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

UCI SCHOOL OF MEDICINE
DEPARTMENT OF SURGERY
AESTHETIC AND PLASTIC SURGERY INSTITUTE
Report No. 2012-204

January 31, 2012

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January 31, 2012

GREGORY EVANS
CHIEF
AESTHETIC AND PLASTIC SURGERY INSTITUTE

RE: Plastic Surgery Audit
Report No. 2012-204

Internal Audit Services has completed the review of Aesthetic and Plastic Surgery Institute 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.

Bent Nielsen

Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Terry Belmont, Chief Executive Officer, UC Irvine Medical Center
Ralph Clayman, Professor and Dean of the School of Medicine
John Heydt, President and CEO, University Physicians and Surgeons
Alice Issai, Chief Operating Officer, UC Irvine Medical Center
Kurt Stauder, Executive Director, Ambulatory Services
Lisa Hayes-Swartz, Administrator

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I. BACKGROUND

The Aesthetic and Plastic Surgery Institute (Plastic Surgery) is a specialty division of the University of California, Irvine (UCI) School of Medicine, Department of Surgery. Plastic Surgery provides state-of-the art, high quality plastic surgery care, education, and research. The clinical program operation is a hospital based clinic where the plastic surgeons offer a full range of aesthetic and plastic surgery services for adult and pediatric patients. These services include hand, cosmetic, and craniofacial procedures, as well as burn, breast and cancer reconstruction.

Faculty members are committed to serving their patients, the community and their specialty. Dedicated to educating and training future plastic surgeons, the institute's residency program helps physicians successfully complete the program, making them board eligible. Currently, there are six faculty and 12 resident physicians.

II. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review the internal controls for business operations and processes in Plastic Surgery for fiscal year 2010-2011.

UCI Internal Audit Services (IAS) established the following audit objectives:

1. Determine whether internal controls over cash management procedures and CareCredit patient financing process and procedures are adequate and are functioning as intended;

2. Determine whether billing processes and procedures are sufficient to ensure services are accurately billed. (Note: This audit did not include a focused evaluation of medical group processes for managing and reporting physician accounts receivable);

3. Verify inventory management processes and controls over implant and sundry items are adequate;

4. Verify whether medical equipment requiring preventative maintenance (PM) provided by Clinical Engineering (CE) are properly tagged, current and tracked in accordance with UCI policy; and

5. Perform a limited review of related IT operations.

III. CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended. However, charge entry adjustments, cash handling, product inventory management, and medical equipment inventory processes need improvement to help insure that University assets are protected, accurately processed and properly recorded, and that billing for clinic services and product sales are complete and accurate.

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

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

A. Charge Entry Adjustments

IAS examined 24 patient visits from September 19, 2011 through September 30, 2011 and reviewed selected encounter form attributes from charge capture to charge entry by the medical groups, and the documentation for each encounter in the patient sample. IAS verified whether the charges were captured and sent to the medical groups for proper charge entry for hospital and professional billing. IAS identified one patient encounter with a procedure that had a professional service "Office Visit Level II" that had been crossed off. A different professional service "Post OP Visit" was marked instead and recorded as a zero charge. The crossed off charge was not initialed signifying who made the change on the encounter form along with a note explaining the change. In addition, there was nothing documented in the General Electric (GE) Professional Billing System Notes explaining the change from the original service code to the present code. There was also no indication that authorization was obtained which could result in lost revenue for the charge. The observation was discussed with Hospital Compliance office personnel and they will review and follow up on this issue.

Lack of proper documentation authorizing procedural changes could result in unauthorized procedures performed, possible billing irregularities, and loss of revenue.

Management Action Plan

Plastic Surgery will develop and implement certain process improvements to charge capture practices in coordination with the Professional Billings Manager. The clinic management met with the professional billings management and effective immediately, will implement the following process improvements:

- When a discrepancy such as this occurs, the medical group personnel will scan the encounter form and email the form to a designated person in Plastic Surgery to handle any clarifications and corrections; and

- The transaction will also be keyed into the GE billing system as a go back for follow-up and tracking purposes.

B. Cash Handling

1) Separation of Duties

Control procedures that ensure no one person is responsible for collecting, handling, depositing and accounting for cash in the Plastic Surgery front office should be strengthened.

At least two principal administration workers (PAW) accept payments from patients. Each PAW staff member prepares the deposit advice forms for funds received. Normally, the deposits are prepared by the primary front office PAW staff member who also verifies the patient's payment requirement, receives payments from the patients, and records payments in the Quest system. On many occasions, the other PAW staff member will also perform the same cashiering functions. These incompatible duties do not provide an adequate separation of duties and an independent reconciliation of patient payments to actual payments received and recorded.

2) Independent Review of Daily Deposits

Controls over daily deposits can be strengthened through implementing a review and approval process by a management-level employee prior to submitting the deposit to the Hospital Main Cashier Office (MCO). Failure to maintain adequate internal controls over cash handling processes may result in a diversion of University funds and/or a cash loss.

3) Post Deposit Reconciliation

Accountability and accuracy of general ledger records can be strengthened by performing post deposit reconciliations. Currently, the clinic relies on the MCO to ensure the deposits are accurate and complete, and when there is a discrepancy, the MCO will follow-up with the clinic.

The MCO used to send a record of all the clinic deposit activity and general ledger postings for the clinics to review for appropriateness. Recently, the MCO has made these reports available through the online cashiering network

for easy access and review. Plastic Surgery should review the deposit activity to ensure cash and cash equivalents collected and reported as deposited agree with the amounts posted to the general ledger.

4) **Safe Combination**

IAS determined a written copy of the safe combination was kept in a drawer behind the front office patient counter near the safe area. The drawer is locked during non-business hours. A record of the combination, sealed and opened only under dual-custody to prevent undetected access, must be maintained away from the safe area. Having easy access to the combination increases the risk of undetected and/or unauthorized access to University funds and may result in a misappropriation of University assets.

Management Action Plan

The daily deposit preparation responsibilities will continue to be performed by the front office PAW staff member who also handles cash during the business day. However, as a mitigating internal control, the deposit will be prepared in dual custody by front office personnel. The anticipated implementation date is March 2012.

In addition, we noted an opportunity for process improvements providing clarification and guidance for clinical supervisors and managers over cashiering functions, specifically, separation of incompatible duties and reconciliation of deposit activity to general ledger accounts. The MCO will develop training materials and the anticipated implementation date is July 2012.

A management level employee will initial the daily deposit signifying that the deposit and the processes by which the daily deposit is prepared is accurate and complete. This mitigating control will help to ensure the daily deposit is complete, accurate, and submitted to the MCO without incident. Documentation of our daily deposit will continue to be retained as they are completed. The anticipated implementation date is March 2012.

Plastic Surgery will perform post deposit reviews of deposit activity in coordination with the MCO, to ensure cash and cash equivalents collected and reported as deposited, agree with general ledger recordings. The anticipated implementation date is March 2012.

During the course of the audit, a record of the safe's combination is now kept in a sealed envelope away from the safe area. The envelope is kept in a secured location maintained by clinic management.

C. Product Inventory and Accounting

1) Skin Care Services – Posting Error

Based on our review, we noted that payments for four of the 10 (40 percent) skin care services reviewed were recorded to the wrong account and fund. In order to reduce payment posting errors, the clinic should have procedures in place to ensure individuals with shared responsibilities over the handling and recording of patient payments understand the payment posting process.

2) Skin Care Inventory

Plastic Surgery should include "take home kits", for example, a post chemical peel, in their current product inventory. Each kit on average costs $20 and is provided to patients as a post treatment application. Although the cost of the kit is incorporated in the treatment, all products, regardless of how they are distributed, should be included in inventory when purchased and tracked when used to provide a complete audit trail.

Inventory tracking systems provide relevant information on product cost, distribution, inventory shrinkage due to loss or theft, and cost recovery that can assist management with making business decisions.

3) Aesthetician Charges Money Transfers

During our review, we noted an opportunity for process improvements in accounting for product services. IAS determined that certain aesthetician charges recorded to a revenue account create additional workloads for Outpatient Patient Collection's personnel (OPC). A report prepared by OPC of these charges is sent to Plastic Surgery for review on a bi-monthly basis. OPC's personnel move the money and charges through a money transfer to the Hospital Accounts Receivable (AR) for each transaction. This cost transfer is manually performed in order to match the payment to the charges posted in the Invision system.

Plastic Surgery should record these aesthetician charges directly to the AR account. This process would eliminate the manual workaround process and improve efficiency and effectiveness over the recording of patient payments.

Management Action Plan

During the audit period, a float PAW was working at the front desk and was responsible for the recording of incorrect funds, however, the regular staff know

the accounts. Plastic Surgery management will ensure that temporary PAW staffs are aware of proper payment processing procedures.

An inventory tracking system for product inventory currently exists and the "take home kits" will be added and tracked accordingly. Our anticipated implementation date is March 2012.

Plastic Surgery will develop and implement process improvements to record aesthetician product charges to the Hospital AR account in coordination with the MCO. IAS met with the Hospital Assistant Controller on December 20, 2011 to discuss the current recording method and opportunities to improve efficiencies in this area. The Controller's Office, agreed that the clinic can post aesthetician product charges to the Hospital AR account which will save time and reduce the cost of the number of money transfers. Our anticipated implementation date is February 2012.

D. Medical Equipment Inventory

At the Medical Center, CE operations are performed by an outside vendor, Philips Medical Systems (Philips). CE is responsible for performing PM inspections on medical equipment after the equipment is placed in service. Plastic Surgery is responsible for ensuring that all clinic-owned or borrowed equipment is accurately reflected in the clinic's medical equipment inventory report and that PM inspections are performed in a timely manner. However, the clinic had not received a medical equipment inventory report from the CE database (Inforview) until recently. IAS compared the most recent CE inventory report to the 34 equipment items sampled and found four exceptions (11 percent). All 34 items had current PM tags. The CE medical equipment inventory report should be updated to reflect the correct cost center location to ensure proper tracking and maintenance of the medical equipment.

Management Action Plan

CE management is currently in the process of updating the clinic's inventory in the Inforview system. Medical equipment inventory listings will be sent to the clinic for their review, inventory verification, and to add any updates to their medical equipment inventory listing. As the inventory lists are returned to CE, they will update the database as necessary and send an updated inventory list to the clinic.

CE will implement a process that provides users (departments/clinics) the ability to access the Inforview system. This access will allow department personnel to view their inventory lists, equipment inventory history, repair history, and submit

on line equipment maintenance requests. CE will provide in service user access training for the new Inforview system.