

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

**School of Dentistry  
Preventive and Restorative Dental Sciences  
Department Financial Practices Review**

**Project # 22-067**

**September 2022**



University of California  
San Francisco

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Department of Preventive and Restorative Dental Sciences  
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**SUBJECT: Preventive and Restorative Dental Sciences - Department Financial Practices Review**

Audit & Advisory Services (A&AS) conducted a review to assess the adequacy of financial practices and internal controls within the Department of Preventive and Restorative Dental Sciences (PRDS) in the School of Dentistry.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the "IIA Standards").

Our review was completed, and the preliminary draft report was provided to department management in September 2022. Management provided their final comments and responses to our observations in September 2022. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Committee, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn  
Chief Audit Officer  
UCSF Audit and Advisory Services



## EXECUTIVE SUMMARY

### I. BACKGROUND

Audit & Advisory Services conducted a review to assess the adequacy of the financial practices and internal controls within the Department of Preventive and Restorative Dental Sciences (PRDS) in School of Dentistry.

The Department of PRDS provides patient care services, research, and multidisciplinary instruction through its five divisions:

1) Clinical General Dentistry; 2) Endodontics; 3) Oral Epidemiology and Dental Public Health; 4) Pre-Clinical Education, Biomaterials & Engineering; and 5) Prosthodontics.

The Department of PRDS net position for FY22 and prior three fiscal years are outlined below:

|  | <b>FY 2022<br/>(Million)</b> | <b>FY 2021<br/>(Million)</b> | <b>FY 2020<br/>(Million)</b> | <b>FY 2019<br/>(Million)</b> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| Total Revenues                             | \$21.08                      | \$23.92                      | \$24.68                      | \$22.85                      |
| Total Expenses                             | \$21.10                      | \$24.61                      | \$27.27                      | \$24.62                      |
| <b>Income/(Loss) from Operations</b>       | <b>(\$0.018)</b>             | <b>(\$0.69)</b>              | <b>(\$2.59)</b>              | <b>(\$1.76)</b>              |
| Total Other Changes                        | \$0.385                      | \$0.833                      | \$0.793                      | (\$0.325)                    |
| <b>Increase/(Decrease) in Net Position</b> | <b>\$0.366</b>               | <b>\$0.143</b>               | <b>(\$1.80)</b>              | <b>(\$2.08)</b>              |

PRDS has generally been operating at a loss and is supported by other funding transfers and Dean's support. Over the last four years, the department has had year over year reductions in State funds allocation and faculty and staff salaries and benefits have increased, which has been the main driver for high expenses. Since FY 2020, clinical and sponsored research revenues have also decreased due to the impact of the pandemic. In FY 2022, overall expenses were reduced due to non-renewal of faculty and clinical staff that went into effect in 2021.

### II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the financial practices and procedures within the department of PRDS to determine if internal controls are adequate and compliant with university policies.

The scope of the review covered transactions and activities for FY 2020 through FY 2022. Procedures performed as part of the review included reviews of the financial management practices of department funds, including state funds, clinical revenue, department tax, financial journal transfers, allocation of shared expenses, and administration of the compensation plan, specifically on Z payments. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an

assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in August 2022.

### III. **SUMMARY**

Based on work performed, we noted that in FY 2022, the Department of PDRS had implemented a number of financial practice changes to improve financial controls and oversight and to provide increased transparency. These measures include ensuring there is sufficient supporting documentation for journal transfers and revising the accounting methodology for the allocation of shared expenses<sup>1</sup> and transfers of year-end net position balance, as well as posting of department tax at year-end.<sup>2</sup>

Opportunities for improvement exist in the areas of proper use of state funds, financial journal documentation, general ledger reconciliation, and compensation plan management.

The specific observations from this review are listed below as well as in Section IV.

1. State funds were used for optional additional compensation payments in violation of University Accounting Policy.
2. Compensation incentive (Z) payment was paid on a negative plan balance.
3. Financial journals were not always submitted timely and there was insufficient documentation supporting the journal transfer.
4. Currently, the clinical revenue for faculty and resident clinic funds are not reconciled to the general ledger.

Additionally, during the course of this review, potential opportunities for improvement were noted to streamline the overhead allocation methodology to improve process efficiencies, develop documented standard operating procedures, and cross-train personnel for managing the compensation plan tracking worksheet.

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<sup>1</sup> Grad Prosthodontics and UC Prosthodontics dental clinics were showing shared expenses as a lump sum transfer in the "other changes" category in the net position report making it difficult to know the clinics' actual expenses by account type and the clinic's true operating financial position. In FY 2022, PRDS changed the accounting methodology and allocated by individual expense line.

<sup>2</sup> The net position year-end balances in fund code 5011 (Dental Clinic) are transferred to fund code 5013 (Dental Comp Plan).

**IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCA)**

| No. | Observation  | Risk/Effect  | Recommendation  | Management Actions  |
|-----|--|--|---|---|
| 1.  | <p><b><i>State funds were used to pay for optional additional compensation payments to certain Health Sciences Compensation Plan members in violation of University Accounting Policy.</i></b></p> <p>State funds (fund code 1900) are used primarily to support education and faculty salary support.</p> <p>Of the 28 State funded payroll transactions reviewed, we identified the following:</p> <ul style="list-style-type: none"> <li>• 18 transactions for 5 faculty members totaling \$26,194 (during FY2020- FY 2022) were used for additional Z and Y compensation payments to Health Science Compensation Plan (HSCP) faculty members.</li> <li>• 8 transactions in FY2022 for a total of \$19,250, related to one faculty member were for over the cap salaries that were above scale 0 for the HSCP faculty member.</li> </ul> <p>In accordance with UCOP Accounting Policy Manual P-196-37, State General Funds may not be used for optional additional compensation (i.e., 'Y' and 'Z' components) of health science compensation plan members.</p> <p>In addition, per UCOP Accounting Policy Manual AMP-667-16, state funds may not be used to pay for any gap in compensation between agency</p> | <p>Unallowable expenses on state funds are a violation of University's policy and costs could be unallowed or denied by the State.</p> | <ul style="list-style-type: none"> <li>• Payroll transactions on State 1900 funds should be reviewed for any additional Y and Z component payments.</li> <li>• Over-the-salary cap transactions paid to HSCP faculty should be removed. (Use the Earnings (ERN) Code lookup feature on the Controller's Office website to identify the compensation type).</li> <li>• Education and training should be provided to finance staff on the accounting policies for the appropriate use of State funds for the HSCP compensation payments.</li> </ul> | <p><b>Action(s):</b></p> <p>a) The 190XX fund sources for salary support will be reviewed for any additional Y and Z component payments and will be discussed with the Dean's Office on appropriate transfers.</p> <p>b) Determine where to charge over-the- cap compensation for the relevant faculty identified in the review, and institute these changes for FY23. The impacted faculty will be informed of the funding changes.</p> <p><b>Target Completion Date:</b><br/>12/15/2022</p> <p><b>Responsible Party:</b><br/>Director, Administration &amp; Clinical Operations, PRDS</p> |

| No.       | Observation   | Risk/Effect   | Recommendation  | Management Actions  |
|-----------|---|---|---|---|
|           | <p>maximum salary caps and the total compensation received above salary scale 0 for Health Sciences Compensation Plan (HSCP) faculty members.</p>   |   |   |   |
| <p>2.</p> | <p><b><i>Incentive compensation payment (Z payment) was paid on a negative Health Science Compensation plan balance in violation of the Health Science Compensation Plan policy.</i></b></p> <p>In accordance with the PRDS Health Science Compensation Plan policy, Plan participants must maintain a positive compensation plan balance to receive incentive compensation (Z payments). During the review, we noted that one faculty plan participant received payments in FY 2021 and had a negative account balance.</p> <p>The faculty member received two compensation payments in FY 2021 for a total of \$116,494 (\$45,884 paid in October 2020 and \$70,610 paid in May 2021). At the time the compensation plan payments were approved (in early FY 2021), the compensation plan balance was not in deficit. However, in May 2021 and June 2021, the compensation plan had a deficit balance of -\$21,609 and -\$26,607, respectively, so the May 2021 payment should not have occurred.<sup>3</sup></p> | <p>Not having effective monitoring procedures in place increases the risk that payments are issued on deficit balances.</p> | <p>PDRS management should verify that compensation plans have a positive balance at the time of payment issuance.</p> | <p><b>Action(s):</b><br/>                     Quarterly meetings will be scheduled between budget analyst, department manager and clinical faculty to review comp plan balances and identify faculty at risk of having a negative balance.</p> <p><b>Target Completion Date:</b><br/>                     11/15/2022</p> <p><b>Responsible Party:</b><br/>                     Director, Administration &amp; Clinical Operations, PRDS</p> |

<sup>3</sup> There was a time lag in payment due to payroll processing backlog due to UCPath conversion

| No. | Observation  | Risk/Effect  | Recommendation  | Management Actions   |
|-----|--|--|---|--|
| 3.  | <p><b><i>Financial journals were not always submitted timely, and there was insufficient documentation supporting the journal transfer.</i></b></p> <p>Financial journals (Source Code 535) are used to record non-payroll adjustments or to correct chartfields for non-sponsored funds and projects.</p> <p>Of the 35 financial journals reviewed on fund codes 5011 (Dental Clinic) and 5013 (Dental Comp Plan):</p> <ul style="list-style-type: none"> <li>• 16 journals had insufficient documentation. While we noted the transfers were reasonable and appropriate there was no documentation attached (Net Position or Transaction Detail Report) to show the credit side of the original transactions. In addition, 1 journal had no supporting documentation attached.</li> <li>• 5 journals belonged to prior year and errors were not identified and submitted timely for correction of expenses due to an oversight until FY 2022.</li> </ul> <p>Per the Controller’s Office (CO), Supporting Documentation Guidelines for Financial Journal Entries (Source Code 535) require attaching documentation to support amounts within the journal and the chart strings (i.e., Net Position reports and correspondence with details of the transaction and purpose).</p> | <ul style="list-style-type: none"> <li>• The lack of sufficient support documentation limits the ability to validate that the journal transaction is reasonable, appropriate, and accurate.</li> <li>• Untimely journals increase the risk of inaccurate reporting of financial performance as expenses are charged to incorrect funding sources.</li> </ul> | <p>Ensure financial journals include sufficient supporting documentation.</p> | <p><b>Action(s):</b></p> <p>The supporting documentation guidelines for journal entries will be reviewed with all finance staff and managers in PRDS and the Dean’s Office.</p> <p><b>Target Completion Date:</b></p> <p>10/15/2022</p> <p><b>Responsible Party:</b><br/>                     Director, Administration &amp; Clinical Operations, PRDS<br/>                     And<br/>                     Director of Finance, School of Dentistry Deans Office</p> |

| No. | Observation  | Risk/Effect   | Recommendation  | Management Actions   |
|-----|--|---|---|--|
| 4.  | <p><b><i>Currently, the clinical revenue for faculty and resident clinic funds are not reconciled to the general ledger.</i></b></p> <p>The clinical services and collection activity are tracked through Axiom, the dental practice management system. Gross revenue generated by the clinics in PRDS is allocated and posted monthly to the Peoplesoft general ledger financial system by the UCSF Dental Center Billing Unit.</p> <p>Due to staff shortage in the Dental Center Billing Unit, reconciliation between the gross revenue in Axiom and the clinical gross revenue transactions posted to the G/L has not been performed.</p> <p>The clinical revenue variances between Axiom and the general ledger for FY 2020 – FY 2022 ranged from \$28,000 to \$109,000. Details are shown in Appendix A.</p> <p>UCSF Campus Administrative Policy 300-46, <i>“General Ledger Verification</i> requires the general ledger verification process to be completed for all funds.</p> | <p>Not performing general ledger reconciliation of clinical revenue can result in errors/and or inaccuracies not being detected. Additionally, compensation plan payouts are based on clinical revenue. Therefore, verification of its accuracy is important.</p> | <p>The UCSF Dental Clinical Patient Billing Unit should develop procedures to ensure reconciliation for clinical revenue is performed consistently.</p> | <p><b>Action(s):</b></p> <p>PRDS will work with the Patient Billing Service Unit (PBS) to develop and implement a monthly reconciliation procedure/process.</p> <p><b>Target Completion Date:</b></p> <p>3/31/2023</p> <p><b>Responsible Party:</b><br/>Director, Administration &amp; Clinical Operations, PRDS</p> |

**V. OPPORTUNITIES FOR IMPROVEMENTS**

| <b>No.</b> | <b><u>Observation</u></b>   | <b><u>Risk/Effect</u></b>  | <b><u>Recommendation</u></b>  |
|------------|---|--|---|
| 1.         | <p><b><i>Overhead allocation methodology could be improved to reduce process inefficiencies.</i></b></p> <p>The overhead allocation of expenses (also known as common costs allocation) is calculated based on the % of patient visits Allocation of non-payroll expenses is based on different percentages. This overhead allocation methodology is overly complex, manually calculated and labor intensive to maintain.</p>   | <p>Having a complex cost allocation methodology can result in process inefficiencies.</p>  | <p>PRDS should consider streamlining the overhead allocation by considering adopting an average rate or a composite overhead rate.</p>  |
| 2.         | <p><b><i>Cross-training and documented procedures for managing the compensation plan balance tracking worksheets could be improved.</i></b></p> <p>A senior financial analyst is a long-time employee in PRDS and is responsible for managing and manually updating the compensation plan balance tracking worksheets on a quarterly basis. However, there is limited cross-training of other finance staff and no documented procedures for managing the tracking worksheets, which may impact the continuity of operations.</p> | <ul style="list-style-type: none"> <li>• The lack of cross-training increases the risk of ineffective management of the compensation plan, and continuity of operations may be impacted should the senior financial analyst becomes unavailable or separate from the University.</li> <li>• The absence of established procedures increases the risk of non-compliance with the PRDS compensation plan policy, and financial management practices may not be consistently followed.</li> </ul> | <ul style="list-style-type: none"> <li>• PRDS should consider cross-training personnel for managing the compensation plan tracking worksheets to ensure the continuity of compensation plan management functions.</li> <li>• PRDS should consider developing documented procedures for managing the compensation plan balance tracking worksheets.</li> </ul> |

**APPENDIX A**

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

- Reviewed financial management of department funds, including state funds, clinical revenue, department tax, financial journal transfers, and allocation of shared expenses.
- Obtained and reviewed relevant university, campus, and departmental policies and procedures.
- Interviewed key personnel to assess activities and procedures for in-scope areas.
- Examined the appropriate use of departmental funds for compliance with university policies.
- Reviewed methodology for allocation of shared expenses between divisions.
- Assessed the accounts reconciliation and fiscal year-end close-out process.
- Evaluated the administration of the PRDS compensation plan, specifically on the methodology used to derive payouts of Z payments and assessed for compliance.

**Clinical Gross Revenue Variances between Axium and General Ledger  
for FY 2020 through FY 2022:**

| <b>Dental Clinic</b>          | <b>FY 2020<br/>Variance<br/>(000's)</b> | <b>FY 2021<br/>Variance<br/>(000's)</b> | <b>FY 2022<br/>Variance<br/>(000's)</b> |
|-------------------------------|---|---|---|
| Adv Educ Gen Dentistry (AEGD) | -30.8                                   | -22.2                                   | 105.5                                   |
| Faculty Group Practice (FGP)  | -15.5                                   | 10.8                                    | -8.6                                    |
| Grad Prosthodontics           | -109.4                                  | 82.7                                    | -9.3                                    |
| UC Prosthodontics             | -43.5                                   | 93.9                                    | 77.1                                    |
| Post Grad Endodontics         | -5.0                                    | -4.7                                    | 26.3                                    |
| Faculty Endodontics           | -2.8                                    | 29.1                                    | -3.1                                    |