

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UCI' and 'RVINE' parts.

UCIRVINE

INTERNAL
AUDIT SERVICES

Susan Samueli Integrative
Health Institute

Internal Audit Report No. I2021-604
January 27, 2021

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INTERNAL AUDIT SERVICES
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**SHAISTA MALIK, MD, PHD, MPH
ASSOCIATE VICE CHANCELLOR, INTEGRATIVE HEALTH AND
EXECUTIVE DIRECTOR
SUSAN SAMUELI INTEGRATIVE HEALTH INSTITUTE**

**RE: Susan Samueli Integrative Health Institute
Report No. I2021-604**

Internal Audit Services has completed the review of the Susan Samueli Integrative Health 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.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Maryann Pack – Chief Administrative Officer, Susan Samueli Integrative Health
Institute

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2020-2021 audit plan, Internal Audit Services (IAS) conducted a general review of the Susan Samueli Integrative Health Institute (SSIHI). In general, department controls and processes appear to be functioning as intended. 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/or best business practices. Specifically, IAS noted the following concerns.

Service Agreements - SSIHI did not always establish a service agreement for outside companies participating in the Executive Health program. As such, SSIHI has limited recourse of action since terms and conditions may not be binding or enforceable. This observation is discussed in section V.1

Billing and Collections – SSIHI is handling their billing and collections internally by utilizing third party billing software when University policy requires use of the University invoices created through the Campus Billing System Online (CBSO). Furthermore, current invoices do not state payment terms nor are notes maintained regarding collection efforts and follow-up for outstanding balances. In addition, invoice descriptions and rate charges did not always agree to the price sheet making it difficult to ensure whether SSIHI billed clients properly. The details related to these issues are discussed in Section V.2.

Supply Inventory – Inventory practices surrounding proper segregation of duties, database access controls, reconciliations, and physical security needs improvement. These issues are discussed in detail in Section V.3.

Cash Management – Checks are not always made payable to Regents of the University of California (UC Regents) as required by University policy. In addition, the number of individuals with access to the safe is excessive and individual accountability is not maintained. This is discussed in Section V.4.

Overtime – Prior approvals for overtime are verbal and no documentation is maintained. This is discussed in section V.5

II. BACKGROUND

SSIHI's mission is to transform healthcare through the practice of integrative health by conducting research, promoting evidenced-based treatment modalities, educating the public on well-being practices, providing individualized, patient-centered clinical care, and providing services to the community that focus on obtaining optimal health.

In 2001, SSIHI was established with a gift of \$5.7 million from Henry and Susan Samueli. Formerly known as the Susan Samueli Center for Integrative Medicine, the Institute's purpose is to explore the cutting edge of integrative medicine. Integrative health takes a balanced approach to wellness. Instead of reacting to illness and diseases, it strives for prevention by dealing with issues before they arise to have a negative impact. It takes into account the patient's unique circumstances to determine the most appropriate treatments and therapies for achieving optimum health and well-being.

SSIHI offers classes and lectures including Tai Chi, yoga therapy, and specialized courses. SSIHI also offers clinical services at three locations treating allergies, cancer recovery, autoimmune conditions, depression and anxiety, pain, nausea, and many other issues. Providers use acupuncture, naturopathic medicine, mindfulness, massage therapy, nutritional counseling, and other types of services as treatment.

SSIHI has approximately 59 staff comprised of administrators, researchers, and students. The Associate Vice Chancellor of Integrative Health and Executive Director SSIHI, who serves as the academic leader and administrative head, reports directly to the College of Health Sciences. The Chief Administrative Officer, who reports to the Executive Director, directs the administrative operations.

III. PURPOSE, SCOPE, AND OBJECTIVES

The primary purpose of the audit was to perform a general review of SSIHI 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 2020-2021.

The audit included the following objectives:

1. Verify that the review of general ledger reconciliations were performed on a regular basis, variances were investigated, resolved, and documented;
2. Review the methods to monitor service agreements and verify they were properly executed and that outside facilities were billed accurately and timely in accordance to the terms;
3. Verify that cash collections were properly handled and secured, accurately deposited, and reconciled;
4. Evaluate purchasing practices to verify that transactions were properly requested and approved, received, reconciled, and complied with University policy;
5. Assess personnel practices related to overtime and faculty leaves and verify proper approval was obtained, was adequately supported, and monitored;
6. Verify that the supplemental supply inventory was properly acquired, managed, refunded, and safeguarded from loss; and
7. Determine whether Rupa Health system controls were limited to authorized individuals and with appropriate access levels.

IV. CONCLUSION

In general, department controls and processes appear to be functioning as intended. However, systems of internal controls and processes should be strengthened in the areas of service agreements, billing and collections, supply inventory management, cash management, and overtime.

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. Service Agreements

Background

The Executive Health program designs comprehensive and customized physicals to improve health, wellness, and to detect early signs of health problems for executives. Since 1989, this program has been offered to large and small outside companies and is a source of income for SSIHI. Clients include Irvine Management Company, Anaheim Ducks, Costco, and others. For FY 2019-2020, SSIHI collected approximately \$681,000 in revenue for Executive Health services.

Observation

Companies participating in the Executive Health program do not always have an established agreement in place. Four of the five sampled transactions did not have a written agreement in place. Service agreements with signatures from both parties bind the parties to carry out terms and conditions of the agreement. An agreement will communicate to a client, not only the amount that they are required to pay, but the terms for the level of service, any exclusions or conditions, and clarify invoice and payment due dates.

Without an agreement, SSIHI has limited recourse in collecting past due or non-payments since terms and conditions are not documented and may not be enforceable.

Management Action Plan

To minimize possible disputes and resolve any problems that may arise, management will establish a service agreement with companies participating in the Executive Health program and who have a minimum of 20 employees. This will reduce UCI's risk with the larger companies while enabling smaller companies with fewer resources to continue to seek UCI's Executive Health services. Copies of current fully executed agreements will be maintained and kept on file. This will be completed by March 1, 2021.

2. Billing and Collections

Background

Since 2002, SSIHI has been using a third party billing system called DNA. SSIHI uses this system to create and print invoices to send to outside companies participating in the Executive Health program. SSIHI is responsible for the appropriateness and accuracy of the charges billed. The data stored in DNA includes patient demographics, patient appointment information, services provided, and billing charges. The date and payment amount received are also reflected in DNA. No patient health information or sensitive data is stored in the system.

Observations

- According to UCI Administrative Policies and Procedures Sec 701-16: Departmental Billing-Procedure, the University invoice, created through CBSO, must be used by University departments to bill for goods and services, fines, claims for reimbursement, and other miscellaneous obligations due to the University for amounts over \$20.00.

SSIHI does not comply with University policy by utilizing DNA instead of CBSO. SSIHI stated that according to School of Medicine guidelines, units utilizing a comprehensive billing software are permitted to manage their own billing internally.

In order to strengthen monitoring and reporting, management should implement the use of the University invoice as required by policy. The use of CBSO and the University invoice will enable proper segregation of duties and accountability and strengthen the controls that minimize potential loss stemming from errors and fraud.

- Currently, invoices do not state payment terms that specify when the client has to pay for services rendered. To increase the likelihood of receiving payments on time and to maintain a healthy cash flow, SSIHI should provide clear details about payment expectations on the invoice.
- Although an accounts receivable aging report is maintained in the DNA billing system to monitor outstanding balances, evidence of collection efforts and follow-up is not retained. One client had an outstanding balance

of \$9,125 with dates of service from March 3 through March 10; however, SSIHI did not receive payment until the end of June, three months later. SSIHI stated that this was a result of administrative interruptions due to COVID-19. SSIHI stated they documented follow-up calls and emails by writing the contact dates on the hard copy invoices; however, SSIHI shredded these invoices after receiving payment and therefore, could not provide IAS proof.

SSIHI should retain documentation of collection efforts and follow-up notes to document evidence of collection efforts, to help understand why payments are late, and to avoid future late payments. The longer receivables go uncollected, the less likely they are to be collected, which is lost revenue to the University.

- Five of six invoices reviewed did not always agree to the price sheet. Some descriptions of services and charge rates did not match making it difficult to verify if SSIHI billed clients properly. Discussion with SSIHI found that changes were made; however, these adjustments were not reflected either on the price sheet or in billing system. Upon audit notification, SSIHI revised the billing system and price sheets to ensure descriptions of services and charge rates were current and consistent.

Management Action Plan

Beginning March 1, 2021, SSIHI will bill patients/companies via the campus billing system (CBSO) to ensure compliance with University policy. Additionally, the price sheet will be reviewed regularly (every 6 months).

3. Supply Inventory

Background

IAS conducted discussions with SSIHI staff to understand inventory practices regarding supplements.

Per UC Business and Finance Bulletin (BFB) BUS-54 "Operating Guidelines for University Supply Inventories"(BUS-54), supply inventories exist when the combined inventory value of new and unissued material in a department exceeds \$50,000 at one or more locations on a campus or exceeds \$50,000 at an

off-site campus location. Per SSIHI management, the supplement inventory on hand has an estimated value ranging from \$50,000 to \$65,000.

a. Observation – Separation of Duties

IAS's review of internal controls over SSIHI supplement inventory practices found a lack of proper segregation of duties. The SSIHI administrative assistant who is responsible for initiating purchases is also authorized to receive and stock the ordered supplements. The same individual can also access inventory and manage inventory records as part of the annual physical inventory count and reporting process.

As a good business practice, no one individual employee should be able to complete more than two sequential duties of a transaction. Considering the circumstances and available resources, management should determine the extent to which the following four categories of duties could be adequately separated:

- Ordering items;
- Receiving items;
- Updating and maintaining records of the addition, sales, expiration, disposal, or loss of inventory; and
- Performing monthly physical inventory counts and adjusting the inventory quantities in the system.

Compensating controls should be employed when duties cannot be sufficiently segregated, such as documented reconciliation of amount received to the amount ordered by someone other than the individual purchasing the items.

There is an increased risk of error and fraud without proper segregation of duties over ordering, receiving, record keeping, and inventory management functions.

Management Action Plan

As of December 28, 2020, SSIHI implemented a new procedure including physical inventory counts. Furthermore, a single person performs no more than two sequential duties.

- Order items – Purchaser/PAL Card holder
- Receiving items – Front Desk Staff
- Update Quickbooks – Clinic Admin.
- Monthly physical count – Practice Manager and Front Desk Staff; with the Financial Analyst as backup to the Practice Manager

IAS reviewed this process and no additional follow-up is required.

b. Observation – System Access Controls

SSIHI has five employees who are able to access and process all types of QuickBooks transactions for supplement inventory. Employees are able to enter purchases, record inventory received, record sales transactions, record returns/refunds, adjust inventory quantities, and generate reports. Having the ability to perform all of these functions allows an employee to have near complete control of a transaction and does not allow for proper segregation of duties.

Management Action Plan

By March 1, 2021, SSIHI will strengthen inventory controls by separating these functions amongst the employees; no one employee will be able to perform all functions.

c. Observation – Reconciliation of Purchases

There is no documented reconciliation of supplement purchases between items received, QuickBooks, and the general ledger. This reconciliation will ensure that all purchased inventory is recorded into QuickBooks, the expenses are matched in the general ledger, and that the supplement inventory supply is accurate.

Management Action Plan

Effective December 7, 2020, reconciliation of QuickBooks and the KFS ledger has been added to SSIHI's standard operating procedures in order to ensure that all supplement purchases have been entered into QuickBooks.

IAS reviewed this process and no additional follow-up is required.

d. Observation – Physical Security and Access

Per discussion with management, current practices are not adequate to physically safeguard and ensure employee accountability over supplement inventory.

All ten front office staff share access to the supplement storage cabinets at the clinic; the keys to these cabinets are stored in an unlocked desk drawer in the practice manager's office, which all front office staff can access via key code. Additionally, management has no way to monitor employee access to the practice manager's office and therefore, the key to the supplement cabinets.

The ease of access by all staff into the practice manager's office where the key to the supplement cabinets is stored leads to the supplement inventory not always being secure due to an increased risk of potential theft.

BFB BUS-54, Section III, C. establishes guidelines for university supply inventories and states, "Adequate safeguards should be provided to protect University supply inventories from pilferage or other loss."

Management Action Plan

Management has reviewed the list of staff who have access to the practice manager's office and thereby the supplement storage cabinets and determined that it should be limited to the practice manager and one front office administrator.

SSIHI installed a key lockbox on December 21, 2020 in the practice manager's office. Management also now maintains a log of employees who

have accessed the key each time in order to increase staff accountability and minimize the risk of loss or theft.

IAS reviewed this process and no additional follow-up is required.

e. Observation – Inventory Counts

Per discussions with management, IAS noted the following issues surrounding physical inventory counts:

- SSIHI has not performed monthly physical inventory counts since March 2, 2020 due to limited staff being physically present in accordance with COVID-19 social distancing measures. Therefore, verification of counts and investigation and resolution of discrepancies could not be performed.
- SSIHI did not document the last physical monthly count of the supplement inventory in March 2020. They did not note the two or more individuals counting, any variances detected and reconciled, any adjustments needed, and the reviewer of the count documentation.
- When physical inventory counts were being performed, they were done with the assistance of student assistants. However, if the students were unavailable, the SSIHI administrative assistant performed the counts by herself.

From January 1, 2020 to October 31, 2020, there was approximately \$369,000 in supplement sales. Management noted that discrepancies in inventory quantity are typically caused by not properly entering the drop shipment sale of supplements into the inventory system. Another cause of discrepancies is the removal of expired products from the storage cabinets, but not from the inventory system.

With a large volume of sales and a lack of regular inventory counts, there is an increased risk of errors and potential theft of inventory due to management having a reduced ability to discern whether changes in inventory levels are due to legitimate transactions, the occurrence of improper shrinkage, expired products, or a combination of all. As a result, the likelihood of timely detection and reconciliation of discrepancies is greatly diminished.

The lack of regular inventory counts also weakens management's ability to accurately assess the quantities and value of inventory on hand, which in turn, hinders efficient and effective management of operations.

Additionally, the lack of proper documentation for inventory counts may result in a lack of accountability of employees performing the count management and thereby increasing the risk of misappropriation of supplements.

Lastly, when only one individual is responsible, the potential for an inaccurate count or recording of inventory amounts increases.

BFB BUS-54, Section III, C. states, "Stock adjustments are to have the signed approval of the Materiel Manager or designee who must not be the individual responsible for the inventory. Large adjustments shall be supported by an explanation."

In addition to timely inventory counts being a good business practice, BFB BUS-54, Section III, C. establishes guidelines for university supply inventories and states, "Inventories are to be verified by physical count at least annually, preferably on a cyclical basis."

Maintaining inventory count documentation records will allow management to better detect any potential irregularities in shrinkage that could be caused by error, theft, damage, or other types of loss, and to facilitate investigations, when necessary.

Management Action Plan

As of December 28, 2020, in order to strengthen controls surrounding inventory counts and employee accountability, monthly counts are now performed and verified by two employees. If this is not always feasible, a second employee will perform a spot check and audit the physical inventory and documentation after the inventory is completed, especially if discrepancies have been identified.

Management also maintains inventory count documentation that notes the two or more individuals performing the count, any variances detected and reconciled, adjustments needed to the inventory quantity as a result of the

count, and the individual reviewing the count documentation and approving any adjustments.

IAS reviewed this process and no additional follow-up is required.

f. Observation – Inventory Policies and Procedures

Discussions with management indicated that there are no written departmental policies and procedures that sufficiently define processes, roles, and responsibilities regarding inventory management.

Management Action Plan

Effective December 7, 2020, management has developed written procedures for inventory to include all necessary elements of inventory management such as ordering, receiving and inspection, invoice handling, posting into the inventory tracking system, sale of inventory, inventory counts, and any other processes. By establishing written procedures, management has strengthened its current control environment over inventory activities.

IAS reviewed this process and no additional follow-up is required.

4. Cash Management

Background

BFB BUS-49 “Policy for Cash and Cash Equivalents Received” (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.

Observations

SSIHI collects cash and cash equivalents related to the Executive Health program, supplements, and donations, among others. IAS reviewed a sample of cash receipts collected between April 2020 to October 2020 and discussions with staff found the following areas for improvement.

- BFB BUS-49 states that all checks must be made payable to UC Regents. Eighteen of 40 checks reviewed were made payable to UCI Health Executive or Susan Samueli Integrative Health Institute. Notices accompanying a request for payment should instruct payers that checks would not be accepted if they were not properly made out to UC Regents. Checks not properly endorsed to the correct name/account could result in non-payment or diversion of payment.
- Although the safe combination was recently changed, the number of individuals with access to the safe is excessive. The safe is used to store the \$400 change fund and prepared deposits. Four individuals have the combination and access to the safe due to swing shifts; however, individual accountability cannot be maintained. As such, cash can be lost or stolen. To promote a safe work environment when working with cash, access to cash should be restricted to as few people as possible.

Non-compliance with the University's cash handling policy increases the risk of misappropriation of funds.

Management Action Plan

SSIHI will immediately remind and instruct payers to make checks payable to UC Regents to ensure compliance with University policy. The number of individuals with access to the safe will be reduced to two individuals by March 1, 2021.

5. Overtime

Background

According to personnel policy on overtime for staff members, department heads are responsible for approving overtime assignments for non-exempt employees to meet essential operating needs. The department is responsible for ensuring an employee requested advance approval for overtime and properly reported the overtime worked in a timely manner prior to compensation. Overtime, if not properly approved and documented, can result in payroll fraud, abuse in reporting of overtime hours, and unjustified or fraudulently obtained compensation for unworked overtime.

Observation

IAS reviewed the overtime authorization and approval process and noted that overtime is authorized verbally and not documented in writing to substantiate that approvals were obtained in advance as required by University policy. Lack of documentation to support the process of pre-authorizing overtime before it is incurred weakens the control structure and encumbers the review and reconciliation process. In addition, SSIHI could inadvertently pay employees for unnecessary or excessive overtime.

Management Action Plan

As of December 15, 2020, management established a new overtime authorization process, including documenting prior authorization.

IAS reviewed this process and no additional follow-up is required.