

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
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Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

January 16, 2019

ASSOCIATE VICE PRESIDENT LLOYD

RE: Final Report Project No. P18A014: UC SHIP Financial Controls Review

Attached is a copy of the final report for: Audit Services Project No. P18A014 UC SHIP Financial Controls Review. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
Executive Vice President Brostrom
Associate Vice President Arrivas
Director Buchman
Director Olson
Director Slaughter
Systemwide Audit Manager Cataldo
Accounting Supervisor Garrett
Contractor Weiss
Contractor Berchtold

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

UC SHIP FINANCIAL CONTROLS REVIEW
Audit No. P18A014
November 2018

Work Performed by:
Julia Berchtold, Contractor
Jeffrey Weiss, Contractor

Executive Summary

Introduction and Background

As part of the University of California Office of the President (UCOP) 2017 – 2018 fiscal year internal audit plan, Internal Audit performed an audit of the Student Health Insurance Plan (SHIP) at the University of California (UC). SHIP is a not-for-profit, self-funded student health benefit plan administered by the UCOP; offering a range of benefits to students, including but not limited to, medical, pharmacy, dental, vision, and mental health coverage for UC undergraduate and graduate students and their eligible dependents for 12 months. As all UC students are required to have medical insurance, UC automatically enrolls registered students at nine campuses (Davis, Irvine, Los Angeles, Merced, Riverside, Santa Barbara, Santa Cruz, San Diego and San Francisco) and Hastings College of the Law.

During the 2017-2018 plan year, UC SHIP had over \$210 million in medical claims. UC SHIP is responsible for calculating and collecting insurance premiums from campuses covered under UC SHIP and partners with Student Health Center Directors and/or Financial Managers at each campus to ensure accuracy of premium rates, enrollment counts, and campus fees prior to collection. UC SHIP vendor payment activities are supported by two departments within UCOP – Benefit Plan Accounting (BPA) and Business Resource Center (BRC). Vendor set-up, purchase order submission, and invoice payment for non-member or enrollment-based payments are performed by the BRC. Funds transfers between UC SHIP and campuses, enrollment or member-based payments, and period-end close activities are performed by BPA.

Objectives and Scope

The primary objectives of this financial controls audit were to:

- Identify internal controls currently in place within key UC SHIP financial processes (e.g., insurance premium collection, invoicing, and vendor payments).
- Assess the design of internal controls and consider whether financial risks are adequately mitigated and whether potential control or design gaps exist within key UC SHIP financial processes.
- Identify opportunities within UC SHIP financial processes to strengthen internal controls and further mitigate risks.

The audit scope included a review of the following key financial processes within UC SHIP:

- Collection of Insurance Premiums
- Vendor Payments
- Financial Close Activities

The scope of the review did not include and was not intended to advise on the following:

- Operating effectiveness of internal controls within UC SHIP, BPA, or BRC.
- Any activities or processes transacted at the campus-level.
- Any interface between UC SHIP and other UC departments (e.g., Business Resource Center (BRC)), with the exception of BPA.
- UC SHIP governance or reserve methodology.
- Activities or processes related to third-party vendor claims payment processes.

Procedures Performed

To accomplish the audit objectives and scope, the following procedures were performed:

1. Obtained and reviewed background documentation for the in-scope UC SHIP financial processes, including charters, bylaws, external audit reports, policies, procedures, and process descriptions.
2. Inquired with key personnel within UC SHIP to gain an understanding of in-scope financial processes, including:
 - a. Activities performed by key personnel
 - b. Sub-processes and corresponding risks
 - c. Internal controls in place to mitigate risks
 - d. Systems, reports, and applications used
3. Based on the review of documentation and inquiry with key personnel, mapped financial risks to internal controls identified within a risk and control matrix. Reviewed the risk and control matrix from a design perspective to identify unmitigated financial risks that suggest a control gap may exist.
4. For each key control identified, we performed a walkthrough to validate 1) an understanding of control activity and 2) control design. Based on our walkthrough results, we identified potential opportunities to improve or strengthen the design of internal controls in place as well as opportunities to streamline and / or improve the in-scope financial processes.
5. Documented observations were identified within an observation log, including high level recommendations, and results were reviewed with UC SHIP key personnel.

Conclusion

Based on this audit procedures performed and inquiry with UC SHIP and BPA personnel, Internal Audit concluded that the department has established processes and controls to support the various financial activities within UC SHIP. Process owners appear to have a

detailed understanding of key business activities, seek to continuously improve the control environment, and adapt processes to meet transactional complexities.

We identified a number of improvement opportunities to enhance the internal control environment within the in-scope financial processes reviewed, including opportunities to implement new controls and enhance the design of existing controls. Specifically, we noted a quarterly review of UC SHIP financials by BPA is not performed to ensure that financial statement balances are accurate, properly classified, and coded, however plans were underway to implement a control at the time the audit was performed. We also identified several opportunities to strengthen controls around collections and accounts payables activity including 1) validating the completeness and accuracy of data used in the calculation of both campus premiums and vendor payments and 2) ensuring timely review by campus personnel of premium sweep collections for accuracy prior to processing. Action plans developed by UC SHIP to address these issues will help to strengthen internal controls and increase effectiveness of operations and financial information.

Deliverables

Deliverables for the audit included:

1. A Risk and Control Matrix (RCM) detailing the inherent risks within the key UC SHIP and BPA processes including corresponding controls to mitigate these risks. See Appendix A - "UC SHIP Financial Control Review – Risk and Control Matrix and Observations Log."
2. An Observations Log detailing key observations (i.e., control gaps and control design enhancements) and process improvement opportunities.

Opportunities for Improvement and Action Plans

1. Lack of Formal Quarterly Review of UC SHIP Financials

We noted that a formal review of UC SHIP financials by BPA was not in place at the time of our review, however plans were underway to implement a reconciliation control. A formal quarterly review of UC SHIP financials, including a reconciliation of liabilities with vendor invoices and entries for proper coding, will mitigate the risk that UC SHIP financial statement balances are not properly classified, coded, accurate, or prepared accurately. Further, the review will support BPA and UC SHIP detect benefit plan activity that may fall outside of expectation and require further investigation.

Action Plan:

Per discussion with both BPA and UC SHIP personnel, BPA is in the process of implementing a formal quarterly review of UC SHIP financials. BPA will formally document and retain evidence of review (e.g., sign-off and date within workbook, email

correspondence confirming final approval), as well as indicate specific items reviewed, inquiry and retention of resolution of errors. The "Source Code Guidelines" file will be reviewed as well for accuracy of any additions or changes from the prior period. In addition, a threshold will be defined to trigger follow up and resolution of significant variances period over period. Lastly, BPA will retain evidence of procedures performed to validate completeness and accuracy of the underlying data used in the performance of the control (e.g., screenshots of parameters used to generate GL detail).

Target Date: This control will be implemented for Q1 FY19.

2. Validation of Data Used in Performance of Controls Not In Place (Control Design Enhancement)

UC SHIP relies on enrollment data provided by a third party provider to calculate the insurance premiums collected from each campus, as well as amounts due to vendors. We noted that procedures to verify completeness and accuracy of data used in the calculation are not in place, including collection, documentation, and confirmation procedures. Without procedures to validate accuracy of data provided, the premium sweep calculation (performed to determine the insurance premiums collected from each campus) and/or vendor payments calculation may be inaccurate; resulting in under or overstated expenses and inaccurate payments to vendors.

Action Plan:

Per discussion with the UC SHIP Operations Director, the program will be transitioning to a new data management vendor effective winter term 2019. Management will communicate with the vendor their need to validate data provided for completeness and accuracy. If possible, Management will establish a validation process with the applicable vendor in an effort to ensure enrollment data and vendor payments are accurate. Management will determine the most efficient and effective method to evidence review of the data for completeness and accuracy; which may include either 1) retaining screenshots of parameters used to generate the original query / download, 2) agreeing transaction counts or report ending balances to the original source data, or 3) tracing sample of transactions to the original source data. Management will also consider documenting procedures performed to validate completeness and accuracy within the Vendor Amounts Due and Sweep workbook cover sheets.

Target Date: Procedures to validate the completeness and accuracy of vendor data will be implemented by March 31, 2019.

3. Inconsistent and/or Untimely Campus Approval of Premium Sweep Collection

Per discussion with UC SHIP Financial Analyst, campus approval of the initial premium sweep collection file is not always provided prior to submission of the collection amount to BPA for processing. SHIP currently provides the campuses with detailed information

on total enrollment, premium rate, and campus fees. Although campuses are instructed to review and provide positive confirmation as to the accuracy of the data, positive confirmation is not always obtained and / or provided by the campus contact within the required time period prior to processing. The lack of timely campus review and approval of the premium sweep collection introduces the risk that the sweep collection amount may not be accurate.

Action Plan:

SHIP Management will continue to reiterate to campus personnel the importance of reviewing and approving the sweep collection file for accuracy prior to processing by BPA, to avoid inaccurate financial reporting and/or post-close adjustments. SHIP Management will also establish and communicate procedures that specify alternative procedures (e.g. designated back up) for review and approval of the premium sweep calculation file by each campus, in the case that the designated campus contact responsible for reviewing and approving the file is unavailable.

Target Date: *Communication to campus representatives is ongoing and occurring at a monthly frequency. Reiteration of the important of approval of the sweep collection file will commence October 2018.*

Additional Recommendations

Internal Audit recommends SHIP management consider the following additional improvement opportunity to better align with leading operational practices.

1. Review of Third Party Service Provider SSAE 18 Report

Per discussion with the UC SHIP Operations Director, the SHIP program will be transitioning to a new data management vendor effective winter 2019. We recommend that SHIP management inquire with the vendor and obtain their Statement on Standards for Attestation Engagements (SSAE) 18 Type-2 Report that attests to the service organization's internal controls. We further recommend that SHIP management implement an annual review of the SSAE 18 Report to ensure user control considerations (UCCs) and any control failures within the service organization are addressed by existing controls or activity. The following control detail is drafted for your consideration:

The Operations Directors reviews the SSAE 18 Report to a) verify internal controls within the third party service provider are designed and operating effectively, and b) assess whether the report provides sufficient audit evidence about the effectiveness of controls. The Operations Director also reviews the client control considerations listed to verify proper internal controls are in place, identifies control failures within the SSAE 18 report, and reviews control failures listed to assess risk and compensating company controls. The review results are documented and maintained in a secure location.

Appendix A

University of California, Office of the President
 UC SHIP Financial Controls
 Risk and Control Matrix - as of 12/13/2018

Control Detail				Risk(s)							Additional Control Detail			
Process	Control Number	Control Description	Control Owner	1	2	3	4	5	6	7	Control Type II (Manual / System)	Control Type III (Preventive / Detective)	Control Frequency	Related to Issue Addressed in Audit Report
				Collection amount is not complete and accurate.	Claim activity is not monitored to detect potential fraud.	Appropriate matching between invoices, receiving documents and purchase orders may not be performed.	Unauthorized, fictitious or improper commitments or expenses may be incurred without management's knowledge or approval.	Duplicate invoices are received and processed, leading to duplicate payments.	Vendor payments are not properly authorized, complete, or accurate.	Financial Statement balances are not properly classified, coded, accurate, or prepared accurately.				
Initial Sweep Collection	C01	At the beginning of each term period, the Financial Analyst calculates the collection amount and campus fees based on enrollment data from enrollment vendor. The calculation is reviewed by the campus Director or Financial Manager for accuracy of enrollment, premium rate, and campus fees. Once confirmation is received, the total collection amount per campus is provided to BPA for processing of funds transfer via financial journal.	UC SHIP	X							Manual	Preventive	As Needed	X
True-Up Sweep Collection	C02	Prior to term period end, the Financial Analyst calculates the remaining collection amount and campus fees to true-up total collections for the year using enrollment data from USI. The calculation is reviewed by the campus Director or Financial Manager for accuracy of enrollment, premium rate, and campus fees. Once confirmation is received, total collection amount per campus is provided to BPA for processing of funds transfer via financial journal.	UC SHIP	X							Manual	Preventive	As Needed	X
Annual Rate Verification	C03	At least annually, the "UC SHIP Final Rates for Plan Year 20XX - XX" workbook, used to calculate premium sweep, is prepared for the current fiscal year to establish key formulas and reflect current year rates and contract terms. The workbook is reviewed by an individual independent of the preparer for mathematical accuracy of all formulas and for agreement to contracts. The workbook is also spot checked for accuracy and proper support by the UC SHIP Director. Review and approval is evidenced via email correspondence.	UC SHIP	X							Manual	Preventive	Annual	
Sweep Collection	C04	Following collection funds transfer, the Financial Analyst reviews the financial journal to verify amount of the collection fund transfer agrees to the amount provided by UC SHIP. If discrepancies greater than \$.01 are identified, follow up is conducted with BPA to resolve and adjust if necessary. Evidence of reconciliation and review is documented within the workbook by the Financial Analyst.	UC SHIP							X	Manual	Detective	As Needed	
Vendor Payments - Invoices Processed through Service Now	C05	Non-PO invoices are routed to the Director, Risk Financing & Operations (<\$10K), Chief Risk Officer or Deputy Chief Risk Office (<\$100K), or EVP CFO (>\$100K) for approval prior to submission in the Service Now portal for payment.	UC SHIP				X				Manual	Preventive	As Needed	
Vendor Payments - Amounts Due to Vendor (Member / Enrollment-Based)	C06	At least annually, the "20XX-XX Vendor Amounts Due-new dd rates-[Month]XX" workbook, used to calculate payments to vendors, is prepared or updated with current year rates, contract terms, and key formulas. The workbook is reviewed for mathematical accuracy of all formulas and for agreement to contracts by an individual independent of the preparer. The workbook is also spot checked for accuracy and proper support by the UC SHIP Director. Review and approval is evidenced via email correspondence.	UC SHIP	X							Manual	Preventive	Annual	
Vendor Payments - Amounts Due to Vendor (Member / Enrollment-Based)	C07	Monthly, payments owed to vendors (typically insurance carriers) based on member or enrollment, are calculated by the Financial Analyst or Analyst based on the Accounting Statement provided by the enrollment vendor. An individual independent of the preparer reviews the calculation for accuracy of balance totals, spot check formulas for mathematical accuracy, and reviews for significant variances from prior period. Review and approval of the file is evidenced via email correspondence. Once approved, the file is sent to BPA for payment processing.	UC SHIP						X		Manual	Preventive	Monthly	X

Appendix A

Process	Control Number	Control Description	Control Owner	1	2	3	4	5	6	7	Control Type II (Manual / System)	Control Type III (Preventive / Detective)	Control Frequency	Related to Issue Addressed in Audit Report
				Collection amount is not complete and accurate.	Claim activity is not monitored to detect potential fraud.	Appropriate matching between invoices, receiving documents and purchase orders may not be performed.	Unauthorized, fictitious or improper commitments or expenses may be incurred without management's knowledge or approval.	Duplicate invoices are received and processed, leading to duplicate payments.	Vendor payments are not properly authorized, complete, or accurate.	Financial Statement balances are not properly classified, coded, accurate, or prepared accurately.				
Vendor Payments - Amounts Due to Vendor (Member / Enrollment-Based)	C08	For payments made to the Pharmacy Benefit Manager (PBM) for Administrative Services Only (ASO) fees, the Enrollment Report is utilized to calculate the amount due to vendor on a monthly basis. The "OptumRx_20XX Vendor Amounts Due - [Month] 20XX" workbook is reviewed by an individual independent of the preparer for accuracy and significant variances from prior period. Approval is evidenced via email correspondence. Once approved, the workbook is provided to the PBM for processing.	UC SHIP						X		Manual	Preventive	Monthly	X
Vendor Payments - Amounts Due to Vendor (Member / Enrollment-Based)	C09	Monthly, the invoice for Administrative Services Only (ASO) fees is obtained from the PBM for the prior month's member data. The Financial Analyst reviews the invoice for agreement to member data provided to verify no differences exist and that out-of-state fees are reasonable based on expectations. Any discrepancies greater than \$0.01 are resolved with a representative from the PBM. Once approved for payment, the invoice is provided to BPA for payment processing.	UC SHIP						X		Manual	Preventive	Monthly	
Vendor Payments - Amounts Due to Vendor (Member / Enrollment-Based)	C10	For payments made to the Pharmacy Benefit Manager (PBM) for Rx claims, the Claims Detail Report is utilized to calculate the amount due to vendor on a monthly basis. The UC SHIP Director and Medical Director review the claims detail for large dollar claims, high-dollar prescriptions, and anomalies, and any issues are addressed with the PBM or campus contacts. Approval of the Claims Detail Report is evidenced via email correspondence.	UC SHIP						X		Manual	Preventive	Monthly	
Vendor Payments - Amounts Due to Vendor (Member / Enrollment-Based)	C11	An ACH payment is set up to pay the vendor. The Accountant 4, Accounting Supervisor, and Director review the payment in the banking portal for approval from UC SHIP, accurate vendor name, and amount. Once reviewed, the payment is released in the banking portal.	BPA						X		Manual	Preventive	As Needed	
Vendor Payments - Amounts Due to Vendor (Partners in Medical Therapy)	C12	As needed, invoices received from Partners in Medical Therapy are provided by the Financial Analyst or Administrative Analyst to designated campus personnel to verify 1) that the individual is an active student of the university and 2) that the student is enrolled in UC SHIP. Once confirmation is received from designated campus personnel, UC SHIP provides the invoice to BPA for processing of the funds transfer.	UC SHIP						X		Manual	Preventive	As Needed	
Period-End Activities	C13	Monthly, a budget v. actual analysis is prepared by the Financial Analyst to reconcile program expenses against the budget approved by the budget office. Expenses for the month are reviewed by the UC SHIP Director to monitor and anticipate budget overages. Review and approval is evidenced via email correspondence.	UC SHIP							X	Manual	Detective	Monthly	
Fraud Detection	C14	Monthly, Advanced Pharmacy Audit Services (APAS) provides UC SHIP with a audit report with detailed drug, cost, quantity, and other patterns identified through the Pharmacy Benefit Provider's data-mining tool. This report is reviewed by the UC SHIP Operations Director and Medical Director for indicators of fraud, waste, abuse and error, including but not limited to forged prescriptions, duplicate claims, data entry errors and misbilling.	UC SHIP		X						Manual	Detective	Monthly	
Fraud Detection	C15	Quarterly, the UC SHIP Operations Director and Medical Director meet with representatives from UC SHIP's Pharmacy Benefits Manager (PBM), campus Pharmacy Directors, clinical staff and students to review claims data for the quarter. Patterns and fluctuations are reviewed for indicators of fraud, waste, abuse and error, and if necessary, further investigation is conducted by the BPM and/or campus representatives as a result of the review.	UC SHIP		X						Manual	Detective	Quarterly	

Appendix A

Process	Control Number	Control Description	Control Owner	1	2	3	4	5	6	7	Control Type II (Manual / System)	Control Type III (Preventive / Detective)	Control Frequency	Related to Issue Addressed in Audit Report
				Collection amount is not complete and accurate.	Claim activity is not monitored to detect potential fraud.	Appropriate matching between invoices, receiving documents and purchase orders may not be performed.	Unauthorized, fictitious or improper commitments or expenses may be incurred without management's knowledge or approval.	Duplicate invoices are received and processed, leading to duplicate payments.	Vendor payments are not properly authorized, complete, or accurate.	Financial Statement balances are not properly classified, coded, accurate, or prepared accurately.				
Period-End Activities	C16	[Pending Formal Implementation] Quarterly, a review is performed by BPA of UC SHIP financials. All entries during the period are reviewed for accurate entity and source code by BPA and the UC SHIP Financial Analyst. Review and approval is evidenced on a quarterly basis. [NOTE: Per discussion with management within BPA and UC SHIP, this control had not been formally implemented at the time of inquiry. As such, control language should be assessed and updated to reflect control activity once implemented.]	BPA / UC SHIP							X	Manual	Detective	Quarterly	X