

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO  
AUDIT AND ADVISORY SERVICES**

**School of Medicine  
Department of Surgery Review  
Project #19-039**

**November 2018**



University of California  
San Francisco

**Audit & Advisory Services**

UCSF Box 0818  
1855 Folsom Street  
San Francisco, CA 94143

tel: 415.476.3851  
fax: 415.476.3326

www.ucsf.edu

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**Michael Panion**

Associate Chair of Finance & Administration  
Department of Surgery

SUBJECT: School of Medicine – Department of Surgery Review

As a planned internal audit for Fiscal Year 2019, Audit and Advisory Services (“A&AS”) conducted a School of Medicine (SOM) Departmental review. The purpose of this review was to assess the administrative and financial practices and procedures within the Surgery department for compliance with University policies and regulatory requirements.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed and the preliminary draft report was provided to department management in November 2018. Management provided us with their final comments and responses to our observations in November 2018. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn  
Chief Audit Officer



## EXECUTIVE SUMMARY

### I. BACKGROUND

As a planned audit for Fiscal Year 2019, Audit & Advisory Services (A&AS) completed a review of the administrative and financial practices of the Department of Surgery, within the School of Medicine (SOM). The department of surgery is responsible for the oversight of financial, scientific and compliance aspects of their clinical, research and educational activities.

The department of surgery has a total of 10 divisions and 13 subspecialties. The Surgery Finance and Administration (SFA) Unit within the department of surgery oversees the financial management of the department which includes budget monitoring, procurement, general ledger verification and post award management of sponsored awards.

The Department of Surgery prepares and monitors the budget at the overall department level and not at the subspecialty level; monthly reports on actual revenue and expenses are provided to division chiefs to monitor financial performance. Target revenue metrics such as Relative Value Units are set and faculty are incentivized to meet via bonuses. As for expenses, the SFA is accountable for monitoring and controlling costs.

The three year financials for the department of surgery is set out below:

|               | FY 2016       | FY 2017       | FY 2018       |
|---------------|---------------|---------------|---------------|
| Total Revenue | \$123,959,636 | \$131,866,482 | \$142,420,736 |
| Total Expense | \$112,563,857 | \$127,446,498 | \$133,835,845 |
| Net Income:   | \$11,395,779  | \$4,419,984   | \$8,584,891   |

As part of this review, four divisions within the department of surgery were selected for detailed financial review:

- (1) Central Administrative Surgery
- (2) Division of General Surgery
- (3) Transplant Surgery
- (4) Immunogenetics & Transplantation Lab (ITL).

These divisions were selected based upon a risk analysis of all divisions in the department of surgery. Factors considered in the risk assessment were net financial position, cost transfers as a percentage of total expenses, amount of cash transactions, number of federal sponsored awards, and input from the Department's Associate Chair of Finance & Administration and the SOM Dean's Office.

The revenue and expenses for FY 2018 of the four divisions selected is set out in the table below:

|                       | Central Administrative Surgery | Division of General Surgery | Transplant Surgery | Immunogenetics and Transplantation Laboratory |
|-----------------------|--------------------------------|-----------------------------|--------------------|---|
| Total Revenue         | \$78,080,672                   | \$13,456,366                | \$11,298,245       | \$14,411,797                                  |
| Total Expense         | \$69,629,435                   | \$16,902,003                | \$12,436,878       | \$12,266,890                                  |
| Net Income or (Loss): | \$8,451,237                    | (\$3,445,637)               | (\$1,138,633)      | \$2,144,907                                   |

## II. AUDIT PURPOSE AND SCOPE

The objective of the review was to assess the administrative and financial practices and procedures within the Surgery department for compliance with University policies and regulatory requirements.

For the four Department of Surgery divisions selected, the scope of our review included the following:

- Cash handling controls;
- Post-award management of sponsored awards, including, late cost transfers, effort reporting, sub-recipient monitoring, unallowable expenses, overdraft monitoring,
- Gifts and endowment spending monitoring,
- Budgeting and forecasting processes and General Ledger verification,
- Travel and entertainment approval and reimbursements,
- Purchase card expenditures, and
- Billing for ITL Services.

To conduct our review, the following procedures were performed:

- Conducted a 3-year trend analysis of the sources by funding and overall financial position of the department and its divisions;
- Evaluated cash handling internal controls for appropriate accounting of funds;
- Reviewed federal awards with high number of payroll and non-payroll late cost transfers (over 120 days) and determine appropriateness and cause;
- Verified that the effort reports of Federal projects were certified by Principal Investigators timely for two reporting periods;
- Reviewed the monitoring over sub awards for compliance with University policy and contract agreement;
- Evaluated unallowable expenses charged to Federal Awards for appropriateness;
- Assessed any type of expense not specifically budgeted for in the notice of award
- Reviewed awards in overdraft and determine cause and mitigation plans;
- Validated donor gifts to ensure it was spent in accordance to the donor's intent;
- Reviewed endowment balances to ensure compliance with University policy;
- Evaluated the department's budgeting and forecasting process;
- Reviewed general ledger verification for compliance with University policy;
- Assessed travel and entertainment activities for compliance with University policy and approvals;
- Reviewed purchasing card activities for proper review and approval of transactions;
- Examined ITL billed services and verified to existing agreements;
- Reviewed Professional Services contracts for proper delegated approval levels.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Activities and transactions reviewed related to FY 18. Fieldwork was completed in September 2018.

**III. SUMMARY**

Based on procedures performed, the divisions reviewed were aware and complied with applicable University policies and regulatory requirements related to sponsored award expense allowability and sub award monitoring. The divisions have reasonable controls in place to oversee the financial and compliance aspects of their projects and provide financial reports to PIs. The divisions have implemented procedures to help ensure that expenditures are allowable and sufficient records are maintained to document expenditures posted to sponsored projects.

Additionally, financial management controls in areas such as cash handling, purchases for goods and services and procurement card transactions were operating well and adequate segregation of duties exists.

Opportunities for improvement exist by strengthening controls and processes over travel reimbursements. We identified Connexus not being consistently used for travel bookings and the process to obtain prior approval of business/first class travel has not been fully instituted. Additionally, while the department conducts monthly general ledger (GL) verifications, it has not begun the adoption of the GL verification tool.

Recommendations for improvement and management corrective actions are outlined in Section IV. Observations and Management Corrective Actions and Section V. Opportunities for Improvement.

**IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (“MCA”)**

| No. | Observation  | Risk/Effect  | Recommendation  | MCA  |
|-----|--|--|---|--|
| 1   | <p><b><i>The process to obtain prior approval of business/first class travel has not been formally instituted. Additionally, Connexus has not been consistently used for booking air fare travel.</i></b></p> <p>In a sample of 25 travel reimbursements, we noted 12 cases (50%) where Connexus was not used to book flights.</p> <p>Additionally, no procedure has been created to require prior review and approval when booking first/business travel. Department management indicated that their practice is to require prior approval for booking travel above economy class, however, there was no documented department policy. In our review we identified one case of business class travel that although met the circumstances for business class travel,<sup>1</sup> was not reviewed nor had prior departmental approval.</p> <p>The G-28 policy, requires campuses to use the system-wide Travel Management Program – Connexus with whom the University has strategic and collaborative sourcing primary agreements that can realize potential savings for the University. Additionally, using the Connexus portal provides alerts when business/first class travel is booked allowing the department the ability to verify the reasons and appropriateness of the higher class prior to travel.</p> | <p>By booking flights without using Connexus; Surgery Department may not be taking advantage of the best rates via the University’s strategic sourcing agreements.</p> <p>Without a procedure to require prior approval when booking first/business class, there is a risk of non compliance with University policy and/or employees risk being denied reimbursement above the economy class cost.</p> | <p>The Surgery Department should develop documented procedures to require the utilization of Connexus when booking flights and to require prior approval from the department chair and/or reviewed by the School of Medicine Dean’s Office when booking first/business class.</p> | <p>1) Effective January 2019 the Department will send out communication requiring all staff and trainees to use Connexus to book airfare.</p> <p><b>Target Completion date:</b> January 31, 2019</p> <p><b>Responsible Party:</b> Associate Dean Finance &amp; Administration</p> <p>2) The Department will present at the first faculty meeting in calendar year 2019 and quarterly thereafter the need for faculty to use Connexus to book airfare and the need to get prior approval for first class flights.</p> <p><b>Target Completion Date:</b> March 31, 2019</p> <p><b>Responsible Party:</b> Associate Dean Finance &amp; Administration</p> |

<sup>1</sup> The traveler had work scheduling conflicts and therefore took an overnight flight that did not provide an opportunity for normal rest before commencement of working hours.

V. Improvement Opportunities

| No. | Observation  | Risk/Effect   | Recommendation   |
|-----|--|---|--|
| 1   | <p><b><i>The department of surgery should consider adopting the GL verification tool and incorporating into their financial review process.</i></b></p> <p>Monthly, the department of surgery performs a GL reconciliation and verification; however, it has not developed a plan to incorporate the GL verification tool to enhance its verification and substantiation process.</p> <p>General ledger verification is a key financial control and the GL Verification Tool that was launched by the Controller’s Office in May 2018 is designed to streamline the general ledger verification process.</p> | <p>By not using the new GL verification tool, the department of surgery is not optimizing its GL verification process and compliance with the new GL verification policy.</p> | <p>The department of surgery should consider using the new GL verification tool in order to streamline the verification process over financial transactions.</p> |