KENNETH J. CHANG, MD, FACG
DIVISION CHIEF
GASTROENTEROLOGY

RE: Gastroenterology Audit
Report No. I2018-202

Internal Audit Services has completed the review of Gastroenterology 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
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) conducted a review of Gastroenterology. In general, division controls and processes appear to be functioning as intended. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures and/or best business practices. Specifically, the following concerns were noted.

Cash Management – Cash collections were not handled in accordance with the University policy. Mailed remittances were verified and processed by one individual instead of two. The date checks were received was not recorded and the timeliness of deposit could not be validated. The details related to these issues are provided in Section V.1.

Travel Reimbursements – A review of travel reimbursements found that a traveler was reimbursed for a car detail service which appeared to be a parking expense. In addition, original receipts for additional airline charges were not always submitted as required by policy. These observations are discussed in Section V.2.

Human Subject Payments – Internal controls related to human subject payments was reviewed and disclosed that study funds were deposited into an employee’s personal bank account and cash was not reconciled periodically as required by policy. These observations are discussed in Section V.3.

Purchasing Practices – Two separate purchases for $6,508 and $2,371 were not properly approved and documented prior to purchase. Further details related to this issue is discussed in Section V.4.

Equipment Inventory – The equipment data base was not updated with the correct serial number and some equipment did not have tag numbers affixed to the equipment. As a result, this may make it difficult to perform an adequate physical inventory and properly manage equipment inventory. This is discussed in Section V.5.
General Ledger Reconciliations - The ledgers have not been reconciled, reviewed, and documented as required by University policy. This observation is discussed in Section V.6.

II. BACKGROUND

Gastroenterology is one of eleven divisions under The Department of Medicine (DOM), which is part of the University of California, Irvine (UCI) School of Medicine. The division is a center for the study and treatment of digestive diseases. Faculty members conduct research and perfect clinical applications for new technologies—all with the goal of delivering the highest quality of patient care. The division’s main clinical enterprise is the H.H. Chao Comprehensive Digestive Disease Center, a multidisciplinary “one-stop shop” where gastroenterologists, hepatologists, oncologists, pathologists, radiologists and surgeons work together to deliver superior patient care. Faculty members are experts at treating all types of gastrointestinal diseases including Gastroesophageal reflux disease, liver disease, pancreatic and biliary disease, and gastrointestinal cancers. Additionally, faculty members are actively engaged in clinical and basic research including clinical trials.

More than 14 faculty and 100 staff including administration, research and students make up Gastroenterology. The Division Chair, who serves as the academic leader and administrative head, reports directly to the DOM. The MSO, who reports to the Division Chair, directs the administrative operations.

III. PURPOSE, SCOPE AND OBJECTIVES

The primary purpose of the audit was to perform a general review of Gastroenterology to assess business risk, internal controls and compliance with University policies and procedures. The scope focused on certain operational and financial activities for the current FY 2017-2018.

The audit included the following objectives:

1. Verify that cash and cash equivalents were appropriately handled, recorded and stored in compliance with University policy;
2. Assess the refunds process and verify proper approvals were obtained, processed accurately and adequately supported;

3. Verify that purchasing transactions were properly authorized and supported;

4. Verify that travel and entertainment reimbursements were properly authorized, reported and reimbursed in accordance with University policy;
5. Verify that human subject payments were properly handled and reconciled as required by University Policy and;

6. Assess whether equipment inventory was properly tagged and accurately reflected in the equipment inventory database.

IV. CONCLUSION

In general, division controls and processes appear to be functioning as intended. However, business risks and internal controls and processes could be further enhanced in the areas of cash management, travel reimbursements, human subject payments, purchase authorizations, management of equipment inventory, 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. Cash Management

   Background

   Daily cash handling processes were evaluated to verify whether proper controls exist over the recording and physical security of cash and cash
equivalents. In addition, compliance with Business and Finance Bulletin “Policy for Handling Cash and Cash Equivalents” (BUS-49) was also reviewed.

**Observation**

IAS reviewed a sample of deposits prepared at the administrative office and found that although deposits were accurately recorded, cash handling processes need improvement. The following concerns were noted.

a. Mailed remittances were verified and processed by one individual. BUS-49 requires mailed in remittances to be verified and processed by two employees.

b. The date of receipt of checks was not recorded and IAS could not ensure checks were deposited in accordance to policy; at least weekly or when deposits exceed $500. Review of the check date and the deposit date found three of the ten deposits totaling $45,687, were deposited about one to two months after the check date.

**Management Action Plan**

To ensure compliance with BUS-49, a check log will be implemented and staff will be instructed to verify and process mailed remittances by two employees and will be reflected on the check log by August 31, 2018. The log will also record the date checks are received to allow for proper monitoring of the timeliness of the deposits.

2. **Travel Reimbursements**

**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 expenditures must be properly documented and supported.

The Kuali Financial System (KFS) Travel and Event Manager is used to request reimbursement for travel and entertainment expenditures. Procedures and
supporting documentation related to travel reimbursements were evaluated for compliance with policy.

**Observation**

IAS reviewed a sample of travel and entertainment reimbursements and noted the following:

a. Entertainment expenses were reimbursed in compliance with policy.

b. Travel reimbursements were properly approved. However, a receipt that was submitted as a parking expense was actually a car detail service and traveler was reimbursed $190.44. This is not an allowable reimbursable travel expense.

c. Original receipts for additional airline charges were not always submitted. A traveler had an additional airline fee of $200 to return home early and a $25 baggage fee however were only supported by credit card statements. Another traveler also had an additional airline fee of $50 to return home early and was only supported by a credit card statement. UC Travel Policy G-28 states that the original receipts for all airline expenses must be submitted with the travel expense claim. When original receipts are required but cannot be obtained or have been lost and all measures to obtain a duplicate receipt have been exhausted, a statement should be provided explaining why such receipts are not being submitted with the travel expense claim. The statement must include a certification that the amount shown is the amount actually paid and that the traveler has not and will not seek reimbursement from any other source.

Travel reimbursements should be carefully reviewed to ensure expenses are allowable and are properly supported in accordance with UC Travel Policy G-28.

**Management Action Plan**

Effective immediately, all travel reimbursements will be carefully reviewed to ensure compliance with UC Travel Policy G-28. Travelers will be reminded to include original receipts for all airline expenses. When original receipts cannot
be obtained or have been lost, travelers will be required to provide a statement of explanation. Car detail services and other unallowable expenses will not be reimbursed.

3. **Human Subject Payments**

**Background**

Human research subjects may be compensated for their time, effort, and expenses related to their participation in approved research projects. University administrative policy/procedures, 701-03 establishes guidelines for requesting, maintaining, documenting, clearing, etc. for funds designated in compensating human subjects. IAS reviewed a sample of cash advances for research studies currently open and closed and managed by one principal investigator.

**Observation**

Controls surrounding human subject payments require strengthening. The following issues were noted.

a. Study funds were deposited into an employee’s personal bank account. This is not good business practice and study funds are commingled with personal funds.

b. Cash was not periodically reconciled as required by policy. UCI Administrative Policy 701-03 states that cash should be reconciled regularly (not less frequently than quarterly and upon termination of any award) by research personnel employed by the University or fiscal officer.

**Management Action Plan**

Staff handling human subject payments will be trained to ensure compliance with University Policy by August 31, 2018. Cash will be reconciled at least quarterly and documented on a log by someone other than the person issuing cash. Cash payments will be observed by a second individual, or if there is not a second individual available, the receipt will be signed by the participant to
ensure compliance with University Policy. Effective immediately, checks will no longer be deposited in employee's personal bank accounts.

4. **Purchasing Practices**

**Background**

UC Purchasing policies require purchases to be pre-authorized either formally through an internal requisition, electronically in KFS or informally, such as an email.

**Observation**

A sample of purchase transactions were reviewed and found that purchases were not always pre-authorized and documented.

a. Employee gift cards totaling $6,508 were purchased without advance authorization and documentation from the Division Chair, and prior approval may have been obtained verbally.

b. For another purchase, home office equipment totaling $2,317 was also not approved prior to purchase and documented.

Without management’s documented pre-authorization, purchases may appear unauthorized or unnecessary.

**Management Action Plan**

Effective August 31, 2018, all purchases will be reviewed and approved by management prior to purchase. Approvals will be documented on the internal requisition form or email and maintained. Purchasing approval requirements will be reflected in the internal policies and procedures to ensure consistency.

5. **Equipment Inventory**

**Background**

Gastroenterology maintains various equipment mostly used for clinical purposes. An employee is responsible for performing periodic physical
inventory and maintaining the equipment inventory database. The last physical equipment inventory was performed in August 2017 through the KFS Asset Inventory Certification Document.

**Observation**

A sample of equipment from the Asset Inventory Certification Document was reviewed and the following was noted.

a. One had an incorrect serial number as the equipment was replaced three years ago and the serial number was never updated in the inventory database.

b. Two assets did not have a tag number affixed on the equipment.

The University requires that inventory records be updated throughout the year as changes occur and that serial numbers be updated during the periodic physical inventory. The correct serial number is particularly critical in reporting or tracing lost or stolen property. Also, without a tag number on the equipment, it may make it difficult to validate assets during the physical inventory.

**Management Action Plan**

Management will ensure that the Asset Representative update the inventory records throughout the year as changes occur and that serial numbers are validated and accurate during the periodic physical inventory. Also, all assets listed in KFS will be reviewed to ensure they have a tag number affixed to the equipment by August 31, 2018 to ensure efficient management of equipment inventory.

6. **General Ledger Reconciliations**

**Background**

UCI Administrative Policies and Procedures Sec. 701-08: Procedures for Control of Expenditure and Income Funds specific 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**

The ledgers have not been reconciled and DOM is currently developing a process. Without timely reconciliations of all accounts, discrepancies may go undetected.

**Management Action Plan**

DOM is in the process of developing a process to reconcile the general ledger and should be implemented by August 31, 2018. Reconciliation will be done monthly and documented in accordance to policy.