

February 1, 2012

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Chair
Department of Family and Preventive Medicine
0628

***Subject: Department of Family and Preventive Medicine
Audit Project 2012-16***

The final audit report for the review referenced above is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to Audit & Management Advisory Services (AMAS) personnel, or destroy them. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

Stephanie Burke
Assistant Vice Chancellor
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
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**Department of Family and Preventive Medicine
February 2012**

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Project Number: 2012-16

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Attachment A: Audit Results by Business Functional Processes

I. Background

Audit & Management Advisory Services (AMAS) completed a review of Department of Family and Preventive Medicine business processes as part of the approved audit plan for Fiscal Year 2011-12. This report summarized the results of our review.

Family and Preventive Medicine (FPM) is a department within the University of California (UCSD) School of Medicine (SOM). FPM is composed of the following seven Divisions supported by approximately 100 faculty members:

- ***Biostatistics and Bioinformatics***, which seeks to identify research methods responsive to quantitative and scientific problems arising from advances in medicine, biology and health care systems.
- ***Behavioral Medicine***, which focuses on behavior change, particularly in the areas of diet and exercise, to improve health outcomes.
- ***Epidemiology***, which demonstrates particular strength in studies of women's health; geriatrics; and the epidemiology of a variety of chronic diseases including cardiovascular disease, osteoporosis, and breast cancer.
- ***Family Medicine***, which has established programs that focus on access in the Latino community, diabetic care for African-American women, as well as an Immigrant/Refugee Health Studies Program.
- ***Health Policy***, which features expertise in the areas of outcomes research, health policy, cancer prevention, and medical ethics.
- ***Global Health***, which includes a broad range of research including projects that study tobacco control policy and methods in China, where smoking is serious health issue.
- ***Preventive Medicine***, which has established strengths in health behavior research (in particular in the areas of diet and physical activity); cardiovascular disease prevention; and obesity prevention and management.

In addition to the educational programs offered by FPM, the department also manages the following four recharge units:

- Health Sciences Research Center (HSRC)
- Exercise and Physical Activity Research Center (EPARC)
- Biostatistics/Bioinformatics Lab (BBL)
- Biostatistics Research Center (BRC)

FPM also operates a variety of community service programs such as the Student-Run Free Clinic Project; and the Family Medicine/Psychiatry Residency Training Program in coordination with St. Vincent de Paul Village.

The SOM Corporate Statement of Revenue and Expenses for Fiscal Year 2010-11 reported total FPM revenue of \$28.8M. Of that amount \$16.6M (58%) was received from research contracts and grants, and \$12.2M (42%) was from clinical funds/academic and other operations. National Institutes of Health (NIH) awards totaled \$8.9M, and accounted for (54%) of the total research revenue.

The FPM Business Office staff support critical department business processes including contract and grant administration, clinical research, financial analysis and reporting, human resources, academic personnel, and staff timekeeping. The SOM Central Faculty Compensation Unit (CFCU) provides administrative support to the Business Office for faculty compensation transactions (Payroll Personnel System (PPS) and budget entries), and the Business Office retains responsibility for budgeting and analyzing faculty salaries. In addition, FPM purchases support services for Business Office information systems from the SOM on a recharge basis.

During Fiscal Year 2010-11, Dr. Bess Marcus assumed FPM Department Chair responsibilities. Dr. Marcus' primary research interests include the prevention of cardiovascular disease and cancer, and the health of the underserved. Faculty recruitment and the related expansion of the FPM research base are primary strategic goals for Fiscal Year 2011-12.

II. Audit Objective, Scope, and Procedures

The objective of our review was to determine whether FPM business process controls provided reasonable assurance that financial results were accurately reported, operations were effectively managed, and activities complied with relevant policies, procedures and regulations. The project scope included a review of business practices in place during audit fieldwork, and the analysis of business transactions completed in Fiscal Year 2010-11.

We completed the following audit procedures to achieve the project objective:

- Reviewed applicable University policies and procedures;
- Evaluated the FPM organizational structure;
- Conducted interviews with FPM management including the Department Business Officer, the Director of Finance, and the Human Resources (HR) Manager;
- Interviewed FPM staff including fund managers, clinical trials and service agreement analysts, and recharge unit managers to discuss key business processes;
- Performed detailed testing of a sample of business transactions to verify that transactions were processed in compliance with University policy.

Because AMAS completed a previous audit of the Student-Run Free Clinic Project (Project #2009-41), Free Clinic business operations were not evaluated within the scope of this review.

III. Conclusion

We concluded that FPM business controls were generally adequate and provided reasonable assurance that financial results were accurately reported, operations were effective and efficient, and activities complied with relevant policies, procedures and regulations.

The Department has experienced organizational changes in response to the reduction of financial support staff. To ensure that operations are minimally impacted, FPM has reassigned post award contract and grant fund management responsibilities, and has hired a Staff Research Associate to focus on proposal preparation and other pre-award activities. We noted that fund managers regularly reviewed account activity and communicated the financial status to Business Office management and faculty, which helped to maintain good fiscal oversight. The Assistant Director of Finance is developing a shared electronic repository of award documentation to facilitate proactive extramural funds management.

We identified opportunities for improvement to strengthen controls in selected business processes, which are discussed in detail in the remainder of the report.

IV. Observations and Management Corrective Actions

A. Timekeeping and Payroll

Timekeeping and payroll review and documentation needed improvement.

University timekeeping and payroll policy requires business units to ensure that internal controls are implemented, properly documented and periodically monitored. During our audit, we noted the following areas of non-compliance with University internal control standards:

Timekeeping – Separation of Duties

University internal control guidance included in UC Business and Finance Bulletin IA-101: *Internal Control Standards: Departmental Payrolls* highly recommends separation of duties for key processes. We noted that the FPM Timekeeper entered her own time without secondary review. The Timekeeper also reviewed FPM personnel time entries via the Timekeeper Audit Report regularly. However, a monthly review of a sample of timekeeping entries, including time reported by the Timekeeper, completed by a second person would help to verify the appropriateness and accuracy of time recorded.

Management Corrective Actions:

To address the audit findings, the FPM HR Manager now:

1. Inputs payroll time entries for the Timekeeper to provide segregation of duties.

2. Compares a sample of entries on the Timekeeping Entry Verification Report to the timesheets on a monthly basis to ensure that time is entered accurately in the system.

Monthly Review of Distribution of Payroll Expense (DOPE) Reports

UC Business and Finance Bulletin IA-101: *Internal Control Standards: Departmental Payrolls* requires that payroll expenditures be reconciled monthly and that the review be documented by signing and dating the Distribution of Payroll Expense (DOPE) report or a reconciliation log (or similar record) maintained for that purpose. AMAS was advised by FPM Business Office staff that the monthly DOPE review was performed but was not being documented as required by policy.

Inconsistent practices for documenting key internal controls for the areas noted above increases the likelihood that errors or irregularities could go undetected.

Management Corrective Action:

FPM Fund Managers and the FPM Director of Finance will initial and date a printed list of the accounts within the scope of their responsibility to provide evidence that a DOPE review was performed.

B. Changes in Effort – Sponsored Projects

Changes in effort for a key person on one award were not communicated to the funding agency as required by National Institutes of Health (NIH) policy.

The NIH Grants Policy Statement: Terms and Conditions, Part II that states in part:

The grantee is required to notify NIH if the Principal Investigator (PI) or other key personnel named in the NGA (Notice of Grant Award) will withdraw from the project entirely, be absent from the project during any continuous period of three months or more, or reduce his or her time devoted to the project by 25 or more percent from the level that was approved at the time of the award (for example, a proposed change from 40 percent effort to 30 percent or less effort). NIH must approve any alternate arrangement, including any replacement PI or other key personnel proposed by the grantee.

We noted that the PI's effort was reduced by more than 25% on one NIH grant (#80015; 25348A) in the second grant year without informing the agency. PI effort was budgeted at 30%, therefore a reduction of effort to 22.5% or below would require agency approval. We noted that PI effort averaged 21.3% for the grant beginning September 1, 2010 and ending August 31, 2011. The absence of formal communication, and agency approval could potentially result in a salary disallowance in the event of an external review.

Management Corrective Action:

FPM management will provide a written notification of changes in effort required by grant terms and conditions to the funding agency for the referenced award, and will ensure that agency approval is obtained and included in the research project file.

C. APM 025 Compliance

FPM was not in full compliance with Academic Personnel Manual (APM) 025.

APM 025: *Conflict of Commitment and Outside Activities of Faculty Members*, addresses the processes for reporting and evaluating faculty compensated and uncompensated outside professional and non-professional activities to determine whether reported activities create a conflict of commitment. APM 025 requires that all faculty members file a *Report on the Category of I and II Compensated and Outside Professional Activities and additional Teaching Activities* annually. The disclosure form is due by November 1 of the following Fiscal Year.

Because selected tasks associated with faculty compensation had been assumed by the CFCU, the FPM Director of Finance initially believed that the process of requesting and collecting APM 025 disclosures had also become a CFCU responsibility. However, when he was notified that the Department is accountable for obtaining APM 025 faculty disclosures, he immediately developed a process to ensure compliance with the policy.

Timely collection and review of the forms assists in identifying any potential conflict of commitment instances for faculty that would interfere with the successful performance of their University obligations.

Management Corrective Action:

The FPM Director of Finance has established a process to allow timely collection of APM-025 disclosure forms. Approximately 90% of the Fiscal Year 2010-11 forms have been submitted.

D. Equipment Inventory

An equipment inventory had not been conducted for more than 2 years.

UC Business and Finance Bulletin (BUS) 29: *Management and Control of University Equipment* requires that the custodial department complete a physical inventory of all University inventorial equipment, government inventorial equipment, other government property, and other inventorial items at least every two years. The policy further states that the individual who performs the inventory may not also be assigned the responsibility for ordering or purchasing the property, maintaining the property records, or maintaining direct custody of the property.

As of October 2011, the Campus Asset Management System (CAMS) reported that a physical inventory of FPM equipment valued at approximately \$1M had not been completed in over two years. An equipment inventory is needed to ensure that location codes are correct and to remove replaced or unaccounted for equipment from inventory records.

Management Corrective Action:

FPM management has held meetings with Campus Asset Management personnel to validate the inventory and make the appropriate adjustments.

E. Express Cards Restrictions

Express Cards were used for restricted purchases.

The University's Express Card program is designed to simplify the purchasing process for goods and services, but some types of purchases are restricted. AMAS' review of a sample of 10 Express Card purchases identified two transactions for gift card purchases which are identified as a restricted purchase.

One gift card purchase was made by a FPM research unit that had obtained an exception from campus Disbursements in 2004 to allow Express Card purchases of scrip, certificates and coupons for distribution to research subjects. However, Disbursements advised us that their practice for granting exceptions for gift card purchases has been re-evaluated, and exceptions granted in the past will no longer be allowed. Because Disbursements did not officially communicate the change in practice to all the Express Card Administrators, FPM Administrators were not aware of it. Since learning of the change in policy, the Business Office has started notifying the FPM Express Card Administrators, which will help to ensure that future violations are avoided.

Management Corrective Action:

The FPM Business Office will ensure that all Express Card Administrators are informed of the gift card purchase restriction.

F. Transactional Sampling

Transactions selected by the campus Transaction Sampling system were not timely reviewed and reconciled by FPM staff in all cases.

The campus Transaction Sampling process in Financial Link randomly selects a sample of department financial transactions to be evaluated during the ledger reconciliation and account validation process. After the review is completed, transaction processing errors are identified by error type, and corrected. To qualify for participation in this process, department fund managers are required to complete training and the department fiscal officer is required to periodically monitor and review the department's transaction queue.

Approximately 130 transactions are selected as part of the FPM sample on a monthly basis. Our review of FPM Transaction Management Reports for the period April 1, 2011 through September 31, 2011 confirmed that August and September transactions had not been reconciled as of October 28, and that 11% of the transactions for the period April to July 2011 had not been reviewed. It appeared that transactions were being routinely reconciled, but at times, the review and reconciliation procedures were not being performed timely. The FPM staff member responsible for completing the reconciliations advised AMAS that some of the older transactions were not reconciled pending receipt of supporting documents from the initiator. Reconciliation of the remaining transactions was delayed due to competing work priorities.

The campus Transaction Sampling process provides reasonable assurance that transaction errors are timely identified and corrected. Because only a percentage of total transactions are selected for focused review, department resources are used more effectively. If selected transactions are not timely reviewed, there could be increased risk of non-compliance with federal cost accounting regulations.

Management Corrective Action:

FPM management has made significant progress on transaction reconciliation from April 2011 to the current period. Management will continue to ensure that FPM transactions in the Campus Transaction Sampling database are reconciled timely.

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Cash Handling	√	√	√	Interviewed staff and reviewed processes for recharge and service agreement payments.	Yes	Yes Internal Controls	Satisfactory	Background checks had been obtained for staff that handle cash collections.
Effort Reporting	√	√		Reviewed a judgmental sample of ECert report certification summaries for Fiscal Year 2010-11.	Yes	Yes Effort Reporting	Satisfactory	Compliance with effort reporting certification requirements was satisfactory.
Entertainment	√	√		Reviewed a judgmental sample of 10 transactions from July 2010 – October 2011, reviewed approvals and traced to supporting documents.	Yes	Yes Ledger Transaction Verification	Satisfactory/Improvement Suggested	One entertainment expense related to an employee celebration event for which special entertainment approval had not been obtained. The Business Office was advised of the oversight and will avoid such errors in the future.
Non-Payroll Expenditure Transfers	√	√		Reviewed the timeliness, and business justifications for reasonableness.	Yes	Yes Ledger Transaction Verification	Satisfactory	Transfer explanations appeared reasonable. No exceptions were noted.

¹ Department is not documenting key controls per campus requirement of SAS 112, refer to Section H of the audit report for further detail on this finding.

² Audit conclusions used in this report included the following four levels from highest to lowest; Satisfactory, Satisfactory/Improvement Suggested, Satisfactory/Improvement Needed and Improvement Needed.

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Operating Ledger Review & Financial Reporting	√	√		Examined selected operating ledgers and financial reports, and analyzed deficit fund balances as of July 2011.	Yes	Yes Fiscal Operations Review	Satisfactory	The deficit balances identified were being effectively managed by the FPM Business Office.
Payroll Expenditure Transfers	√	√		Verified adjusted payroll charges per operating ledgers & business justifications for reasonableness.	Yes	Yes Ledger Transaction Verification	Satisfactory	Transfer explanations appeared reasonable. No exceptions were noted.
Recharge Activity	√	√	√	Reviewed recharge unit activity reports, and financial statements for the period July 1, 2010 to September 30, 2011.	Yes	Yes Ledger Transaction Verification	Satisfactory	Three of the four recharge units showed fund balances that were greater than two months of operating costs. However, one recharge unit had been operating for less than one year, and the remaining two were being restructured, which will eliminate the excess fund balances in the future. Business Office management was aware of the balances and will revise rates as needed.
Transaction Processing – Non-Payroll Expenditures	√	√		Reviewed 10 transactions selected judgmentally; traced to available supporting	Yes	Yes Ledger Transaction Verification	Satisfactory/ Improvement Suggested	One of the 10 transactions reviewed was posted to an inappropriate fund. An expense transfer was processed by the Fund

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
				documents.				Manager when informed by AMAS. All other transactions appeared appropriately allocated to the fund.
Travel	√	√		Reviewed a judgmental sample of 10 transactions from July 2010 – October 2011; traced to vouchers (TEV's) and supporting documents.	Yes	Yes Ledger Transaction Verification	Satisfactory/ Improvement Suggested	The receipt was not available for one of the 10 travel transaction reviewed. However, trip details and other documentation supported the validity of travel.
Timekeeping and Payroll	√	√	√	Reviewed a judgmental sample of timesheets, absence slips, and Timekeeper Audit Reports.	Yes	Yes Payroll Expense Verification	Improvement Needed	Supporting documentation was adequately maintained. However, additional opportunities for improvement to process oversight and documentation were identified. (Audit Report Finding A)
Contract & Grant Activity (Post Award Admin.)	√	√	√	Reviewed eight awards totaling \$16.9M and evaluated selected invoices and expenses for Fiscal Year 2010/11.	Yes	Yes Internal Controls	Improvement Needed	Contract receivables were billed timely and expenses appeared reasonable. However, the funding agency was not notified of a change in a key personnel's total effort on one award. (Audit Report Finding B)

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
APM 025 Reporting		√	√	Interviewed the Director of Finance.	No	No	Improvement Needed	Faculty APM 025 disclosure forms were not requested. <i>(Audit Report Finding C)</i>
Equipment Management	√	√		Reviewed five equipment transactions selected judgmentally and reviewed the purchasing process, including approvals.	No	Yes Physical Inventory	Improvement Needed	One equipment purchase was inappropriately classified as inventorial equipment due to an error. The Fund Analyst was informed of the error and will correct the classification. An equipment inventory had not been performed in over two years. <i>(Audit Report Finding D)</i>

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Express Cards	√	√		Selected s judgmental sample of 10 transactions and traced them to supporting documents.	Yes	Yes Ledger Transaction Verification	Improvement Needed	The source document was not available for one transaction of the 10 transactions reviewed. However, the Business Office was able to obtain transaction description from express cardholder. Two transactions were for gift card purchases, which are Express Card restricted transactions. (Audit Report Finding E)
Non-payroll Expenditure Transactions – Transaction Sampling	√	√	√	Analyzed Transaction Sampling management reports for the period April 2011 through September 2011.	No	Yes Ledger Transaction Verification	Improvement Needed	Transactions were reviewed, but reviews were not consistently completed timely. (Audit Report Finding F)