

The logo for UCI Irvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'IRVINE' in a smaller, all-caps, serif font. A vertical line separates the two parts of the name.

UCI IRVINE

The logo for Internal Audit Services, featuring the words 'INTERNAL' and 'AUDIT SERVICES' stacked vertically in an all-caps, serif font.

INTERNAL
AUDIT SERVICES

Department of Plastic Surgery

Internal Audit Report No. I2016-205

January 22, 2016

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

January 22, 2016

**GREGORY R.D. EVANS, M.D., FACS
PROFESSOR AND CHAIR
DEPARTMENT OF PLASTIC SURGERY**

**RE: Department of Plastic Surgery Audit
Report No. I2016-205**

Internal Audit Services has completed the review of the Department of Plastic Surgery 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
Michelle Ceron, Chief Administrative Officer, Department of Plastic Surgery

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) conducted a review of the School of Medicine's (SOM) Department of Plastic Surgery (Plastic Surgery) including clinic operations. In general, the review disclosed internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Accounts Receivable – Aging of accounts receivable (AR) and collections needs improvement. As of December 2015, the clinics AR balance totaled \$4.9 million and of that, \$2.3 million of the accounts were past due over nine months. Management stated that approximately \$1 million is uncollectible and most likely will be written off. This observation is discussed in section V.1.

Affiliated Agreements – Agreements and Memorandums of Understanding (MOU) are not adequately monitored and maintained. Furthermore, a service agreement found was not signed by a hospital affiliate and a fully executed agreement could not be located. This observation is discussed in section V.2.

Cash Handling – Cash and cash equivalents were not properly handled in accordance with University policy. Collections were not deposited in a timely manner. Proper accountability was not maintained in the cash handling process. In addition, credit card numbers and security codes were not destroyed upon authorization. Further details related to these issues are provided in section V.3.a.

The clinic's safe combination was not changed whenever a person who knows the combination leaves the employment of the cash handling unit or at least annually as required by University Policy. Furthermore, there was no record maintained showing the date and reason for the combination changes. Further details related to these issues are provided in section V.3.b.

Background Checks – Background checks for cash handling employees in the clinic were not adequate. Although criminal background checks were conducted by an outside vendor, subsequent arrest notifications were not received in order to maintain bondable status as required by University policy.

Additionally, criminal background check requirements between the SOM and the Medical Center are inconsistent and could lead to errors and omissions. These observations are discussed in section V.4.

Travel and Entertainment Expenses – Travel and entertainment expense reimbursements were not approved by persons of a higher classification as required by University Policy. This observation is discussed in section V.5.

General Ledger Reconciliations – Record or evidence of general ledger reconciliations was not documented to verify that expenditures are valid, and deposits have been accurately recorded. This observation is discussed in section V.6.

II. BACKGROUND

Plastic Surgery was formerly a division of the Department of Surgery and was elevated to department status in March 2014. Plastic Surgery's mission is to provide state-of-the art, high quality plastic surgery care, education and research in an environment that promotes and nurtures the best academic, clinical and ethical growth for its trainees and students.

Board-certified faculty members are committed to serving their patients, the community and to advance the field of plastic surgery. Clinical faculty provide services at the Aesthetic and Plastic Surgery Institute clinic in Orange and other locations. 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 are also dedicated to advance knowledge and treatments in the field of plastic surgery and ensuring that residents complete their certification by the American Board of Plastic Surgery.

III. PURPOSE, SCOPE AND OBJECTIVES

The primary purpose of the audit was to perform a general review of Plastic Surgery and clinic operations to assess business risk, internal controls and compliance with University policy and procedures. The scope focused on certain operational and financial activities during fiscal year 2014-2015 through present.

The audit included the following objectives.

1. Verify that the review of financial budgets and general ledger reconciliations were performed timely and documented;
2. Determine if the billing and collections performed by an outside vendor was monitored to ensure timeliness;
3. Assess whether a proper background check was performed for cash handling employees;
4. Verify that the change fund and cash collections were appropriately handled, recorded and stored in compliance with University policy;
5. Evaluate purchasing practices and determine if they were properly authorized, documented and adequate separation of duties;
6. Verify that travel and entertainment claim expenses were adequately documented, submitted timely and approved in accordance with University policy and;
7. Review the methods to monitor affiliated agreements and verify they were properly approved, executed and terms were followed.

IV. CONCLUSION

In general, departmental controls and processes appear to be functioning as intended. However, business risks and internal control concerns were identified in the areas of aged AR, affiliated agreements, cash handling, background checks, travel and entertainment approvals, and general ledger reconciliations.

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. Aged Accounts Receivable

Background

SOM Ear Nose and Throat Services (ENT) was performing the billing and collections for Plastic Surgery. In review of a growing outstanding AR balance, Plastic Surgery decided to utilize an outside billing and collections vendor as of June 2015. During the transition, there were numerous connectivity issues which caused a delay in entering charges and payments. The AR aging reports were reviewed to ensure proper monitoring and collections were in place.

Observation

As of December 2015, Plastic Surgery's AR totaled \$4.9 million of which \$2.3 million (47 percent) of the accounts were over nine months past due. Management stated that approximately \$1 million is uncollectible and most likely will be written off. Untimely or inadequate collection efforts over time will result in more bad debt write offs and lost revenue.

While management has already identified a need to effectively manage the outstanding AR using an outside vendor, management is also encouraged to determine if the vendor's collection efforts are adequate to reduce the current outstanding balance.

Management Action Plan

Management is currently in regular bi-weekly discussions with the vendor managing AR. Additionally, Plastic Surgery will review AR aging reports monthly to ensure that the aging balance is reduced and vendor is effectively managing outstanding balances. IAS will follow-up on this management action by March 2016.

2. Affiliated Agreements

Background

Several service agreements and MOUs are currently in place and are a source of income for Plastic Surgery. Based on the terms of the service agreement, Plastic Surgery physicians provide clinical and/or administrative services such as medical directorships at outside facilities and are compensated. MOUs are not a formal binding agreement but a document that expresses a mutual partnership with an outside facility. There is no money exchanged between the facility and the University under a MOU. Both require certain approvals before they are carried out. Plastic Surgery and the Medical Center Contracting Department are jointly responsible for managing these agreements and MOUs.

Observation

Agreements and MOUs are not properly monitored and maintained. A listing of agreements and MOUs are reviewed annually by Plastic Surgery however, effective/end dates were not updated to allow for proper monitoring. Without an accurate and effective tool, agreements may lapse resulting in non-payment for services performed. In addition, a service agreement with Children's Hospital of Orange County (CHOC) was not signed by the facility and a fully executed agreement could not be located by Plastic Surgery or the Contracting Department.

Signatures from both parties, the facility (CHOC) and the University bind the parties to carry out the terms of the agreement. Without a valid agreement, Plastic Surgery has limited recourse since terms and conditions may not be binding or enforceable.

Management Action Plan

Management will update the listing of service agreements and MOUs to ensure completeness. The list will be reviewed periodically to ensure agreements are current and don't lapse. Copies of current fully executed services agreements will be maintained by management and kept on file. IAS will follow-up on this management action by March 2016.

3. Cash Handling

a. Deposits

Background

Business and Finance Bulletin (BFB) 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 record keeping for all University cash and cash equivalents. Its purpose is to ensure the university assets are protected, accurately, and timely processed and properly reported.

Plastic Surgery collects checks through the mail and also receives mail and telephone requests to charge customer's credit/debit card. The clinics collect in person payments in the form of cash, checks and credit cards.

Observation

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

- Mailed remittances were verified and processed by one individual. Policy requires mailed remittances to be verified and processed by two employees.
- The date checks were received was not recorded. Without such information the timeliness of the deposit could not be determined and checks appeared to be deposited untimely. For example, a deposit totaling \$68,224 included

checks dated June 16, 17 and 18, 2015 and were not deposited until about a month later on July 21, 2015. Policy states collections at sub-cashiering stations and departments shall be deposited at the designated main cashiering station at least weekly or whenever collections exceed \$500.

- There was no evidence to support that deposits prepared by both Plastic Surgery and the clinic were validated and prepared under dual custody. Also, deposits prepared by Plastic Surgery were transferred to the clinic without maintaining accountability as required by policy.
- Review of supporting deposit documentation found an authorization form containing the credit card account number along with the security/validation code. According to Plastic Surgery policy, a majority of the account number should be redacted once the transaction is authorized. Furthermore, pursuant to card association rules, validation codes should not be retained or stored beyond transaction authorization. If the card validation code is recorded on a form or collected by phone, that element must be destroyed once the transaction is authorized.

Management Action Plan

1. All mailed remittances are now verified and processed by two employees and evidenced with a "Received" stamp, signature, and date on the check statement or stub. The checks statements will be maintained with the other supporting deposit documentation.
2. The received date checks are now documented on the check statement along with the signatures of the employees verifying and processing the checks as stated above. Checks will be deposited at least weekly or whenever collections exceed \$500 as per policy.
3. A management level clinic employee now reviews the daily cash handling. During the course of the audit, the management level employee began to initial the Tamper Safe Evident Deposit Bag receipt to document that deposits were prepared under dual custody as required by policy and to ensure that deposits were complete and accurate information was submitted to the Main Cashier's Office without incident. A copy of the bag receipt will be maintained within the clinic along with the Deposit Advice Form.

- 4 Plastic Surgery has discontinued transferring deposits to the clinic. Instead, deposits prepared under dual custody are now placed in a separate Tamper Safe Evident Deposit Bag, signed by both employees and is walked down in dual custody to the 4th floor safe where it will be transported by Dunbar to the Main Cashier's Office. A copy of the bag receipt will be maintained within the Plastic Surgery department along with the Deposit Advice Form.
- 5 Employees will receive refresher training to ensure that documentation containing credit card information is redacted upon authorization. Any documentation containing account numbers and the security/validation code will be destroyed upon authorization.

Most action plans have been implemented as of September 28, 2015 and IAS will follow-up on these management action plans by March 2016.

b. Safe Combination

Background

The clinic maintains a safe to store the change fund during non-business hours and deposits awaiting transport to the Main Cashier's Office. Controls surrounding the safe were reviewed for compliance with policy.

Observation

The safe combination was not changed whenever a person who knows the combination leaves the cash handling unit or at least annually. The last three safe combination changes occurred on July 1, 2012, January 20, 2013 and August 19, 2015. Furthermore there was no record maintained showing the date and reason for the combination changes as required by policy.

Management Action Plan

During the course of the audit, the management team was educated and trained on the policy for safe combination changes to ensure compliance. The safe's combination will be changed whenever a person who knows the combination leaves the cash handling unit or at least annually. A log was created to track all safe combination changes that will include the date and

reason for all changes. The Clinic Manager will maintain and review the log annually to ensure compliance. IAS will follow-up on this management action plan by March 2016.

4. Background Checks

Background

BUS-49 states that background checks must be performed prior to employing cashiers, cash handlers and individuals in critical positions. The background and employment checks must be in accordance with University Policy which states that direct access to or responsibility for cash and cash equivalents is a critical position that would require a criminal conviction background check that documents any felony or misdemeanor convictions. BUS-49 further states that any individual with cash handling responsibilities must continuously maintain bondable status.

Observation

Discussion with Medical Center Human Resources (HR) revealed that a consumer reporting agency was used to conduct criminal background checks for clinic applicants. However, the service does not include subsequent arrest notifications like fingerprinting provides. Currently, only positions with cashiering in the title are fingerprinted. Without subsequent arrest notifications, cash handling employees are not continuously maintaining bondable status as required by policy.

SOM utilizes the UC Irvine Police Department to perform Live Scan fingerprinting for all employees. The Chief Administrative Officer (CAO) of Plastic Surgery handles cash and cash equivalents. Follow-up with the Police Department found no evidence that the CAO was fingerprinted.

Criminal background check requirements between the Medical Center and the SOM are inconsistent which may result in inefficiencies, errors and omissions. With the consolidation of HR between the campus and medical center, processes and efficiencies can be strengthened by eliminating workflow redundancies and streamlining business practices.

Management Action Plan

The Clinic Manager educated the HR business partner about the University policy regarding background checks. Since HR is responsible for arranging the appropriate background checks, the Clinic Manager will wait to hear from HR if any action is needed.

The CAO and other cash handling employees in Plastic Surgery will be fingerprinted with evidence of clearance maintained in the personnel file. IAS will follow-up on this management action by March 2016.

5. Travel and Entertainment

Background

Reimbursement requests for travel and entertainment expenses are processed and approved through the Kuali Financial System (KFS) Travel and Event Management module and must comply with University policy. UC Entertainment Policy (BUS-79) and Travel Policy (G-28) both state that the approving authority for claim expenses should be a supervisor of (or at a higher classification than) the person claiming the expenditure and not be approved by a person who reports directly or indirectly to the person claiming the expense.

Observation

A review of travel and entertainment reimbursements found that expenses were not always properly approved. The Chair's expenses were approved by the CAO who reports directly to the Chair and not by someone of a higher classification.

Management Action Plan

The Chair's travel and entertainment will now be approved by the Dean's office through the KFS. IAS will follow-up on this management action by March 2016.

6. General 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.

Observation

Discussion with management disclosed that general ledger reconciliations were regularly performed however there was no evidence maintained. The CAO reviews revenue and expenses on the general ledger against source documents. However, once the review was completed the spreadsheet containing the general ledger data was discarded.

Reconciliations are an integral part of the internal control structure. Without evidence we cannot verify that expenditures are valid, deposits have been accurately recorded and financial information is appropriate.

Management Action Plan

Evidence of general ledger reconciliations will be maintained in a binder along with source documents. Once completed, the general ledger will be signed and dated. IAS will follow-up on this management action by March 2016.