

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  
Orthopaedic Surgery

*Internal Audit Report No. I2017-201*

February 22, 2017

***Prepared By***

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INTERNAL AUDIT SERVICES  
IRVINE, CALIFORNIA 92697-3625

February 22, 2017

**STEVEN D.K. ROSS, MD**  
**CHAIR**  
**DEPARTMENT OF ORTHOPAEDIC SURGERY**

**RE: Department of Orthopaedic Surgery Audit**  
**Report No. I2017-201**

Internal Audit Services has completed the review of the Department of Orthopaedic 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  
Rebecca Fitzmaurice, Interim Chief Administrative Officer, Department of  
Orthopaedic Surgery

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year (FY) 2016-2017 audit plan, Internal Audit Services (IAS) conducted a review of the School of Medicine's (SOM) Department of Orthopaedic Surgery (Orthopaedic Surgery) including clinic operations. In general, departmental 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, the following concerns were noted.

**Cash Handling** – Cash collections were not handled in accordance with the University policy. Cash equivalents were not stored in a safe. The transfer of checks were not documented to maintain individual accountability. The deposits were not prepared under dual custody. The person performing the general ledger reconciliation is also the person preparing the deposits which is inadequate separation of duties. Lastly, clinic deposits were not reconciled to the general ledger. The details related to these issues are provided in Section V.1.

**Affiliated / Service Agreements** – A service agreement found was not signed by the University or the facility and a fully executed agreement could not be located. This observation is discussed in V.2.

**Volunteer Faculty** – A volunteer faculty member who is not an employee of the University provides patient care and is disbursed funds by the University for services rendered but payments are not reported for tax purposes. As such, the University is at risk for tax implications. Further details related to this issue is discussed in Section V.3.

**Billing** - Encounter forms from the Costa Mesa clinic are delivered to the billing department once a week, which is not frequent enough to ensure timely billing. This observation is discussed in Section V.4.

**Personnel Practices** - Internal controls surrounding faculty leaves and performance evaluations require strengthening. The Chair's leave requests were not properly approved and faculty leaves were not efficiently requested and approved. Performance evaluations were not always completed annually for all employees. These observations are discussed in Section V.5

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## II. BACKGROUND

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Orthopaedic Surgery involves the prevention, diagnosis, and treatment of disorders of the musculoskeletal system utilizing an interdisciplinary team approach, catered to each individual providing patient care. Orthopaedic Surgery collaborates with specialists in adult reconstruction, spine, hand, shoulder, elbow, oncology, pediatrics, and trauma. Many orthopaedists specialize in certain areas, such as the foot and ankle, spine, hand, shoulder, hip or knee. They may also choose to focus on specific files like pediatrics, trauma or sports medicine. Patients are treated at the UC Irvine Medical Center in Orange and The Orthopaedic & Sports Medicine Center in Costa Mesa / Newport Beach.

More than 15 faculty and 25 staff including administration, research and students make up Orthopaedic Surgery. 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.

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## III. PURPOSE, SCOPE AND OBJECTIVES

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The primary purpose of the audit was to perform a general review of Orthopaedic Surgery and clinic 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 2016-2017.

The audit included the following objectives:

1. Verify that the review of financial budgets and other financial reports were performed timely and documented;
2. Review the methods to monitor service/affiliated agreements and verify they were properly approved, executed and terms were followed;
3. Verify that cash and cash equivalents were appropriately handled, recorded and stored in compliance with University policy;

4. Assess the billing and collections process and verify patients were properly registered, charges accurately captured and billed and payments recorded accurately and in a timely manner;
5. Verify that collections were effectively managed and monitored;
6. Determine if controls surrounding personnel practices such as faculty leaves, performance evaluations and separation/termination were adequate and good business practice;
7. Determine if the medical dictation system was properly managed and that a UC required vendor agreement was in place to protect personal health information.

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#### **IV. CONCLUSION**

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In general, departmental controls and processes appear to be functioning as intended. However, business risks and internal controls and processes could be further enhanced in the areas of cash handling, affiliated / service agreements, volunteer faculty, billing and personnel practices.

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

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#### **V. OBSERVATIONS AND MANAGEMENT ACTION PLANS**

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##### **1. Cash Management**

###### **Background**

The two Orthopaedic Surgery clinics (Orange and Costa Mesa) as well as the administrative office collect cash and checks. Daily cash handling processes were evaluated at each of the locations to verify whether proper controls exist over the recording and physical security of cash and cash equivalents. In

addition, compliance with Business and Finance Bulletin “Policy for Handling Cash and Cash Equivalents” (BUS-49) was also reviewed.

### **Observation**

IAS reviewed a sample of deposits prepared at the clinics and the administrative office and found that although deposits were accurately recorded and deposited timely, cash handling processes need improvement. The following concerns were noted.

- a. The administrative office does not store checks in excess of \$1,000 properly in a safe. Instead, checks not immediately deposited were stored in a lockable drawer.
- b. Accountability over cash/checks was not always maintained. For example, the administrative office received a \$15,000 gift check, which was eventually sent to Campus for processing. However, it is unknown who received the check and when it was received. Furthermore, several individuals in the administrative office are involved in collecting, depositing, reviewing and transporting checks/cash to the Main Cashier but accountability was not recorded as required by policy.
- c. In the clinics, the daily cash/check collections were handed to another individual within the clinic to record deposits in the Kauli Financial System and the transfer was not documented. Deposits should be prepared in dual custody and documented to maintain proper accountability as required by policy.
- d. The employee performing the monthly general ledger reconciliation of the administrative office deposits is also the person preparing the deposits, which is inadequate separation of duties. Furthermore, the clinic deposits were not reconciled to the general ledger to ensure accuracy.

### **Management Action Plan**

- a. Effective August 2016, all checks regardless of amount are stored in a locked safe within a locked cabinet and office. The only individuals with access to the office, cabinet and safe are the Finance Analyst and Senior Administration Analyst.
- b. A check log was implemented in August 2016 and staff continue to use the log to maintain individual accountability over the checks documenting date of receipt, amount, and individuals receiving, reviewing and transporting the deposit.
- c. As of February 2017, deposits are now prepared under dual custody and is evidenced on the tamper safe bag receipt.
- d. As of January 2017 the Grants Manager is performing the monthly reconciliation of administrative deposits and is someone other than the person preparing the deposit. Clinic deposits will be reconciled by the Finance Analyst as of February 2017. The Billing Manager will provide copies of the clinic deposits from the Cashier Network to the Finance Analyst to perform the reconciliation to ensure accuracy.

## **2. Affiliation / Service Agreements**

### **Background**

Service agreements and Memorandums of Understanding (MOU) are sources of income for Orthopaedic Surgery. Based on the terms of the service agreement, Orthopaedic Surgery physicians provide compensated clinical services at outside facilities. An MOU is not a formal binding agreement but documents a mutual partnership with an outside facility. Both require certain approvals before they are carried out. Orthopaedic Surgery and the Medical Center Contracting are jointly responsible for managing service agreements and MOUs.

### **Observation**

All service agreements and MOUs currently in place were reviewed. IAS noted that a service agreement with the Santa Ana Outpatient Surgery Center was

not signed by the facility or the University and a fully executed agreement could not be located. Signatures from both parties, the facility and the University, bind the parties to carry out the terms of the agreement. Without a valid agreement, Orthopaedic Surgery has limited recourse in the event of non-payment since terms and conditions may not be binding or enforceable.

### **Management Action Plan**

The Contracting Department has been notified and has drafted a new agreement that further clarifies the terms. The agreement will be sent out for approval signatures and the target date for a fully executed agreement is May 1, 2017. The CAO will continue to monitor all agreements and ensure they are fully executed and maintained on file.

## **3. Volunteer Faculty**

### **Background**

According to Academic Policy APM 279, appointees in the clinical professor series are community volunteer clinicians who teach the application of clinical and basic sciences in areas of patient care. These appointments constitute a valuable way to utilize the interest and expertise of practitioners from the community on a part-time unsalaried voluntary basis in the areas of teaching, patient care, and clinical research.

### **Observation**

A volunteer faculty member, who is not an employee of the University, provides patient care at the Pavilion III clinic by renting out office space and paying a portion of several Orthopaedic Surgery staff salaries. His professional fees are billed and collected by the billing staff and disbursed/reimbursed to the volunteer faculty yet the payments are not reported for tax purposes. As such, the University is at risk for tax implications. Furthermore, the University provides the volunteer faculty member medical malpractice coverage. Since the volunteer faculty is not an employee, the University has very limited control over his actions to ensure he follows proper medical protocols. This may result in hospital's exposure to potential medical malpractice claims.



### **Management Action Plan**

The Chief Health Sciences Counsel is currently drafting a new agreement and the date of completion is unknown. Counsel is working directly with the volunteer faculty member and the details are unknown to Orthopaedic Surgery. IAS will follow-up in May 1, 2017.

## **4. Billing**

### **Background**

Orthopaedic Surgery clinical faculty provide care services and professional fees are charged to third party sponsors or patients, which become University income. Orthopaedic Surgery billing staff have the responsibility for billing and collecting professional fees based on the encounter forms completed by physicians. The charges and collection of payments are reflected in the GE/IDX billing system which is the same system used by the Physicians Billing Group.

### **Observation**

IAS assessed the billing and collections process through discussions with staff and review of supporting billing documentation. Encounter forms from the Costa Mesa clinic are delivered to the billing department once a week. To ensure that charges are captured timely and improve the revenue cycle, the encounter forms should be delivered to the billing department more frequently and at least twice a week at the minimum.

### **Management Action Plan**

As of January 2017, encounters from both clinics are delivered to the billing staff at least twice a week.

## **5. Personnel Practices**

### **Background**

Departments are responsible for ensuring compliance with personnel policies for both faculty and staff. Personnel policies establish standards and procedures in regards to leaves of absence and performance evaluations.

Compliance with these policies and procedures was evaluated through discussions with staff and review of supporting documentation and reports.

## **Observations**

### **A. Faculty Leaves**

The following concerns were noted regarding faculty leaves.

- The Chair's leave requests were not properly approved. Leave requests were approved by the Vice Chair, who reports to the Chair, which is against policy.
- The Chair is not receiving the faculty's on-line leave requests but is instead printing out the form for wet signature approval. As such, the on-line leave requests is not utilized efficiently.

### **Management Action Plan**

As of November 2016 the Chair's leave requests are now routed and approved by the Dean's office via the intranet faculty leave website. All faculty leave requests are also submitted via the on-line request and effective February 21, 2017 the Chair will review and approve on-line.

### **B. Performance Evaluations**

University Policy PPSM 23 Performance Management states that performance of each employee shall be appraised at least annually in writing by the employee's immediate supervisor, or more frequently in accordance with local procedures. Discussion with staff found that performance evaluations for non-represented staff were last performed for FY 2015-16, however it is unknown when the last performance evaluations were conducted for represented staff.

### **Management Action Plan**

Management will discuss this with unit managers and give the expectation that evaluations must be done at least annually every October 1<sup>st</sup>. Unit managers will be evaluated on compliance with this requirement and will be documented

in the annual performance evaluation. All employees will have a recent performance evaluation on file by October 2017.