



Department of Medicine

Internal Audit Report No. I2013-209

July 12, 2013

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

July 12, 2013

ALPESH N. AMIN MD, MBA
CHAIR
DEPARTMENT OF MEDICINE

RE: Department of Medicine Audit
Report No. I2013-209

Internal Audit Services has completed the review of the Department of Medicine 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.

A handwritten signature in black ink that reads "Mike Bathke".

Mike Bathke
Interim Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

Dr. Ralph Clayman, Professor and Dean of the School of Medicine
Denise Healey, Chief Administrative Officer, Department of Medicine
Kathleen Kunz, Chief Financial Officer, Department of Medicine

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2012-2013 audit plan, Internal Audit Services (IAS) reviewed business operations of the Gastroenterology and Infectious Diseases Divisions within the Department of Medicine (DOM). In general, internal controls and processes reviewed appear to be functioning as intended. However, certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Cash Collection and Depositing Processes – Certain cash handling processes are not adequately separated. Improvement is also needed in safety measures for UC Irvine employees transporting cash and equivalents. Furthermore, receipts are not always completed and/or retained for non-clinical collections. In addition, employees with cash-handling responsibilities are not receiving required training. The details related to these issues are provided in Section V.1.

Non-payroll Expenditures – Concerns were noted with PALCard purchases. Pre-authorizations were not always obtained for purchases, and PALCard dollar limits were occasionally exceeded. For some purchases, required PALCard documentation and/or other support documentation was not always retained. In addition, adequate descriptions of purchased items and/or the business purpose for purchases were not always provided.

Concerns were also noted with PayQuest reimbursements. Travel expenditures were sometimes improperly/incorrectly reimbursed. Additionally, required exceptional approvals for reimbursements were not always obtained, and reimbursements were sometimes requested for purchased goods/services that should have been acquired with a PALCard. This observation is discussed in section V.2.

II. BACKGROUND

DOM consists of a multispecialty group of physicians and researchers involved in medical discovery, education, and patient care. DOM is the largest department within the UC Irvine School of Medicine, with more than 210 full-

time faculty and other academics, 140 staff, and 160 interns, residents and fellows. Clinical practice is primarily conducted at the UC Irvine Medical Center and Gottschalk Medical Plaza. In addition, many physicians and researchers are affiliated with the Medical Center's Comprehensive Digestive Disease Center (CDDC). The CDDC has earned the National Cancer Institute's designation for excellence.

Currently, DOM has more than \$57 million in restricted and unrestricted funds, including \$15 million in grants to support clinical studies, translational and biomedical research, behavioral studies and training programs. More than two-thirds of research dollars come from the National Institutes of Health and other governmental sources.

DOM is comprised of 11 divisions and operates a comprehensive undergraduate medical education curriculum, an internal medicine residency program, fellowships, and clinical programs across a wide range of internal medicine subspecialties. The DOM Chair reports to the UC Irvine School of Medicine Dean. Administrative processes are managed by a Chief Administrative Officer (CAO) who reports to the Chair. The CAO is assisted by a Chief Finance Officer (CFO), a Research Development and Operations Manager, and a Medical Education Coordinator. The CFO oversees finance operations, and payroll. Each of the 11 divisions is managed by a Management Service Officer (MSO) who administratively reports to the CAO.

III. PURPOSE, SCOPE AND OBJECTIVES

The scope of the audit focused on FY 2012-2013 DOM business operations. Based on the assessed risks, certain processes within the Gastroenterology and Infectious Diseases divisions were reviewed. The primary purpose of the audit was to assess internal controls over non-clinical cash collections and depositing, non-payroll expenditures, and certain payroll certification processes involving federal contracts and grants. Information technology (IT) general controls were also reviewed.

The review included the following procedures.

1. Reviewed cash handling processes for conformance with UC/UCI policies and procedures and for assurance that collected funds are properly deposited, recorded, reconciled, and safeguarded.
2. Reviewed non-payroll expenditures for proper accountability and separation of responsibilities, adequate documentation, assurance of valid, properly pre-authorized and approved transactions, timely reconciliations, and compliance with UC/UCI policies and procedures.
3. Reviewed payroll certification processes for timely completion and submission.
4. Assessed and reviewed selected IT general controls.

IV. CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended. No issues were noted related to the payroll certification processes or IT general controls. However, select internal control/compliance concerns were identified within the Gastroenterology division in the areas of cash collection and depositing, and non-payroll expenditures. In these specific areas, control measures may not always be optimal to prevent or detect fraudulent transactions.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Cash Collection and Depositing Processing

a. Separation of Duties and Transporting University Cash and Equivalents

Background

In concurrence with its community outreach objectives, DOM-Gastroenterology offers continuing medical education (CME) seminars and other educational events to interested individuals. Some of the events include the collection of registration fees. Additionally, payments may be collected from the sale of gastrointestinal test kits. Cash and equivalents (checks and credit card payments) are collected by UC Irvine Medical Center - CDDC Business Development Office employees, who work closely with Gastroenterology employees in community outreach efforts. Collected cash and equivalents are transported to the DOM business office, where they are prepared for deposit.

Observation

Gastroenterology's cash handling responsibilities were not always adequately separated. The Gastroenterology MSO handles cash and equivalents and also reviews the deposit documentation. Additionally, the deposit preparer has occasionally reconciled deposits to the general ledger.

University policy and best business practice requires that no single individual be responsible for collecting, handling, depositing, accounting for, and reconciling cash and equivalents. Failure to maintain an adequate separation of duties in cash handling processes may result in financial loss.

The Business Development Office is located on the UC Irvine Medical Center campus, a distance away from the business office. Collected cash and equivalents are transported from one location to the other by University employees.

Transporting cash and equivalents between the business units is inefficient and places University employees at risk. University policy requires cash-

handlers to transport cash and equivalents either by secure armored car service, or by employees (walking or driving) in dual custody. If the deposit is in excess of \$2,500, employees should be escorted by a Campus Security or Police Officer.

Management Action Plan

DOM Division MSOs will be instructed to not be involved in cash handling processes so there can be a separation of duties. Division administrative staff will be trained in cash handling duties with the finance/administrative analyst responsible for reconciling deposits to the general ledger. These trainings will be completed by July 31, 2013.

The divisions will use the UC Irvine Medical Center Cashiers Office deposit pick up service. All DOM Division staff members will be instructed to turn in their deposits to DOM business office staff members, who will be responsible for contacting the Cashiers Office for pick up. A safe has been purchased to protect the deposit while waiting for pickup.

The CDDC Business Development Office has agreed to use the DOM mailing address for event registration and DOM will be responsible for prompt deposit of checks. Back-up documentation will be delivered to the CDDC Business Development Office for recording the registrations. Copies of the registrations will also be delivered with the deposit to the Cashiers Office.

b. Payment Receipts

Background

At some of Gastroenterology's revenue-producing events, blank registration forms are provided for attendees to complete. At one revenue-producing event, admission tickets are sold to attendees. In addition, non-University receipts are provided to individuals who purchase gastrointestinal test kits.

Observation

IAS reviewed the process by which cash and equivalents are collected and recorded for Gastroenterology's revenue-producing events. The following concerns were noted.

1. For some events, attendees complete a registration form and send it with their payment directly to the CDDC Business Development Office. However, some registration forms may contain credit card and/or other personal information. To protect personal information, the forms are destroyed by the DOM business office soon after the attendee is registered. Redacted copies of the registration forms are neither retained nor submitted with the collected cash and equivalents to the Cashiers Office.
2. For one event, attendees buy tickets from community fund raisers. Attendee lists are prepared by the fund raisers for tickets sold. Periodically, the fund-raisers deliver their collected cash and equivalents and attendee lists to the CDDC Business Development Office. Although the ticket lists are reconciled to the cash collected and retained, copies of the lists are not submitted with the collected cash and equivalents to the Cashiers Office.
3. Individuals who buy gastrointestinal test kits receive handwritten receipts. However, the receipts are not official University receipts issued by the Cashiers Office, and receipt copies are not submitted with collected cash and equivalents to the Cashiers Office.

Business and Finance Bulletin BUS-49 requires an official pre-numbered University cash receipt to be completed for each collection. Each receipt must be used sequentially.

Management Action Plan

1. DOM and CDDC Business Development Office have agreed that the mailing address on registration forms will be the DOM business office. DOM will follow the directions of the Cashiers Office for the deposit location. For Medical Center deposits, DOM will submit a redacted copy of the registration form with the deposit. A copy of the form will be sent to the CDDC Business Development Office for event registration and a copy will be maintained in the DOM business office with the deposit documentation.
2. The DOM business office will ensure ticket sales lists are submitted as documentation with the deposit materials for Medical Center deposits.

3. UCI Health Systems sequentially-ordered receipts issued by the Cashiers Office will be used for sale of items.

These directions will be included in the annual cash handling training. These processes will be put in place by July 31, 2013.

c. Computer Based Training (CBT)

Background

A CBT on-line course is available through the UC Learning Center to train new employees with cash-handling responsibilities and to refresh the cash-handling skill sets of experienced employees. The effectiveness of cash-handling training is evaluated through periodic assessments completed by the Cashiers Office.

Observation

Discussions with DOM management disclosed that several cash-handling employees in both the CDDC Business Development Office and Gastroenterology need to receive cash-handling training. Both UC and UC Irvine Medical Center policies require cash-handling employees to receive training prior to handling University funds, and annually thereafter.

Management Action Plan

DOM management has requested the Cashiers Office to provide training for all staff members who have cash-handling responsibilities. On an annual basis thereafter, DOM staff members will be required to take the CBT cash-handling course. Cash-handling training will be completed by July 31, 2013.

When required, the Cashiers Office will also complete assessments of DOM cash-handling operations, and provide a copy of the assessment to the appropriate manager/department head.

2. Non-Payroll Expenditures

A review was performed of Gastroenterology PALCard purchases and PayQuest reimbursements.

a. PALCard Transactions

Background

The UCI purchasing card (PALCard) is used by faculty and staff members responsible for purchasing University equipment, supplies and services. UC purchasing policies require purchases to be pre-authorized either through an internal purchase requisition or other form of documentation. For each PALCard transaction, a reviewer is required to examine supporting documentation and the propriety of the account/fund to be charged.

Observation

On a sample basis, IAS reviewed Gastroenterology's FY 2012-13 PALCard transactions. The following concerns were noted.

- Pre-authorizations were not always obtained prior to purchase transactions;
- Packing slips or other receiving documents were not always retained;
- The PALCard limit of \$5,000 per vendor, per day was sometimes exceeded;
- Different object codes were used to account for similar purchases;
- The miscellaneous services object code was used for some purchases;
- Required PALCard documentation, and/or adequate support documentation was not always retained;
- An adequate description of the purchased items and/or the business purpose for the purchase was not always provided.

PALCard processes that do not follow UC/UCI policies and good business practice may increase the risk of improper purchases and/or unauthorized use of University funds.

Management Action Plan

The DOM staff will be trained in the appropriate procedures for documenting PALCard transactions. Pal Card reviewer duties will be shifted to the DOM Business Office staff. In addition, all Finance staff will be trained to review and modify the object codes for PAL Card purchases when appropriate. The training and transition of duties will be completed by August 31, 2013.

b. PayQuest Transactions

Background

UC Irvine employees utilize the PayQuest automated system to request reimbursement for various expenditures, and for certain other payments. Reimbursement requests pertaining to travel expenditures must comply with UC Business and Finance Bulletin BUS-79; expenditures for business meetings, entertainment, and events must comply with UC Business and Finance Bulletin G-28. Reimbursement requests must also comply with all applicable UC Irvine policies.

Observation

On a sample basis, IAS reviewed Gastroenterology's FY 2012-13 PayQuest transactions. The following concerns were noted.

Reimbursements for Travel, Events, and Meetings/Entertainment

1. **Improper PayQuest Event Descriptions:** Some events and activities for which reimbursements were requested were incorrectly described in PayQuest. The incorrect descriptions enabled some expenditures to be reimbursed without required exceptional approvals.
2. **Inaccurate Reimbursement:** One reimbursement request involving a combination of business and personal travel was incorrectly calculated, resulting in an over reimbursement.

3. **Failure to use Connexus:** Connexus was not used to arrange travel plans, and reasoning/support for not using the Connexus system was not documented.

Reimbursements for Other/Miscellaneous

1. **Improper Payment Methods:** Some reimbursement requests paid to faculty or staff members were for supplies and materials that should have been purchased with a PALCard.
2. **Improper Charges to Miscellaneous Services:** December 2012 employee preauthorized appreciation gift cards were charged to the miscellaneous services object code. In addition, the same object code was used to charge transportation expenditures associated with a January 2013 wellness conference.

Proper review, approval, documentation, and classification of reimbursements reduce the risk of improper costs or unauthorized use of University funds.

Management Action Plan

In coordination with the new financial system, DOM management will request the campus Accounting office to conduct training on travel, meeting and event policies. The objective will be to ensure that DOM employees are able to properly prepare or review University reimbursement requests, and obtain exceptional approvals, when necessary. Training will be completed by August 31, 2013.

Furthermore, DOM will establish an audit process for University reimbursement requests to ensure appropriate policies are being followed. An analyst outside of the Division requesting reimbursement will audit the transaction and return documentation to the preparer if corrections are necessary. The new audit process will be implemented by September 1, 2013.

In addition, DOM will circulate an internal announcement regarding changes in travel, event and meeting policies at least annually. The announcement

will recommend that travelers utilize Connexus. The new process will be in place by September 30, 2013.