

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

**DEPARTMENT OF EPIDEMIOLOGY
Report No. I2013-210**

July 5, 2013

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IRVINE: INTERNAL AUDIT SERVICES

July 5, 2013

HODA ANTON-CULVER, PH.D.
CHAIR
DEPARTMENT OF EPIDEMIOLOGY

RE: Department of Epidemiology
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Internal Audit Services has completed the review of the Department of Epidemiology 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
Julie Strobe, Chief Administrative Officer, Epidemiology

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I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2012-13 audit plan, Internal Audit Services (IAS) reviewed the internal controls and policy compliance for the School of Medicine, Department of Epidemiology (Epidemiology) at the University of California, Irvine (UCI). Business risks and control concerns were identified. Specifically, the following issues were noted.

Research Participant Compensation – A review of compensation to human research participants disclosed a lack of proper separation of duties, payments that were not in accordance with the approved protocol, and a lack of proper supporting documentation, timely reconciliation and supervisory review. These observations are discussed in section V.1.

Payroll - Overtime – Internal controls were not established to ensure that overtime for staff was accurate and valid. Prior approvals for overtime were not documented or reviewed to verify that reported overtime was correct prior to payment. These observations are discussed in section V.2.

Non-Payroll Expenditures – A review of PALCard and PayQuest transactions disclosed the following: lack of documentation for prior, proper, or exceptional approval, lack of proper supporting documentation, untimely administrative reviews of purchases, and a lack in the separation of duties. For some PayQuest transactions reviewed, the Chair's reimbursements were approved by her subordinate. Furthermore, travel reimbursements were either not submitted in a timely manner or certified by the traveler but paid although leave approvals were not obtained as required per policy. These observations are discussed in sections V.3 and V.4.

Human Resources – Some individuals reviewed had not completed background checks. Also, some necessary records were not maintained as required per policy. In addition, written performance evaluations were not completed on an annual basis for all staff employees and the performance evaluation code was not entered into the Payroll Personnel System (PPS). These observations are discussed in section V.5.

Payroll Certification Reporting – Some payroll certification reports had not been submitted to the Contracts and Grants Accounting (C&G Accounting) office in a timely manner. This observation is discussed in section V.6.

Ledger Review/Reconciliation – The ledgers were not adequately reconciled, reviewed, and documented as required by policy. This observation is discussed in section V.7.

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II. BACKGROUND

Epidemiology is dedicated to research, education and advocacy and is working to serve the interests of both the scientific and lay communities by offering scientific meetings, publishing scientific papers and advocating the importance of the practice of epidemiology through public outreach. Over the past fifty years, the faculty members' groundbreaking research has expanded their field in scope to effectively quantify the susceptibility, causation and outcome of not only diseases in general, but many non-disease health-related conditions, such as high blood pressure and obesity. Their research findings have led to both better clinical care approaches and, more importantly, key steps toward the prevention of many major chronic diseases such as cancer and cardiopulmonary diseases.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review the internal controls of business operations and policy compliance from May 2011 to present. Based on the assessed risks, the following audit objectives were established:

1. Review non-payroll expenditures for proper approval and supporting documentation in compliance with policy;
2. Determine whether the following aspects of employee time reporting: overtime approval, payroll ledger reconciliations, and sick and vacation balance tracking comply with University policy;
3. Verify whether the required general, confidential, payroll, and medical documents are properly maintained and filed in personnel records;
4. Determine whether the annual conflict of commitment disclosure report and corresponding forms were completed properly and submitted in a timely manner;
5. Evaluate whether there are adequate controls over budgeting and accounting and verify whether general ledgers are reviewed and reconciled in a timely manner; and
6. Review appropriateness of compensation to research participants, completion of payroll certifications, and federal award overdrafts.

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IV. CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified in the areas of research participant compensation, payroll/overtime, non-payroll expenditures, human resources, timeliness of payroll certification reports, and ledger reviews/reconciliation.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Research Participant Compensation

Background

The Principal Investigators (PI) conducting research which involves compensation in the form of money, products, or other incentives given to research participants are responsible for ensuring compliance with current University policy as outlined in section 701-03: Payments to Research Participants.

Observation

The management of funds used in studies to pay research participants was reviewed to determine if the funds were properly and accurately established, maintained, and documented as required by policy. The following observations were noted in the review.

- The review disclosed that cash advances were deposited into two PIs' and one research coordinator's personal bank accounts and commingled with their personal funds. Separate bank accounts, with the Chair or Administrator named as account holders, were not opened and used to exclusively maintain study funds as required by policy. In addition, monthly bank statement reconciliations and supervisory reviews were not performed and documented.

Commingling University and personal funds increases the possibility of misappropriations of cash and encumbers the record keeping and reconciliation process. In addition, the University lacks access and audit rights to the bank account and statements.

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- In one study, research participants received incentives, such as refreshments and transportation, although these incentives were not included in the approved protocol.

The IRB evaluates and approves compensation of research participants to ensure the amount of remuneration is not coercive and is proportional to the inconveniences posed by participation in the study. Compensating research participants differently and not in accordance with the approved protocol may be coercive and may constitute regulatory noncompliance.

- In another study, the entire cash advance amount was not used to purchase money orders as required by policy. Instead the cash advance funds were disbursed to the research coordinator in small amounts by the PI to purchase money orders as needed and the fees for money orders purchases were charged to a federally sponsored project, which is against federal policy. Furthermore, reconciliation of the money orders on hand to the total amount purchased were not performed.
- The review also disclosed that proper supporting records of all payment transactions were not documented to include the following information: payment date, participant's signature acknowledging receipt of payment, subject ID code, payment amount, and the name of the person disbursing the payment. In addition, some cash handling duties were not properly separated. For example, a research coordinator with access to the office safe and online banking records was also disbursing payments to research participants and completing the Certification of Payment to Anonymous Persons (CPAP) forms.

As a best business practice, those responsible for handling cash should establish procedures that ensure that no single individual is responsible for the collection, handling, depositing, and accounting for cash transactions in that unit. At least two qualified individuals should be assigned to carry out key duties of the cash handling process.

Implementing internal controls, such as proper separation of duties, maintaining proper documentation, and timely reconciliation and supervisory reviews, minimize the risks of error as well as inappropriate and unauthorized use of University funds.

Management Action Plan

By December 1, 2013, Epidemiology will adhere to the UCI Administrative policies and procedures, section 701-03.

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Cash used to pay participants will be physically protected from loss at all times and reconciled periodically by study. Proper separation of duties will be implemented so that at least two individuals are responsible for distributing the cash payment, documenting cash payments on internal records, and completing the CPAP forms.

For each study, a non-interest bearing checking account will be opened in the name of the PI and the Department Administrator.

The checking account bank statements will be reconciled every two months by the study manager. The Department Administrator will perform a supervisory review and approve the reconciliation.

If a cash advance is obtained, the entire amount to purchase money orders in the denominations necessary will be completed for payment to participants. Fees for money orders will not be charged to federally sponsored projects.

Money orders on hand will be reconciled monthly to the total amount purchased. The Department Administrator will perform a supervisory review not less frequently than quarterly and upon termination of any award.

IRB modifications will be completed to ensure that all forms of compensation are reported, including parking passes, mileage reimbursement, transportation reimbursement, refreshments, or other incentives.

2. Payroll - Overtime

Background

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating needs. The department is responsible for ensuring that an employee requested advance approval for overtime work and properly reported the overtime worked in a timely manner prior to compensation.

Observation

The overtime approval process for pay periods ending from January 2012 through December 2012 for staff was reviewed. During the periods reviewed, IAS identified three staff members who reported to the same PI and received the majority of either compensated time off or overtime pay.

Further review disclosed that one staff member improperly received a total of \$2,682.26 in overtime pay in 2012. It should also be noted that he did not work

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more than the required 40 hours per week in order to qualify for overtime compensation. In addition, there were no records substantiating that approvals were obtained in advance which are necessary to verify proper reporting of overtime. The review also disclosed that compensatory time agreements were not obtained as required by policy.

Proper documentation supports the prior approval, justification, and verification process for overtime compensation and reduces the risks of errors and/or fraudulent activity.

Management Action Plan

Epidemiology management agrees with the observations and is assessing the timekeeping and payroll processes and procedures for timesheet documentation, vacation usage, approval, and reporting.

Effective immediately, the proper policies and procedures, including timely submission and proper approvals, as well as appropriate documentation will be communicated to all faculty and staff. In addition, the Department Administrator will review and approve staff biweekly and monthly timesheets in TRS instead of the supervising PI.

Also, in regard to the staff member who received overtime pay in error, a repayment plan has been implemented as of April 2013.

3. PALCard Transactions

Background

The UCI purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. The UC purchasing policies require purchases to be pre-authorized either formally through an internal requisition, or informally, such as through an email. In addition, UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

A sample of 14 PALCard transactions from January 1, 2012 through present was selected for further review, and IAS noted the following:

- The PALCard was used to pay vendors on three transactions although the invoice amount exceeded the PALCard purchase limit (total order \$5,000 or

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less, including tax + shipping). In addition, the authorized buyer did not approve the agreement with the vendor in one transaction.

- For ten of 14 (71 percent) transactions reviewed, the internal requisition was not properly approved or documented. For example, the requestor approved the purchase, the approver did not sign the internal requisition, or the authorization was not dated. If the approver did not note the date of authorization, it could not be determined if prior approval was obtained as required per policy.
- An administrative review of the purchase was not performed in a timely manner for six of 14 transactions reviewed. Further review disclosed that administrative reviews were not performed at all for two of the six transactions. Furthermore, for 176 of the total 763 (23 percent) PALCard transactions posted during the review period, an administrative review of the purchase was not performed in a timely manner.

It should also be noted that the administrative reviewer approved some transactions although the required supporting documentation was not completed and/or filed for their review as required by policy. In addition, IAS noted other issues like transactions exceeding the PALCard purchase limit, late payment fees on cellular service billing statements, and discrepancies in the posted tax amount.

- For four of the transactions reviewed, an invoice was not maintained on file for review as appropriate supporting documentation.
- For three of 14 of the transactions reviewed, the proper tax amount was not posted.
- For one of the online PALCard transactions reviewed, a packing slip was not maintained on file for review as appropriate supporting documentation.

Implementation of internal controls, such as established business process, obtaining authorized requisition prior to purchase, separation of duties, maintaining proper documentation, and timely administrative review, minimizes the risks of error, waste, and inappropriate or unauthorized use of University funds.

Management Action Plan

As of December 1, 2013, all PALCard purchases will be requested on an internal requisition form and will require approvals by both the PI and the Department

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Administrator prior to purchase. Each approver will be required to date the approval.

The PALCard reviewer will ensure that all required supporting documentation is compiled and available at the time of review, verify the proper tax amount is posted to the ledger, and perform timely reviews. Also, all cellular service bills will be paid in timely manner to ensure that late fees are not assessed.

Due to limited staffing and budget cutbacks, proper separation of duties is currently being reviewed by the School of Medicine Dean's Office.

4. PayQuest Reimbursements

Background

PayQuest is UCI's on-line check request system that is used to reimburse employees for business meeting, travel, and other expenses incurred during University business. To insure compliance with University policies, required supporting documentation must be submitted with the reimbursement claim form. In addition to the University policies, the reimbursements must also comply with University of California Office of the President (UCOP) Business and Finance Bulletins 79, Expenditures for Business Meetings, Entertainment, and Other Occasions and G-28, Policy and Regulations Governing Travel.

Observation

Twenty-one PayQuest reimbursements, from January 1, 2012 to present, were reviewed for appropriateness and compliance with policy. The following is a summary of the observations.

- Six transactions reviewed were not properly approved and/or lacked proper separation of duties. The Chair's travel reimbursements were approved by her subordinate. In addition, leave approvals which support and substantiate travel reimbursement were not obtained. Also, IAS noted that a payee prepared and submitted her own reimbursements.
- Five travel reimbursements reviewed were not submitted on a timely basis; anywhere from 19 to 61 days late.
- Three reimbursements reviewed required an exceptional approval but an approval was not obtained in accordance with policy. IAS noted reimbursements to individuals for supply and equipment purchases that exceeded the \$500 and flying business class.

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- For three reimbursements reviewed, the payee did not sign the reimbursement form, certifying the expenses claimed were incurred for University business.
- Three transactions reviewed were not properly supported or justified. Required supporting documentation, such as an invoice or written explanation for personal days during travel abroad were not submitted or documented.

Furthermore, IAS noted that several reimbursements to PIs were for purchases of supplies and equipment. In purchasing supplies or equipment, a PALCard is the appropriate method of purchase. Proper documentation, authorization, review, and timely submission of reimbursements reduce the risks of errors/inaccuracies, improper purchases, or unauthorized use of University funds.

Management Action Plan

By December 2013, all reimbursements for the Chair will be approved by the SOM Dean's office.

A newly hired administrative specialist will prepare PayQuest reimbursements to ensure proper separation of duties. Travel reimbursements will be submitted within five to seven working days after approvals. Exceptional approvals will be obtained for purchases exceeding \$500 and flying business class. For travel which includes personal days, a written explanation will be submitted with the travel reimbursement documentation. Also, all supply and equipment purchases will be acquired with a PALCard.

5. Human Resources

Background

University departments are responsible for ensuring compliance with personnel records management requirements. The requirements include that all required personnel documents are complete and placed into the four separate and distinct files: general employee, payroll, medical, and confidential.

The UCI Administrative Policy Sec. 300-10 states that background checks be completed on critical positions. However, School of Medicine policy requires that all staff members complete a background check.

The UCI policy on performance appraisal states that the performance of each employee shall be appraised at least once during probation and thereafter annually in writing by the employee's immediate supervisor.

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Observation

Background Checks

For three of the four personnel records selected for review, a copy of the background check clearance email was not on file and maintained as required by policy. The email confirmation should be filed in the personnel confidential file to acknowledge background check clearance. Human Resources reviewed their records and confirmed that a background check was not performed for one of the three staff members. However, during the course of the audit, UCIPD confirmed that the staff member did submit to and cleared the background check.

Performance Evaluations

Three personnel records reviewed did not include current performance evaluations as required by policy. Failure to conduct performance evaluations may result in unimproved productivity and performance.

Management Action Plan

By December 2013, all personnel files will be organized as required and corrected to include the identified missing personnel records.

Background Checks

Epidemiology management recognizes the requirement to comply with the University policy and procedures for background checks and will immediately comply with all applicable requirements. A new personnel analyst has been trained and will adhere to a 'new hire checklist' which includes the background check requirement. Both departmental analyst and administrator will ensure that all confidential files include the acknowledgement of a background check clearance.

Performance Evaluations

By December 2013, performance evaluations will be completed for each employee and filed in the personnel files. In addition, the performance evaluation codes will be entered into PPS. If evaluations are not received, the supervisor will be asked to meet with the Chair to discuss corrective action and ensure completion.

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6. Payroll Certification Reporting

Background

Through payroll certification, PIs attest to the accuracy of direct salary charges and confirm that the reported totals are accurate and acceptable for disclosure to the federal government. Test work was performed to determine if all awards that required payroll certification reporting were properly and timely submitted. IAS reviewed the C&G Accounting monitoring and tracking reports and noted exceptions.

Observation

The C&G reports for budget month-end dates from May 2011 through December 2012 were reviewed and IAS noted that 18 of the 24 awards that required payroll certification reporting were submitted late. These reports were submitted anywhere from a few days to five months late after the due date. However, IAS noted that payroll certifications were submitted more timely in the latter months of 2012. For example, the five awards with budget month end due dates in the latter months were submitted either on time or a few days late.

Reporting payroll certifications timely ensures that direct salary charges are complete, accurate, and valid for the period reviewed. Failure to perform reviews for timely reporting may result in undetected errors and/or misappropriations of University assets.

Management Action Plan

All payroll certifications will be completed by the assigned due date. Management agrees with the observations and will ensure the timely review and reporting of payroll certifications.

7. Ledger Reconciliation

Background

The University policy states that each manager, who is directly responsible for the financial affairs of that activity, should maintain procedures that monitor and verify transactions in order to reconcile balances monthly to the general ledger. Departments have a responsibility to ensure the appropriateness and accuracy of all financial transactions applied to their ledgers. In addition, the departments have the obligation of maintaining signed documentation of this review to ensure that they adhere to internal control procedures.

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Observation

After discussions with management regarding current business practices, it was determined that the ledger reconciliations were not adequately performed. The ledgers were not were not adequately reconciled to the supporting documentation. Although some expenditures were spot checked on an on-going basis, complete and thorough reconciliations were not performed and properly documented with tick marks, initials or signatures, and dates substantiating that all expenditures posted to the ledgers were verified and accurate. Also, the management or supervisory reviews of the ledger reconciliations were not performed and documented.

Reconciliations are integral to ensure that financial information is complete, accurate, and valid. Failure to perform reconciliations may result in undetected errors and/or misappropriations of University assets.

Management Action Plan

Epidemiology management agrees that ledger reviews are an important control and performs ongoing transactional reviews but does not have the staff to perform a full reconciliation of all the transactions. However, effective immediately, Epidemiology will perform sampling on high dollar/high risk transactions that will be documented in accordance with policy. Epidemiology will recruit student workers to perform monthly ledger reviews. The procedures are as follows.

1. The responsible individual will review the accounts/transactions assigned to them on a periodic, preferably monthly, basis. They will then document the process by signing and dating the reconciliation on the ledgers.
2. The responsible individual's supervisor will then review, approve, and sign as well as date the reconciliation.