

July 29, 2010

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Chair, Department of Surgery
8400

***Subject: Department of Surgery
Audit & Management Advisory Services Project 2010-23***

The final audit report for the Department of Surgery, Audit & Management Advisory Services Project 2010-23, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken 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 corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings. We will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them, at the conclusion of the audit exit conference. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

Stephanie Burke
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

cc: D. Brenner
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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
San Diego

Department of Surgery
July 2010

Performed By:

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Project Number: 2010-23

Department of Surgery
Audit & Management Advisory Services Project 2010-23

Table of Contents

I.	Background.....	1
II.	Audit Objective, Scope, and Procedures.....	2
III.	Conclusion	4
IV.	Observations and Management Corrective Actions	5
	A. Financial Overdraft Management	5
	B. Third Party Billing Services.....	7
	C. Transaction Sampling	8
	D. Cash Handling Procedures	9
	E. Express Card Management	10
	F. Timekeeping and Payroll	11
	G. Approval Hierarchies	12
	H. SAS 112 Key Controls Documentation	13

Attachment A – Financial Overview for the Fiscal Year Ended June 30, 2009

Attachment B – Audit Results by Business Office Functional Process

*Department of Surgery
Audit & Management Advisory Services Project 2010-23*

I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the University of California, San Diego, School of Medicine (SOM) Department of Surgery business operations as part of the approved audit plan for Fiscal Year 2009-10. This report summarizes the results of our review.

The more than 70 surgeons employed by the Department of Surgery (Surgery) are recognized for excellence in clinical care, student instruction, and research. The Department Chair provides oversight for the operation of Surgery's eight divisions: General Surgery, Cardiothoracic Surgery, Otolaryngology, Neurosurgery, Plastic Surgery, Trauma/Burn, Anatomy, and Urology. The Surgery Executive Committee makes all major decisions regarding recruitment, program development, promotions, resource allocation and budget/financial planning in support of Surgery's three primary missions:

- 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.
- To provide training and education for physicians and allied health professionals.
- To expand medical knowledge through clinical and basic science research.

The Surgery Business Office staff support critical department business processes including academic and staff personnel management and payroll, information systems, contract and grant administration, clinical research, physician billing oversight and financial analysis and reporting. Business Office staff and Division Administrators communicate frequently to address operational issues. Standing meetings have also been established with Medical Group Business Services, various vendors, faculty and staff.

The SOM Statement of Revenue and Expenses for the Fiscal Year 2008-09 reported total Surgery revenue of \$41,456,353. Of that amount \$9,994,796 was received from research contracts and grants, and \$23,913,127 was from clinical operations. **Attachment A** provides a summary of the detailed financial information reported by the SOM.

Surgery contracts with an outside vendor, Rmac Medical Management, Incorporated (Rmac), to provide professional fee billing and collection services to Otolaryngology and Neurosurgery. Medical Group Business Services provides those services for all other Divisions.

The Center for the Future of Surgery is the only department recharge operation. The goal of this Center is to continually improve and expand surgery options using emerging technology to decrease recovery time and improve patient outcomes. The Center for the Future of Surgery will be relocating from facilities adjacent to the Hillcrest Medical

Department of Surgery
Audit & Management Advisory Services Project 2010-23

Center to the UCSD Medical Education-Telemedicine Building that is currently under construction and scheduled to be open August 2011.

Some Surgery faculty members provide pediatric surgical services at Rady Children's Hospital San Diego (RCHSD). Effective September 1, 2009, the UC Regents, on behalf of the UCSD SOM, entered into the following agreements with Rady Children's Hospital-San Diego and related entities: the Rady Children's Specialist Medical Foundation (Medical Foundation) and Children's Specialists of San Diego, a Medical Group, Inc. (CSSD):

1. Agreement between The UC Regents/UCSD and RCHSD;
2. Staffing Agreement between UC Regents/UCSD and CSSD;
3. Administrative and Third Party Services Agreement between CSSD and RCHSD;
4. Professional Services Agreement (PSA) between CSSD and RCHSD; and,
5. Joint Compliance, Risk Management and Common Interest Defense Agreement between RCHSD, CSSD and UC Regents/UCSD.

One of these agreements, the PSA, addresses UCSD faculty compensation for clinical services provided at RCHSD, and for reimbursing physicians for some other professional expenses. The SOM Dean's Office has established a position to act as the liaison between the Medical Foundation and SOM department management. AMAS will further evaluate the PSA and other related agreements during a planned Fiscal Year 2010-11 audit.

II. Audit Objective, Scope, and Procedures

The objective of our review was to determine whether Surgery business process controls provided reasonable assurance that financial results were accurately reported, operations were effective and efficient, and activities complied with relevant policies, procedures and regulations.

We completed the following audit procedures to achieve the project objectives:

- Reviewed Surgery business documentation and information including the department website, the organizational structure and financial reports;
- Reviewed selected applicable federal requirements and University policies including but not limited to:
 - UCOP Contract & Grant Manual, *chapter 7*;
 - UCSD Accounting Manual;
 - UCSD PPM 150-66: *Personnel Activity Report System*;
 - UCSD PPM 395-4.3: *Payroll Timekeeping, Review of Charges*;

Department of Surgery
Audit & Management Advisory Services Project 2010-23

- Academic Personnel Manual, Section 025: *Conflict of Commitment and Outside Activities of Faculty Members*; and 670: *Health Sciences Compensation Plan, University of California*;
 - UC Business and Finance Bulletin BUS 47: *University Direct Costing Procedures*;
 - UC Business and Finance Bulletin BUS 49: *Policy for Handling Cash and Cash Equivalents (BUS-49)*;
 - UC Business and Finance Bulletin BUS 79: *Expenditures for Entertainment, Business Meetings and Other Occasions*;
 - UC Business and Finance Bulletin G-28: *Policy and Regulations Governing Travel*;
 - UCSD PPM 150-35: *Classification, Acceptance and Administration of Awards from Private Sources*;
 - UCSD PPM 300-40: *Guidelines for Recharge and Other Income Producing Activities*; and,
 - UCSD BLINK guidance and links to policy including but not limited to express card practices, purchasing, travel, entertainment, equipment, delegation of authorities, approval hierarchies, facilities management and Statement of Auditing Standard (SAS) 112 compliance.
-
- Interviewed Surgery directors, fund managers, division administrators, recharge operation managers, timekeepers, human resource staff and business office staff;
 - Conferred with the Office of Post-Award Financial Services (OPAFS), and the Health Sciences Sponsored Projects Office (HSSPO);
 - Obtained information from the SOM Contracting Office, Dean's Office, the Health Sciences Compliance Office, and the following campus offices: Controller, Payroll, Express Card administration, and Marketplace;
 - Conferred with the Health Sciences Fire Marshall regarding fire safety measures in the Hillcrest Multipurpose Facility;
 - Evaluated department business controls utilizing internal control questionnaires and segregation of duties matrices;
 - Evaluated information systems environmental controls;
 - Obtained and evaluated online approval hierarchies;
 - Verified the financial status of department funds and indices for the Fiscal Year ended June 30, 2009 and for the period July 1, 2009 through March 31, 2010;
 - Reviewed and analyzed Surgery deficit balances;
 - Analyzed procedures and performed limited transaction sampling in the following areas to verify that internal controls were adequate and functioning in compliance with University policy.
 - ✓ Contract and grant administration
 - ✓ Operating ledger review
 - ✓ Transaction sampling reports

***Department of Surgery
Audit & Management Advisory Services Project 2010-23***

- ✓ Payroll and timekeeping
 - ✓ Payroll and non payroll expenditures and expense transfers
 - ✓ Travel and entertainment
 - ✓ Express card
 - ✓ Effort reporting
 - ✓ Cash handling
 - ✓ Service agreements
 - ✓ Equipment inventory
 - ✓ Recharge activities
- Obtained and reviewed the Rmac professional fee billing service contract to verify compliance with contract terms and conditions;
 - Obtained and reviewed the PSA; and,
 - Performed a focused review of the Center for the Future of Surgery recharge unit.

The scope of our review also included an initial evaluation of the process and administration of clinical trial activities. However, because AMAS completed two concurrent audits of clinical research billing processes (*Clinical Research Billing Review; Project #2009-15*, and *Medical Group Research Billing Process Review; Project #2010-25*), detailed tests of research billing transactions were not performed during this audit.

III. Conclusion

Based on the audit procedures performed, we concluded that Surgery business process controls were generally effective, and in most cases provided reasonable assurance that operations were efficient, financial reports contained accurate information, and business transactions complied with University policy. We observed that Business Office management and staff were focused on ensuring that appropriate internal controls were incorporated into business processes, and committed to providing training to staff and faculty.

During the audit, Surgery was developing a wiki site on IShare to improve department access to department policies, guidelines, and other pertinent information. In addition, Business Office personnel and Division Administrators used monthly working meetings to revise financial reporting formats to improve accuracy and usefulness, and to facilitate the transition to using the UCSD “MyFunds” financial dashboard to improve faculty access to updated financial information.

We noted several opportunities for process improvements related to contract billing services, deficit management, cash handling, express card purchases, timekeeping processes, transaction sampling, approval hierarchies, and compliance with UCSD Statement of Auditing Standards (SAS) 112 guidelines.

*Department of Surgery
Audit & Management Advisory Services Project 2010-23*

Attachment B provides the results of the business process review. Specific management actions planned or in process for those areas that were rated “satisfactory” or “improvement suggested” are noted in *Attachment B*. Those areas which were rated “improvement needed” are described in more detail in the remainder of this report.

IV. Observations and Management Corrective Actions

A. Financial Overdraft Management

Additional focus on overdraft monitoring and remediation is needed.

The campus Overdraft Policy <http://www-act.ucsd.edu/spear/odpolicy.pdf> requires departments to have a process for routine monitoring of accounts in overdraft. The Overdraft Policy also requires that deficit balances greater than 60 months old be addressed a deficit reduction plan approved by the Vice Chancellor Health Sciences.

Our review of an initial small sample of six deficit balances in overdraft for over three months provided evidence that additional financial monitoring of specific funds/indexes was needed. AMAS completed a more detailed analysis of deficit balances in Surgery indexes as of May 31, 2010. Because the SOM Controller’s office is responsible for remediating deficit balances prior to May 2005 based on an agreement between the Department and the SOM, balances 60 months or less were included in our review. The following table provides a summary of the aged deficit balances in various fund ranges.

Fund Ranges	Overdraft Balances 12 Months or less	Overdraft Balances 13 to 24 Months	Overdraft Balances 25 to 36 Months	Overdraft Balances 36 Months or more	Total \$	Total %
Opportunity Funds (07427A)	(\$2,474)	\$0	\$0	\$0	(\$2,474)	0%
General Funds (19900A)	(\$609,732)	\$0	\$0	\$0	(\$609,732)	4%
Federal Contracts & Grants (23655A - 33773A)	(\$749,098)	\$0	(\$57,199)	\$0	(\$806,296)	5%
Private Agreements Contracts & Grants/Gifts (40889A- 57207A and	(\$224,832)	(\$573,081)	(\$3,415)	(\$117)	(\$801,446)	5%

*Department of Surgery
Audit & Management Advisory Services Project 2010-23*

Fund Ranges	Overdraft Balances 12 Months or less	Overdraft Balances 13 to 24 Months	Overdraft Balances 25 to 36 Months	Overdraft Balances 36 Months or more	Total \$	Total %
79600A)						
Clinical Funds (60100A – 69750A)	(\$4,480,202)	(\$895,761)	(\$1,864,620)	(\$5,990,544)	(\$13,231,128)	83%
Clinical Trial Funds (75014A)	\$0	(\$544,816)	\$0	\$0	(\$544,816)	3%
TOTAL \$	(\$6,066,338)	(\$2,013,658)	(\$1,925,234)	(\$5,990,661)	(\$15,995,892)	100%
TOTAL %	38%	13%	12%	37%		

Because not all expense transfers and other accounting transactions have been entered for Fiscal Year 2009-10, we were not concerned about activities with deficit balances less than one year old, as those may be adjusted as part of year end accounting processes. In addition, deficit balances in clinical trial funds are not uncommon, because sponsors may pay clinical trial expenses based on a payment schedule, or the receipt of patient case report forms.

The majority of fund/indexes in deficit were in the clinical fund group. Clinical funds are unrestricted and represent the revenue or loss from patient care activities. As noted above, the table includes a summary of deficit balances only. However, when we queried all clinical fund/indexes for Surgery the overall positive balance on May 31, 2010 was approximately \$7.3M.

Surgery Management was aware of the need to closely monitor fund balances and has developed a process for preventing future deficit spending. The Finance Director has been working closely with the SOM Controller’s Office to research deficit and remediate deficit balances. Planned routine overdraft monitoring will also assist management with resolving deficits timely, and minimizing negative STIP¹ that will be charged to the deficit balances.

Management Corrective Action:

Surgery management has implemented a routine monitoring process to help ensure that funds are available to cover expenses and deficit balances are avoided. Management has also established a deficit reduction strategy for aged deficit balances that have accumulated from FY 2006 through FY 2009.

¹ The Treasurer's Office at the UC Office of the President (UCOP) invests available university cash in short-term securities called the Short Term Investment Pool (STIP). “Negative” STIP is charged to accounts with a deficit balance.

*Department of Surgery
Audit & Management Advisory Services Project 2010-23*

B. Third Party Billing Services

Certain accounts receivable management reports required by the Rmac service agreement were not provided. Various UCSD personnel expressed general concerns about billing accuracy.

AMAS obtained and reviewed the Rmac service agreements for Neurosurgery and Otolaryngology professional billing and collection services, both of which have been extended and appropriately authorized through June 30, 2012. The agreements require the vendor to adhere to specific personnel requirements, as well as reporting requirements, and to complete an annual review of vendor compliance with federal and state billing regulations.

Based on our review of the contract terms and conditions, and interviews conducted with Surgery managers, physicians, Health Sciences Compliance Office staff and others, we determined that a focused review of Rmac billing and reporting processes would be beneficial. The contract required that Rmac provide Surgery and Medical Group Business Services with specific account receivable management reports, some of which had not been received. The UCSD Health Sciences Compliance Program has worked with Rmac when conducting physician billing audits over the past three years. Issues identified during those reviews appeared to have been corrected on a case by case basis. However, some general compliance concerns related to billing and coding methodologies were expressed.

Surgery has contracted with Rmac for over 15 years and physicians expressed general satisfaction with the services provided. However, due to the increased complexity of billing processes and scrutiny of billed charges by government payers, an independent assessment of Rmac contract compliance and billing/collection process controls would provide assurance of billing accuracy and regulatory compliance.

Management Corrective Actions:

1. Surgery management agreed that a focused review of Rmac contract compliance and billing processes will be conducted by AMAS in collaboration with Health Sciences Corporate Compliance.
2. In the interim, Surgery management will require Rmac to coordinate with Surgery and the SOM Dean's Office to submit documentation required by the agreement or alternative documents which meet Surgery's needs, including:

Department of Surgery
Audit & Management Advisory Services Project 2010-23

- a. Documentation to provide evidence of professional certification for vendor professional and clerical staff, performance reviews, audit results, and evidence of continuing education per *section 1.2 Personnel* of the Agreement.
- b. Documentation supporting satisfactory evidence of compliance with all the vendor standards described in detail in section 6.2 *Annual Review* of the Agreement no later than 60 days prior to the end of each contract year.
- c. Monthly and annual reports to be provided as designated in detail in *Exhibit A-1* and any additional agreed upon reports requested.
- d. Immediate and full compliance with all necessary Medical Group data requirements for reporting purposes. These data requirements are essential for many reasons, including but not limited to, enabling the Medical Group to calculate the RVU's for medical malpractice coverage, and to make the data available in COGNOS.

C. Transaction Sampling

Transactions selected by the campus Transaction Sampling system were not timely reviewed and reconciled by Surgery staff in all cases. However, Financial Link reports indicated that transactions were not reviewed and reconciled when a manual reconciliation may have been completed.

The campus Transaction Sampling process in Financial Link randomly selects a sample of department financial transactions to be evaluated during the ledger reconciliation and account validation process. After the review is completed, transaction processing errors are identified by error type, and corrected. To qualify for participation in this process, department fund managers are required to complete training and the department fiscal officer is required to periodically monitor and review the department's transaction queue.

Our review of Surgery Transaction Management Reports for the period September 1 through December 31, 2009 indicated that only 73 of 324 (27.5%) of computer generated samples for operating ledger reconciliation were reviewed or reconciled. The following table provides a summary of the results of the review for each division participating in transaction sampling.

Organization	% Reviewed	% Not Reviewed
Trauma	53%	47%

Department of Surgery
Audit & Management Advisory Services Project 2010-23

Organization	% Reviewed	% Not Reviewed
Otolaryngology	30%	70%
Cardiothoracic Surgery	12%	88%
General Surgery	5%	95%
Surgery	3%	97%
Plastic Surgery	0%	100%
Neurology	0%	100%
Urology	0%	100%
Pediatric Surgery	0%	100%
Anatomy Resources	0%	100%

Staff interviews revealed that not all managers were using the Transaction Sampling process. Trauma, Otolaryngology and Neurology were completing a reconciliation of 100% of the transactions, but due to limited staff and time resources they were not marking each transaction reviewed in the ledger annotator.

The campus Transaction Sampling process provides reasonable assurance that transaction errors are timely identified and corrected. Because only a percentage of total transactions are selected for focused review, department resources are used more effectively. If selected transactions are not timely reviewed, there could be increased risk of non-compliance with federal cost accounting regulations.

Management Corrective Actions:

Surgery management will:

1. Fully implement transaction sampling in all Surgery business divisions and remind staff of the importance of completely reconciling all transactions in the campus Transaction Sampling system.
2. Monitor and evaluate the status of transaction sampling report data on a quarterly basis to ascertain that transactions are being completely reconciled and noted in the system.

D. Cash Handling Procedures

Cash handling procedures for checks received by the Surgery Business Office and division administrators did not comply with BUS-49 requirements.

Department of Surgery
Audit & Management Advisory Services Project 2010-23

During our review we noted that checks received in the Business Office, the Division of Trauma (Trauma) and the Center for the Future of Surgery were not handled in accordance with policy. The Business Office was endorsing checks immediately, but they did not have a safe or the appropriate secure storage receptacle to secure cash stored overnight. The checks received in Trauma and in the Center for the Future of Surgery were not being endorsed immediately upon receipt.

According to BUS-49, cash receipts received by departments through the mail shall be documented, and any checks shall be endorsed with a "U.C. Regents" stamp immediately upon receipt. In addition, BUS-49 requires that cash receipts held more than one day be stored as follows:

- Up to \$1,000 in a locking receptacle;
- From \$1,001 to \$2,500 in a safe;
- From \$2,501 to \$25,000 in a steel door safe, with a door thickness of not less than one inch and wall thickness of not less than ½ inch; and
- From \$25,001 to \$25,000 in a class TL-15 composite safe.

Non-compliance with BUS-49 may result in inaccurate cash processing, untimely reporting, and may put University assets and employee security at risk.

Management Corrective Actions:

Surgery management will:

1. Review cash handling practices in Surgery locations that receive cash, checks and/or other cash equivalents, and verify that cash is being managed in accordance with UC Policy BUS-49.
2. Ensure that each location has an endorsement stamp and is instructed to endorse checks immediately upon receipt.
3. Install a safe or other secure storage receptacle that meets policy requirements in each location, as needed.

E. Express Card Management

One Division Administrator had been issued an excessive number of Express Cards.

During our review of Surgery express card holders, we noted the department had 47 active Express Cards. Several individuals had been issued more than one card.

*Department of Surgery
Audit & Management Advisory Services Project 2010-23*

For example, one of the Division Administrators had eleven cards, and was only using five of them.

In some cases, it may be appropriate to require department staff to maintain more than one Express Card to segregate purchases for individual projects. However, the number of cards issued per individual should be kept to a minimum to reduce the risk that inappropriate purchases are made, but are not easily identified.

Management Corrective Actions:

1. The Department Express Card Administrator reviewed the active cards with the Division Administrator and six cards were cancelled.
2. Surgery management will review activity reports for all active cards and cancel any additional cards that are not needed.

F. Timekeeping and Payroll

Internal control practices for payroll and timekeeping were not consistently implemented in conformance with policy.

University policy requires business units to ensure that internal controls are established, properly documented and maintained for activities within their jurisdiction. However during our audit we noted the following areas of non-compliance with University internal control standards for timekeeping and payroll:

Supervisory Approval of Timesheets

UC Business and Finance Bulletin Number IA-101 requires supervisory approval of timesheets. However, a cursory review of all Divisions indicated that six of 15 timesheets submitted for the period November through December 2009 were missing supervisor signatures.

Monthly review of Distribution of Payroll Expense (DOPE) Forms

UC Business and Finance Bulletin Number IA-101 requires that a staff member be assigned the task of reconciling payroll expenditures, and must document that the monthly review has been performed by signing and dating the DOPE report or a reconciliation log (or similar record) maintained for this purpose. However, as of the time of our audit, this monthly review was not being performed and documented as required by policy.

Department of Surgery
Audit & Management Advisory Services Project 2010-23

Separation of Duties

University internal control guidance highly recommends separation of duties for key processes. The Timekeeper's Verification Report is utilized to verify that all timekeeping entries for all divisions for a particular payroll period are accurate and appropriate. In Surgery, this report was not reviewed by someone other than the timekeeper entering the data.

Inconsistent practices for documenting key internal controls for the areas noted above increases the likelihood that errors or irregularities could go undetected.

Management Corrective Actions:

Surgery management will:

1. Require that timekeepers review and sign all timesheets.
2. Ensure that DOPE reports are reviewed and initiated by the reviewer.
3. Identify a staff member to complete a secondary review of the Timekeepers Verification Report.

G. Approval Hierarchies

Surgery approval hierarchies for travel, entertainment and purchasing activities were not set up correctly in the campus Integrated Financial Information System (IFIS).

Section IV, Approval of Travel, in Business and Finance Bulletin G-28: *Policy and Regulations Governing Travel* provides: "In order to ensure that travel is approved in an impartial manner, travelers may not approve the reimbursement of their own travel expenses. In addition, an employee shall not approve the travel expenses of an individual to whom he or she reports either directly or indirectly."

We performed a limited review of Surgery's IFIS document approval hierarchy templates, and reviewed a random sample of ten TEVs and fifteen non-payroll transactions. We noted the following issues:

- Approval templates contained names of at least one employee who had been previously separated from the Department.
- Travel and entertainment expenses for the Department Chair or the Administrative Vice Chair, were being reviewed and approved by

***Department of Surgery
Audit & Management Advisory Services Project 2010-23***

Surgery Business Office managers.

- In one instance, a division administrator was reviewing and approving her own purchasing transactions.

IFIS document approval templates should reflect only current Department personnel to ensure that transactions can be initiated and approved only by properly authorized personnel.

Failure to properly maintain the IFIS Approval Templates and to comply with University policy increases the risk that errors or irregularities could occur and go undetected.

Management Corrective Actions:

Surgery management will:

1. Review all IFIS approval templates, and revise them as needed.
2. Submit travel and entertainment reimbursement claims for the department Chair to the SOM Dean's office for approval to ensure compliance with the UC Travel policy.
3. Add the SOM Dean's Office approver to the Surgery IFIS approval hierarchies for travel and entertainment transactions.
4. Implement a process to update IFIS document approval templates to delete personnel who separate from the University or transfer to another UCSD department.
5. Periodically validate that templates have been modified to reflect personnel changes.

H. SAS 112 Key Controls Documentation

Requirements of campus guidelines for documenting key controls were not being met.

Statement of Auditing Standards No. 112 (SAS 112), "Communicating Internal Control Related Matters Identified in an Audit," is an accounting standard that establishes guidelines for determining the seriousness of internal control issues. SAS 112 establishes standards and provides guidance on communicating matters

Department of Surgery
Audit & Management Advisory Services Project 2010-23

related to an entity's internal control over financial reporting identified in an audit of financial statements.

Through specific requirements of the UCSD Office of the Controller, as posted guidance on BLINK, all Department's must certify and document key controls to demonstrate that review and follow-up activities were actually performed. The goal of this campus requirement is to ensure that existing key controls are in place and that UCSD can demonstrate, through documentation that they are operating as intended. Departments are required to provide documented evidence that internal control activities are being performed on a regular basis as prescribed by SAS 112. If the department is not able to provide this documentation, it may be construed as if key controls have not been implemented.

Surgery Business Office personnel were not aware of the specific campus requirements of SAS 112 and documentation of key controls and therefore this requirement was not being met.

Management Corrective Action:

The Surgery Financial Team will gain an understanding of BLINK guidance of the SAS 112 UCSD Controller's Office Requirements and a process will be implemented to ensure these requirements are being met.

Audit and Management Advisory Services Project #2010-23
Department of Surgery, Project #2010-23
Financial Overview for the Fiscal Year Ended June 30, 2009

REVENUE

NIH	\$ 5,132,688
Clinical Trials	836,330
Other Federal	2,408,109
Non Federal	122,001
Gifts / Endowments / Other	2,610,346
Permanent Budget	3,878,954
Deans Allocation	(337,971)
Recharges	1,081,450
Other Revenue	10,644,706
Transfers from Ambulatory	<u>15,079,740</u>
<i>Total Revenue</i>	<i>\$ 41,456,353</i>

EXPENSES

Salaries & Benefits	32,532,985
Supplies & Expense	<u>7,861,027</u>
<i>Total Expenses</i>	<i>\$ 40,394,013</i>
Developmental Funds	65,345
Fund Transfer Enterprise	<u>2,977,631</u>
<i>Income after Transfers</i>	<i>\$ 4,105,316</i>
Beginning Fund Balance	3,678,722
Fund Balance Change	186,876

ENDING FUND BALANCE	\$ 7,970,914
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Financial information was obtained from the School of Medicine Corporate Statement FYE June 30, 2009.

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Contract & Grant Activity (Post Award Admin.)	√	√	√	Selected two awards and reviewed operating ledger detail for supply charges; evaluated selected journal vouchers, non payroll and payroll expenses, PARs and DOPEs. Met with Fund Managers, Division Administrators and Campus and Health Sciences Post Award Financial Offices.	Yes	Internal Controls	Satisfactory	Financial activity was routinely monitored for compliance with relevant agency requirements. <i>Surgery is currently working on cross training the Business Office staff to establish back-up personnel for functional business process areas.</i>
Service Agreements	√	√	√	Reviewed and analyzed five randomly and judgmentally selected service agreements and financial information.	Yes	Yes Ledger Transaction Verification	Satisfactory	Service agreement invoices were current with the exception of one payment that was lost. This payment was found and reconciled during our review. Payments were monitored, reconciled monthly, and posted promptly. Department was not aware of terms of one of the

¹ Department is not documenting key controls per campus requirement of SAS 112, refer to Section H of the audit report for further detail on this finding.

² Audit conclusions used in this report included the following four levels from highest to lowest; Satisfactory, Satisfactory/Improvement Suggested, Satisfactory/Improvement Needed and Improvement Needed.

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
								contracts reviewed. <i>Surgery has since implemented a new shared file of all service agreements and will educate themselves on the details of all service agreements.</i>
Effort Reporting (E-CERT)	√	√	√	Reviewed E-CERT Reports and data; traced to Payroll Expenditure Transfers.	Yes	Yes Effort Reporting	Satisfactory	Effort was being properly certified on a timely basis.
Operating Ledger Review & Financial Reporting	√	√	√	Examined sample of operating ledgers and financial reports. Interviewed management and staff to determine what their process was for financial reconciliation.	Yes	Yes Fiscal Operations Review	Satisfactory	Operating ledgers were reviewed and reconciled by division and fund managers. <i>Surgery has converted to the use of the on-line BLINK Tool "MyFunds" the PI and Division management's responsibility to view monitor monthly financial reports. Division Administrators and Fund Managers meet with Principal Investigator and produce additional reports as needed. Fund Managers meet with the Division Administrators at least once a month to discuss</i>

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
								<i>any issues or concerns.</i>
Payroll Expenditure Transfers	√	√	√	Verified adjusted payroll charges per operating ledgers & distribution of payroll expense reports (DOPEs).	Yes	Yes Ledger Transaction Verification	Satisfactory	Expense Transfer explanations appeared reasonable. No exceptions were noted.
Non-Payroll Expenditure Transfers	√	√	√	Reviewed the timeliness, and business justifications for reasonableness for a small sample of transfers.	Yes	Yes Ledger Transaction Verification	Satisfactory	Separation of duties appeared adequate. Non-payroll expenditures appeared reasonable, and were supported by sufficient documentation.
Equipment Management	√	√	√	Reviewed inventory management process and traced a small sample of equipment purchases from financial link transactions and reconciled those items to the Campus Asset Management System verifying location and existence.	Yes	Yes Physical Inventory	Satisfactory	At the time of the audit, the equipment inventory list was current and reconciled with the FY 2008/09 Equipment Management Report. <i>Surgery was in the process of converting to the new Campus Asset Management System.</i>

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control ¹	Audit Conclusion ²	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Recharge Activity	√	√	√	Met with Center for Future Surgery management and toured the facility. Reviewed recharge activity reports, proposed recharge analysis worksheet, operating ledgers and invoices for appropriate expenditures and supporting documents.	Yes	Yes Ledger Transaction Verification	Satisfactory/ Improvement Suggested	Center for Future Surgery business activities appear reasonable and in compliance with University policy with the exception of the current deficit balance. Management has developed a plan to eliminate the current recharge activity deficit noted on March 31, 2010 of (\$83,375) by June 30, 2010.
Information Systems Environment		√	√	Obtained and reviewed Computer Environment and Information Systems Internal Control Questionnaire. Interviewed Administrator and reviewed internal documentation for system backup processes and account set up and	Yes	Yes Security Controls	Satisfactory / Improvement Suggested	Security measures had been implemented to provide physical and logical security for information resources. Security technologies were being evaluated to prepare for the move to the new Medical Education Building planned for completion in 2011. Surgery is compliant with UCSD minimum network security

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

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	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
				deletion.				<p><i>policy. However, management will consider improving password controls by:</i></p> <ol style="list-style-type: none"> <i>1. Staff education regarding secure password guidelines;</i> <i>2. Requiring new staff to change their initial login;</i> <i>3. Requiring all staff to periodically change their passwords; and,</i> <i>4. Maintaining a password history log.</i>
Academic Personnel Manual (APM) 025 Compliance		√	√	Reviewed Outside Professional Activity Reporting process and forms collected by surgery for 2008-09.	Y	Internal Controls	Satisfactory / Improvement Suggested	<p>AMAS noted that three of 105 (97%) Surgery faculty members did not submit an Outside Professional Activity Report for Fiscal year 2008-09 as required by policy. However, each report was signed with a signature stamp for the Department Chair.</p> <p><i>Management will obtain the Department Chair's signature</i></p>

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

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								<i>on disclosure documents.</i>
Financial Overdraft Reporting	√	√	√	Reviewed and analyzed overdraft report and interviewed financial management to determine process for monitoring and reconciling past and future balances. Reviewed six fund/indices that had a deficit balance older than three months as of March 31, 2010.	No	Yes Overdraft Funds Review	Improvement Needed	Department processes were effective for preventing future deficit spending. However, current deficit balances need to be more closely monitored and resolved. <i>(Refer to Section A of the audit report)</i>
Clinical Operations		√	√	High level analysis of clinical operations management and case load. Review of Rmac Medical Management, Inc. billing services contracts. Tests of individual transaction were not conducted.	No	Yes Fiscal Operations Review	Improvement Needed	Clinical operations financial activity appears to be closely monitored and well managed. However, we identified contract compliance concerns related to outside billing operations. <i>(Refer to Section B of the audit report)</i>

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

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	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Non-payroll Expenditure Transactions – Transaction Sampling	√	√	√	Transaction Sampling Management Reports for the period September 1 through December 31, 2009 were analyzed.	No	Yes Ledger Transaction Verification	Improvement Needed	For the period reviewed, Transaction Sampling Management Reports indicated that a large number of transactions had not been reconciled. <i>(Refer to Section C of the audit report)</i>
Cash Handling	√	√	√	Interviewed staff and reviewed processes for cash handling. Reviewed a small sample of financial reports.	No	Yes Internal Controls	Satisfactory / Improvement Needed	Cash handling processes did not comply with certain sections of BUS-49. <i>(Refer to Section D of the audit report)</i>
Express Card Purchases	√	√	√	Reviewed ten randomly selected transactions and associated supporting documentation	No	Yes Ledger Transaction Verification	Satisfactory / Improvement Needed	One Division Administrator had eleven cards, six of which were cancelled during our review. <i>(Refer to Section E of the audit report)</i> Although supporting documentation was not available for one of the ten transactions reviewed there was adequate

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

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								<p>separation of duties in the Express Card management process. Surgery has developed an Express Card transaction reconciliation process that allows each division to be responsible for obtaining, verifying and maintaining receipt documentation for all Express Card purchases. Although this may work for some of the Divisions, Campus Express Card Management has expressed concern with receipt retention by one division of Surgery, resulting in suspension of an Express Card.</p> <p><i>Management will further evaluate the current process and determine if allowing the Division's to be responsible for receipts is optimal.</i></p>
Timekeeping & Payroll	√	√	√	Reviewed internal controls, DOPE's and	No	Yes Payroll	Satisfactory / Improvement	Separation of duties appeared adequate with the exception that

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

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				selected timesheets, absence slips and Timekeeper Audit Reports.		Expense Verification	Needed	the timekeepers' verification report was not reviewed by someone other than the timekeeper entering the data. We noted that that improved controls were needed for some payroll and timekeeping processes. <i>(Refer to Section F of the audit report)</i>
Transaction Processing - Non-Payroll Expenditures Approval Hierarchies	√	√	√	Reviewed fifteen randomly selected transactions; traced to supporting documents.	No	Yes Ledger Transaction Verification	Improvement Needed	Separation of duties appeared adequate. Non-payroll expenditures appeared reasonable and supported by documentation. However, in one instance, a Division Administrator was reviewing and approving her own transactions. <i>(Refer to Section G of the audit report)</i>
Travel	√	√	√	Reviewed ten trips; traced to vouchers (TEV's) & supporting documents	No	Yes Ledger Transaction	Satisfactory/ Improvement Needed	TEV and exceptional entertainment document preparation processes were

Department of Surgery
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2010-23

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				and evaluated for completeness and required approval.		Verification	adequate. Travel activity was monitored for compliance with policy. However, travel for the Department Chair and the Associate Vice Chancellor of Surgery was not approved in compliance with policy. <i>(Refer to Section G of the audit report)</i>	