

The logo for UCI Irvine, featuring the text "UCI" in a large, bold, serif font, followed by "IRVINE" in a smaller, all-caps, serif font. A vertical line separates the text from the "INTERNAL AUDIT SERVICES" text to its right.

INTERNAL
AUDIT SERVICES

Department of Dermatology

Internal Audit Report No. I2016-207

June 9, 2016

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

June 9, 2016

**CHRISTOPHER B. ZACHARY, M.D.
CLINICAL PROFESSOR AND CHAIR
DEPARTMENT OF DERMATOLOGY**

**RE: Department of Dermatology Audit
Report No. I2016-207**

Internal Audit Services has completed the review of the Department of Dermatology 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

Lorraine Pistorino, Chief Administrative Officer (CAO), Department of Dermatology
Mona Wapner, Interim Chief Financial Officer, School of Medicine (SOM)

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) conducted a review of the Department of Dermatology (Dermatology) including clinic operations and a limited review of Dermatopathology. In general, departmental controls and processes appear to be functioning as intended. The review disclosed 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.

Vendor Management – No formal service agreement could be obtained for systems storing and accessing patient photos/data which increases the risk of a security breach. Further details are found in section V.1.

Billing – Internal controls need improvement to ensure charges and payments are adequately supported and entered timely in the General Electric (GE) system. In addition, cosmetic rates were not regularly reviewed to ensure they align with market rates and no guidelines are established regarding discounts. The observations related to these procedures are discussed in sections V.2.

Cash Handling – Cash and cash equivalents were not properly handled and recorded in accordance with University policy. Proper accountability was not maintained in the cash handling process. Further details related to these issues are provided in section V.3.

Medical Equipment and Supplies – The location listed for equipment was incorrect in the Clinical Engineering database. Furthermore, some equipment found in the database were no longer in use. The perpetual balance of medical supplies such as Botox and fillers were not maintained in order to perform an adequate physical inventory. The observations are discussed in section V.4.

Personnel Practices – Internal controls surrounding performance evaluations, overtime and faculty leaves require strengthening. Performance appraisals were not always completed annually for academic office employees, the amount of overtime for one employee was excessive and faculty leaves were not properly approved and monitored. The observations are discussed in section V.5.

Travel and Entertainment Expenses – Travel and entertainment expenditures were not always properly supported or reimbursed as required by University Policy. This observation is discussed in section V.6.

Ledger Reconciliations – General ledger reconciliations have not been prepared since August 2015. In addition, the person preparing deposits and placing purchase orders was also performing the ledger reconciliations; inadequate separation of duties. This observation is discussed in section V.7.

II. BACKGROUND

Dermatology provides clinical research and educational programs along with comprehensive diagnosis and treatment for all pediatric, adolescent and adult dermatological conditions. Dermatology 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 at Gottschalk Medical Plaza and Beckman Laser Institute on campus, services are provided at four other locations: two sites at the University of California, Irvine Medical Center and two offsite retail space locations in Tustin and Newport Beach. The Dermatopathology laboratory provides expertise in the pathology of skin, serving University clinicians on campus and the Medical Center.

Dermatology's faculty is engaged in clinical, translational and basic research as principal investigators. Faculty is involved in all phases of clinical testing, including Food & Drug Administration approval of investigational drugs and lasers, new indications for new drugs, over-the-counter products and pharmaceuticals for cosmetic use.

During the course of the audit, Dermatology migrated from manual medical records to Quest, an electronic medical records system. Over the past few years, Dermatology has experienced several transitions in management but recently recruited an experienced administrator to establish procedures in the business and clinical practice to minimize financial and operational risks. The Chair, who serves as the academic leader and administrative head, reports directly to the SOM Dean. The Chief Administrative Officer, who reports to the Chair, directs the

administrative operations in Dermatology. Dermatology has 53 full time employees, including 15 faculty members, 15 residents and 23 staff positions.

III. PURPOSE, SCOPE AND OBJECTIVES

The primary purpose of the audit was to perform a general review of Dermatology operations to assess business risk, internal controls and compliance with University policy and procedures. The scope focused on certain operational and financial activities during fiscal year 2015-2016 through present.

The audit included the following objectives.

1. Verify that the billing and collections of cosmetic services were accurately billed in a timely manner;
2. Verify that cash collections were appropriately handled, accurately recorded and deposited in compliance with University policy;
3. Assess whether medical supplies and equipment inventory was monitored and physically secured;
4. Determine if systems maintaining protected health information was secured;
5. Assess payroll and personnel practices related to time reporting, performance evaluations, overtime, separation/termination and faculty leaves;
6. Verify that travel and entertainment claim expenses were adequately documented, supported and approved in accordance with University policy;
7. Evaluate the start-up of clinical trials for proper approvals, adequate documentation and proper fund management and;
8. Determine if the aging of accounts receivable for Dermatopathology is monitored.

IV. CONCLUSION

In general, departmental controls and processes appear to be functioning as intended. However, business risks and internal control concerns were identified in the areas of vendor management, billing, cash handling, inventory of medical equipment and supplies, personnel practices, travel and entertainment reimbursements, and general ledger reconciliations.

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. Vendor Management

Background

Dermatology uses a vendor managed system for storing and accessing certain electronic protected health information (ePHI) data. The system has been in use for about eight years. Currently, the data resides on Amazon Web Services (AWS) server – cloud computing service.

UC policies require that procedures are in place to ensure that contracting third parties will appropriately safeguard University information in accordance with federal and state laws and regulations and University policies. Additionally, the Health Insurance Portability and Accountability Act (HIPAA) regulations require the University to have a business associate agreement (BAA) whenever a vendor (business associates) provides services to the University involving PHI/ ePHI. The University has standard HIPAA agreements that should be used whenever a BAA is required. However, at the time of this review, Dermatology was working on discontinuing the use of the vendor system in lieu of one of the Health Affairs Information Systems (HAIS) managed electronic health record (EHR) system. While Dermatology will be using UC Irvine managed EHR system moving forward, the vendor still hosts the historical ePHI data and appropriate action should be taken to ensure the

security of the data. Dermatology management stated that the plan is to eventually move all the historical data in-house.

Observation

The following issues were noted regarding the vendor managed Dermatology system.

- There are no formal service agreements, contracts or data security risk assessment in place as required by UC policies, for example the standard HIPAA BA agreement, Data Security and Privacy Appendix or other appropriate agreements.
- IAS was not able to obtain evidence that procurement of the system was conducted through the central purchasing function or that the Health Affairs Information Services (HAIS), information security team was involved in conducting a data security risk assessment pertaining to safeguards that should be in place for the ePHI data. Third-party contracts, agreements and risk assessment are a central function that should flow through purchasing and involves risk assessment by the information security team when restricted or sensitive data is involved.
- The vendor indicated that that their contractual agreement is online. A review of this agreement indicates it is a “click-through” agreement requiring the clicking of an “I accept” button by the user in order to use the system. Furthermore, a review of the “click-through” agreement indicates the agreement is not favorable or adequate when compared to the University standard agreements required by policy.

Due to lack of appropriate contractual agreements in place that define the responsibility of the vendor in protecting ePHI data hosted during the period the vendor is providing services and after termination of vendor services, the University could be liable in the event of a security breach. Also, without the vendor risk assessment management may not have the necessary understanding to protect the data from potential threats.

Management Action Plan

Dermatology will work with the appropriate individuals (information security, privacy official, compliance office, and purchasing to ensure that University data hosted by the vendor is not at risk (during the period the vendor is providing services and after termination of vendor's services).

- If Dermatology continues using the vendor's services, we will ensure that the HIPAA BAA is in place and information security assessments are conducted. The anticipated completion date is August 1, 2016.
- If EHR is used or the historical data is migrated in-house, we will conduct adequate procedures and take all the necessary precautions to ensure that all University data has been returned by the vendor and the vendor has certified in writing that no copies of University ePHI reside on their systems. The anticipated completion date is August 1, 2016.

2. Billing

Background

The services rendered to patients in Dermatology 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 system.

Billing services are provided by two separate entities. The Physicians Billing Group (PBG) provides billing for medical services and Dermatology handles billing for cosmetic services. Full payment for cosmetic services are due upon the office visit and Dermatology staff are responsible for collecting payment of professional fees based on the encounter forms completed by the physicians. The charges and collection of payments are reflected in the GE system.

Observations

IAS reviewed 18 cosmetic office visits provided at the Gottschalk Medical Plaza from July 2015 to January 2016. All 18 were billable office visits with associated charges. As a best business practice, charges and encounter forms for all visits should be posted and scanned in the GE system. The following is summary of the review.

a. Encounter Forms

Encounter forms were sent for scanning but eight of the office visits reviewed did not include the necessary cover sheet and were not scanned into the GE system and could not be located. As a result, the accuracy of the billing could not be examined.

b. Timeliness of Posting

For all 18 office visits, the charges and payments were posted to the GE system 5 to 26 business days after the dates of service.

Failure to ensure that charges are adequately supported and posted timely in the GE system may result in lost revenue and inability to reconcile charges.

c. Discounts

Dermatology has not established a consistent process for discount rates for cosmetic services. The review disclosed that physicians gave patients, including employees, varying discounts between 12-50 percent for the office visits evaluated.

d. Cosmetic Rates

Cosmetic rates have not been reviewed since 2010. As such, it could not be determined if rates were appropriate or align with market rates.

Management Action Plan

- a. As of February 2016, all encounter forms are being batched and sent to PBG daily with the required cover sheet so they are scanned into the system.
- b. Dermatology is currently up-to-date with posting cosmetic charges and payments into the GE system with no backlog. An internal policy is being developed that will require staff to enter charges and payments by next business day.

- c. Management will work with the UC Irvine Health Compliance Office to develop a policy regarding discounts for self-pay cosmetic procedures. Discounts are given for a variety of reasons and the discounts applied may vary. The reasons include teaching discounts where subjects are providing a service to students, residents, and fellows who are in training. Discounts are given based on the size of the area being treated, its location, the complexity of the procedure, the number of devices used, the parameters used, and in particular the number of treatments that the patient already received. Some patients may return somewhat dissatisfied requiring a touch up procedure. For these reasons, and others, it is impossible to have totally consistent prices for cosmetic procedures. A departmental policy will be established and documented by August 31, 2016.
- d. The Chair reviewed the cosmetic rates on December 14, 2015 and will be reviewed annually thereafter to ensure appropriateness and minimize the risk of lost revenue. The rate review will be documented and evidence maintained. The new rates will be incorporated in Superbill when Dermatology goes live with Quest.

3. 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 depositing. Compliance with these policies and procedures ensures that University cash and cash equivalents are protected, accurately and timely processed and properly reported.

Observation

A sample of deposits collected and prepared by the Gottschalk clinic and the academic office were reviewed. Testing found that cash handling and recording requires improvement. The following concerns were noted.

- Checks received through the mail were opened and verified by one employee

- The transfer of checks among staff was not documented therefore accountability was not maintained.
- Checks were not endorsed immediately upon receipt.
- The date checks were received was not documented and as a result the timeliness of the deposit could not be verified.
- Deposits were prepared and verified by one employee in the Gottschalk clinic and academic office.

Management Action Plan

Effective February 2016, the Gottschalk clinic implemented a process where all deposits are prepared and verified in dual custody. Deposit bag receipts will include two signatures to reflect this and will be maintained with the supporting deposit documentation.

The academic office will be taking great measures to ensure that Dermatology stays compliant with University policy BUS-49 through the following:

- A check log was created which will require two signatures upon receipt for checks received through the mail and will also document the date each check was received. In addition, any transfers of checks among staff will be documented on the check log to maintain individual accountability;
- Dermatology obtained an endorsement stamp that has been approved for use by Campus Cashiering Manager. All checks received will be endorsed immediately upon receipt; and
- Going forward, check deposits will be initiated by the Senior Finance Analyst or the new Assistant Administrative Analyst. If initiated by the Senior Finance Analyst, the deposit will be approved by the CAO and if initiated by the Assistant Administrative Analyst the deposit will be approved by the Senior Finance Analyst. The approvals will be reflected on the check log.

4. Travel and Entertainment

Background

Official University travel must be properly authorized, timely reported, and reimbursed in accordance with Business and Finance Bulletin G-28. Entertainment related expenditures must comply with Business and Finance

Bulletin 79. Additionally, travel and entertainment expenditure must be properly documented and supported.

Employees utilize the Quali Financial System (KFS) Travel and Event Manager system to request reimbursement for travel and entertainment expenditures. Procedures and supporting documentation related to a sample of travel and entertainment reimbursements were evaluated for compliance with policy.

Observation

Travel and entertainment reimbursements were not always adequately supported or properly reimbursed. The following was noted and non-compliant to University policy:

- A final guest list containing the name and title of participants and their occupation or group affiliation was not provided for an \$3,150 event hosted by Dermatology so it's uncertain if maximum per-person expenditures amounts were followed;
- A parking fee for \$38 was reimbursed without a parking receipt submitted;
- The amount reimbursed for airfare did not agree to the receipt provided; a \$20 discrepancy/overpayment;
- A traveler claimed both per diem and actual expenses for meals. University policy states that travelers may not request reimbursement of actual expenses for one portion of a trip and per diem for the remainder. The method selected must be used for the entire trip. However, a per diem may be used for M&IE and actual costs used for lodging.

Management Action Plan

A copy of the Entertainment and Travel Policy was sent out on March 16, 2016 to all faculty and staff. Future reimbursement requests that do not comply with the policy will not be approved for reimbursement. Management will monitor travel and reimbursement by adding an administrative analyst as an ad-hoc approver in KFS for randomly selected reimbursements for an extra level of review.

5. Equipment and Supplies

Background

Clinical Engineering is responsible for performing electrical safety checks and preventative maintenance on medical equipment used in patient care. The AssetPlus system is used to manage data for all medical equipment including service activity. Clinical Engineering will tag equipment once it has been inspected and cleared for use.

Dermatology maintains various medical equipment in the clinics such as lasers, examination treatment chairs, photo therapy units, etc. and personnel are responsible for managing inspection activities on such equipment.

Dermatology also stores medical supplies such as Botox, fillers and other cosmetic type products within the clinic. Internal controls such as inventory records and storage practices was examined to ensure that medical supplies were monitored and physically secured.

Observations

a. Clinical Engineering Database

All 16 medical equipment sampled were properly inspected and tagged by Clinical Engineering but AssetPlus was not properly updated. The location listed for equipment tested was incorrect in the database. Additionally, three items no longer in Dermatology were still listed in the database.

To allow for efficient and proper management of medical equipment inspection activities, Dermatology, in conjunction with Clinical Engineering, should ensure that the information listed for all clinical engineering equipment is accurate in the database. Furthermore, Dermatology should notify Clinical Engineering throughout the year as equipment are moved, disposed, or if changes are made.

b. Medical Supply Inventory

Although a physical inventory was performed of medical supplies it is not always adequate. Inventory logs document the use and purchase of

supplies such as Botox and fillers but the continuous balance is not recorded to reconcile against the physical count. In addition, the Clinic Manager performs the inventory of supplies and also has a key to the medical supply room where supplies are maintained, which is an inadequate separation of duties.

Management Action Plan

- a. Dermatology is recruiting for an assistant administrative analyst whose job duties will include asset management. He/she will ensure that the database is accurate and continuously updated throughout the year when there are any changes.
- b. An intern is currently working with the Clinic Manager on coming up with an inventory management process for medical supplies. Several meetings have already taken place and a process will be finalized to ensure that a continuous balance is recorded to perform an adequate inventory and that there is adequate separation of duties.

6. Personnel Practices

Background

Personnel policies establish employment standards and procedures in regards to performance evaluations, overtime and leaves. Compliance with policies and procedures was examined through discussions with staff and review of supporting documentation.

Observations

a. Performance Evaluations

Performance appraisals were completed annually for clinic staff but not for academic office staff. The performance evaluations for the academic office for the 2014-2015 period were completed more recently in December 2015 but it is unknown if and when evaluations were completed for previous years.

University of California Policy PPSM-23 Performance Management states, the performance of each employee shall be appraised at least annually in writing by the employee's immediate supervisor, or more frequently in accordance with local procedures.

The written performance appraisal is an opportunity for the supervisor and employee to review whether previously discussed performance expectations and goals have been met, to discuss professional development opportunities, and to identify options for acquisition of additional skills and knowledge to foster performance improvement and career growth. Additionally, the appraisal provides appropriate documentation to support and recommend merit increases and/or other performance based awards.

A copy of the completed performance evaluation should be placed in the employee's personnel file.

b. Overtime

Overtime was evaluated to ensure appropriateness and properly approved in advance. Test work found that the amount of overtime worked by one employee was excessive. Between July 2015 and October 2015, Dermatology paid a total of about \$21,000 in overtime and one employee earned \$10,300; about half of the total. Management stated overtime is authorized in advance but documentation is not maintained by the clinic to evidence advance approval and the amount of overtime authorized. In addition, management revealed that at the end of the pay period when overtime forms have been reconciled to time records, the overtime authorization forms are discarded.

When overtime requirement is regular and excessive, management should ensure that staffing levels are adequate to meet operational needs and equally distributed. Furthermore, documentation of advance authorization of overtime should be maintained.

c. Faculty Leaves

Dermatology recently began using the on-line Faculty Leave Request form system. Requests are submitted and approved electronically, however the Chair is approving his own vacation leave requests. According to the University's Academic Policy Manual - 730, accrued vacation shall be approved by the appointee's supervisor.

Also, an internal spreadsheet is used to monitor all faculty's leave hours and time but it is not adequate to ensure faculty do not exceed the maximum amount of time allowed for combined outside professional activities and academic time away. According to the SOM memo dated January 2014, each faculty member will be allowed to use up to 48 days for outside professional activities and academic time away. Without an adequate tracking tool, faculty may exceed the maximum number of days allowed for outside professional activities and academic time away.

Management Action Plan

- a. Performance evaluations for the academic office staff were completed in December 2015. Dermatology management will ensure that they are completed annually and a copy will be maintained in the employee's personnel file.
- b. As previously discussed with the Clinic Manager, her schedule was adjusted from 10:30 a.m. to 7:00 p.m. since she is typically the person that covers clinic closing. Dermatology is in the process of changing medical assistant schedules to four ten hour days, pending union approval. If approved, the Clinic Manager will also adjust her schedule to four ten hour days in an effort to reduce the amount of overtime. Dermatology has a high patient practice volume and in order to meet clinical needs in safely providing patient care, staffing will need to be monitored/budgeted to ensure staffing-patient acuity is properly allocated.

The Senior Finance Analyst is also monitoring overtime regularly through reports and the clinic is maintaining all overtime approval documentation.

- c. An email was sent out in March 2016 reminding faculty members to utilize the online Faculty Leave Request Form system. The Academic Affairs office

is working on routing the Chair's leave requests to the appropriate approver. The internal spreadsheet used to track faculty leaves will be revised to allow for the monitoring of outside professional activities and academic time away to ensure faculty do not exceed the maximum number of days. The target start date of the assistant administrative analyst is the middle of April 2016 and this employee will be responsible for continuously updating the spreadsheet as leave requests are submitted through the on-line system.

7. General Ledger Reconciliations

Background

UC Irvine Administrative Policies and Procedures Sec. 701-08: Procedures for Control of Expenditure and Income Funds specify that each activity manager, who is directly responsible for the financial affairs of that activity, maintains procedures that monitor and verify transactions in order to reconcile balances monthly to the general ledger.

Observation

Due to staffing shortages, Dermatology has not performed a general ledger reconciliation of all expenditure or income accounts since August 2015. In addition, the person preparing the deposits and purchases in the academic office is also reconciling the general ledger, which is an inadequate separation of duties. As such, it increases the risk of errors, inefficiencies, and misappropriation of funds.

Management Action Plan

Dermatology is currently in the process of recruiting an administrative analyst who will assume the purchasing and preparing the deposits responsibility, currently covered by the Senior Finance Analyst due to staffing shortages. The target date to have someone in the position is the middle of April 2016. The Senior Finance Analyst will perform the reconciliations monthly.