Ancillary Services management.

3. A review of internal controls over employee overtime pay, and risk exposure to the Medical Center for excessive overtime payments.

4. A review of internal control measures in place to ensure employee and food safety in certain Dietary operations.

5. A review of safeguards over patient information utilized by Dietary.

6. A review of Dietary's credit card terminal regarding PCI compliance.

IV. CONCLUSION

In general, contractor billing for dietary services appears to be appropriate, timely, and accurate. However, some business risks and internal control/compliance concerns were identified in the areas of contract billing/revenue sharing, employee overtime, employee/food safety, protected patient information, meal coupon programs, and PCI DSS compliance validation. In the specific areas of contract billing/revenue sharing, employee overtime and meal coupons, control measures are insufficient to prevent or detect fraudulent transactions.

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. Contract Billing/Revenue Sharing

Background

Under the current management agreement, the contractor charges the Medical Center a fee for providing inpatient dietary and nutritional services. The fee is based on a "per patient, per day" (i.e., patient day) cost formula. The contractor may also charge the Medical Center for other items, including but not limited to hospital floor stock, nourishments, department requisitions, non-cash catering services, and meal coupons. All of these charges are calculated by the contractor and billed to the Medical Center on a bi-weekly basis. The average amount of each bi-weekly invoice is approximately $100,000 ($2.6 million, annually).

In addition, the agreement requires the contractor to provide an annual rebate (revenue share) to the Medical Center consisting of 10 percent of the cafeteria's adjusted annual revenue, after the revenue exceeds a certain minimum. The revenue share is calculated by the contractor and credited to the Medical Center on a bi-weekly invoice. The contractor's rebate to the Medical Center for calendar year 2012 was approximately $147,000.

Observation

IAS examined the processes by which Ancillary Services management reviews and approves the contractor's bi-weekly invoices and annual revenue-sharing computations. The review disclosed that bi-weekly invoices are not adequately reviewed or compared to the contractor's support documentation. IAS noted that one sampled invoice contained errors that were never corrected. In addition, discussions with the Dietary Director confirmed that, over the past four years, Ancillary Services management has seldom asked him to provide detailed documentation that supports the bi-weekly invoices. Furthermore, Ancillary Services management has not been verifying the accuracy of the contractor's computations for past revenue-sharing.

Failure by management to review the contractor's bi-weekly invoices and annual revenue sharing computations may increase the risk potential for improper financial transactions and/or fraudulent activities.

Management Action Plan

Ancillary Services management will implement a review and reconciliation process of the vendor's bi-weekly invoices to ensure they are adequately supported and accurately stated. In addition, an annual review of the vendor's computations for revenue-sharing will also be implemented to ensure accuracy. These processes will be in place by September 2013.

2. Employee Overtime

Background

Growth in the number of Medical Center and School of Medicine (SOM) requests for catering services, departmental requisitions, and hospital floor stock, combined with increases in the Medical Center's patient census have substantially increased the need for Dietary employee overtime. In FY 2011-2012, Dietary employees were paid $500,632 in overtime, or 19.95 percent of $2,508,892 paid in regular wages. Additionally, paid overtime has accelerated over the past fiscal year. In the first six months of FY 2011-2012, overtime was $245,303. In comparison, overtime was $293,378 in the first six months of FY 2012-2013, an increase of 19.6 percent.

Observation

IAS reviewed Dietary's processes for pre-authorizing and monitoring employee overtime. The review disclosed that Dietary supervisors are aware of overtime hours worked by their staff members. However, documented pre-authorization of employee overtime is neither required, nor completed. Instead, employee overtime is approved and documented after-the-fact, as part of the payroll preparation process. The review also disclosed that Dietary management does not adequately monitor employee overtime, in part, because they cannot access up-to-date payroll reports that document each Dietary employee's overtime wages.

Failure to pre-authorize and monitor employee overtime may result in excessive payroll expenditures and higher prices for Dietary services.

Management Action Plan

A process will be implemented by Dietary vendor management requiring the written pre-authorization for staff working overtime hours. In addition, Dietary vendor management will work with the Medical Center Executive Director of Ancillary Services to develop a process to access employee payroll information from University financial systems that includes "real time" hours and dollar detail per employee. This information is necessary to help with decision making as it relates to labor costs and the use and control of overtime. This process will be in place by July 2013.

3. Employee/Food Safety

Background

Vendors make their deliveries at the cafeteria dock located on the northeast side of the Medical Center. An entry way from the dock into cafeteria's inventory/food processing areas is protected by interlocking double doors. The entry way is also used by Dietary employees entering or exiting the cafeteria. However, the employees do not have keys to the double doors.

Observation

Several observations by IAS of the delivery dock, entry way, and inventory/food processing areas disclosed the following concerns.

a. The interlocking double doors appeared to have visible damage from vendor delivery carts, etc. The doors did not appear to be sufficiently durable for the volume of vendor deliveries, and may not provide adequate security for Dietary employees, inventories and equipment. Additionally, the narrow width of the entry way may hinder vendor deliveries.

b. On several occasions, one of the double doors was observed to be intentionally propped open. At times, no employee was observed to be on the dock or in the surrounding area when the door was open. Discussions with the Dietary Director disclosed that employees going out to the dock must prop the door open to avoid being locked out. In addition, on certain days the door is left open due to the frequency of vendor deliveries.

The California Retail Food Code requires a food facility to prevent vermin, including, but not limited to, rodents and insects from entering the facility. In addition, the Food and Drug Administration (FDA) regulations governing protected outer doors of food establishments require that outer openings be protected against the entry of insects and rodents by solid, self-closing, tight-fitting doors. Furthermore, doors left open or intentionally propped open may enable insect and rodent entry, and may also increase security risks to Dietary employees.

Management Action Plan

Dietary and Ancillary Services management agree that the doors, as originally installed, are inappropriate for their needs. Regulatory agencies have taken issue due to the condition of the doors and a breach that could allow unauthorized entrance into the kitchen and Medical Center. As a result, a project was opened a few years ago and a scope of work to replace the doors was investigated. At that time it was determined that an automatic roll-up door with card reader and automatic closer was best suited for our situation. However, due to a lack of funding, the project was closed.

Nonetheless, this is a problematic issue and needs to be resolved. Therefore, a "request for physical alteration" form has been completed and submitted to reopen this project. Dietary management will discuss the issue with Medical Center senior management and consider what steps can be taken to fix the delivery dock entry way concern by June 30, 2013. Target completion date for full implementation is January 2014.

4. Protection of Patient Information

Background

The Medical Center must have processes in place to assure that meals served to each patient conform to the patient's prescribed diet plan. To provide this assurance, Dietary places paper tickets on each patient's meal tray that contain specific patient and meal information. When the meal trays are delivered to the hospital floors, Dietary employees are able to compare the patient information on each paper ticket to each patient's wristband, thereby ensuring that each patient receives the correct meal tray.

Observation

Dietary processes for protecting patient information utilized in tray line operations need improvement. The paper tickets placed on each meal tray contain patient information that includes the patient's first and last names, his/her medical record number, and his/her date of birth. As such, the paper tickets contain PHI. The Health Insurance Portability and Accountability Act (HIPAA) requires health care providers to adequately safeguard PHI.

Each paper ticket is supposed to remain on the meal tray as the tray is delivered from Dietary to the patient's room and later returned to Dietary for washing. Once the meal trays return to Dietary, the paper tickets are removed by employees and placed in a protected container for shredding. However, there does not appear to be any accountability over the paper tickets. Dietary does not have a control measure in place to ensure that all of the paper tickets are accounted for and properly disposed of after use.

As a result, the patient's PHI does not appear to be adequately safeguarded, and processes for protecting patient information appear to be in violation of HIPAA.

Management Action Plan

The patient medical record number has been suppressed from printing on the paper ticket, thus removing the PHI concern. The hospital room number, patient's first and last names, and patient's date of birth must remain on the paper ticket to ensure proper meal tray delivery and identification of the patient. Regulatory code requires that two patient identifiers be used at all times. This corrective action was put in place on March 21, 2013.

5. Meal Coupons

Background

In calendar year 2012, approximately $382,000 was charged to the Medical Center by the contractor for meals provided to Medical Center employees, patients, and other individuals. A majority of the expenditures involved meals provided to SOM residents participating in the SOM Freedom Pay meal program. However, coupons for food are also provided under a number of discretionary programs, as well.

As part of the Medical Center's service recovery program, coupons for food are issued to some patients and other individuals by the Dietary. The coupons are distributed by Dietary management and redeemed in the cafeteria. In addition, the Dietary may sell their food coupons to other Medical Center and SOM departments. Dietary also assists many other Medical Center departments in the management of their own discretionary food coupon programs.

The total cost to the Medical Center in calendar year 2012 for these discretionary meal coupon programs was approximately $45,000.

Observation

Accountability over food coupons distributed by Dietary and other Medical Center/SOM departments needs improvement. A review of the food coupon programs disclosed several internal control concerns, as follows.

1. Food coupons are not centrally managed and monitored by Dietary.
2. Food coupons are not pre-numbered.
3. Food coupons can be easily reproduced by others.
4. Issued and redeemed food coupons are not accounted for sequentially.
5. Food coupons are not defaced upon redemption, to prevent re-issuance.
6. Some food coupons have vague, "fill in the blank" redemption dates.
7. Redeemed food coupons are not stored systematically.

Failure to properly manage and account for food coupons may result in their misuse, which could substantially increase the cost of administering the various meal coupon programs.

Management Action Plan

Under the approval and direction from Ancillary Services management, Dietary will proceed with developing one approved meal ticket template to be used for all approved departments/programs. This meal ticket template will include a sequential numbering system that will be used to allocate, document and track each individual ticket. A new policy will be written to detail the meal ticket process to include how each ticket will be distributed, tracked and defaced upon redemption. The policy will also indicate the owner of the meal ticket process, how the tickets will be printed and maintained, the approval process, appropriate use and expiration date of the meal tickets. This process will be in place with the start of the new fiscal year, July 1, 2013.

6. **PCI DSS Compliance Validation**

Background

The PCI Data Security Standard (DSS) was developed to enhance cardholder data security that applies to any entity that accepts, captures, stores, transmits or processes credit and debit card data.

Dietary has one credit card terminal that is used occasionally for catering. Otherwise, the cafeteria only accepts cash and payments through employee payroll deductions.

Observation

There has been no Self-Assessment Questionnaire (SAQ) and associated Attestation of Compliance (AOC) completed with regard to the single credit card terminal at Dietary. In addition, the contract with the Dietary vendor does not include a written agreement that acknowledges that the vendor is responsible for the security of cardholder data they process at Dietary. PCI DSS security incidents can result in fines and reputation damage.

Management Action Plan

Dietary is eliminating the credit card terminal in the retail office and will be moving to the credit model used by the UCI vendor selected to provide web-based catering. The credit card payment option will include a secured web form that is hosted on the server of the vendor, which is a PCI complaint Merchant Payment Gateway provider. The merchant compliance validation and written

agreement will be provided and reviewed on an annual basis. This change should be fully implemented by July 2013.

UCI purchasing will include a written statement in the contract that acknowledges that the Dietary vendor is responsible for ensuring the security of cardholder data accepted at Dietary. Also, management will establish a process to obtain documentation of the service provider merchant PCI DSS compliance status annually. Target completion date is July 2013.