



Department of Urology

Internal Audit Report No. I2015-205

June 25, 2015

Prepared By

Darlene Nunez, Senior Auditor

Reviewed By

Niran Joshi, Audit Manager

Approved By

Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

June 25, 2015

JAIME LANDMAN, M.D.
CHAIR
DEPARTMENT OF UROLOGY

RE: Department of Urology Audit
Report No. I2015-205

Internal Audit Services has completed the review of the Department of Urology 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

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Roger Steinert, Interim Dean, School of Medicine
Rosanne Santos, Chief Administrative Officer, Department of Urology

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2014-2015 audit plan, Internal Audit Services (IAS) conducted a review of the Department of Urology. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures and best business practices. Specifically, the following concerns were noted:

Ledger Reconciliations - General ledger reconciliations have not been performed for over four months to verify that expenditures and deposits have been accurately recorded. Payroll ledgers have not been reconciled in over two years to ensure the validity of payroll expenses. This observation is discussed in section V.1.

Cash Handling - Cash and cash equivalents were not properly handled in accordance with University policy. Mailed remittances were processed and verified by one individual instead of two individuals. The transfer of checks were not documented to maintain individual accountability. Lastly, checks were not physically secured and protected from loss at all times. This observation is discussed in section V.2.

Travel Reimbursements - Advance authorization for travel were not obtained and documented. Additionally, travel reimbursements weren't always adequately supported as required by University policy. This observation is discussed in section V.3.

Professional Fee Schedule - The professional fee schedule review process requires improvement. Justification for rate changes and the addition of new billing codes were not documented to provide transparency. There are no system limitations or controls in place to prevent staff from intentionally adjusting the rates. In addition, one employee is responsible for reviewing, approving and entering rate changes in the billing system creating inadequate separation of duties. Lastly, the fee schedule changes was not documented consistently prior to FY 2013-2014; and the last formal review was in FY 2008-2009. This observation is discussed in section V.4.

Payroll Certification Reporting – A payroll certification report had not been submitted to the Contracts and Grants Accounting (C&G Accounting) office and another was submitted late. This observation is discussed in section V.5.

Systems Access – Staff share one username and password to access the Office Ally system. Such practice may result in unauthorized access. This observation is discussed in section V.6.

II. BACKGROUND

The Department of Urology (Urology) is part of the University of California, Irvine (UCI) School of Medicine (SOM). Urology was formerly a division of the Department of Surgery and was elevated to department status in January 2002. Urology's mission is to provide its patients with the absolute best in innovative, less invasive urological care; its residents with a superb curriculum based educational and operative training experience; and its faculty with every opportunity to excel clinically while teaching and pursuing research of both basic and clinical nature.

Faculty members are leaders in the field of laparoscopic renal and robotic surgery of the kidney, bladder and prostate. Clinical faculty provide urological services for adults and children at the Center of Urological Care located at the UC Irvine Medical Center and other affiliated hospitals.

Over the past several years, Urology has experienced significant growth of its faculty and staff as well as programs and services. Since July 2013, Urology has added six new faculty members and six new staff positions for a total of 44 full time employees. For FY 2013-2014, clinical services for new patients increased 26 percent from the prior FY and total revenue was about \$10.2 million including \$6.5 million of clinical income. The Chair, who serves as the academic leader and administrative head, reports directly to the SOM Dean. The Chief Administrative Officer, who reports to the Chair, directs the administrative operations in the department.

III. PURPOSE, SCOPE AND OBJECTIVES

The primary purpose of the audit was to perform a general review of Urology's operations to assess business risk, internal controls and compliance with University policies and procedures. The scope focused on certain operational and financial activities for the current FY 2014-2015.

The audit included the following objectives:

1. Determine whether there were adequate controls over ledger reconciliations, professional fee rates and affiliation agreements;
2. Verify that billing and collections were accurate and timely and that outstanding balances were adequately monitored;
3. Evaluate the methods to secure sensitive and confidential billing and collection information and assess if it were properly secured and accessed;
4. Verify that cash collections were appropriately handled, recorded and stored in compliance with University policy;
5. Verify that travel and entertainment reimbursements were properly authorized, reported and reimbursed in accordance with University policy;
6. Assess payroll and personnel practices related to leave usages and overtime and verify proper approval was obtained and was adequately supported;
7. Evaluate the process for completing payroll certifications and verify that payroll transfers were justified, properly approved and documented.

IV. CONCLUSION

Some internal controls and processes reviewed could be strengthened and improved. Business risks and compliance concerns were identified in ledger reconciliations, handling and storing of cash and cash equivalents, travel reimbursements, review of the professional fee schedule, timeliness of payroll certifications and system access.

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. Ledger Reconciliations

Background

UCI Administrative Policies and Procedures Sec.701-08 states that each activity 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 are also expected to review the validity of payroll payments charged or credited to their accounts. Departments shall perform a monthly reconciliation of total salaries paid, as shown on the Distribution of Payroll Expense Report, to total salaries approved pursuant to departmental payroll/personnel records as required by policy.

Observation

Discussion with staff disclosed that general ledger reconciliations had not been performed since December 2014 (over four months past due). The payroll ledger had not been reconciled for over two years. Furthermore, the employees performing the reconciliations were also responsible for other key functions such as authorizing and processing transactions creating an inadequate separation of duties.

Reconciliations are an integral component of the internal control structure to ensure that financial information is complete, accurate, and valid. Without the timely review of the general and payroll ledger, inaccurate or unauthorized transactions may go undetected. Individual duties should be separated so that one person's work routinely serves as a complimentary check on another persons work. No one individual should have complete control over more than one key function.

Management Action Plan

Effective July 1, 2015, general and payroll ledger reconciliations will be performed monthly as required per policy. The persons performing the reconciliations will sign and date the reconciliation as evidence; and they will be someone other than the person authorizing and processing transactions to ensure adequate separation of duties. The Finance/Billing /Human Resources Assistant will perform the monthly payroll and general ledger reconciliations.

2. Cash Handling

Background

Controls over cash collection procedures and standards were reviewed to ensure that assets were protected and properly reported in compliance with University policy. Urology collects co-payments and other payments in the form of mostly checks and currency at the Center of Urological Care, City Tower-Finance Office, and off-site affiliated hospitals such as the Children's Hospital of Orange County.

Business and Finance Bulletin 49 (BUS-49) establishes the University's policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents. Its purpose is to ensure that University assets are protected, accurately and timely processed and properly reported.

Observation

Discussion with staff and review of supporting deposit documentation found that cash was not always handled and physically secured as required by policy. The following concerns were noted.

- Mailed remittances were received by various individuals in Urology and were opened and verified by one person. University policy requires mailed remittances to be processed and verified by two individuals.
- The transfer of checks were not documented, therefore accountability was not maintained (Finance Office and Center for Urological Care locations). Individual accountability must be continually maintained throughout all cash handling operations from receipt through deposit. All transfers of accountability must be documented.
- Checks received in the Finance Office were not secured at all times. Upon receipt, checks were recorded in the Quali Financial System (KFS) then placed in a tamper safe bag located in the billing area. The bag remains open throughout the day until it is ready to be sealed and dropped in the safe at the end of the day. Cash and cash equivalents must be locked in a secure receptacle or safe at all times to ensure physical security.

Upon IAS notification, processes were immediately changed and any checks received through the mail by the Finance Office, were now processed and verified by two individuals as required by policy. Additionally, checks hand delivered to the Finance Office now require a signature from the individual delivering the check to document the transfer.

Management Action Plan

Effective May 18, 2015, mailed remittances received by any individual were processed and verified by two individuals and evidenced with a signature and date on the check statements. To maintain individual accountability, any transfer of cash and cash equivalents were recorded on the Unrestricted Deposits log. All checks and credit card receipts are now locked in a drawer until the end of the business day when all deposit amounts are verified by two employee signatures on the deposit bags and safely secured in the drop safe.

3. Travel Reimbursements

Background

Official University travel must be properly authorized, timely reported, and reimbursed in accordance with Business and Finance Bulletin G-28. Entertainment related expenditures must comply with Business and Finance Bulletin 79. Additionally, travel and entertainment expenditures must be properly documented and supported.

Employees utilize the KFS Travel and Event Manager system to request reimbursement for travel and entertainment expenditures. Procedures and supporting documentation related to travel and entertainment reimbursements were evaluated for compliance with policy.

Observation

IAS reviewed a sample of travel and entertainment expenditure transactions and noted the following:

- Entertainment expenses were reimbursed in compliance with policy.
- Travel reimbursements were submitted timely. However, none of the travel expenditures reviewed were authorized in advance and documented. Travelers obtained advance authorization through verbal approval. As a result, IAS could not validate if the travels were properly authorized. Authorization should be obtained prior to undertaking University travel and should be documented.
- Lack of adequate supporting documentation. Proper conference agenda for several transactions did not exist. Policy states that an agenda associated with the business reason for the trip should be provided as part of the substantiating documentation.

Management Action Plan

Staff business trips were previously always approved via word of mouth. As of July 1, 2015, an internal form will be created to document travel authorization prior to travel and will be submitted to Human Resources and maintained. In addition, a copy of the authorization form will be submitted at the time of the reimbursement request. The form will also include a section that asks if the staff member will be taking vacation before or after the business trip and if so, the corresponding staff leave request form must be submitted. Lastly, to ensure employees provide all the required supporting documentation for business travel reimbursements/payments, a checklist will be created that will include the conference agenda on the list.

4. Professional Fee Schedule

Background

Clinical faculty provides urological care services and professional fees are charged to a third party sponsor or patient and become University income. Urology billing staff has the responsibility for billing and collecting professional fees using the Medical Manager system. Urology generates a fee schedule from the billing system and is reviewed annually to ensure codes and rates are up to date and appropriate.

Observation

IAS assessed the fee schedule review process through discussions with staff and review of supporting documentation. The following concerns were identified:

- Rate changes and new billing codes were not always justified and documented. Since the billing system does not provide an audit trail of any rate changes, the date, reason and individual entering the change should be noted to allow for transparency;
- Although the departmental policy manual states that the Finance Director is the only employee authorized to enter any changes in the system, there are no system limitations to prevent billing staff from intentionally adjusting rates or codes;

- One individual is responsible for reviewing, approving and entering rate changes in the billing system, inadequate separation of duties.
- The professional fee schedule changes were not documented consistently prior to FY 2013-2014 and the last formal review was in FY 2008-2009.

Management Action Plan

Management will provide more oversight to ensure the professional fee schedule is reviewed annually and adequately documented. Moving forward, when contracts are negotiated annually and rates are subsequently changed, a new excel spreadsheet will be placed in the file to document rate adjustments. Rate changes will include an explanation along with date of the change. The billing software is limited and cannot prevent staff other than the Billing Supervisor from changing rates. This was previously anticipated and departmental policy manual states that no one shall change modify charge fees, modifiers, or insurance companies. Only the Finance Director may approve any rate changes in the system. Any breach of this policy is due cause for disciplinary action. Since the Finance Director is the only certified coder, she will be responsible for the approval and oversight of the rate / code changes. The Billing Supervisor will enter the new codes / rates in the system and will document each occurrence in the spreadsheet. This process will be reflected in the policy manual.

5. Payroll Certification Reporting

Background

To properly substantiate salaries charged directly to federally funded projects, UCI uses an annual Payroll Certification System (PCS). Payroll certifications are required for the salaries of all employees on the University payroll who are paid from federal and federal flow-through funds. Payroll certifications must be completed annually, at the end of an award's budget period and when the award expires. The departments are required to send a copy of the signed PCS report to C&G Accounting office within 45 days of the budget end date and maintain the original documentation.

Observation

IAS reviewed the C&G report on the current payroll certification status as of May 2015, which disclosed two awards that required payroll certification reporting and both were not submitted timely.

- One award with a budget and project end date of August 31, 2014 has not been submitted as of May 21, 2015.
- The second award with a budget end date of September 30, 2014 was submitted on December 3, 2014, three weeks after the due date.

Uncertified salaries and untimely certification of salary expenditures create an undue compliance risk for the University.

Management Action Plan

The payroll certification for the award with a budget end date of August 31, 2014 was completed and submitted on June 2, 2015. As of May 18, 2015, Urology management began monitoring award budget end dates by entering reminders through Microsoft Outlook to ensure timely review and reporting of payroll certifications.

6. System Access

Background

The UC Electronic Information Security Policy IS-3 establishes guidelines for achieving appropriate protection of University electronic information resources. The policy states that passwords to individual accounts should never be shared with other individuals unless specifically approved and documented as an exception to policy by Resource Proprietors responsible for the Resources to be accessed. If it is determined that passwords may be shared, additional measures should be implemented that record who accessed the Resource or other control mechanisms that will provide an audit trail of the access.

Observation

Urology utilizes Office Ally, a web-based full service medical claims clearinghouse. Using existing software, billing staff send medical claims electronically to the payer free of charge. All billing staff share one username and password to access Office Ally.

Sharing usernames and passwords is not good business practice, widens the potential for unauthorized access and provides minimal accountability.

Management Action Plan

Urology management is inquiring with Office Ally whether the Tax ID Number (TIN) can have multiple log-ins. If Office Ally responds positively, a unique log-in for each billing staff will be assigned. However, if Office Ally responds negatively, a policy will be created by July 31, 2015 regarding the utilization of the shared login. Breach of policy will result in disciplinary action.