

March 23, 2017

BRIAN CLARY, MD
Chair, Department of Surgery
8935

**Subject: Department of Surgery
 Report 2017-15**

The final report for the Department of Surgery Report 2017-15, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
Audit & Management Advisory Services

Attachment

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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Surgery
Report No. 2017-15
March 2017

FINAL REPORT

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ATTACHMENT A – Audit Results by Business Office Functional Process

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Surgery as part of the approved audit plan for Fiscal Year (FY) 2016-17. The objective of our review was to evaluate whether internal controls were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting.

We concluded that Surgery internal controls were generally adequate to provide reasonable assurance that operations and business transactions were effective, complied with University policy, and resulted in accurate financial reporting.

We observed that the Surgery Finance Director and Business Office Manager collaborated with each Department division administrator, and VCHS core services to ensure that, in general, appropriate internal controls were incorporated into business processes, and operations were as efficient as possible considering limited staff resources, new systems implementation and other organizational changes. Our detailed review of faculty salaries and clinical incentive compensation found that faculty salary payments were accurately processed in accordance with the department compensation plan(s), and that incentive payments were aligned with the Resource Alignment initiative and clinical productivity payments.

We identified opportunities for improvement related to financial overdraft management, service agreements billing and cash-handling procedures, travel and entertainment expenses, Express Card management, and compliance with (APM-671) reporting of outside professional activity. Management Action Plans to address these findings are summarized below:

A. Financial Overdraft Monitoring and Resolution

1. As of October 31, 2016, a Memorandum of Understanding (MOU) was reached by VCHS and Surgery management, which satisfied the requirements for a deficit reduction plan, as required by policy.
2. As of the close of November 2016, the Department received confirmation from VCHS on realignment of general funds. Journals to reallocate funds to clear deficits were also processed and approved as of December 2016.
3. Management has hired additional Business Office personnel to assist in reviewing and monitoring funds on a monthly basis to ensure any financial overdrafts are resolved in a timely manner.
4. Management will utilize available reports, such as the new Deficit Balance Analytics and Overdraft Summary reports, and other tools for monitoring current overdrafts to document contemporaneous review of overdrafts.

B. Service Agreements Financial Management

1. Management is actively following up on past unpaid invoices identified during our review and reconciling revenues posted in the ledgers with the Department's internal invoice and payment tracking worksheet.

2. Management will continue implementing procedures to regularly monitor all service agreement revenues to ensure all revenues are collected, deposited and posted in a timely manner.

C. Travel and Entertainment Expenses

1. Management tracks pre-approved travel and periodically reminds travelers that all University travel should be pre-authorized, and that reimbursements should be submitted timely and adequately supported by the required receipts. Management has also coordinated with the Travel Office on periodic reports to monitor and ensure timely submission of travel reimbursements.
2. Department leadership will reinforce travel policy requirements to Department personnel. The AVC and Chair's office will periodically remind and reiterate to faculty and staff the importance of timely submission, and risks involved in non-compliance to policy.
3. Management will ensure that action plans included in the justification for late claims are appropriate and followed through.
4. The Department will coordinate with the Dean's Office to assign the responsibility for reviewing and approving travel expenses incurred by the Chair, and will ensure the Chair reviews expenses for the AVC. Travel approval templates shall be updated to ensure proper electronic approvals.

D. Express Card Management

1. Management has decided to cancel the Department Chair's Express Card, and will limit provision of Express Cards to approved selected personnel.
2. Management will routinely remind Express Card Administrators to reclassify transactions from the default code when reviewing Express Card transactions.
3. Management will perform routine review of ledger transactions to identify and address any restricted purchases. Management will periodically remind Express Card holders of types of purchases which are restricted and identify an appropriate payment mechanism.

E. Cash Handling Procedures

1. Management will ensure deposits are completed on a timely basis when collections exceed \$500.
2. Management will require staff who handle cash/checks to complete cash handling training.
3. Management will replace the current safe to ensure checks on hand are stored in a safe that meets University policy requirements.

F. APM 671 Reporting Compliance

1. Management will continue efforts to obtain timely compliance for the receipt of the Conflict of Commitment reporting forms by elevating late statement individuals to the Dean's Office for discussion, or requiring that the form be brought to the annual salary negotiation meeting. As of the date of this report, the Chair's Office has received the disclosure forms from three of the five faculty who are not on leave

Observations and Management Action Plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Surgery as part of the approved audit plan for Fiscal Year (FY) 2016-17. This report summarizes the results of our review.

The UCSD Department of Surgery (Department) was established in 1965 as part of the School of Medicine (SOM). Department faculty provide comprehensive care across UCSD Health (UCSDH) hospitals, specialty centers and medical research programs, and are recognized for excellence in clinical care, student instruction, and research. The Department was recognized in the US News & World Report¹ 2016-17 Best Hospital rankings in four surgical specialties. Its missions are:

1. To deliver comprehensive, quality patient care that is responsive to the needs of the San Diego region as a whole and of the local community;
2. To provide training and education for physicians and allied health professionals; and
3. To expand medical knowledge through clinical and basic science research.

The Department Chair, appointed in February 2015, provides oversight for the operation of the Department's seven major divisions: Cardiothoracic, General Surgery, Neurosurgery, Otolaryngology, Plastic Surgery, Trauma/Burn, and Urology. The Center for Future Surgery, also within the Department, is a self-supporting recharge facility. During this review, the Department was in the process of organizational restructuring of its divisions, splitting General Surgery division into multiple separate divisions. In addition, two academic divisions, Neurosurgery and Urology were in process of transitioning out of the Department of Surgery to become independent academic departments, although business processes for these units were still support by the Department Business Office.

The Department Business Office staff support critical business processes. The Business Office is managed on a day-to-day basis by the Director of Finance, and Manager of Business Office Operations, both of whom report directly to the Administrative Vice Chair (AVC)¹. The Manager of Business Office Operations supervises two administrative support staff, four student workers and the Authorization unit. The responsibilities for internal controls and business activities are primarily handled by the Director of Finance and the Business Office Manager. The Department utilizes central Vice Chancellor Health Sciences (VCHS) shared services units for sponsored projects research administration, Information Systems support, and Human Resources (staff and faculty affairs). The Department's Residency Program unit reports directly to the Department Chair.

In FY16, the Departments (including Neurosurgery and Urology) reported \$72.9 million in revenues, and \$75.6 million in expenditures (82% in salaries/benefits & incentives). Of these totals, \$60 million in revenues and \$63.7 million in expenditures were from clinical activity. Research activity totaled \$3.6 million in revenues (\$2.5 million from federal grants), and \$3.6 million in total expenditures.

¹ There are at least 80 clinical and administrative staff in all Surgery divisions including Neurosurgery and Urology. The CFS Director, two Division Managers, one Division Administrator, and two Clinic Managers for Multispecialty Surgery clinics in Hillcrest and La Jolla locations also report to the AVC.

Over the last few years, a number of UCSD Campus and Health Sciences initiatives have impacted Department financial oversight and operations. These initiatives include:

- Resource Alignment (RA)², implemented in January 2016, to align compensation with clinical and academic productivity, and ensure that budget processes give adequate consideration to revenue and fund sources to avoid financial deficits related to faculty clinical compensation.
- Transition of clinical activity to the UCSDH Clinical Practice Organization (CPO). Department clinical operations expenditures were transferred to UCSDH accounts as of August 2016.
- Transition to accrual accounting and Financial Management System (FINMAN) for financial reporting, and
- Realignment of core operating revenue funds based on the Simplified Operating Funds Initiative (SOFI), part of UCSD's effort to make expenditure accounting and fund management of non-restricted "core" resources easier and more efficient. This requires the realignment of department financial accounts into a new fund structure, which was in progress during FY17.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting. In order to achieve our objective, we performed the following:

- Reviewed Department business documentation and information including the department website, organizational structure, financial reports and prior audit reports;
- Reviewed selected applicable federal requirements and University policies relating to core business operations, including the Academic Personnel Manual (APM), selected Business & Finance Bulletins, and others;
- Interviewed the following key administrative personnel:
 - Surgery Administrative Vice Chair and Business Officer
 - Surgery Director of Financial Operations
 - Surgery Operations Manager
- Evaluated department internal controls in the following areas:

• Operating Ledger Review	○ Expense Transfers
• Deficit Balances and Overdraft Management	○ Express Card Management
• Payroll and Timekeeping	○ Effort Reporting
• Non-Payroll Expenditures	○ Equipment management
• Effort Reporting	○ Service Agreements
• Cash Handling	
- Obtained and evaluated online transaction approval hierarchies;

² The Resource Alignment 2016 Implementation affects clinical faculty pay on a monthly basis as the payment model is dependent on monthly clinical productivity based on work relative value unit (RVU) performance and Medical Group Management Association (MGMA) benchmarks. In this model, productivity-based compensation and incentive pay funding for clinical faculty are transferred to the department based on previous month's productivity report.

- Verified the financial status of department funds (and indices) for the Fiscal Year ended June 30, 2016 and for the period July 1, 2016 through September 30, 2016;
- Consulted with and obtained information from the VCHS Business Contracting Office, Disbursements, Travel, and Express Card administration, and Equipment Management;
- Evaluated controls and procedures for managing faculty compensation in accordance with Department compensation plans;
- Evaluated department process for review and monitoring deficit balances and overdraft resolution, and reviewed draft Memorandum of Agreement with VCHS for resolution of certain deficits;
- Reviewed selected clinical service agreement contracts, operating ledgers and Surgery invoice tracking worksheet to verify compliance with contract terms and conditions related to billing;
- Reviewed selected travel and entertainment transactions to evaluate department controls and processes for ensuring trips are approved and reimbursed in compliance with University Travel policy; and
- Reviewed selected Express Card transactions to evaluate department controls and processes for ensuring purchases are in compliance with University policy.

The scope of our review did not include the Center for Future of Surgery, as this area was reviewed separately by AMAS in 2015 (Project #2015-40). In addition, we did not review in detail operations conducted by VCHS core units on behalf of the Department. Review of clinical operations and related professional, hospital and research billing processes were also excluded from the scope of this audit.

IV. CONCLUSION

Based on our review, we concluded that Surgery internal controls were generally adequate to provide reasonable assurance that operations and business transactions were effective, complied with University policy, and resulted in accurate financial reporting.

We observed that the Surgery Finance Director and Business Office Manager collaborated with each Department division administrator, and VCHS core services to ensure that, in general, appropriate internal controls were incorporated into business processes, and operations were as efficient as possible considering limited staff resources, new systems implementation and other organizational changes. Our detailed review of faculty salaries and clinical incentive compensation found that faculty salary payments were accurately processed in accordance with the department compensation plan(s), and that incentive payments were aligned with the RA initiative and clinical productivity payments.

We identified opportunities for improvement related to financial overdraft management, service agreements billing and cash-handling procedures, travel and entertainment expenses, Express Card management, and compliance with APM-671 reporting of outside professional activity. Details are explained in the balance of this report. Our summary of results by business office functional area is provided as **Attachment A**.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Financial Overdraft Monitoring and Resolution
Overdraft resolution plans were not developed and documented in a timely manner to address fund overdrafts exceeding \$10,000 for over 60 days, in accordance with policy.	
Risk Statement/Effect	
The absence of routine monitoring of overdrafts and documented action plans that have the commitment of University administrators could result in overdrafts that remain unresolved, demonstrating ineffective stewardship for University resources.	
Management Action Plans	
A.1	As of October 31, 2016, a Memorandum of Understanding (MOU) was reached by VCHS and Surgery management, which satisfied the requirements for a deficit reduction plan, as required by policy.
A.2	As of the close of November 2016, the Department received confirmation from VCHS on realignment of general funds. Journals to reallocate funds to clear deficits were also processed and approved as of December 2016.
A.3	Management has hired additional Business Office personnel to assist in reviewing and monitoring funds on a monthly basis to ensure any financial overdrafts are resolved in a timely manner.
A.4	Management will utilize available reports, such as the new Deficit Balance Analytics and Overdraft Summary reports, and other tools for monitoring current overdrafts to document contemporaneous review of overdrafts.

A. Financial Overdraft Monitoring and Resolution – Detailed Discussion

The UCSD Overdraft Policy which was in effect during this review required departments have a process for routine monitoring accounts in overdraft, and required that a written deficit reduction and resolution plan be developed and approved by the cognizant Vice Chancellor for the removal of overdraft balances over 60 months old and are in excess of \$10,000. The policy also required that the department personnel resolve overdrafts in accordance with the approved written plans. As of February 2017, a formal Policy and Procedure Manual (PPM) 300-2 was established and requires development of written resolution plan for deficit balances over 30 days old of over \$25,000 or five percent of the Fund's fiscal year budget, whichever is larger; and elimination of the deficit balance within six months of the approval of the written plan.

During our review, we noted the following Surgery funds³ that had deficit balances as of June 30, 2016 exceeding \$10,000 and that had remained in overdraft for a period of over 60 days.

³ Center for Future of Surgery organization codes 414885, 434695 and 434815 were excluded.

Fund Description	Fund Ranges	12 Months or Less	13 – 24 Months	25 – 36 Months	Over 36 Months	Total
UC General Funds	19933A			\$31,593	\$287,982	\$319,575
Federal Grants	31757A		\$13,432			\$13,432
Gifts	42237A, 55310A, 55682A, 86309A, 86340A, 86A00A–86G99A	\$25,148		\$117,260	\$42,242	\$184,650
Income-Producing (Clinical)	60100A-62999A	\$1,322,348	\$2,397,120	\$377,444	\$8,390,697	\$12,487,609
System-wide Assessment	69322A, 69750A			\$1,052,066		\$1,052,066
Private Contracts/Grants	87000A-89999A	\$44,264			\$22,230	\$66,494
Total		\$1,391,760	\$2,410,552	\$1,578,363	\$8,743,151	\$14,123,826

In October 2016, a Memorandum of Understanding (MOU) was reached by VCHS and Surgery management to resolve department debt, with UCSDH writing off \$8 million, and \$6.5 million funded by UCSDH with no payback requirement. Overall, the \$14 million in funds (in addition to \$2.7 million for Neurosurgery) were expected to cover all funds in overdraft and reflect a clean slate for the beginning of FY17. The Financial Director has been coordinating with the VCHS Controller's Office, as well as Gifts and Advancement Services, in completing the journals. As of the close of November 2016, the Department received confirmation from the VCHS Controller's office of completion of realignment of general funds. Journals to reallocate funds to clear deficits including Gift funds, were also processed and approved as of December 2016.

Notwithstanding the MOU, our review indicated that prior to this agreement the Department had not been adhering to policy to address deficits timely and document deficit reduction plans. The campus has developed an electronic overdraft balance reporting system to help administrators meet their financial monitoring and reporting capabilities for various levels of accounting and organizational hierarchies. Although the use of this system is discretionary, it is an effective management tool for monitoring overdrafts. Planned routine overdraft monitoring will also assist management with resolving deficits timely, and minimizing negative STIP that will be charged to accounts with a deficit balance.

B.	Service Agreements Financial Management
Monitoring of Service Agreement invoices and revenues were not always performed in a timely manner. As a result, the Department has not fully collected receivables due for services provided.	
Risk Statement/Effect	
The lack of timely review and monitoring of outstanding invoices could result in missed or unpaid invoices, loss of revenue, and inadequate funding for supported activities.	
Management Action Plans	

B.1	Management is actively following up on past unpaid invoices identified during our review and reconciling revenues posted in the ledgers with the Department's internal invoice and payment tracking worksheet.
B.2	Management will continue implementing procedures to regularly monitor all service agreement revenues to ensure all revenues are collected, deposited and posted in a timely manner.

B. Service Agreement Financial Management – Detailed Discussion

The Department has various Service Agreements with outside entities to provide clinical care, consulting, professional services, administrative services and clinical education/training. The Business Office is responsible for invoicing, and tracking revenues and expenditures. The Department reported \$1.746 million in Service Agreement revenues, excluding Affiliation Agreements, as of the end of FY16.

We selected seven service agreement accounts and performed a detailed review of contract terms, invoicing, monitoring of revenues and expense activities. We found that the service agreement contracts were current, and that expenses charged to the financial accounts were generally appropriate. However, for four of the seven agreements reviewed, we noted gaps in time between invoices, and unpaid invoices dating back to 2013. In some cases, the Business Office sent follow-up requests for payment several months later.

Service Agreement Index	Invoice Period	Amount	Date Sent
SURJCSA	July 2015	*\$1,212.76	08/11/2015
SURNEU1	March 2016	*\$8,879.60	04/18/2016
SURCSAD	September 2013	*\$6,250	unknown
SURCSAA	August 2014	\$18,000	09/23/2014
SURCSAA	June 2013	\$18,000	07/01/2013

**Management reported that payment has been collected as of the date of this report*

The Business Office recently implemented a worksheet to track invoicing and payments received for various clinical service agreements, and reconciled with deposits posted in the general ledger. The Business Office also regularly reviewed general ledgers to manage accruals and other activities charged to the funds. However, we noted that the tracking worksheet was not always updated and reconciled with the ledger in a timely manner. We were able to trace most payments received to the ledger. However, because checks received were sent to the Controller's Office once a week for deposit, at times this resulted in delays in revenues being posted, or missing/unposted revenues.

The Department indicated that inconsistencies in Service Agreement monitoring was due to limited resources. The Department could benefit from routinely performing ledger reconciliation to ensure that all payments were posted accurately.

C. Travel and Entertainment Expenses	
Travel and entertainment reimbursements were not always submitted in a timely manner, and some travel was not preauthorized. In addition, travel expenses incurred by the Department AVC were not approved in strict accordance with policy, as a subordinate to the traveler processed the approval.	
Risk Statement/Effect	
Inadequate controls for travel expenses increase the risk of inappropriate reimbursements. In addition, late claims could result in taxable income to the traveler, and the Department could be charged for its share of employer-related taxes.	
Management Action Plans	
C.1	Management tracks pre-approved travel and periodically reminds travelers that all University travel should be pre-authorized, and that reimbursements should be submitted timely and adequately supported by the required receipts. Management has also coordinated with the Travel Office on periodic reports to monitor and ensure timely submission of travel reimbursements.
C.2	Department leadership will reinforce travel policy requirements to Department personnel. The AVC and Chair's office will periodically remind and reiterate to faculty and staff the importance of timely submission, and risks involved in non-compliance to policy.
C.3	Management will ensure that action plans included in the justification for late claims are appropriate and followed through.
C.4	The Department will coordinate with the Dean's Office to assign the responsibility for reviewing and approving travel expenses incurred by the Chair, and will ensure the Chair reviews expenses for the AVC. Travel approval templates shall be updated to ensure proper electronic approvals.

C. Travel and Entertainment Expenses – Detailed Discussion

University Policy (*Business and Financial Bulletin G-28 Travel Regulations*) describes requirements for prior approval and reimbursement of University business travel. In general, University policy governing travel requires all official UCSD travel to be preauthorized, submitted timely (within 21 days of travel), and to be properly supported. In addition, policy requires that a travel expenses be approved by an individual who does not report directly or indirectly to the traveler. We selected 25 travel transactions totaling \$113,154 for detailed review and noted the following exceptions:

- **Late Submissions:** We noted 84% or 21 of the 25 trips were submitted to Disbursements for processing after 21 days of the end of the trip. Of these, 15 travel expenses were submitted more than 45 days after the travel end date (two of which were over one or two years old), which could impact the employee's taxable income. Although justification and corrective action plan statements for 13 late claims were included, the Department did not follow through the corrective action plan to ensure future submissions are completed in a timely manner.

- **Prior Approval:** Travel pre-authorization for three of the sample travel expenses reviewed were not completed prior to the travel dates. Pre-authorization in MyTravel is processed when a trip destination and date estimates have been identified; therefore, the pre-approval cannot always be documented within MyTravel. The Department Business Office Manager tracks pre-approval outside MyTravel and periodically reminds travelers and their administrative support staff of the reimbursement timeframe.
- **Approval Authority:** We noted that the travel expenses for the AVC were approved by an employee who reports directly to him. This could result in the approver not having the requisite authority to question the appropriateness of transactions, and should be avoided.
- **Lack of Documentation for Policy Exception:** The Department was unable to provide documentation supporting prior approval for policy exception on a relocation expense that utilized a non-UCSD-contracted moving company.

We also reviewed 25 entertainment expense reimbursements for compliance with University policy BUS 79 (Expenditures for Business Meetings, Entertainment, and Other Occasions) totaling \$80,582. Entertainment expenditures appeared reasonable and were processed in accordance with relevant policies and guidelines. All exceptional entertainment expenditures were appropriately pre-approved. However, eight of the 25 events/entertainment were also submitted after the due date, five of which included justification indicating staff shortage and late receipt of request for payment. Those events were related to graduation, recruitment and other student events.

D.	Express Card Management
Express Card usage and administration were not always in compliance with University policy. We noted that Express Cards were used for payment of services and items that were restricted, default account codes were not routinely adjusted, and the transaction reviewer assigned to one Express Card holder was a subordinate employee.	
Risk Statement/Effect	
Non-compliance with policy and failure to follow Express Card purchasing guidelines could put the cardholder and the University at risk of incurring unallowable or fraudulent purchases.	
Management Action Plans	
D.1	Management has decided to cancel the Department Chair’s Express Card, and will limit provision of Express Cards to approved selected personnel.
D.2	Management will routinely remind Express Card Administrators to reclassify transactions from the default code when reviewing Express Card transactions.
D.3	Management will perform routine review of ledger transactions to identify and address any restricted purchases. Management will periodically remind Express Card holders of types of purchases which are restricted and identify an appropriate payment mechanism.

D. Express Card Management – Detailed Discussion

University policy (*Business and Finance Bulletin (BUS 43) Material Management, Procurement Card Program*) outlines University requirements on use of procurement cards. UCSD's Express Card is a procurement option in the form of a Visa credit card for faculty and staff who have buying responsibilities. The Express Card program simplifies buying and paying for most routine, low-cost goods and services. Certain types of purchases are restricted. Express Cardholders are responsible for abiding by Express Card usage guidelines. Designated Express Card Administrators are responsible for reviewing expenditures to make sure they are compliant with the University policy, and changing the default account code to a more specific account code to reflect the type of item purchased.

The Department currently holds 28 Express Cards. The Department Express Card administrator oversees Express Card management with assistance from two administrative staff in reviewing transactions and supporting documents. Express Cardholders are required to upload the receipts to support their purchases.

We selected and reviewed 23 of the 69 Express Card transactions which appeared they may potentially be restricted based on the account code used and/or amount. Each of the transactions was traced to the supporting documents, and most transactions appeared allowable, appropriately approved, adequately supported, and properly allocated. However we noted the following noncompliance with policy or Express Card program guidelines:

- 10 transactions were for items or services listed in Express Card restricted purchases. This included
 - Four payments for conference registration for staff faculty members that incurred other related travel expenditures;
 - Four payments for holiday party rentals and services which should have been processed through MyEvents;
 - One purchase of flowers for Chief Resident's graduation, which falls under the UC policy for non-cash awards, sympathy and retirement gifts;
 - One purchase of token or plaque used for an award which should have been processed through MyPayments as with other Gifts and Non-Cash Awards;
- The Business Operations Manager was the Department administrator assigned to review and approve the Department Chair's Express Card purchases. University policy (BUS 43) provides that Express Card transaction reviewers may not be in a subordinate relationship to the cardholder;
- 197 of 1,490 transactions in FY2016 were not reclassified from default account code 638018.

Without appropriate and authorized use and review, cardholders may incur unallowable or fraudulent expenses.

E.	Cash Handling Procedures
We noted instances of non-compliance with University Cash-Handling policy. Check remittances were not deposited timely, cash handling training was not completed by employees who handle checks, and the lockbox Safe did not meet requirements for the amount of checks on hand.	
Risk Statement/Effect	
Lack of timeliness in processing check remittances and appropriate safe could result in increased risk of misappropriation or misapplication of payments, and loss.	
Management Action Plans	
E.1	Management will ensure deposits are completed on a timely basis when collections exceed \$500.
E.2	Management will require staff who handle cash/checks to complete cash handling training.
E.3	Management will replace the current safe to ensure checks on hand are stored in a safe that meets University policy requirements.

E. Cash Handling Procedures – Detailed Discussion

During our review of department processes on managing service agreements, we noted that Department practices for storing and depositing checks received were not always in accordance with University Policy (*BUS-49 Policy for Cash and Cash Equivalents Received*). Based on the Department's check log document, the table below shows the total number and amount of checks received and managed by the Business Office.

	FY16	FY17 (Jul – Nov)
Total number of checks received	316	139
Checks received for Service Agreements	95 (30%)	53 (38%)
Total amount of checks received	\$3.164 million	\$2.168 million
Checks received for Service Agreements	\$2.5 million (79%)	\$1.9 million (8%)

University policy (BUS 49) established procedures for handling and processing cash and cash equivalents, and defines University staff roles and responsibilities related to receipt, safeguarding, reporting and recordkeeping for payment transactions. As required by policy, all payments (cash or checks) should be deposited to the bank if collections exceed \$500. Further, policy requires that no single person should have complete control over cash/checks handling, recording, and deposit. Staff who handle cash should have a background check and cash handling training. The policy also requires that all cash/checks should be placed in a safe or locked receptacles based on the following cash limits, prior to deposit:

1. Up to \$1,000 in a locked receptacle;

2. From \$1,001 to \$2,500 in a safe;
3. From \$2,501 to \$25,000 in a steel-door safe, with a door thickness of not less than 1 inch and wall thickness of not less than ½ inch;
4. From \$25,001 to \$250,000 in a class TL-15 composite safe or better; and
5. Over \$250,000 in a class TL-30 steel or better safe.

During our review, we noted the following instances where Department practices did not conform to policy:

- Deposit Frequency: Deposits were not consistently made when collections reached \$500. Amount of checks kept for a week in the key-locked safe before depositing could be more than \$500, as service agreement checks normally ranged from \$3,000 to \$360,000 per check. Regardless of amount, service agreement checks received were sent to Controller's Office/Central Cashier's on a weekly basis. The weekly deposit of sums significantly exceeding \$500 represented instances when the unit did not comply with policy to make deposits when collection reach \$500.
- Physical Security: Checks were placed in a small safe which did not meet security requirements for the amount of cash equivalents on hand. The safe was located in a cubicle in the front desk/reception area to allow access to the small window slot on the safe for employees dropping off checks.
- Cash-Handling Training: Some Department staff with cash-handling responsibilities had not completed required training, which provides updated information on current policies, procedures, and techniques to staff who perform cash handling and deposit processes.

Department's deviation from these procedures created additional risk of cash loss or theft and may jeopardize the University's liability coverage.

F.	APM 671 Reporting Compliance
Department faculty members were not in strict compliance with the annual conflict of commitment/outside professional activities reporting requirement required by APM 671. We noted that five faculty had not turned in disclosure forms for FY16 as required by this policy.	
Risk Statement/Effect	
Non-compliance with APM 671 could affect a faculty member's additional negotiated compensation and/or result in suspension of incentive or bonus compensation.	
Management Action Plan	
F.1	Management will continue efforts to obtain timely compliance for the receipt of the Conflict of Commitment reporting forms by elevating late statement individuals to the Dean's Office for discussion, or requiring that the form be brought to the annual salary negotiation meeting. As of the date of this report, the Chair's Office has received the disclosure forms from three of the five faculty who are not on leave.

F. APM 671 Reporting Compliance – Detailed Discussion

APM 671 requires that Health Sciences faculty plan participants submit an annual report to the Department Chair that summarizes any outside professional services from which the participant retained income. Timely receipt and review of the annual outside Professional Activity Reports can alert Department management to situations that may require additional monitoring or education to ensure compliance with University policy, and appropriate campus oversight for potential conflicts.

The Department Chair's office oversees faculty submission of Conflict of Commitment reports required for APM 671 compliance. However, we noted that as of November 23, 2016, five of 130 faculty had not turned in the forms as required, for FY16. During our review, the Department Chair was in the process of following up with five individual faculty, two of them on extended medical leave, who had not submitted their annual report as of November 1 due date.

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Limited Document Review)	Transaction Testing (Sample Basis)			
Timekeeping & Payroll	√	√		Reviewed DOPE reports for period July 2015 to September 2016.	Yes	Satisfactory	The online timekeeping system requires supervisors to review and approve employee timesheets, including overtime and leave activities. Financial Managers regularly review DOPES which are accessible online, and management documents the review by regularly certifying in Control Tracker the reconciliation of permanent staffing list performed quarterly.
Faculty Compensation	√	√	√	Reviewed a judgmental sample of faculty employees, traced payroll to salary agreement worksheet, Compensation Plan, and PPS entry. Reviewed payroll charges and incentive payments, traced to productivity reports and reviewed incentive rate calculation.	Yes	Satisfactory	Faculty compensation and payment process and controls appear satisfactory. Calculation and payment of productivity incentives appeared reasonable and in accordance with approved clinical productivity and compensation plans.
APM 025/671 Reporting	√	√	√	Reviewed Outside Professional Activity Reporting process and forms collected for FY 2015-16 due in November 2016.	No	Improvement needed	Five of 130 faculty required to submit APM025/671 reports did not submitted their annual report as of November 1 due date. Refer to Report Finding F.

¹ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Limited Document Review)	Transaction Testing (Sample Basis)			
Transaction Processing - Non-Payroll Expenditures	√	√	√	Reviewed judgmentally selected transactions; traced to supporting documents.	Yes	Satisfactory	Transaction Sampling was generally adequate, with just 2% of 3,643 transactions selected not reviewed. The Department has taken appropriate action to improve monitoring and aim for 100% compliance.
Travel and Entertainment	√	√	√	Reviewed 25 trips totaling approximately \$114K and 23 events/entertainment reimbursements totaling \$73K; traced to vouchers and supporting documents.	No	Improvement Needed	Improvement was needed with respect to timely submission and reconciliation of travel and entertainment events, prior authorization, approval authority, and supporting documentation. Refer to Report Finding C.
Operating Ledger Review & Financial Reporting	√	√	√	Examined operating ledgers and financial reports.	No	Improvement Needed	We noted several Department funds that had deficit balances as of June 2016 exceeding \$10,000 and remained in overdraft for a period of over 60 days. A Deficit Reduction plan has since been approved, and the Department is working with campus offices to clear deficits. Refer to Report Finding A.
Service Agreements	√	√	√	Reviewed and analyzed seven judgmentally selected service agreements and financial information, contract agreement terms, invoices, ledger activities,	No	Improvement Needed	Service agreement invoicing, follow-up, and reconciliation needed improvement. Four of the seven service agreements have one or more old invoices that were unpaid, follow-up requests were sent several months later. Checks

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Limited Document Review)	Transaction Testing (Sample Basis)			
				and COI disclosures as applicable.			received were sent to the Controller's Office once a week for deposit, which contributed to delays in revenues being posted, and missing/unposted revenues. Refer to Report Finding B.
Contract & Grant Activity (Post Award Admin.)	√	√	√	Reviewed ledger activities and balances for sponsored project funds.	Yes	Satisfactory	Federal and other sponsored grants and contract pre and post awards were managed by the Research Service Core (RSC). Department coordinates with RSC on routine monitoring of financial activity for compliance with relevant agency requirements. An AMAS audit of the RSC was also recently completed.
Effort Reporting	√	√	√	Reviewed E-CERT Reports and Effort Reporting Query.	Yes	Satisfactory	Controls over effort reporting and certification for FY15 and FY16 appeared satisfactory.
Payroll Expenditure Transfers	√	√	√	Verified appropriateness for EPET and adjusted payroll charges per operating ledgers & distribution of payroll expense reports (DOPEs).	Yes	Satisfactory	Controls over expense transfers appeared satisfactory.
Non-Payroll Expenditure Transfers	√	√	√	Reviewed timeliness, and business justifications for reasonableness.	Yes	Satisfactory	Controls over expense transfers appeared satisfactory.
Equipment Management	√	√	√	Reviewed inventory listing and equipment file for purchases, transfers, and	Yes	Satisfactory	FY16 showed very few purchases. Annual review was not completed or certified in control tracker for

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Limited Document Review)	Transaction Testing (Sample Basis)			
				deletes. Discussed department processes for Review and monitoring of equipment inventory			the past 3 fiscal years (Urology – 2 years).
Express Card Management	√	√	√	Selected and reviewed 69 Express Card transactions that appeared to be restricted based on the account code used and/or amount, and traced to the supporting documents	No	Improvement Needed	We noted restricted purchases on Department Express Cards and default account codes which were not reassigned. Also, the Express Card Administrator reported to a cardholder (the Chair) Refer to Report Finding D.
Information Systems Environment		√		Discussed department business systems. IS environment oversight resides with VCHS.	Yes	Satisfactory	The IS environment oversight resides with VCHS. Department currently has no unique business system needs. Any impact on HS IT transition to be included in future reviews.
Cash Handling	√	√	√	Discussed and verified cash handling processes Reviewed and analyzed cash/check deposit log/worksheet. Cash collection process for service agreements was tested for policy compliance.	No	Improvement Needed	Cash handling processes did not comply with policy in the areas of deposit frequency, physical security, and cash-handling training. Refer to Report Finding E.