

The logo for UC Irvine, featuring the text "UCIRVINE" in a large, serif font. A vertical line is positioned to the right of the text, separating it from the "INTERNAL AUDIT SERVICES" text.

INTERNAL  
AUDIT SERVICES

Department of  
Obstetrics and Gynecology

*Internal Audit Report No. I2014-201*

June 13, 2014

***Prepared By***

Mike Shead, Senior Auditor

***Reviewed and Approved By***

Mike Bathke, Director



INTERNAL AUDIT SERVICES  
IRVINE, CALIFORNIA 92697-3625

June 13, 2014

**MANUEL PORTO, MD**  
**CHAIR**  
**DEPARTMENT OF OBSTETRICS AND GYNECOLOGY**

**RE: Department of Obstetrics and Gynecology Audit**  
**Report No. I2014-201**

Internal Audit Services has completed the review of the Department of Obstetrics and Gynecology 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  
Dr. Ralph Clayman, Professor and Dean of the School of Medicine  
Krista Hollinger, Chief Administrative Officer, OBGYN

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year (FY) 2013-2014 audit plan, Internal Audit Services (IAS) reviewed business operations and financial activities within the Department of Obstetrics and Gynecology (OBGYN). Certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

**Directorships and Other Professional Service Agreements** – Contracts pertaining to professional service agreements are not always documented and properly executed. Furthermore, several accounts receivable (A/R) transactions dating back to the 1990s have not been reviewed and/or written off as uncollectible. The details related to these issues are provided in Section V.1.

**Overtime** – Pre-authorization for employee overtime is not obtained. This observation is discussed in section V.2.

**Account-Fund Review and Reconciliation** – At FY 2012-13 year-end closing, several OBGYN funds were in overdraft; budgetary and financial controls in place at the time of occurrence were inadequate to prevent these deficits. Most OBGYN account-funds are not reviewed and reconciled, and there are no procedures in place for reconciling payment collections between the billing system and the general ledger (G/L). These issues are discussed in section V.3.

**Federal Awards–Payroll Certification** – Payroll certification reports are not always completed in a timely manner. In addition, payroll certification reports containing salary limitation cost notes are not always addressed prior to certification / submission.

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## II. BACKGROUND

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OBGYN consists of a multispecialty group of physicians and researchers involved in medical discovery, education, and patient care. OBGYN specialties include gynecologic oncology, high risk pregnancy management, fetal diagnosis and therapy, urogynecology, as well as general gynecologic and obstetrical women's health care. OBGYN is situated within the UC Irvine School of Medicine (SOM), and has approximately 60 faculty/academic appointments,

including 20 full-time faculty and six emeritus faculty; 82 staff members, including 69 career employees; seven interns, 19 residents, and 14 fellows. Clinical practice is primarily conducted at the University of California, Irvine Medical Center in Orange, California. In addition, outpatient women's clinical services are offered in Newport Beach, Santa Ana, and Anaheim, along with subspecialty services offered in Fountain Valley, Laguna Hills, and Long Beach. Currently, OBGYN has approximately \$16.4 million in current-year restricted and unrestricted funds, including \$1 million in extramural funds.

OBGYN offers a wide array of continuing medical education programs addressing obstetric and gynecologic topics both locally and nationally. In addition, OBGYN operates residency and fellowship programs. The OBGYN Chair reports to the UC Irvine SOM Dean. Administrative processes are managed by a Chief Administrative Officer (CAO) who reports to the Chair. The CAO is assisted by a Business Office Manager, a Clinical Nurse III, a Practice Plan Manager, two Division Administrators, a Billing Manager, and a Medical Education Manager.

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### **III. PURPOSE, SCOPE AND OBJECTIVES**

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The scope of the audit focused on FY 2012-2013 financial activities. The purpose of the audit was to assess certain OBGYN business operations. The review was designed to determine whether sufficient internal control measures are in place to prevent or detect inappropriate, non-compliant and/or fraudulent transactions, while ensuring efficiency and effectiveness in business operations.

The audit included the following objectives.

1. Verify the adequacy of internal controls in charge capture, billing, and collections.
2. Verify the appropriateness of internal controls over payroll processes and vacation accruals/leave usage.
3. Verify the sufficiency of internal controls over refunds to third-party payers and patients.

4. Verify the status of OBGYN account-funds, and their timely reconciliation in accordance with University policy.
5. Verify the adequacy of certain internal controls over federal awards in the areas of payroll certification and cost transfers.

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#### IV. CONCLUSION

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Certain internal controls within OBGYN business operations and financial activities appear to be functioning satisfactorily. However, several concerns were noted in the areas of sundry debtor service agreements; billing, collections, and refunds; payroll reconciliations and overtime pre-authorization; fund deficits and account-fund reconciliation processes; and payroll transfers/certifications within federal awards.

A new CAO and Principal Analyst were hired at the beginning of FY 2013-14 and have been working diligently with OBGYN administrative staff to resolve numerous operational concerns. The previous Principal Analyst had served in this role for 33 years before her retirement in June 2013, one month after the arrival of the CAO and one month prior to her replacement being hired. Additionally, two other positions that were responsible for departmental finances left at the beginning of 2013. The departure of these key personnel in the first six months of 2013 left a substantial void of institutional knowledge.

Observation details 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. Directorships and Other Professional Service Agreements

###### **Background**

OBGYN is involved in several service agreements to provide healthcare services to non-UC health care facilities located in Orange County. The revenue OBGYN receives from these agreements is approximately 15 percent

of all professional fee revenue. Service agreements with non-UC facilities vary; with one type of agreement, OBGYN is paid monthly to provide clinical and administrative services that cannot be provided in-house by the health care facility. OBGYN administrators and the business office are jointly responsible for managing these agreements; responsibilities include contract negotiations and management, charge capture, sundry debtor billing, A/R, and collections. To a limited extent, the UC Irvine Campus Billing Services Office (CBSO) assists OBGYN in monitoring these agreements.

### Observation

A review of the processes surrounding OBGYN sundry debtor service agreements disclosed some areas of concern, as follows.

1. Copies of contracts for all 22 unaffiliated health care facilities could not be provided to IAS by OBGYN; several service agreements may not be documented.
2. Some of the agreements provided by OBGYN were not signed and dated by all required parties; some of the contracts may not have been properly executed.
3. The SOM has recently provided guidance to departments with regard to oversight roles and responsibilities for these types of agreements. OBGYN may want to contact Risk Management to ensure that all of their service agreements have been properly vetted.

OBGYN management has worked hard to modernize A/R processes to “catch-up” with outstanding A/R for non-UC facilities. To further improve A/R processes, OBGYN may want to consider software applications to effectively manage their sundry debtor service agreements.

In addition, OBGYN has 18 open A/R transactions from discontinued operations valued at \$91,000. The receivables were originally recorded between November 1992 and October 1996; it is unlikely that the receivables can be collected. CBSO management and the Controller’s Office have expressed interest in writing off these receivables as uncollectible.

### Management Action Plan

This is a concern identified early this fiscal year by new management and new processes were immediately developed and implemented. An employee was hired in the business office to manage sundry debtor invoicing and tracking of payments. This employee works on these functions on a daily basis, preparing invoices and tracking payments. Routine aging reports (A/R older than 45 days) are provided to managers within OBGYN to work the collections.

Additionally, OBGYN implemented a new process for tracking the collections as part of the faculty compensation calculations. This process is completed on a monthly basis and incorporated into the quarterly profit and loss statements.

Also, in recognition that OBGYN did not have copies of all fully-executed agreements, nor one master listing of all current agreements that are billed, an employee was assigned the task of creating such a list and obtaining copies for department files. This has been an arduous task, particularly in light of all managers involved in this process being new to OBGYN this past year.

OBGYN will continue to work with the appropriate staff at the SOM to obtain copies of current, fully executed agreements. By July 1, 2014, copies of all fully-executed contracts for service periods beginning or ending later than July 1, 2014 will be on file.

In addition, OBGYN is adopting a “wait and see” strategy until the Quali financial system (KFS) software application goes live in July 2014. Ideally, OBGYN wants to use the KFS A/R module if and when CBSO is added into the system. OBGYN is also considering a commercial accounting software application if a timely integration of the CBSO into KFS does not occur.

With regard to A/R transactions from discontinued operations, OBGYN has addressed old A/R from the past two years, writing off nearly \$40,000. However, OBGYN will not be pursuing an effort to write-off the A/R resulting from operations that were discontinued more than 20 years ago. OBGYN management believes that this effort is one that needs to be addressed at a higher institutional level.

## 2. Overtime

### Observation

Internal control measures over pre-authorization of employee overtime could be further strengthened. Discussions with OBGYN management disclosed that, although supervisors are aware of overtime hours worked by staff members, written pre-authorization for employee overtime is not obtained. Employee overtime is approved in writing by management after-the-fact, as part of the payroll preparation process.

### Management Action Plan

#### Overtime Pre-Authorization

By July 1, 2014, OBGYN will implement a formalized process for pre-authorization of overtime. This process will need to take into consideration the frequent need for clinical staff to work overtime with little to no notice when clinical activity requires it.

## 3. Account-Fund Review and Reconciliation

### a. Account-Fund Deficits

#### Observation

At FY 2012-13 year-end closing, several OBGYN funds, some of them linked to federal awards, were in deficit. Discussions with current management disclosed that both payroll and non-payroll cost transfers were completed to ensure that these funds were solvent by fiscal year-end. Management also revealed that expenditures approximating \$240,000 were transferred among OBGYN funds to resolve overdrafts. Some of the payroll cost transfers involving federal awards were prepared more than 120 days after the original payroll expenditure date, which is contrary to policy.

In addition, a trend analysis of OBGYN account-funds completed by IAS for the months of February, May, July, and November 2013 disclosed 119 account-funds (both unrestricted and restricted) in deficit in one or more of the sampled months.



PIs are responsible for maintaining extramural account-funds so that they remain financially solvent. Furthermore, "Activity Managers" (i.e., departmental appointees) are responsible for maintaining the solvency of fiscal account-funds.

### **Management Action Plan**

In FY 2013-14, the new OBGYN management team identified this area as a risk and began developing a corrective action plan. The plan includes both preventive and detective controls.

#### Preventive controls

By June 30, 2014, managers of the faculty divisions (Generalists/Laborists, Maternal Fetal Medicine, Family Planning, Urogynecology, and Gynecologic Oncology) will be trained on salary worksheet creation and correction. Additionally, the Grants Analyst will receive additional salary worksheet training. These employees are responsible for utilizing the salary worksheet as the primary source for updating unrestricted and restricted operational budgets on an ongoing (monthly) basis. When faculty and staff effort needs to be changed on a funding source, the worksheet will be updated and then sent via email to the departmental payroll analyst with documentation about the change. The goal is to complete this task prior to the funding change, which will reduce the need for retrospective payroll transfers and prevent accounts from going into deficit due to incorrect salary expenses. This process has already been implemented. OBGYN expects that the divisions will more easily review and interpret balances in the KFS/Cognos system which should mitigate overdrafts. Divisions will be responsible for sending a list of overdrafts monthly to OBGYN management.

In addition, OBGYN has already implemented a process that requires all requests for reimbursement and purchase orders on restricted accounts and discretionary accounts, which are submitted electronically, to include the fund balance information so that the reviewing manager can verify the purchase will not result in an overdraft. Additionally, the Grants Analyst reviews the fund balance on all grant accounts prior to the expense reimbursement being processed and routed. This process will be automated further with the implementation of KFS in July 2014.

### Detective Controls

The CAO and Principal Finance Analyst review variance reports between budget and actual on unrestricted funds on a monthly basis. A review is conducted on any variance that is equal to or greater than 10 percent and an explanation is provided to the SOM Dean's Office.

In addition, the Grants Analyst is now responsible for reporting to the Principal Finance Analyst on all grant funds with explanations of overdrafts by the 10th of every month.

By December 31, 2014, a formalized process for the Grants Analyst to review grant fund balances with PI on a quarterly basis will be implemented. This process will include steps for remediation of any funds that have expenses in excess of budgeted expenditures to avoid or correct overdrafts.

## **b. Account-Fund Reconciliations**

### **Background**

Currently, the OBGYN organizational hierarchy and account-fund structure includes thirteen division codes and 215 account-funds (not including foundation account-funds). Discussions with current management indicated that some of the account-funds may be duplicative or otherwise unnecessary. The large number of department codes and account-funds is difficult and time-consuming to maintain and hinders the timely review and reconciliation of OBGYN account-funds.

### **Observation**

OBGYN departmental policies and procedures for account-fund reconciliation priorities, methodologies, frequency, accountability and separation of duties have not been established. Although new management has made the reconciliation of foundation funds a priority, a review and reconciliation of other OBGYN account-funds is not being completed. Furthermore, there is no provision for reconciling payment collections recorded in the billing system to collections posted in the G/L. In addition, procedures for managing account-fund reconciliations in progress and retaining completed reconciliations have not been developed.

Reconciliations are integral to ensure that financial information is complete, accurate, and valid. Failure to complete account-fund reconciliations in a timely manner may prevent a timely detection of misstated financial transactions and/or fraudulent activities.

### **Management Action Plan**

New management inherited this organizational hierarchy/account-fund structure from previous management. As such, the rationale for each account-fund and distinction between them is unclear. The first action has been to minimize the number of account-funds used on a routine basis going forward.

Departmental policy and procedures for account-fund reconciliations have not been in place. New management is aware of this and is currently building the proper infrastructure to improve our reconciliation processes. OBGYN has added a student worker who will devote a portion of his/her time to reconciliations.

By September 30, 2014 a formalized risk-based reconciliation process will be implemented. The plan will include:

1. Professional fee billing records reconciliation with the G/L monthly.
2. For expenses, OBGYN will do random audits on 10 items monthly.
3. Reconciliations will be signed/dated by preparer and approver.
4. Completed reconciliations will be stored on a shared drive.

OBGYN understands that there is a team working on enhancing the electronic reconciliation process with the implementation of KFS. OBGYN anticipates that KFS will expedite this process via workflow and attach the appropriate documentation. OBGYN management has set September 30, 2014 as the completion date for full implementation so that they have three months to integrate the process with KFS.

#### **4. Federal Awards – Payroll Certification**

##### **Background**

To properly substantiate salaries charged directly to federally funded projects, UC Irvine uses an annual Payroll Certification System. Payroll certification is required for the salaries of all University employees who are paid from federal funds.

##### **Observation**

A review of payroll certification reports for nine sampled OBGYN federal awards that had a budget year end-date occurring between July 1, 2013 and January 31, 2014 was completed.

The review disclosed that two payroll certification reports were not completed in a timely manner and were submitted to the Accounting Office several months after the due dates. In addition, IAS noted that three payroll certification reports contained salary limitation cost notes that had not been addressed prior to certification/submission.

University policy states that the PI must certify for each sponsored project within 70 days of the end of the budget year. Failure to complete payroll certifications within the required timeline is in violation of policy and may adversely impact past and/or future federal funding.

##### **Management Action Plan**

Contracts and Grants Accounting apparently discontinued notifications of pending payroll certification deadlines that OBGYN had come to rely upon which primarily caused the late certifications.

Commencing immediately, all cost notes will be reviewed and cleared prior to certification of the report. In addition, OBGYN management will work with the faculty to make them aware that the deadline to certify payroll charges is approximately 1 ½ months after the budget year-end date.