

October 1, 2010

GABRIEL HADDAD, M.D.  
Chair  
Department of Pediatrics  
0735

**Subject:**        *Department of Pediatrics  
Audit Project 2010-38*

The final audit report for Department of Pediatrics, Audit Report 2010-38, 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. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and 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

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**AUDIT & MANAGEMENT ADVISORY SERVICES**



University of California  
**San Diego**

**Department of Pediatrics**  
**October 2010**

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Project Number: 2010-38

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

**Table of Contents**

I.	Background.....	1
II.	Audit Objective, Scope, and Procedures.....	2
III.	Conclusion .....	3
IV.	Observations, Management Corrective Actions, and Recommendations.....	3
	A. Organizational Changes .....	3
	B. Financial Deficits .....	5
	C. Non Payroll Expense Documentation.....	8
	D. Research Effort Certification .....	9
	E. Changes in Effort – Sponsored Projects .....	10
	F. Cash Management.....	11
	G. Timekeeping and Payroll .....	12
	H. Equipment Inventory .....	14
	I. Transactional Sampling .....	14
	J. SAS 112 Key Controls Documentation .....	15

Attachment A – Audit Results by Business Office Functional Process

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

**I. Background**

Audit & Management Advisory Services (AMAS) completed a review of Department of Pediatrics business processes as part of the approved audit plan for Fiscal Year 2009-10. This report summarizes the results of our review.

The Department of Pediatrics (Pediatrics) is one of the largest departments within the University of California, San Diego (UCSD) School of Medicine (SOM). It is comprised of 17 divisions and employs approximately 100 full-time faculty, 54 residents, two chief residents, 50 post-doctoral fellows, and more than 400 staff. Pediatrics faculty provides the majority of clinical services at Rady Children's Hospital of San Diego (RCHSD), and certain specialized services at UCSD Medical Center Hillcrest. In addition to providing clinical primary care services to children and adolescents, Pediatrics specialist physicians treat childhood cancers, heart defects, metabolic and genetics disorders, and other diseases.

The SOM Corporate Statement of Revenue and Expenses for the Fiscal Year 2008-09 reported total Pediatrics revenue of \$64,946,366 million. Of that amount \$40,319,347 (62%) was received from research contracts and grants, and \$18,391,642 (28%) was from clinical operations. National Institute of Health (NIH) awards totaled \$16,249,702, and accounted for (40%) of the total research revenue.

The Pediatrics 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. The Chair, Administrative Vice Chair and Chief Operations Officer (COO) meet with division chiefs on a monthly basis to discuss new projects, faculty development issues and provide a platform for divisions to communicate division activities and concerns.

The Pediatrics Sponsored Projects Office (SPO) performs pre-award and post-award functions. At the time of this review, Pediatrics had approximately 300 active research awards including 68 NIH awards, 105 clinical trials, 23 state or county contracts and other private awards, gifts and fellowships. Pediatrics also operates 12 faculty research laboratories, three of which are self supporting recharge units that provide testing services to UCSD and external customers.

In August 2001, the Joint Powers Affiliation Agreement between the Regents of the University of California (UCSD Department of Pediatrics) and Children's Hospital and Health Center of San Diego (CHHC), now referred to as Rady Children's Hospital San Diego (RCHSD) became effective. The primary intent of the agreement was to combine UCSD Healthcare and CHHC resources, including physicians, staff, hospitals and clinics into one virtual healthcare program that provides healthcare services to the children of the

*Department of Pediatrics  
Audit & Management Advisory Services Project 2010-38*

greater San Diego area. When all components of the agreement were implemented, CHHC hospital and clinic facilities became the primary service location for the majority of children's healthcare services formerly provided by UCSD Healthcare. At that time, UCSD also entered into a related affiliation agreement with Children's Specialists of San Diego, a Medical Group, Inc. (CSSD).

During the past several years, Pediatrics department management and staff have experienced a period of transition while preparing for significant changes in the UCSD/RCHSD/CSSD affiliation structure. 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 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.

In conjunction with these agreements, a number of CSSD physicians were offered, and accepted UCSD faculty appointments. Pediatrics gained approximately 120 new faculty members during that process. The Pediatric Business Office has been working to facilitate new faculty access to UCSD resources.

## **II. Audit Objective, Scope, and Procedures**

The objective of our review was to determine whether Pediatrics 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.

In order to achieve our objective we completed the following audit procedures:

- Reviewed applicable University policies and procedures;
- Evaluated the Pediatrics organizational structure;
- Conducted interviews with Pediatrics management including the Administrative Vice Chair, the Chief Financial Officer (CFO), the COO, and the Director of Sponsored Projects;
- Interviewed fund managers, clinical trials and service agreement analysts, and recharge unit managers to discuss key processes;
- Performed detailed testing of a sample of business transactions to verify that transactions were processed in compliance with policy.

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

The terms and conditions in the September 2009 affiliation contracts and the related operations and funds flow between UCSD, RCHSD and the Foundation were excluded from the scope of this review. AMAS has scheduled an audit of these agreements and associated processes in Fiscal Year 2010-11. Furthermore, because Pediatrics computer systems were included in the audit work performed during School of Medicine Distributed Network Security, AMAS Project #2009-29; information systems controls were not separately evaluated during this audit.

### **III. Conclusion**

In several cases, Pediatrics business process controls could be improved to provide greater assurance that operations are efficient, financial reports contain accurate information, and business transactions comply with University policy.

Pediatrics has faced organizational challenges precipitated by a loss of key administrative personnel and an increased administrative workload. Department administration has responded to those challenges by hiring a new Sponsored Projects Director, several new fund managers and reassigning contract and fund management responsibilities. However, additional process controls will be needed to ensure that fund deficits are timely resolved and supporting documentation for expenditures is readily available.

These issues and additional opportunities for process improvements are discussed in more detail in the remainder of this report.

### **IV. Observations and Management Corrective Actions**

#### **A. Organizational Changes**

**The recent increase in the number of Pediatrics faculty, combined with the loss of Business Office personnel has resulted in increased administrative workloads and backlogs.**

Pediatrics experienced significant organizational change during Fiscal Year 2009-10. In fall 2009, Pediatrics added 120 additional faculty members as a result of the September 2009 affiliation agreements with RCHSD, CSSD and the Foundation. In addition to the increase in faculty, the department experienced a loss of key employees in the SPO at a time when it assumed additional administrative responsibilities associated with the increase in research projects transferred to Pediatrics when new faculty were hired.

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

Sponsored Projects Office (SPO)

The Pediatrics CFO resigned in June 2010. During the faculty transition period, she provided support to the SPO by delegating tasks and approving fund manager transactions in addition to completing her regular duties.

In June 2010, the SPO was staffed with ten fund managers, including eight permanent and two temporary staff. Two of the permanent fund managers had been employed by Pediatrics for less than one year. The Pediatrics SPO Director position was vacant from January through June 2010. One fund manager position was vacant and another fund manager was out on medical leave for several months during that time period. Two other fund managers (one temporary staff and one permanent staff) resigned their positions in July 2010.

Fund managers have taken on additional administrative responsibilities due to the increase in the number of research projects transferred to UCSD after September 2009, and the loss of several experienced fund managers. In addition, the lack of direct support from an SPO Director resulted in staff confusion about job responsibilities and standard management processes in some cases.

Clinical Trials Administration

Pediatrics employed one Clinical Trials Manager who administered approximately 80 studies. Her work responsibilities included budget preparation, preparation of sponsor invoices and monitoring research expenditures. Because the number of Pediatrics clinical trials also increased after September 2009, the Manager indicated that she had not been able to adequately monitor all studies, which may result in delayed sponsor invoices, and potential regulatory non-compliance.

As Pediatrics personnel and operations stabilize, additional focus on achieving appropriate staffing levels, in combination with the implementation of process changes will improve operations.

**Management Corrective Actions:**

1. A new SPO Director was hired effective July 1, 2010.
2. The current Pediatrics COO assumed the responsibilities of the former CFO in July 2010.

***Department of Pediatrics  
Audit & Management Advisory Services Project 2010-38***

3. The UCSD Joint Clinical Trials Office is working with RCHSD IT staff to develop a database that includes all clinical trials, assist with tracking project status, and highlight areas of concern.
4. Pediatrics management will reassess Business Office staffing levels based on work responsibilities and workload as part of the Pediatrics strategic plan, and revise management procedures as needed.

**B. Financial Deficits**

**Additional focus on overdraft monitoring and remediation is needed.**

The UCSD Overdraft Policy requires departments to routinely monitor accounts in overdraft. The policy also requires that deficit balances greater than 60 months old be addressed with a deficit reduction plan approved by the Vice Chancellor Health Sciences and submitted to the UCSD Controller.

AMAS obtained a report from the campus Integrated Financial Information System (IFIS) that included Pediatrics deficit balances of over \$10K that had been in overdraft for more than three months as of April 30, 2010. Analysis of this review identified deficits in 20 fund/indexes totaling \$2,545,232. Because expense transfers and adjustments were scheduled to be processed for some funds on June 30, 2010, AMAS re-evaluated the balances for the same 20 funds/indexes as of August 2010. We noted that Pediatrics management had reduced the combined deficit balance to \$1,530,135. The following table includes a summary of the deficit balances in April and August 2010.

<i>Fund Type</i>	<i>Deficit Balance as of April 30, 2010</i>	<i>Deficit Balance as of August 31, 2010</i>	<i>Number of Months in Deficit as of August 31, 2010</i>	<i>Explanation for Deficit/Remediation Required</i>
State funds and appropriations, Fund 18740A/PED1740	(\$113,514)	(\$22,123)	2	A pending award renewal was allocated and resolved a portion of the deficit balance.
State funds and appropriations, Fund 19905A/PED1986	(\$274,550)	(\$259,439)	62	The fund manager and the Principal Investigator (PI) were discussing a deficit elimination plan.
Federal contracts and grants,- Fund 30668A/PEDSDSU	(\$365,012)	(\$0)	Not applicable	Deficit balance resolved after April 2010.
Other Income Producing Activities, Fund 60105A/PED4STF	(\$376,352)	(\$0)	Not applicable	Deficit balance resolved after April 2010.

**Department of Pediatrics**  
**Audit & Management Advisory Services Project 2010-38**

<i>Fund Type</i>	<i>Deficit Balance as of April 30, 2010</i>	<i>Deficit Balance as of August 31, 2010</i>	<i>Number of Months in Deficit as of August 31, 2010</i>	<i>Explanation for Deficit/Remediation Required</i>
Other Income Producing Activities, Fund 60105A/PEDFIRE	(\$25,892)	(\$0)	Not applicable	Deficit balance resolved after April 2010.
Other Income Producing Activities, Fund 60105A/PEDHAYA	(\$25,446)	(\$727)	1	Fund reconciliation completed to reduce deficit.
Other Income Producing Activities, Fund 60153A/PEDVNTS	(\$10,002)	(\$12,359)	12	Deficit resolution by fund transfer is needed.
Other Income Producing Activities, Fund 68310A/PEDBOFC	(\$281,271)	(\$306,944)	34	Fund transfers were pending.
Other Income Producing Activities, Fund 68310A/PEDHYEK	(\$84,803)	(\$0)	Not applicable	Deficit balance resolved after April 2010.
Other Income Producing Activities, Fund 68310A/PEDHOPS	(\$62,144)	(\$7,287)	24	Some fund transfers processed to reduce deficit balance.
Other Income Producing Activities, Fund 68310A/PEDCHES	(\$21,071)	(\$2,733)	14	Some fund transfers processed to reduce deficit balance.
Recharge Activity-Fund 60162A/PED1249	(\$189,938)	(\$151,497)	64	Deficit balance to be eliminated per deficit reduction plan.
Recharge Activity Fund 60162A/PEDCYS1	(\$63,171)	(\$98,341)	26	Deficit balance to be eliminated per deficit reduction plan.
Recharge Activity Fund 60169A/PED2121	(\$119,441)	(\$150,686)	32	Management was considering an alternative business structure to eliminate the deficit.
Private Contracts/Grants/Gifts Fund 79600A/PEDJC57	(\$134,909)	(\$170,884)	19	The fund manager and the PI were discussing a deficit elimination plan.
Private Contracts/Grants/Gifts Fund 79600A/PEDMG40	(\$22,116)	(\$22,116)	38	The fund manager and the PI were discussing a deficit elimination plan.

**Department of Pediatrics**  
**Audit & Management Advisory Services Project 2010-38**

<i>Fund Type</i>	<i>Deficit Balance as of April 30, 2010</i>	<i>Deficit Balance as of August 31, 2010</i>	<i>Number of Months in Deficit as of August 31, 2010</i>	<i>Explanation for Deficit/Remediation Required</i>
Private Contracts/Grants/Gifts Fund 79600A/PEDNV16	(\$11,392)	(\$12,455)	15	The fund manager and the PI were discussing a deficit elimination plan.
Private Contracts/Grants/Gifts Fund 79675A/PED0675	(\$271,992)	(\$271,992)	107	The account balance is in dispute. Pediatrics is discussing the disposition of the remaining balance with campus General Accounting
Private Contracts/Grants/Gifts Fund 83126A/PED3126	(\$63,686)	(\$0)	Not applicable	Deficit balance resolved after April 2010.
Private Contracts/Grants/Gifts Fund 83207A/PED3207	(\$28,528)	\$40,552	9	Fund transfers were pending.
<b>Total Deficit</b>	<b>(\$2,545,232)</b>	<b>(\$1,530,135)</b>		

Expenses associated with Pediatrics recharge operations, which represented 15% of the total deficit balance are discussed in more detail below.

Recharge Activity

University of California Policy A-56, *Academic Support Unit Costing and Billing Guidelines*, states in part, "any surplus or deficit occurring in any one year shall be corrected by adjustment of rates in the succeeding year to achieve a break-even balance at the succeeding year end." UCSD PPM #300-40; *Guidelines for Recharge and Other Income Producing Activities*; Section V.A.2 requires that rates charged for recharge activities be sufficient to recover all direct costs, and rates charged for sales to the general public will recover overhead costs.

As noted in the table above, the Biochemical Genetics Laboratory (Fund 60162A) had an operating deficit of (\$253,109) at April 30, 2010, which had continued to increase over a five year period.

The Pediatrics Anti-Viral Laboratory (Fund 60169A) had an operating deficit balance of (\$119,440) as of April 30, 2010, which had increased by 246% since June 2009. A deficit elimination plan was developed by Anti-Viral Laboratory management. However, the draft plan relied upon expected NIH funding to reduce the operating deficit, rather than adjusting the recharge rates as required by policy.

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

We noted that because both recharge units provide services associated with patient care, they were exempt from submission and approval of recharge rates to the Recharge Rate Review Committee, by PPM 300-40, which specifically excludes fees for patient care services from the requirement.

Planned routine overdraft monitoring, and recharge rate adjustments required by UCSD policy will assist management with resolving deficits timely and minimizing negative STIP<sup>1</sup> that will be charged to the deficit balances.

**Management Corrective Actions:**

1. The Biochemical Genetics Laboratory has developed a financial plan for Fiscal Year 2010-11 that reduces ongoing expenditures and uses discretionary funds to minimize the deficit.
2. Department management is negotiating the possibility of transferring Anti-Viral Laboratory operations to the UCSD Skaggs School of Pharmacy and Pharmaceutical Sciences. The operating deficit for this laboratory will be resolved prior to the potential transfer.
3. Pediatrics management has taken steps to resolve certain deficit balances (as identified in the table above) and will establish a process to reduce or eliminate remaining overdraft balances. In addition, management will review overdraft balances on a monthly basis to prioritize areas of concern, and implement an appropriate action plan.
4. The new SPO Director will establish a monitoring process that requires fund managers to explain overdraft balances on a quarterly basis.
5. Pediatrics management will review the financial status of each recharge unit regularly to ensure that established recharge rates are sufficient to recover direct costs and to ensure that indirect costs are collected for services to non-University entities.

**C. Non Payroll Expense Documentation**

**Supporting documents were not available for selected transactions in the audit sample.**

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<sup>1</sup> 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 Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

AMAS selected a judgmental sample of 42 transactions across various expense categories including travel, entertainment, non-payroll expense transactions and expenses incurred using Express Cards for focused review. Supporting invoices were not available for a number of the transactions in the sample, which are identified in the table below.

<i>Type of Expense</i>	<i>Number of Expenses Sampled</i>	<i>Number/Percentage of Expenses Without Supporting Documents</i>
Travel	12	7 (58%)
Entertainment	10	6 (60%)
Non-payroll expense	10	5 (50%)
Express Cards	10	8 (80%)
<b>Total</b>	<b>42</b>	<b>26 (62%)</b>

The 16 transactions we received supporting documentation for were approved by the appropriate person and charged to the correct fund source. However, we were unable to determine the reasonableness of the remaining 26 unsupported transactions.

We noted that the responsibility for obtaining and storing supporting documents had not been designated to one individual, which contributed to the difficulty we encountered with receiving all documents requested. Documents were stored by fund managers, the Transaction Sampling Administrator, faculty administrators and/or division personnel, based on expense type and the associated research project or business activity.

Lack of supporting documentation could potentially result in loss of extramural funding, or result in improper charge allocations. A standard document retention strategy would improve expense monitoring processes.

**Management Corrective Action:**

Pediatrics management will develop a standard document storage process.

**D. Research Effort Certification**

**Effort reports were not certified on a timely basis.**

Federal regulations (OMB Circular A-21, *Cost Principles for Educational Institutions*) require that direct salary costs devoted to sponsored projects be substantiated. All employee salaries charged directly to federal and federal flow

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

through funds must be certified. The University requires that sponsored project effort be certified within 120 days after the end of the reporting period.

We noted that for three quarters, including January through March 2009 (Q1), April through June 2009 (Q2) and July through September 2009 (Q3), on average 35% of the effort reports were certified after 120 days. Furthermore, as of May 2010, 60% of the effort reports for the quarter from October through December 2009 (Q4) had not been certified and were more than 120 days old.

We also noted that some effort reports had not been certified:

- Q1: 4 effort reports (2%)
- Q2: 5 effort reports (3%)
- Q3: 16 effort reports (8%)

Effort reporting is the method of certifying to granting agencies that the required effort has actually been completed. Improper or incomplete effort reporting can cost the university money in the form of audit disallowances and can jeopardize future federal research funding.

**Management Corrective Action:**

Pediatrics management will periodically monitor the status of effort certifications in the ECERT system, and work with PIs and/or research staff with outstanding reports to ensure that they are completed timely.

**E. Changes in Effort – Sponsored Projects**

**Changes in effort for key personnel on two awards were not communicated to the funding agency.**

Effort for a key person on a National Institute of Health (NIH) grant (#82206; PED0722, 30722A) was reduced by 40% in November 2009. However, the NIH agency was not informed as required by NIH Grants Policy Statement. Terms and Conditions of NIH grant awards (Part II) states in part: "The grantee is required to notify NIH if the Principal Investigator (PI) or other key personnel named in the NGA (*Notice of Grant Award*) will withdraw from the project entirely, be absent from the project during any continuous period of three months or more, or reduce his or her time devoted to the project by 25 or more percent from the level that was approved at the time of award (for example, a proposed change from 40 percent effort to 30 percent or less effort). NIH must approve any alternate arrangement, including any replacement PI or other key personnel proposed by the grantee."

***Department of Pediatrics***  
***Audit & Management Advisory Services Project 2010-38***

A second research project, funded by a private grant (#80140, PED6913, 56913A) had 55% effort for the PI included in the grant budget. When reviewing associated effort reports, we noted that the PI had dedicated only 12% effort on average during Fiscal Year 2009-10. AMAS was advised by the fund manager and pre-award manager that the PI had informally communicated the reduced effort to the agency. However, the absence of formal communication, and agency approval could potentially result in a salary disallowance in the event of an external audit.

**Management Corrective Action:**

Pediatrics management will inform the funding agencies for the referenced awards of significant changes in effort in writing as required by grant terms and conditions, and will ensure that agency approval is obtained and included in the research project file.

**F. Cash Management**

**Certain cash management procedures did not comply with University policy.**

Pediatrics receives cash payments for service agreements and recharge operations. AMAS noted that background checks had not been completed for staff who handled cash as required by UC Business and Financial Bulletin (BUS) 49 *Policy for Cash and Cash Equivalents Received*: Section IV.1, which states in part: "the campus must perform background checks prior to employing cashiers, cash handlers and individuals in other critical positions."

We also noted that the Business Office personnel who managed service agreements and recharge business activities assigned one staff member to be responsible for preparing invoices, managing accounts receivable, and receiving cash payments. BUS 49 requires that "The person collecting cash, issuing cash receipts, and preparing the departmental deposit shall be someone other than the person performing the monthly review of the General Ledger or the person maintaining accounts receivable records."

The service agreement coordinator receives checks through the mail but does not endorse checks upon receipt as required by BUS 49. One of the recharge units, Biochemical Genetics Laboratory, endorsed checks upon receipt. However, deposits were generally stored in a locked cabinet for several days or more than one week before they were hand delivered to the campus cashier's office by the recharge unit manager. The laboratory is located in Hillcrest, but the manager transports deposits to the campus for processing, which delayed deposits and increase the possibility of loss during transport.

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

**Management Corrective Actions:**

Pediatrics management will:

1. Establish appropriate segregation of duties for cash management to ensure that a single individual is not responsible for collection, handling, depositing and accounting for cash received.
2. Complete background checks for staff with cash handling responsibilities.
3. Require the service agreement coordinator to endorse checks upon receipt.
4. Deposit Biochemical Genetics Laboratory receipts at the Hillcrest cashier when receipts exceed \$500 or weekly.

**G. Timekeeping and Payroll**

**Timekeeping and payroll review and documentation practices needed improvement.**

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:

*Timekeeping*

UCSD PPM 395-4.1, *Timekeeping: Attendance Records* requires that sufficient documentation be maintained to support the authorization of employee payroll and benefits expenses. The Payroll Time Record (PTR) is used to report work hours for non-exempt employees, and exception time off including vacation, sick leave, and other leave requests for exempt personnel. The policy also requires secondary review of timekeeper entries that affect payroll.

We noted during our review that Pediatrics had a low time report submission rate. AMAS compared the number of Payroll Time Records (PTRs) submitted in December 2009, January 2010, and February 2010 to the total employee count for those months to determine the submission rate. The results showed that on

***Department of Pediatrics***  
***Audit & Management Advisory Services Project 2010-38***

average, 57% of the faculty and 77% of staff submitted a PTR during that three month period.

Improvement to the PTR submission rate is needed to ensure Pediatrics maintains sufficient time reporting documentation and provides adequate oversight of timekeeper entries as required by policy.

***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 Pediatrics, this report was not reviewed by someone other than the timekeeper entering the data.

***Monthly Review of Distribution of Payroll Expense (DOPE) Reports***

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, at of the time of our audit, AMAS was advised by Pediatrics management that this monthly review was performed but was not being documented as required by policy.

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:**

Pediatrics management will:

1. Increase PTR submission rates through periodic reminders to faculty and staff, and discussion during the annual performance review process.
2. Ensure that DOPE reports are reviewed and initialed by the reviewer.
3. Require that the timekeeping manager compare a sample of entries on the Timekeeping Entry Verification Report to the timesheets on a monthly basis to ensure that time is entered accurately in the system.

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

**H. Equipment Inventory**

**An equipment inventory count had not been conducted for more than five years.**

UC Business and Finance Bulletin (BUS) 29: *Management and Control of University Equipment* requires that the custodial department complete a physical inventory of all University inventorial equipment, government inventorial equipment, other government property, and other inventorial items at least every two years. The policy further states that the individual who performs the inventory may not also be assigned the responsibility for ordering or purchasing the property, maintaining the property records, or maintaining direct custody of the property.

According to the May 2009 Campus Asset Management System (CAMS), Pediatrics equipment inventory totaled \$6.65M and an inventory had not been completed in over five years. A significant number of Pediatrics personnel relocated to space near RCHSD in 2008, and an equipment inventory count was not completed at that time due to competing work priorities. However, an equipment inventory is needed to ensure that location codes are correct and that equipment that is unaccounted for is removed from inventory records.

**Management Corrective Action:**

Pediatrics management will ensure that an equipment inventory is completed as required by University policy.

**I. Transactional Sampling**

**Transactions selected by the campus Transaction Sampling system were not timely reviewed and reconciled by Pediatrics staff in all cases.**

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.

There are approximately 400 transactions sampled on a monthly basis. Our review of Pediatrics Transaction Management Reports for the period October 1, 2009 through March 31, 2010 indicated that 1,823 of 2,441 (75%) of computer

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

generated samples for operating ledger reconciliation were not reviewed or reconciled.

We further noted that fund managers reviewed transactions to ensure that they were allowable, and one administrative assistant was tasked with locating supporting documentation for all transactions in the sample. The administrative assistant had an 80% appointment in the Pediatrics Business Office and a 20% appointment in the Pediatric Hematology/Oncology Division. His other work responsibilities included answering telephone calls, processing payment authorizations and travel reimbursements, ordering supplies and planning events. The time needed to complete other duties allowed less time to adequately support the transaction sampling process.

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 Action:**

Pediatrics Management will assign the review and reconciliation of transactions to a designated staff member(s) as part of the grant expense validation process.

**J. 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 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

*Department of Pediatrics*  
*Audit & Management Advisory Services Project 2010-38*

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.

**Management Corrective Action:**

Pediatrics management will designate a staff member to implement a process to ensure that SAS 112 requirements are being met.

**Department of Pediatrics**  
**Audit Results by Business Office Functional Process**  
**Audit & Management Advisory Services Project #2010-39**

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	SAS 112 Key Control <sup>1</sup>	Audit Conclusion <sup>2</sup>	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Payroll Expenditure Transfers		√		Verified adjusted payroll charges per operating ledgers & distribution of payroll expense reports (DOPEs).	Yes	Yes Ledger Transaction Verification	Satisfactory	Transfer explanations appeared reasonable. No exceptions were noted.
Non-Payroll Expenditure Transfers		√		Reviewed the timeliness, and business justifications for reasonableness.	Yes	Yes Ledger Transaction Verification	Satisfactory	Transfer explanations appeared reasonable. No exceptions noted.
Operating Ledger Review & Financial Reporting	√	√		Examined sample of operating ledgers and financial reports and analyzed overdraft balances as of April 2010	Yes	Yes Fiscal Operations Review	Improvement Needed	Deficit balances were identified.  <i>(Audit Report Finding B)</i>

<sup>1</sup> 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.

<sup>2</sup> 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.

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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)				
				and selected overdraft balances as of August 2010.				
Recharge Activity	√	√	√	Reviewed recharge activity reports, proposed recharge analysis worksheet, and supporting documents.	No	Yes Ledger Transaction Verification	Improvement Needed	Two of the recharge units were in financial deficit. <i>(Audit Report Finding B)</i>
Transaction Processing – Non-Payroll Expenditures	√	√		Reviewed 10 transactions selected judgmentally; traced to available supporting documents.	Uncertain	Yes Ledger Transaction Verification	Improvement Needed	Supporting documentation was not available for review for five or the 10 transactions selected. <i>(Audit Report Finding C)</i>

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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)				
Travel	√	√		Reviewed 12 transactions totaling \$40,326; traced to vouchers (TEVs) and supporting documents.	Uncertain	Yes Ledger Transaction Verification	Improvement Needed	Supporting documentation was not available for review for seven of the 12 transactions selected for review. <i>(Audit Report Finding C)</i>
Entertainment	√	√		Reviewed 10 transactions selected judgmentally, reviewed approvals and traced to supporting documents.	Uncertain	Yes Ledger Transaction Verification	Improvement Needed	Supporting documentation was not available for six of the 10 transactions selected for review. <i>(Audit Report Finding C)</i>

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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)				
Express Cards	√	√		Reviewed 10 transactions selected judgmentally and traced to supporting documents.	Uncertain	Yes Ledger Transaction Verification	Improvement Needed	Supporting documentation was not available for eight of the 10 transactions selected for review.  <i>(Audit Report Finding C)</i>
Effort Reporting (PARs)	√	√		Reviewed ECert reports and certification summary for the four quarters in the period January through December 2009	No	Yes Effort Reporting	Improvement Needed	The majority of effort reports were certified, but they were not certified timely.  Some reports had not been certified.  <i>(Audit Report Finding D)</i>

**Department of Pediatrics**  
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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)				
Contract & Grant Activity (Post Award Admin.)	√	√	√	Reviewed three awards totaling \$4.2M; evaluated selected invoices and expenses for Fiscal Year 2009/10.	Yes	Yes Internal Controls	Satisfactory/Improvement Needed	Contracts were billed timely and expenses appeared reasonable. However, changes in effort for certain key personnel were not appropriately communicated to the agencies.  <i>(Audit Report Finding E)</i>
Cash Handling	√	√	√	Interviewed staff and reviewed processes for recharge and service agreement payments.	Yes	Yes Internal Controls	Improvement Needed	Cash handling processes did not comply with certain sections of BUS-49.  <i>(Audit Report Finding F)</i>

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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)				
Timekeeping and Payroll	√	√	√	Calculated Payroll Time Record (PTR) submission rate and reviewed related documentation.	No	Yes Payroll Expense Verification	Improvement Needed	<p>Supporting documentation was adequately maintained. However, we did note the following issues:</p> <ul style="list-style-type: none"> <li>-The timesheet submission rate for faculty and staff needs improvement;</li> <li>-The timekeeper audit report was not being review by a second individual; and,</li> <li>-Distribution of Payroll Expense (DOPE) report reviews were not being documented.</li> </ul> <p><i>(Audit Report Finding G)</i></p>

**Department of Pediatrics**  
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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)				
Equipment Management	√	√		Reviewed five equipment transactions selected judgmentally from Financial Link; and reconciled those items to the Equipment Management Report.	No	Yes Physical Inventory	Improvement Needed	Equipment was ordered correctly using high value purchase orders.  However, a physical inventory had not been performed in over five years.  <i>(Audit Report Finding H)</i>
Non-payroll Expenditure Transactions – Transaction Sampling	√	√	√	Analyzed Transaction Sampling management reports for the period October 1, 2009 through March 31, 2010.	No	Yes Ledger Transaction Verification	Improvement Needed	For the period reviewed, a large number of transactions had not been reconciled.  <i>(Audit Report Finding I)</i>