



Department of Family Medicine

Internal Audit Report No. I2014-209

July 11, 2014

Prepared By

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Reviewed and Approved By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

July 11, 2014

EMILY DOW, M.D.
ACTING CHAIR
DEPARTMENT OF FAMILY MEDICINE

RE: Department of Family Medicine Audit
Report No. I2014-209

Internal Audit Services has completed the review of the Department of Family Medicine 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. Roger Steinert, Professor and Interim Dean of the School of Medicine
Kevin Trout, Chief Administrative Officer, Department of Family Medicine
Jacklyn Schult, Senior Finance Analyst, Department of Family Medicine

I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2013-2014 audit plan, Internal Audit Services (IAS) reviewed the business operations, internal controls, and policy compliance in the Department of Family Medicine (Family Medicine) within the University of California, Irvine (UCI) School of Medicine (SOM). The review disclosed some internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Service Agreements – Service agreements and related accounts receivable (A/R) were not properly maintained and managed. Two outside entities had not been billed for services rendered and the A/R records were not documented so the outstanding amount is uncertain. This observation is discussed in section V.1.

Payroll Ledger Reconciliation – Payroll ledgers were not reconciled and documented. Also, supervisory reviews were not documented to verify the reconciliations were performed in a timely manner. This observation is discussed in section V.2a.

Overtime – Concerns were noted with overtime compensation. Internal controls were not established to ensure that overtime for staff was accurate and valid. Prior approvals for overtime were not documented or reviewed to verify that reported overtime was correct prior to payment. This observation is discussed in section V.2b.

Vacation Leave Adjustments - Concerns were noted with vacation leave accruals (VLA). These adjustments were improperly made for faculty. As a result, faculty may be overpaid upon separation or retirement. Also, in the last two years, IAS noted a significant increase in the total number of adjusted hours. This observation is discussed in section V.2c.

Cash Handling – Payments and donations were not properly handled or recorded. Internal control procedures, such as separation of duties, were not established. Checks were not locked in a secure receptacle or safe. Lastly, checks were not deposited in a timely manner. The details related to these issues are provided in section V.3.

Non-payroll Expenditures – Concerns were noted with PALCard purchases. Pre-authorizations were not always obtained or properly documented. For some purchases, the required supporting documents were not always retained. Also, a lack in the separation of duties was noted in a few transactions. In addition, administrative reviews were not performed in a timely manner. This observation is discussed in section V.4a.

Concerns were also noted with PayQuest reimbursements. The requested reimbursements were not properly processed and reviewed. As a result, the following issues were noted: incomplete, unjustified, or poorly documented reimbursement requests, two overpaid travel reimbursements, and lack of exceptional approvals. This observation is discussed in section V.4b.

Payroll Certification Reporting – Payroll certification reports had not been submitted to the Contracts and Grants Accounting (C&G Accounting) office or were submitted late. This observation is discussed in section V.5.

II. BACKGROUND

Family Medicine is the academic home to nearly 30 faculty members are committed to advancing research, delivering exemplary patient care, and training future healthcare professionals.

The faculty members are known nationally for their research in the field of elder abuse and neglect. Through research, they aspire to stimulate new ideas, identify needed areas of inquiry and to collaborate with investigators. Their areas of research, which includes geriatric bruising, caring for dementia patients, elder abuse data systems, and standardizing elder mistreatment criteria, promote improved services for victims of elder abuse and neglect.

The clinical faculty members provide complete primary care services for all family members including newborns, children, adults and the elderly at five sites that are managed by the UC Irvine Medical Center: the medical center inpatient service, Federally Qualified Health Centers in Santa Ana and Anaheim, the Gottschalk Plaza on campus in Irvine, and at the SeniorHealth Center in Orange.

Annually, a team of clinical faculty, two Ph.D. researchers, and two psychologists is also involved in the training of 150 medical students, 27 residents, two fellows, numerous nurse practitioners and physician-assistant students at the five service sites.

Administratively, the Chair, who serves as the academic leader and administrative head, reports directly to the SOM Dean. The Chief Administrative Officer (CAO), who reports to the Chair, directs the administrative and clinical operations in the department. The CAO's responsibilities include administrative and clinical oversight and management of all budget and financial operations, academic and clinical staff personnel, etc.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit focused on the business operations in calendar year 2013 through present. The primary purpose of the audit was to assess whether the internal controls in place in the non-clinical areas are adequate and sufficient to prevent or detect fraudulent or non-compliant transactions, while ensuring the overall efficiency and effectiveness of business operations.

Based on the assessed risks, the following audit objectives were established.

1. Review cash handling processes for conformance with UC/UCI policies and procedures and for assurance that collected funds are properly recorded, secured, reconciled, and deposited.
2. Review non-payroll expenditures for proper accountability and separation of responsibilities, adequate documentation, assurance of valid, properly pre-authorized and approved transactions, and compliance with UC/UCI policies and procedures.
3. Determine whether the following aspects of employee time reporting: overtime approval, payroll ledger reconciliations, and sick and vacation balance tracking comply with University policy.

4. Verify whether services agreements were properly reviewed and approved and used for invoicing where Family Medicine received income from rendering a service to non-University entities.
5. Review appropriateness of payroll cost transfers, completion of payroll certifications, and federal award overdrafts.

IV. CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended. However, select internal control/compliance concerns were identified in the areas of cash collection and depositing, payroll and non-payroll expenditures, services agreements, and payroll certifications.

It should also be noted that there were numerous transitions in key administrative positions within Family Medicine in the last two years. During the audit period, operations, finances, payroll and human resources were under the direction and management of two different CAOs, two different senior finance analysts, and two personnel analysts. The current CAO, senior finance analyst, and personnel analyst started in September 2013, February 2014, and January 2014 respectively. The prior CAO and senior finance analyst had held their positions for only approximately nine months and eight months respectively.

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

For Family Medicine physicians who have contracted with outside entities, the terms to provide various clinical or administrative services are outlined in

service agreements. The monthly revenues generated from these agreements are billed and collected and later disbursed to the physicians as salary. Family Medicine management and staff are jointly responsible for managing these agreements; responsibilities include contract negotiations and management, charge capture, billing, and collections. In addition, the medical center contract office oversees the service agreement review and approval process by a committee, and is also the official record keeper of service agreements.

Observation

Interviews with the management and staff as well as a review of the department records and current business practices surrounding service agreements disclosed areas of concern.

- Copies of approved service agreements and/or subsequent annual renewals were not maintained on file within the Family Medicine. In addition, current service agreements and/or renewals with five outside entities could not be located so IAS was unable to determine if all service agreements were current, properly vetted, and approved.
- A/R records were not documented nor were invoices numbered for reference. Also, two outside entities had not been invoiced since the beginning of the agreements, in October 2013. Currently, Family Medicine is still in the process of determining the outstanding A/R amount based on their review of past deposit advice form details.

Family Medicine management should define the roles and responsibilities in managing service agreements. Also, management should verify if all service agreements are current and have been approved to ensure proper and accurate billing. In addition, management should establish business practices (invoices, A/R monitoring, A/R write-offs, etc.) around the related processes and consider utilizing a commercial accounting software application to effectively and accurately manage the service agreement accounts.

Management Action Plan

By December 31, 2014, Family Medicine management will define roles and responsibilities in managing service agreement accounts. Also, business practices and processes in managing the accounts will be developed and

implemented. A commercial accounting software application will be purchased to manage A/R.

2. Payroll

a. Payroll Ledger Reconciliation

Background

Departments are responsible for ensuring compliance with personnel records management requirements. The requirements include ensuring that accurate time and attendance records are reported.

Observation

Interviews with staff disclosed that payroll ledgers are not reviewed and reconciled to determine if payroll expenses were complete, accurate, and properly calculated. Also, the reconciliations were not documented or reviewed by the supervisor to verify the reconciliations were performed in a timely manner. Reconciliations are integral to ensure that payroll information is complete, accurate, and valid. Failure to perform reconciliations may result in undetected payroll errors.

Management Action Plan

Effective immediately, adequate business practices will be established to ensure that payroll expenses are properly reviewed and reconciled for accuracy in a timely manner. Also, payroll expenses posted in the Payroll Personnel System (PPS) will be reviewed for accuracy and documented.

In addition, supervisory reviews will also be performed and documented for the monthly reconciliations performed by staff.

b. Overtime

Background

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating

needs. The department is responsible for ensuring an employee requested advance approval for overtime work and properly report the overtime worked in a timely manner prior to compensation.

Observation

The overtime approval process for pay periods during calendar year 2013 to present was reviewed. The review disclosed that Family Medicine had recently implemented overtime procedures. As of April 2, 2014, staff members were required to request overtime from the direct supervisor prior to taking any overtime and inform the time administrator of the approved overtime. Prior to that date, there were either incomplete or no records to substantiate if the reported overtime hours were accurate prior to compensation or if overtime was justified and approved in advance as required by policy.

The review also disclosed that the recently implemented overtime procedures were not consistently applied. One staff member who had taken additional duties was given a blanket approval for any overtime required to complete her new tasks. Furthermore, a compensatory time agreement was not obtained for the same staff member who received both compensatory time off and overtime pay.

Management Action Plan

During the course of the review, the time administrator sent a reminder email to staff regarding overtime requirements on May 8, 2014. By December 31, 2014, Family Medicine management will ensure that the newly implemented procedures are fully and consistently implemented for all staff members by obtaining compensatory time agreements and reviewing all reported overtime prior to compensation to verify that overtime is compensated in accordance with the agreement and properly substantiated with appropriate documentation, a written justification of why overtime is necessary to meet essential operating departmental needs as well as prior approval.

c. Vacation Leave Adjustments

Background

Departments are responsible for ensuring compliance with personnel policies for both faculty and staff. In the personnel policy for staff, supervisors are responsible for informing employees in advance that they are reaching maximum vacation accrual and for ensuring that employees schedule vacation leave prior to reaching the maximum. When operational considerations prevent an employee from taking vacation prior to reaching the maximum accrual, the supervisor is responsible for developing a written plan with the employee which includes the month, dates, and amount of time of the agreed upon vacation leave. In addition, supervisors are responsible for assuring that scheduled vacation leave is taken prior to the end of the grace period, a four month extension, if applicable and in accordance to the employee's bargaining contract.

However, it should be noted that UCI Academic Personnel Procedures 7-11 on vacation and sick leaves does not address the issue on reaching the maximum vacation accrual. Therefore, it appears that lost vacation time is not adjusted for faculty.

Observation

A review of the Family Medicine payroll report for calendar year 2013 disclosed an unusual number of VLA adjustments although such adjustments were no longer made for staff in the 2013 pay periods. However, for faculty, the department continued to allow lost vacation hours to be added back in a specific pay period if vacation leave was approved in the same month and vacation hours were posted in the PPS.

See the table below for a trend of VLA adjustments in hours by calendar year.

Calendar Year	Total Number of VLAs (in Hours)	Total Benefit Amount
2013	386.55	\$31,025.10
2012	304.58	\$22,749.58
2011	230.90	\$15,797.07

As a best business practice, adding back vacation leave hours overstates the accrued vacation leave and may result in an over payment to employees upon separation or retirement from the University.

Also, further review disclosed that leave request forms were either not submitted timely or approved months after the vacation. For example, one leave request form for vacation in April 2013 was submitted in December 2013 and approved in January 2014. Consequently, both vacation time taken and the VLA posted to PPS in February 2014 were ten months after the vacation.

Management Action Plan

Family Medicine management also will notify faculty by email if the vacation accrual is reaching maximum rate and that vacation hours will be lost if vacation leave is not taken in a timely manner.

3. Cash Handling

Background

Business and Finance Bulletin 49 (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. The bulletin also establishes basic internal control principles (accountability, separation of duties, security, and reconciliation) in regard to collecting and accounting for cash and cash equivalents.

Observation

The current cash handling processes were reviewed to determine if Family Medicine complied with the established policies and procedures. The following is a summary of the observations.

Deposits

The review disclosed that checks received were not deposited in a timely manner; at least weekly or when collections exceed \$500 as required by policy. For example, a review of one deposit included five checks, totaling \$7,551.40, were received from January 2014 through March 2014, and deposited on March 11, 2014. Furthermore, one of the checks received in March 2014 was originally issued on November 29, 2013, but was not deposited timely. On March 3, 2014, Family Medicine management requested the payer to void the 2013 check and reissue another check by the end of March 2014.

Also, deposits were not validated and prepared in dual custody as required by policy. Failure to validate deposits and prepare them in a timely manner weakens the control structure and may lead to loss or theft.

Internal Controls

University policy requires that adequate internal control procedures should be established to ensure that no single individual is responsible for collection, handling, depositing, and accounting for cash and cash equivalents received in a unit. Failure to maintain adequate separation of duties over cash related functions may result in diversion of University funds.

The review of the current business practices disclosed internal control weaknesses. Mailed remittances were not always verified and processed by two employees as required by policy. At least two qualified individuals must be assigned to carry out key duties of the cash handling process.

Security

The review found that checks were not locked in a secure receptacle or safe at all times. An appropriate lockable receptacle or burglarproof/fire resistant safe based on the cash limits as outlined in the policy was not used when checks were not deposited immediately and held overnight.

Handling Currency

The supporting documents for two deposits were reviewed and discrepancies were noted. On both the donation envelope and pocket doc order form, payers were instructed to make checks payable to "UC Irvine". Policy states that "All checks must be made payable to the Regents of the University of California ("UC Regents")." Therefore, the donation envelopes and order forms used in the future should be updated to reflect the correct payee name and note that checks will not be accepted if they are not properly made out to UC Regents.

Lastly, receipts were not recorded for invoiced payments and donations received through the mail. Policy states that a collection not recorded on cash register or point of sale equipment must be recorded on an official pre-numbered, multiple-part cash receipt and used sequentially.

Management Action Plan

By December 31, 2014, management will establish procedures and internal controls that comply with policy BUS-49 and train employees accordingly. To comply with the policy, steps will be taken to ensure that sequentially numbered receipts are used internally to support each check, checks are endorsed immediately upon receipt, checks are deposited daily to ensure security and meet established maximum limits for collections, deposit amounts are validated in dual custody, appropriate internal controls are established for collection, handling, depositing, refunds, and accounting and documented. Also, managers and employees that handle cash and cash equivalents will review BUS-49.

4. Non-Payroll Expenditures

a. PALCard Transactions

Background

The UCI purchasing card (PALCard) is used by faculty and staff members responsible for purchasing University equipment, supplies and services. UC purchasing policies require purchases to be pre-authorized either formally through an internal requisition or informally, such as an email. In addition,

UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

A sample of 24 PALCard transactions was selected from January 1, 2013 through present for further review and the following observations were noted:

- Authorizations were not obtained in advance and/or approvers did not sign internal requisitions as required by policy. Also, the business purpose was not documented on three transactions reviewed.
- For three PALCard transactions, IAS noted a lack in separation of duties. As a best business practice, a PALCard holder should not purchase an item without prior approval. Also, IAS noted that a previous CAO approved the Chair's expenses.
- The required supporting documents, such as agreements, invoices, packing slips, and late administrative reviews were not maintained on file as appropriate supporting documentation and for administrative review in accordance with policy.

For example, Electronic Equipment Agreements were not completed and maintained on file in the department for all faculty and staff that use electronic communications equipment and services for the purpose of conducting official University business as required by policy. Also, the department name and billing address did not appear on some service accounts as required by policy.

- For two PALCard transactions reviewed, the proper tax amounts were not posted to the ledger.

It should also be noted that administrative reviews for 37 percent of the transaction line items were not performed in a timely manner. Furthermore, the reviewer approved transactions when there were missing supporting documentation necessary for proper review and an incorrect tax amount posted to the general ledger.

Implementation of internal controls, such as obtaining prior authorization, establishing separation of duties, maintaining proper documentation, and thorough administrative review, as well as timely expense reconciliation minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

By December 31, 2014, adequate business practices will be established to ensure that expenses are properly reviewed and reconciled for accuracy. The department will also maintain documentation of the review with initials, dates, and tickmarks.

In addition, the policy requirements will be communicated to all PALCard holders, reviewers, and approvers to ensure compliance with policy in acquiring approvals prior to any transaction with a required signature and date; documenting business purpose; maintaining necessary supporting documentation on file, and reviewing transactions properly in a timely manner.

b. PayQuest Transactions

Background

UC Irvine employees utilize the PayQuest automated system to request reimbursement for various expenditures and certain other payments. Reimbursement requests pertaining to travel expenditures must comply with Office of the President (UCOP) Business and Finance Bulletin G-28; expenditures for business meetings, entertainment, and other occasions must comply with UC Business and Finance Bulletin BUS-79. Reimbursement requests must also comply with all applicable UC Irvine policies.

Observation

A sample of 16 PayQuest transactions from January 1, 2013 to present was selected for review to determine if the department complied with policy. The following is a summary of the observations.

- IAS noted that some reimbursements were not properly completed or documented and lacked required notes to justify discrepancies.
- Two travel reimbursements were incorrectly calculated, which caused overpayments. In addition, two travel vouchers were not submitted to the Accounting Office in a timely manner, within 60 days after the end of a trip as required by policy.
- Three reimbursements requiring an exceptional approval were not obtained or documented. The observations include missing receipts, an airfare upgrade, and purchase (computer and accessories) that exceeded \$500. It should also be noted that PALCard is the appropriate method of purchase in purchasing computers, supplies, and equipment.

In addition, it should be noted that Family Medicine does not have a proper mechanism in place to authorize and monitor travel expenses for faculty and staff. IAS recommends that both faculty and staff should be required to complete a travel leave request form and obtain prior approvals before funds are used for travel expenditures, especially advances or APL e-Card purchases of airfare or lodging prior to actual travel dates. These forms can then be used as authorization for travel expenses as well as to later monitor travel expenditures to ensure compliance with policies.

Furthermore, IAS also noted that faculty did not obtain approval from the Chair for leave with pay to attend a professional meeting or for University business as required by policy.

Internal controls such as timely expense reconciliation and appropriate monitoring and review of reimbursement requests reduces the potential for reimbursement of improper expenses and overpaying/underpaying payees, as well as errors, inaccuracies, waste, and fraud to go undetected.

Management Action Plan

By December 31, 2014, adequate business practices will be established to ensure that expenses are properly reviewed and reconciled for accuracy.

In addition, policy requirements will be communicated to faculty and staff to ensure compliance in completing reimbursements accurately and submitting

required supporting documentation. Family Medicine will require both faculty and staff to obtain prior approval for paid leave to attend a professional meeting or for University business. In addition, during the approval process, a determination will be made if a University employee's travel is under the sponsorship of a non-University entity. Only then will funds be used for appropriate travel expenses.

5. Payroll Certification

Background

Payroll certification is required for the salaries of all University employees who are paid from federal funded awards. To properly substantiate salaries charged directly to federally funds, UC Irvine uses an annual Payroll Certification System (PCS). Through payroll certification, principal investigators attest to the accuracy of direct salary charges and confirm that the reported totals are accurate and acceptable for disclosure to the federal government.

Observation

The PCS reports for budget month-end dates from January 2013 through December 2013 were reviewed and IAS noted three awards that required payroll certification reporting. Further review disclosed that the PCS reports for two awards, with due dates in July 31, 2013 and August 30, 2013, were not submitted as of May 31, 2014 and the PCS report for the third award was submitted six weeks late.

Reporting payroll certifications timely ensures that direct salary charges are complete, accurate, and valid for the period reviewed. Failure to perform reviews for timely reporting may adversely impact past and/or future federal funding.

Management Action Plan

The payroll certifications for both awards will be completed and submitted by December 31, 2014. Also, Family Medicine management will monitor

award budget end dates to ensure timely review and reporting of payroll certifications.