



UCSB Audit and Advisory Services

Internal Audit Report

Hosford Counseling and Psychological Services Clinic

June 29, 2017

Performed by:

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Report No. 08-17-0009

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AUDIT AND ADVISORY SERVICES
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June 29, 2017

To: Dean Jeffrey Milem
Dr. Heidi Zetzer, Director, Hosford Counseling & Psychological Services Clinic
The Gevirtz Graduate School of Education

Distribution

Re: **Hosford Counseling & Psychological Services Clinic**
Audit No. 08-17-0009

As part of the 2016-17 annual audit services plan, Audit and Advisory Services has completed an audit of the Hosford Counseling & Psychological Services Clinic (the clinic). Enclosed is the report detailing the results of our review.

The purpose of this review was to evaluate the adequacy of internal controls over business practices used to manage and monitor revenues and expenses for the clinic and to verify compliance with University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. The scope of our audit was limited to business processes and internal controls in place as of February 2017.

Our work identified opportunities to implement and improve practices and controls in finance areas such as cash handling, recharge rates, reconciliation documentation, and contracting. We also found opportunities to improve practices in data inventory and data classification and controls to protect personal identifiable information and restricted information managed by the clinic.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

We sincerely appreciate the cooperation and assistance provided by Hosford Counseling & Psychological Services Clinic and Gevirtz Graduate School of Education personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Masek".

Jessie Masek
Acting Director
Audit and Advisory Services

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Enclosure

Distribution:

Dorothy Fernandez Satomi, Assistant Dean, Gevirtz Graduate School of Education
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Dyan Wirt, Clinic Administrator, Hosford Counseling & Psychological Services Clinic
Bill Doering, ITG Director, Gevirtz Graduate School of Education

cc: Chancellor Henry Yang
Executive Vice Chancellor David Marshall
Vice Chancellor Administrative Services Marc Fisher
UCSB Audit Committee
Interim Senior Vice President and Chief Compliance and Audit Officer John Lohse

PURPOSE

The purpose of the review was to evaluate the adequacy of internal controls over business practices used to manage and monitor revenues and expenses for the Hosford Counseling & Psychological Services Clinic (the clinic) and to verify compliance with University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. This audit is part of our fiscal year 2016-17 audit services plan.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of this audit included financial and business processes and internal controls in place as of February 2017. We selected samples of transactions from the period July 1, 2015, through February 28, 2017, for detailed review and testing.

The objectives of our review were to determine whether there is sufficient compliance with campus and system wide policies in the following areas:

- Billing, accounts receivable, and cash controls.
- Income and recharge rates.
- Reconciliation.
- Contracting (procurement and non-procurement).
- Information security and data privacy.
- Personnel records retention.

To accomplish our objectives, we:

- Researched and reviewed UC and UCSB policies, best practices, and other guidance concerning financial and business processes and information security, including:
 - UC Policy BFB-BUS-49, *Policy for Cash and Cash Equivalents Received* (UC Policy BUS-49).
 - UC Policy BFB-A-56, *Academic Support Unit Costing and Billing Guidelines*.
 - UC Policy BFB-A-47, *Direct Costing Procedures*.
 - UC Policy BFB-IS-3, *Electronic Information Security* (UC Policy IS-3).
 - UCSB *Income and Recharge Guidelines*.
 - UCSB *Policy 1300, Establishment and Revision of Recharge Rates*.
 - UC Policy BFB-RMP-2, *Records Retention and Disposition: Principles, Processes, and Guidelines*.
 - UC Policy BFB-RMP-4, *Vital Records Protection*.
 - UC Record Retention Schedule.
 - *Hosford Counseling & Psychological Services Policies & Procedures Manual 2016-2017*.
 - *Hosford Counseling & Psychological Services Supervisor Procedures Manual 2016-2017*.
- Reviewed previous related UC and UCSB Audit and Advisory Services work. See Table 4.
- Conducted interviews with staff and administrative personnel at the Gevirtz Graduate School of Education (GGSE) and the clinic, to obtain a better understanding of the processes and internal controls in place and to identify areas of concern.

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- Assessed risks in selected areas based on the results of interviews, internal control questionnaires, and prior audits.
- Tested a sample of fiscal year 2015-16 deposit transactions for billing clients, accounts receivable, cash management, income and recharge activities, reporting, and reconciliation.
- Tested compliance in formation of selected contracts, including proper format and approvals, supporting documentation, and terms and conditions. We also tested that recharge rates were in agreement with University policy and revenue claims were in agreement with contract terms.
- Performed a compliance review of selected privacy requirements based on UC Policy IS-3 to determine whether clinic data was adequately protected. This included a review of inventory, backup policies, disaster recovery plans, access control, and data encryption.
- At the request of management, also performed a review of personnel record keeping procedures.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND¹

The Hosford Counseling & Psychological Services Clinic is a unit within the UCSB Gevirtz Graduate School of Education and is a university-based community clinic designed to provide culturally sensitive, low-cost individual, couple, family, and group psychological treatment to the entire Santa Barbara community. The clinic serves the public as well as students, faculty, and staff. The clinic is a training site for students in the Department of Counseling, Clinical, and School Psychology (CCSP) and is a clinical-research facility for the faculty and students of the CCSP Department. Table 1 outlines the Hosford Clinic revenues and expenses for fiscal year 2015-16.

Table 1		Fiscal Year 2015-16	
Account Name	Allocation July 1, 2015	Income/ Expenses	Balance June 30, 2016
Hosford Counseling & Psychological Services Clinic	\$26,078.12	(\$20,907.22)	\$5,170.90
Hosford Clinic/ Psychological Assessment Center	(\$8,105.68)	(\$14,069.19)	(22,174.87)
Total			(\$17,003.97)

Source: GGSE Finance and Administration.

The clinic mission is to:

- Promote mental health and well-being by providing affordable and effective counseling and psychological services supported by research.
- Conduct research that contributes to the field of applied psychology and to provide culturally-informed and evidence based training for clinicians.

¹ Source: Hosford Clinic & Psychological Services Clinic website and Policies & Procedure Manuals 2016-17.

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Clinicians are graduate students in the Department of Counseling, Clinical, and School Psychology doctoral program and are supervised by department faculty members who are both experienced therapists and nationally known for their innovative research on a variety of mental health areas. Services are provided based on the availability of appropriate clinicians and supervisors and an assessment of needs. In the event that appropriate services cannot be provided, clients and callers are given referrals to three or more sources appropriate to their needs.

The current staffing for the clinic consists of: 0.33 FTE² clinic director, 1 FTE clinic administrator, 0.67 FTE faculty supervisor, 0.33 FTE continuing lecturer, 0.75 FTE casual staff psychologist, 1 FTE student supervisor, 2.75 FTEs student clinicians, and 0.12 FTE work study student employee.

Clinic Fees

There are separate fee schedules for student clinicians and faculty clinicians. If the client cannot afford the standard rate, there is a sliding scale based on household annual gross income and number of dependents. If the client cannot afford the sliding scale fee, they may apply for a temporary fee adjustment. All clients with fees set by sliding scale are required to provide proof of income.

Clinic Data Information

The clinic uses Point and Click solutions (PnC), which is a cloud-based electronic health records/practice management system adopted by the UC system. This contract is planned to be renewed for another year. Prior to adapting PnC, the clinic progressively developed their record keeping methods to be in line with current industry standards. As a result, data from legacy systems is being stored in various mediums to comply with applicable retention schedules. See Table 2 for more details.

Table 2 Clinic Data Information Systems	
Storage System	Description
Point and Click Solutions (PnC)	A remotely hosted Electronic Health Records/Practice Management System (EHR/PMS).
Ensemble Video Server	A media server where video and audio recordings of sessions are stored for critique and to improve the methods of the clinician providing services.
Legacy Database	A Filemaker database used to store data for past client files, which could not be transferred to the new PnC system.
Physical Archives	A manual file system of paper records, which includes information on past clients.

Source: Auditor analysis.

Regulations and Policies

Table 3 outlines the principal policies and procedures we considered most relevant to the scope of this audit.

² Full time equivalent. Number of employees on full-time schedules plus the number of employees on part-time schedules converted to a full-time basis.

Table 3		Relevant Policies and Procedures	
Name	Description		
Business and Finance Bulletin BUS-49, <i>Policy for Cash and Cash Equivalents Received</i>	<p>Includes the University's policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt for all University cash and cash equivalents:</p> <ul style="list-style-type: none"> • Immediately upon receipt, checks must be restrictively endorsed "for deposit only." • A collection not recorded on cash register or point of sale equipment must be recorded on an official pre-numbered, multiple-part cash receipt. <ul style="list-style-type: none"> ○ The receipts must be used sequentially. ○ All voided receipts must be retained and have signed approval by a supervisor. 		
Business and Finance Bulletin A-56, <i>Academic Support Unit Costing and Billing Guidelines</i>	States that "It is the University's policy not to sell goods or services to outside consumers except where such goods or services are unique . . . The charge established shall recover full University costs, both direct and indirect. Indirect costs shall include appropriate amounts for campus overhead costs."		
Business and Finance Bulletin A-47, <i>Direct Costing Procedures</i>	Sets forth general procedures for direct costing. These costing procedures are issued to improve uniformity and consistency in the recording of direct costs throughout the University.		
Business and Finance Bulletin IS-3, <i>Electronic Information Security</i>	Establishes guidelines for achieving appropriate protection of University electronic information resources and to identify roles and responsibilities at all levels in the University of California system.		
UCSB <i>Income and Recharge Guidelines</i>	<p>These guidelines are based on UC and campus policy along with federal and state requirements.</p> <ul style="list-style-type: none"> • All campus units/departments charging a fee for services must submit an annual rate proposal for review by the Income and Recharge Committee. The guidelines further state that the Income and Recharge Committee is responsible for reviewing existing rates on an annual basis for all campus units whether or not changes or revisions are proposed. • Off-Campus Rates – "It is the University's policy not to sell goods or services to outside consumers except where such goods or services are unique or where such sales would not constitute inappropriate competition with commercial sources. . . Sales to outside consumers as part of the total operating program of an individual activity require approvals at the campus level. The established charge shall recover full University costs, both direct and indirect." 		
Business and Finance Bulletin RMP-2, <i>Records Retention & Disposition</i>	Establishes the system wide principles and processes for records disposition, and to outline the roles and responsibilities associated with retention and disposition of administrative records.		
Business and Finance Bulletin RMP-4, <i>Vital Records Protection</i>	Establishes criteria for identifying vital records and selecting methods of protection for those records. It also assigns responsibilities, including making departments and offices responsible for reviewing records in relation to the guidelines set forth in this policy.		
UC Record Retention Schedule	This is a records retention schedule which defines the period of time that records should be retained and when they should be destroyed. Various requirements based in law and university policy govern the retention of administrative records.		

Source: UC policies.

SUMMARY OPINION

Our work identified opportunities to implement and improve practices and controls in finance areas such as cash handling, recharge rates, reconciliation documentation, and contracting. We also found opportunities to improve practices in data inventory and data classification and controls to protect personal identifiable information and confidential information managed by the clinic.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

Table 4	Relevant Work by UCSB Audit and Advisory Services and Other UC Audit Departments	
Report Name	Date	Campus
Hosford Counseling and Psychological Services Clinic	June 2009	UCSB
Koegel Autism Center	February 2017	UCSB
Koegel Autism Center	October 2009	UCSB
Recharge Activities	December 2011	UCSB
Large Animal Clinic	March 2015	UCD
Neuropsychiatric & Behavioral Health Services Teaching Clinics	November 2010	UCLA
Santa Monica Hematology-Oncology	August 2016	UCLA
Specialty Care Network-Santa Monica Neurology Clinic	December 2014	UCLA
Department of Education Studies	January 2013	UCSD
Shiley Eye Center Cash Controls - Clinic Operations	June 2011	UCSD
Clinic Operations - IVF	July 2014	UCSF
Clinic Operations	January 2016	UCSF
Clinic Operations Review – Physical Therapy	May 2015	UCSF
SOD Clinic Operations	June 2015	UCSF

Source: Audit & Advisory Services.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Financial and Business Processes

Our work identified opportunities to improve current financial and business processes and controls for the clinic. Our results are summarized in Table 5.

1. Billing, Accounts Receivable, and Cash Controls

Our detailed testing of a sample of clinic deposit transactions found that the clinic has not implemented adequate internal controls over certain receipts and deposits as required by University policies and procedures and best practices. We found limited controls over:

- Handling certain receipts:
 - Receipts are not automatically issued for cash or check payments, which is required by UC Policy BUS-49. Clients must request the receipt. Lack of receipts also prevents validation that deposits are complete and correct upon submission to the Finance and Administration department³.
 - The clinic does not use official pre-numbered cash receipts, as required by UC Policy BUS-49. For cash and check payments, the clinic only provides a PnC statement upon request, which includes a history of payments, but this is not a pre-numbered receipt.
- Cash handling:
 - Deposits are held for up to 10 days before being delivered to the Finance and Administration department. However, UC Policy BUS-49 requires deposits to be made at least weekly or when deposit amount reaches \$500.
 - Opportunities exist to strengthen deposit documentation. While clinic procedures state that checks are restrictively endorsed immediately upon receipt, copies of deposit documentation does not include the back of checks.

2. Income and Recharge

Our work found that the recharge rate development, review, and approval process is not currently functioning as intended or required. The most current income and recharge package for the clinic is from fiscal year 2000-01⁴. The package does not reflect rates currently charged to patients. UCSB's *Income and Recharge Guidelines* require that all campus units/departments charging a fee for services submit an annual rate proposal for review by the Income and Recharge Committee.

Overhead costs may not be covered by the current rates, as required. Because there have been no income and recharge rate proposals for the last 18 years, there is no way to know if all direct and indirect costs are being covered, or if the clinic is operating at a loss to the campus. The rates charged should recover full University costs, both direct and indirect, and the indirect cost component of rates should include appropriate amounts for campus overhead costs.

³ A unit within GGSE that provides centralized financial services for its various programs.

⁴ We were informed that the clinic requested to update the recharge packet in 2008 and 2009.

3. Limited reconciliation of cash and checks

Cash and check reconciliation is limited due to the lack of receipts, as mentioned in a prior section of the report. Lack of receipts prevents a full reconciliation process by the Finance and Administration department. This internal control weakness could result in errors in financial reporting as well as undetected unauthorized transactions, and a resulting lack of assurance.

4. Contracting Processes

Formation of Non-Procurement Agreements

We found that Procurement Services⁵ was not involved in the review and execution of a contract with an insurance company for covered services provided by the clinic. This contract was signed by the clinic director without proper authority. Furthermore, the contract was not signed in the name of The Regents of University of California.

Our work found that submitted insurance claims for covered services provided by the clinic is collected in accordance with the contract fee schedule. However, as mentioned in a prior section, the income and recharge package for the clinic is not updated, and current clinic session fees are not in agreement with outdated recharge rates.

Table 5		Financial and Business Processes	
Category	Rating	Comments	
Billing, Accounts Receivable, and Cash Controls	x	<ul style="list-style-type: none"> • Cash and check receipts are not recorded on an official, pre-numbered receipt. • Receipts are issued only upon request. • Deposits are not made timely. 	
Income and Recharge	x	<ul style="list-style-type: none"> • Outdated recharge rates. 	
Reconciliations	Partial	<ul style="list-style-type: none"> • There are daily and monthly reconciliation processes in place for credit card transactions. • Reconciliation of cash transactions is limited due to lack of receipts. 	
Non-Procurement Contract	x	<ul style="list-style-type: none"> • Not properly approved and reviewed. • Executed without proper authority. 	
Insurance Payments Agree with Fee Schedule	✓	<ul style="list-style-type: none"> • Full compliance with contract terms. 	
Procurement Contract	✓	<ul style="list-style-type: none"> • Proper approval, appropriate terms & conditions. 	

Source: Auditor analysis.

✓: Full compliance with policy or contract requirements.

Partial: Meets some compliance or contract requirements.

x: No compliance or very limited compliance with policy or contract requirements.

⁵ A unit within UCSB Business & Financial Services.

Formation of Procurement Agreements

Our review of the PnC contract found that clauses overall appropriately address key applicable University policy requirements. Contract was properly approved and includes appropriate terms and conditions and other UC standard agreements.

We recommend that Hosford Counseling & Psychological Services Clinic, with Gevirtz Graduate School of Education support, improve financial and business practices for full compliance with University policies, procedures, and best practices that include:

- Updating procedures for current internal controls in cash receipts, including but not limited to:
 - The use of standard pre-numbered invoices for services provided to clients and patients. Invoices should include details regarding services provided and hourly rates.
 - The use of standard pre-numbered receipts for cash collections. Receipts should include details regarding services provided.
 - Ensure deposits are delivered to Finance and Administration department timely to allow for weekly deposits.
- Updating reconciliation and deposit procedures to include receipts.
- Updating income and recharge packets for all services provided by the clinic.
- Consulting Procurement Services to develop and implement contracting processes regarding formation of agreements that fully comply with University policies.

Management Corrective Actions

The Hosford Counseling & Psychological Services Clinic, with Gevirtz Graduate School of Education support, agrees to improve financial and business practices for full compliance with University policies, procedures, and best practices that includes:

- Updating procedures for current internal controls in cash receipts, including but not limited to:
 - The use of standard pre-numbered invoices for services provided to clients and patients.
 - The use of standard pre-numbered receipts for cash collections.
 - Ensure deposits are delivered to Finance and Administration department timely to allow for weekly deposits.
- Updating reconciliation and deposit procedures to include receipts.
- Updating income and recharge packets for all services provided by the clinic.
- Consulting Procurement Services to develop and implement contracting processes regarding formation of agreements that fully comply with University policies.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2017.

B. Information Security / PII Human Subjects

Our review highlighted opportunities to improve information security practices in the clinic⁶, to be more consistent with UC Policy IS-3 and best practices, including inventory and classification of data, backups and disaster recovery plans, and security controls to protect restricted or sensitive data, such as data encryption. Table 6 summarizes our conclusions in this area.

Table 6		Information Security / PII Human Subjects			
Category	PnC	Ensemble Video Server¹	Legacy Database	Physical Archives	Comments
Inventory/ Classification	Partial	✘	Partial	✘	The clinic does not maintain inventory of data housed on-site.
Backup Policy	Partial	✘	✘	N/A	PnC has a mirror application, but no backups.
Disaster Recovery Plan	Partial	N/A	✘	N/A	PnC has a mirror application for the purpose of disaster recovery.
Access Control	✓	✓	✓	✓	Full compliance.
Encryption	Partial	✘	✘	N/A	PnC contract does not include encryption clause for all data.

Source: Auditor analysis.

✓: Full compliance with policy requirements.

Partial: Meets some of the compliance requirements or there are compensatory controls.

✘: No compliance or very limited compliance with policy requirements.

¹: Clinic classified as non-crucial data.

1. Inventory & Data Classification

For all on-site systems, the clinic does not have a formalized inventory of restricted or sensitive data. Lack of data inventory prevents the classification of data that is restricted or sensitive. Classifying data is important especially in environments where sensitive data is not well segregated from non-sensitive data.

2. Backup Policy and Disaster Recovery Plan

There is no dedicated backup and disaster recovery plan for the applications included in our review⁷. It is our understanding that GGSE is considering a disaster recovery site in another state as part of a disaster recovery plan and business continuity plan. We found:

- There are no formal backups of the data located on PnC. The database is replicated in real time in a mirror database. This solution guarantees high availability and serves as a disaster recovery. However, this solution may not always be ideal if there is data corruption or other errors, which will be automatically included with the rest of the replicated data in the mirror database.

⁶ Table 2 outlines these systems.

⁷ Described in Table 2.

- The clinic does not perform back ups of the legacy database.
- The clinic chose not to backup their Ensemble Video Server because files served as an observational tool in training clinicians and were overall non-crucial. Management evaluated there was a greater risk of maintaining unnecessary copies. However, there are occasional faculty requests to save data, which cannot be guaranteed with their current procedures to delete files when capacity has been reached.

3. Access Control

Overall access control for clinic systems is adequate. However, we found opportunities for modest improvements:

- There are no documented procedures to manage access control, including procedures for adding and removing user accounts from clinic systems. The authorization process is also not documented.
- Access logs to the systems are not formally reviewed, and there is no periodic reporting of active user accounts.

4. Encryption

Data is not encrypted at rest or in transit. University policy and best practices recommend encrypting sensitive information, as well as implementing the most restrictive requirements for all data if the sensitive data is not separately identified and segregated.

C. Personnel Records

We reviewed the process for record retention of personnel files and determined that it is overall in compliance with UC and campus retention policy. We observed there is an inventory of all personnel records maintained by management, there is an appropriate office of record for each type of record, and all relevant personnel files are retained in accordance with relevant client files.

We recommend that Hosford Counseling & Psychological Services Clinic, with Gevirtz Graduate School of Education support, formalize an information technology and information security plan for the clinic. The plan should:

- Provide for the inventory and classification of sensitive or restricted data.
- Include development of a backup and disaster recovery plan.
- Formalize current access control processes to include periodic reviews of access logs and reporting of active user accounts.
- Include the encryption of sensitive data.

Management Corrective Action

Hosford Counseling & Psychological Services Clinic, in collaboration with Gevirtz Graduate School of Education support, will formalize an information technology and information security plan for the clinic. The plan will:

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- Provide for the inventory and classification of sensitive or restricted data.
- Include development of a backup and disaster recovery plan.
- Formalize current access control processes to include periodic reviews of access logs and reporting of active user accounts.
- Include the encryption of sensitive data.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2017.