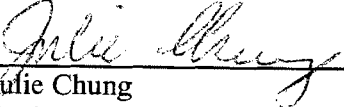


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ADMINISTRATIVE AND BUSINESS SERVICES  
INTERNAL AUDIT SERVICES

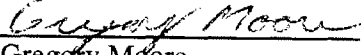
DEPARTMENT OF DERMATOLOGY  
Report No. 2011-203

January 28, 2011


Prepared by:

  
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Director

January 28, 2011

**CHRISTOPHER ZACHARY, M.D.  
CHAIR  
DEPARTMENT OF DERMATOLOGY**

**RE: Department of Dermatology  
Report No. 2011-203**

Internal Audit Services has completed the review of the Department of Dermatology and the final report is attached.

Please let us know if we can provide additional support or assistance.



Bent Nielsen  
Director  
UC Irvine Internal Audit Services

Attachment

C: Andrew Villaruz, Chief Administrative Officer  
D'amileau Baulk, Clinical Operations Director  
Ralph Clayman, M.D., Dean, School of Medicine  
Audit Committee

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**I. EXECUTIVE SUMMARY**

In accordance with the fiscal year 2010-2011 audit plan, Internal Audit Services (IAS) reviewed the adequacy of the internal controls surrounding the current business practices for patient billing, cash handling, medical equipment maintenance and management, non-payroll and payroll expenditures for the Department of Dermatology within the University of California, Irvine School of Medicine. Based on the audit work performed, the internal controls need to be strengthened to ensure compliance with applicable policies and procedures. Specifically, we noted the following.

- **Billing** – The internal controls for patient billing processes need improvement to ensure charges, payments, and write-offs are accurately, timely and consistently posted and documented in General Electric (GE) and QUEST systems. The observations related to these practices are discussed in detail below in sections V.A.1. and V.A.2.
- **Cash handling** – The internal controls over cash handling procedures need improvement in regards to separation of duties, verification of funds in dual custody, proper documentation, and security. The observations related to these procedures are discussed in detail below in sections V.B.1., V.B.2., and V.B.3.
- **Medical equipment maintenance and management** – The internal controls for medical equipment used in patient care requiring electrical safety inspections and preventative maintenance as well as inventory management need improvement. The observations of untimely inspections and maintenance as well as lack of documentation and approval for loaned medical equipment are discussed in detail below in sections V.C. and V.D.
- **Non-payroll expenditures** – The internal controls over authorizing and processing non-payroll expenditures need improvement. The observations of inconsistent approval processes, lack of supporting documentation, reconciliation of expenses, and late travel reimbursement submissions are discussed in detail below under section V.E.
- **Payroll** – The internal controls for payroll processing need improvement. The observations of incomplete and/or inaccurate time and attendance records, lack of documentation, incorrect payroll system entries, and no prior approval for overtime and leaves of absences are discussed in detail below under section V.F.

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**II. BACKGROUND**

The Department of Dermatology provides clinical research and educational programs along with comprehensive diagnosis and treatment for all pediatric, adolescent and adult dermatological problems. The Department specializes in surgical and non-surgical procedures such as various skin, hair, nail and vein conditions, including benign growths, skin cancers, aging skin, unwanted fat, excess hair and varicose veins.

In addition to providing clinical services in two sites at the University of California, Irvine Medical Center, services are provided at three other locations: two on campus and one offsite in a retail space.

Over the past few years, the Department has experienced several transitions in management. However, the Department recently recruited an experienced administrator to establish procedures in the business and clinical practices to minimize financial and operational risks.

**III. PURPOSE, SCOPE AND OBJECTIVES**

The purpose of the audit was to evaluate the adequacy of the internal controls in the Department of Dermatology. In addition to general controls, the audit included a review and evaluation of selected unit activities including billing, cash handling, medical equipment management and maintenance, non-payroll expenditures, and payroll.

The objectives of this review were as follows:

1. Determine if billing processes and procedures at the offsite clinic are sufficient to ensure services are accurately billed and in a timely manner;
2. Determine whether internal controls over cash handling procedures at the offsite clinic are adequate and comply with applicable policies and procedures;
3. Determine if medical equipment is inspected and maintained at the offsite clinic in accordance with Clinical Engineering policies and procedures;
4. Determine if medical equipment is managed properly in compliance with administrative policies and procedures;
5. Verify that non-payroll expenditures are properly authorized and processed in accordance with policies and procedures;

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6. Verify that payroll at the offsite clinic is properly approved and processed in accordance with policies and procedures.

**IV. CONCLUSION**

Business risks and control concerns were identified in the business and clinical functions regarding billing processes, cash handling, medical equipment, non-payroll expenditures and payroll processes.

Observation details and recommendations were discussed with management, who formulated action plans to address the findings. Department management indicated that all management action plans will be implemented on or before July 1, 2011. These details are presented below.

**V. OBSERVATIONS AND MANAGEMENT ACTION PLANS**

**A. Billing**

**Background**

The services rendered to patients in the Department are classified as either medical (covered by insurance) or cosmetic (self-pay and not covered by insurance). The billing history and information, such as charges, payments, etc., for both medical and cosmetic services are posted in the GE Centricity system.

Billing services are provided by two separate entities. University of California, Irvine College of Health Sciences (UCIHS) Physicians Billing Group (PBG) is contracted to provide medical billing services and Dermatology handles the billing for cosmetic services.

**Observation**

IAS reviewed 18 cosmetic services provided at the offsite clinic in August 2010. Twelve of the 18 services were billable office visits and six were follow-up visits with no associated charges. As a best business practice, charges and encounter forms for all visits, whether or not there are associated charges, should be posted and scanned in GE (billing) and QUEST (registration) systems. The following is a summary of the review.

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**1. Posting Services and Payments in the GE and QUEST Systems**

The Department has not established procedures to ensure that visits, charges, payments, and patient billings are accurately and timely posted in the QUEST and GE systems.

- a) For three of the 12 billable services, a note was not posted in the GE system in order to bill the patients with balances due as of November 2010.
- b) For all 18 services reviewed, the visits, charges and payments were either not posted in the GE system as of November 2010 or were posted 11 to 53 business days after the dates of service.
- c) For all 18 services reviewed, the encounter forms were not scanned and posted in the GE system as of November 2010.
- d) For one of the six non-billable services, the visit was not registered and documented in the QUEST system.
- e) For one of the 12 billable services, a write-off for a \$400 cash shortage of a patient payment was not posted in the GE system as of November 2010. The cash shortage of \$400 occurred on August 16, 2010 and the funds are considered missing.
- f) Charges and payments were not reconciled from the encounter forms to the deposit advice forms.

Failure to ensure that all charges, payments, and patient billings are accurately and timely posted in the GE and QUEST systems and reconciled to source documentation may result in lost revenue and/or the inability to detect cash shortages.

**2. Discounts**

The Department has not established or applied a consistent and auditable process for discount rates for cosmetic services. The review disclosed that the Department gave varying discounts and/or waived consultation service charges for four billable services.

The UC Irvine Healthcare Compliance Office and Office of Campus Counsel are working to address the issues and concerns such as consumer protection laws regarding discounts on clinical services.

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**Management Action Plan**

Postings

The Department will establish posting guidelines in accordance with UC Irvine policies. This includes but is not limited to: work flow and full-time equivalent assignment of duties for encounter handling and posting by staff of all patient services rendered. The Department will review templates that are utilized for patient discounts, and splits to decrease staff error in calculating them. Charges entered will correlate with charge documents.

Discounts

Cosmetic services are considered elective and not medically necessary procedures. The Department has established base prices that are charged to all cosmetic patients. Individual patient procedures and faculty determine the discount rate applied at the time of visit. The Department will review cosmetic discounts and will participate and adhere to determinations from the UC Irvine Healthcare Compliance Office and Office of Campus Counsel.

**B. Cash Handling**

**Background**

Business and Finance Bulletin 49, Policy for Cash and Cash Equivalents Received, includes procedures for handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt, safeguarding, reporting, and recordkeeping. Compliance with these policies and procedures ensures that University cash and cash equivalents are protected, accurately and timely processed, and properly reported.

**Observation**

The internal controls surrounding cash handling processes and procedures do not provide adequate security and separation of duties to ensure that all funds are accounted for at the offsite clinic. During our review of the process we noted the following.

**1. Clinical Cash Handling Procedures**

- a) An office manager has update access to the QUEST system, GE system, and access to the clinic safe in which the change fund and daily deposits are stored overnight. As a result, the manager has the ability to manipulate and conceal misappropriation of cash transactions. In

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addition, the manager also has access to the clinic after business hours and the contracted alarm company reports to her before contacting the local police department if the alarm is set off.

- b) Deposit advice forms are not prepared or validated in dual custody or in an area that is enclosed and secured.
- c) The patient admission worker (PAW) who prepares the deposit advice form also collects and handles payments from patients.
- d) Upon collecting a large cash payment, the transfer of cash to the office safe is not performed in a secure manner, in dual custody.
- e) The change fund daily counts for a PAW and the PAW supervisor were not verified in dual custody at the start and end of each business day.

**2. Receipts and Deposits**

During a review of deposit advice forms and voided transactions, we noted the following.

- a) Cash shortages were either not reported to the Main Cashiering Office (MCO) or were not reported on a timely basis.
- b) Not all voided receipts were submitted to the MCO.
- c) Receipts were voided and approved by the PAW's supervisor. However, the reasons for the voids were not always documented on the voided receipts.

**3. Security**

- a) Dermatology management requested a security assessment review of the offsite clinic. However, a walk through and security assessment of the physical setup of the cashiering stations in the offsite clinic does not appear to have been performed by the UC Irvine Medical Center Security Department.
- b) The contracted alarm system company was directed to first contact Department management and not the local police department for the offsite clinic location in the event the alarm is triggered.



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- c) A chronological record of personnel with access to the office safe and their unique combinations has not been maintained since the clinic's opening in 2007.

**Management Action Plan**

Clinical Cash Handling Procedures

The Department will review and address levels of security and cash handling procedures to ensure adequate separation of duties are maintained.

1. Established levels of security by managers will be evaluated, redefined and assigned.
2. Department management will contact and request the security company to establish a different report to clearly delineate false alarms versus business as usual access.
3. Clinical staff schedules have been shifted to ensure preparation of deposits are done in dual custody.
4. Any cash payments greater than or equal to \$500 received at the front desk from a patient should immediately be brought back to a secured area in dual custody and the proper procedures will be followed regarding depositing the monies collected.
5. The change fund daily counts for a PAW will be verified in dual custody at the start and end of each business day.

Receipts and Deposits

Supervisors or designee will maintain documentation of any voided transaction and include the reason for the void and approval on the face of the receipt. Cash shortages will be reported to the MCO on a timely basis. All voided receipts will be submitted and reported to the MCO.

Security

Prior to opening the offsite clinic, the MCO advised management and was included in all the planning of the security at the clinic. In addition, the UC Irvine Medical Center Security was also integral in planning, and implementation of the current security systems including the type of safe, set-up of cameras, alarms, etc. prior to the clinic's opening. They also recommended the current security

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company, American Alarm. Management will request a security assessment review of the offsite location.

The original system allows internet viewing of all cameras in the location. This feature was to enable American Alarm and Dermatology to remotely view any alarmed activity. However, due to UC Irvine Health System firewalls, this option was not utilized. The system is very sensitive and multiple false alarms occurred. Management will review alarm company protocols and issue directives as necessary to comply with policy and ensure employee and patient safety.

A chronological record of personnel with access to the office safe and their unique combinations has been initiated.

**C. Medical Equipment Maintenance**

**Background**

Clinical Engineering is responsible for performing electrical safety checks and preventative maintenance on medical equipment used in patient care. Department personnel with specialized medical equipment are responsible for managing departmental equipment inspection activities.

New medical equipment as well as medical equipment not owned by the medical center is also required to be inspected prior to use on a patient. The evaluation of new equipment includes a determination of the processes that will be used to test, inspect, or maintain the equipment.

**Observation**

Two Thermage units used in patient treatments did not have Clinical Engineering tags indicating electrical safety inspections and preventative maintenance had been performed. One unit was purchased by the Department in April 2008 and the other unit was acquired as a loaner in November 2009.

In response to an IAS inquiry on December 1, 2010 regarding equipment maintenance at the offsite clinic, Clinical Engineering personnel inspected and cleared both Thermage units for use in patient care that same day.

**Management Action Plan**

All equipment on loan or purchased will have appropriate documentation of purchase or loan in the business office. The asset will be placed in UC Irvine's asset management system. All medical equipment will have appropriate

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inspection by Clinical Engineering prior to patient use. This will be documented and coordinated by the Clinic Manager, Nurse Supervisor or designee.

**D. Medical Equipment Management**

**Background**

Departments are required to conduct annual physical inventories of equipment that are due on October 1st. Departments are also required to update inventory records throughout the year as items are purchased, transferred, sold, scrapped, etc.

**Observation**

IAS review disclosed a loan agreement was not submitted to the Purchasing department and prior approval of the loan was not obtained in accordance with UC Irvine administrative policies and procedures for the Thermage equipment on loan as of November 2009.

**Management Action Plan**

On November 3, 2010, the Department submitted the equipment loan agreement with Solta to the Purchasing department for their review and approval. All equipment on loan or purchased will have the appropriate documentation of purchase or loan in the Department's business office. In addition, any proposed purchases or loans will go through the Department's business office for review and approval before being submitted to the Purchasing department.

**E. Non-Payroll Expenditures**

**Background**

University of California, Office of the President (UCOP) and UC Irvine have established policies and procedures with specific procedures for purchasing any product, lease, or service. Compliance with the policies and procedures ensures that expenditures are properly authorized and processed.

**Observation**

A review of 37 expenses noted several exceptions to established policies and procedures. The following is a summary of the audit findings.

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**1. Inconsistencies in the Approval Process**

Adequate segregation of duties and internal controls have not been consistently applied for approval of purchases.

Sixteen of 37 (43%) expenses reviewed were not properly approved and/or documented. The details of the review are summarized below.

- a) For 10 of 16 expenses reviewed, the Department did not maintain internal requisitions to document purchase approvals. In addition, the internal requisitions were not signed for three of the 16 expenses submitted for payment.
- b) For one of 16 expenses reviewed, the PayQuest preparer and approver was the same person. The expense was a reimbursement of certification fees to a faculty member.
- c) For one expense, the person requesting the purchase also approved the purchase.

**2. Lack of Supporting Documentation**

The appropriate supporting documentation for purchased items was not consistently maintained in accordance with university policy.

Twenty-one of 37 (57%) expenses reviewed were not supported by one or more of the following required documents:

- Copy of cancelled check
- Internal requisition
- Invoice
- Packing slip
- Internet confirmation

**3. Expense Reconciliation**

Expensed amounts were not reconciled to the invoices upon posting general ledger entries. As a result, discrepancies were noted between the transaction amounts posted in the general ledger and noted on the invoice.

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**4. Reimbursements Submitted Late for Payment**

Four of five travel expenses reviewed were submitted from six weeks to one year after the last date of travel. University policy requires that travel expenses be submitted for reimbursement within 21 days from the date of travel.

Failure to properly approve, maintain supporting documentation, reconcile posted transactions, and submit expenses on a timely basis can result in the loss of University funds and/or misappropriation of university assets.

**Management Action Plan**

The Department is developing internal policies to address non-payroll expense control processes. These will include processes that establish periodic review by the supervisor; (re-) training and review methodology to insure compliance with established UC policies. Department management will assess the need for PALCards and based on the assessment may decrease the number of departmental PALCards accordingly. If the number of PALCards is decreased, more purchases will be acquired through the purchase order process.

**F. Payroll**

**Background**

Personnel policies and collective bargaining agreements establish employment standards and procedures in regard to hours of work and attendance records, overtime, and leaves. Compliance with the policies and procedures ensures that payroll is properly approved and processed in accordance with regulatory requirements.

**Observation**

**1. Time and Attendance Records**

Eight of 50 May 2010 employee time sheets were selected for review. The following is a summary of the review:

- a) Six of eight time sheets were not signed and/or dated by the employee or the manager;
- b) Three of eight time sheets had corrections or were not properly completed and required additional clarification to substantiate the adjustments to the time sheets.

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**2. Overtime**

In the eight employee time sheets reviewed, there were a total of 16 incidents in which overtime was reported. The following is a summary of the overtime review:

- a) Twelve of 16 overtime authorization forms reviewed were not approved in advance, but instead were approved at the end of the month;
- b) Two of 16 overtime authorization forms reviewed were not signed and/or dated by the manager;
- c) Four of 16 overtime authorization forms did not have a documented reason for the overtime reported;
- d) Five of 16 overtime hours reported on the time sheets reviewed were entered incorrectly in the payroll system.

**3. Leaves of Absence**

In the eight employee time sheets reviewed, all leaves (three vacations, two sick, and ten furloughs) requested and taken were reviewed. The following is a summary of the review:

- a) Both sick leaves reviewed lacked supporting documentation;
- b) Two of ten furlough leaves were not approved in advance;
- c) For one of ten furlough leaves, a discrepancy in the number of hours on the request form, time sheet, and the payroll system was noted;
- d) Management plans have not been established to spend down accrued vacation time for staff with accrued vacation time near or at the maximum limit.

**Management Action Plan**

**Immediate Actions taken**

- 1. Supervisors are responsible for all time card review and submissions of their staff on a timely manner. The manager will review all time cards reviewed by the supervisor for correctness and appropriate corresponding document of time off or sick leave requests.

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2. Any changes made on timesheets will be initialed and dated. The supervisor must notify staff of changes or adjustments to the time sheet and have the employee re-sign the time sheet.
3. All overtime and leave requests must be approved ahead of time by the immediate supervisor and include the type of work completed e.g. phone calls, filing, type of paperwork. However, if overtime is due to patient care or absence, the overtime request form must be completed and signed by the supervisor.
4. New absence forms for staff and faculty have been disseminated and are currently being utilized to record and track absences. Copies of the absence forms will be kept in personnel files as well as in accounting.
5. The human resource personnel analyst will be in charge of communicating to faculty and staff regarding maximum vacation accruals through e-mail notification. Faculty and staff will be advised to utilize their accrued vacation. We plan to meet with the staff who receive such notification, and they must respond to the human resource personnel and to their supervisors if and when they are planning on taking leave.
6. The School of Medicine administration is implementing a new staff time sheet reporting tool that will automatically calculate payroll adjustments including overtime straight and premium hours worked.