

**UNIVERSITY OF CALIFORNIA, IRVINE  
ADMINISTRATIVE AND BUSINESS SERVICES  
INTERNAL AUDIT SERVICES**

**DEPARTMENT OF PEDIATRICS  
Report No. 2012-209**

**June 29, 2012**

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Director

June 29, 2012

**DAN M. COOPER, M. D.  
ACTING CHAIR  
DEPARTMENT OF PEDIATRICS**

**RE: Department of Pediatrics Audit  
Report No. 2012-209**

Internal Audit Services has completed the review of the Department of Pediatrics 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.



Bent Nielsen  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee  
Ralph Clayman, Professor and Dean of the School of Medicine  
Ginger Osman, Chief Financial Officer, School of Medicine  
Aashi Arora, Chief Administrative Officer, Department of Pediatrics

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**I. BACKGROUND**

The School of Medicine (SOM) Department of Pediatrics (Pediatrics) is committed to providing high-quality pediatric clinical care, education, and research. Pediatric faculty has received national and international recognition for pediatric research, and continues to receive a high level of federally-funded research grants.

In 2009, the SOM and Children's Hospital of Orange County (CHOC) formed a collaborative clinical affiliation to provide high-quality pediatric services to the children of Orange County. At CHOC in Orange, University of California, Irvine (UCI) faculty members provide comprehensive inpatient and outpatient pediatric primary care and subspecialty services. At UCI Medical Center (Medical Center), faculty members provide pediatric emergency, burn, trauma, neonatal intensive care, newborn nursery, psychiatry and primary care services. Together, the two institutions offer the largest and most comprehensive pediatric clinical program in Orange County.

In January 2012, a new Chief Administrator Officer (CAO) was hired for Pediatrics. The CAO performed a preliminary review of the Pediatrics operations and identified many operational deficiencies. During 2012, the CAO made some organizational changes to streamline processes and improve operations.

**II. PURPOSE, SCOPE AND OBJECTIVES**

The purpose of the audit was to review the internal controls for business operations and processes in Pediatrics for fiscal years 2010-2011 and 2011-2012. UCI Internal Audit Services (IAS) established the following audit objectives:

1. Verify that Pediatrics related expenditures are properly authorized and processed in accordance with university policies and procedures as well as federal contract and grant costing guidelines. Review cash advances and payments to research participants if any;
2. Verify salary charged to federal contracts and grants are consistent with amounts reported to ensure compliance with federal and university requirements;
3. Determine if Pediatrics is complying with the policies and procedures related to academic and staff vacation. Determine whether adequate processes and controls exist over vacation usage, approval, and reporting; and
4. Evaluate whether there are adequate controls over budgeting and accounting and verify whether general ledgers are reviewed and reconciled in a timely manner.

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**III. CONCLUSION**

In general, internal controls and processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified in academic and staff vacation usage, approval, and accruals, payroll certification, and general ledger reconciliation.

Observation details, recommendations and process improvements were discussed with management, who formulated action plans to address the issues. These details are presented below.

**IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS**

**1. Vacation Accruals**

**Observation**

IAS reviewed the Time Benefit Roster (PPP6401) vacation transactions processed from July 2010 through April 2012 (22 months) and the following is a summary of the review.

Lost Vacation

From July 2010 through April 2012 academic and staff personnel from Pediatrics had lost a total of 10,413 hours of accrued vacation, 5,931 in fiscal year 2010-2011 and 4,482 in fiscal year 2011-2012, as a result of reaching their vacation accrual maximum balance. Twenty percent of the employees lost forty or more hours during this time period. Seventy-five percent of the top 20 employees who lost the most vacation were Pediatrics faculty. IAS noted that Pediatrics does not have an adequate process in place for notifying personnel when they are approaching their maximum vacation accrual balance. There were several faculty members that had not reported vacation in the time period reviewed. For fiscal year 2011-2012 there were 11 faculty members that had not reported vacation during the year.

Vacation Credited Back to Individuals

For the 22 months reviewed, there were 35 academic, and 19 staff that had vacation hours lost in previous periods credited back to their individual accrued vacation balances. The total hours added back were 1,732 hours for the 22 month period, 835 in fiscal year 2010-2011 and 897 in fiscal year 2011-2012, at an estimated total cost of \$112,850, (\$53,964 in fiscal Year 2010-2011 and \$58,886 in fiscal year 2011-2012).

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In addition, vacation leave forms are not consistently used and approved. The Payroll Administrator stated that some vacation requests are in the form of email and some are on leave forms. In some cases, there is no evidence noting the CAO and/or the Department Chair had approved the leave.

The accuracy of accumulated vacation leave balances is at risk when leave requests are not accurate, properly approved, and submitted timely. Overstatement and non-reporting of vacation hours misrepresent the vacation accruals and distorts the accrued liability in the financial statements. Unapproved and unreported vacation time, and crediting back lost vacation that does not meet the exceptional criteria is against university policy and increases the likelihood of financial losses in the event an employee separates and is paid accrued vacation that is inaccurately stated.

Internal controls and processes related to academic and staff vacation usage, approval, and reporting need improvement to help insure that financial reporting of accumulated vacation leave balances are accurately stated, University assets are protected, accurately processed and properly recorded. In addition, these payroll processes and procedures should be reviewed with personnel to ensure a clear understanding and compliance with University policy.

**Management Action Plan**

The CAO agrees with the observations and is assessing the payroll processes and procedures over vacation usage, approval, and reporting. Many of the observations noted have been identified in earlier assessments by the CAO and their vacation and leave policies and procedures will be enhanced to encompass Pediatrics objectives as well as University policy.

As part of the process improvements and ongoing changes needed, Pediatrics will contact faculty and staff to confirm their vacation usage with leave and payroll records and enter unrecorded vacation leave if any. Vacation hours lost in previous periods and credited back to vacation accruals will be reviewed and reversed in the Payroll Personnel System accordingly, to reflect the correct vacation accrual balances.

Pediatrics will notify faculty and staff by email to inform them they are reaching maximum vacation accruals. Vacation request forms will be completed with proper approvals prior to vacation or leave taken and submitted timely. The revised leave policies and procedures, including timely submission and proper approvals, as well as proper recording will be discussed with all faculty and staff. Estimated completion date is November 2012.

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**2. Payroll Certification System Report Timeliness**

**Background**

The Department of Health and Human Services (HHS) approved the implementation of the Payroll Certification System (PCS), a pilot program which substantiates salaries charged directly to federally funded projects, as an alternative to Personnel Activity Reporting (PAR). This approval is for an 18-month demonstration pilot beginning April 1, 2011.

Under the new process, payroll certification will occur at the end of a budget year or other reporting schedule as identified by an award's terms and conditions for every federal or federal flow-through project. The departments are required to send a copy of the signed PCS report, with a copy of the Payroll Expense Report attached, to Contracts & Grants Accounting (C&G Accounting) and maintain the original documents.

Departments have 70 days from the budget or project end date to submit a copy of the signed PCS reports to the C&G Accounting office.

**Observation**

A total of four PCS reports were due during the five month period reviewed (budget month end dates of October 31, 2011 to February 29, 2012). The PCS report on timeliness metrics provided by C&G Accounting revealed that all four of the reports were completed after the due dates (three of the four were 74-103 days past due).

Timely certification is a key metric being reviewed by HHS during the PCS demonstration project. Untimely certification may jeopardize the approval/adoption of the PCS as an alternative to effort reporting for the University.

**Management Action Plan**

Pediatrics management will work with the C&G accounting office and the PIs to ensure timely submission of the payroll certification reports. The estimated completion date is September 2012.

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**3. Ledger Reconciliation**

**Background**

UCI policy states that each manager, who is directly responsible for the financial affairs of their activity, should maintain procedures that monitor and verify transactions on a monthly basis to the general ledger. Departments have a responsibility to ensure the appropriateness and accuracy of all financial transactions applied to their ledger. In addition, the department has the obligation of maintaining signed documentation of this reconciliation and review to ensure that they adhere to internal control procedures.

**Observation**

In Pediatrics, the general ledgers are reconciled separately from the other financial reports. Pediatrics still retains the paper copies of the general ledger, check off those line items that have supporting documents, and keep the supporting documents with the ledger. All are filed chronologically by account/fund. However, due to staffing issues and turnover, Pediatrics has not consistently reconciled the general and payroll ledgers on a monthly basis. In addition, the reconciler and the reviewers do not initial the ledgers.

The CAO has identified and reviewed the reconciliation process. She has prioritized the reconciliation process to have all restricted/federal funds reconciled each month; non-restricted/departmental operating funds as soon as possible.

Performing and signing the reconciliation of the general ledger accounts is considered a key internal control process. As evidence of this internal control process the individual performing the reconciliation and the reviewing supervisor should sign and date the reconciliation.

**Management Action Plan**

Department management has identified this as an issue. Restricted federal and state funds are reconciled monthly. Currently, we have a campus temporary employee who is helping to reconcile the outstanding ledgers for prior periods.