July 24, 2019

DR. JAMES BREWER
Chair, Department of Neuroscience

Subject: Department of Neurosciences
Report 2019-16

The final report for Department of Neurosciences Report 2019-16 is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

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

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

Christa Perkins
Interim Director
Audit & Management Advisory Services

Attachment

cc: David Brenner
    Judy Bruner
    Alexander Bustamante
    Steven Garfin
    Gene Hasegawa
    Pierre Ouillet
    Cheryl Ross
    Eric Wilson
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ATTACHMENT A – Audit Results by Business Office Process
I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Neurosciences as part of the approved audit plan for Fiscal Year (FY) 2018-19. The objective of our review was to determine whether the Department of Neurosciences internal controls provided reasonable assurance that operations were effective, in compliance with relevant policies and procedures, and resulted in accurate financial reporting.

We concluded that improvement was needed to provide assurance that business operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. While we noted compliance with University and Department policy during detailed testing of physician salary and incentive payments as well as effective management and monitoring of equipment, we identified areas for improvement related to express cards, cash handling, financial oversight, gift fund balances, travel expenses, and conflict of commitment reporting. Management action plans to address these observations are summarized below.

A. Express Cards
   1. Express Card Transaction Reviewer assignments will be reviewed and updated. The number of Express Cards assigned to each reviewer will be limited to a maximum 10 Express Cards if possible. Cardholders will not be listed as their own reviewers.
   2. Management will ensure cardholders obtain annual refresher training to ensure they are aware of Express Card policies and restrictions.
   3. Management will remind all Express Card holders and reviewers regarding the need to comply with program guidelines for restricted purchases and transaction limits, and that lack of compliance may result in cancellation of the user’s Express Card.

B. Cash Handling
   1. Management will ensure cash collections for service agreements are recorded by receipt and deposit log.
   2. Management will ensure that invoices for service agreements are dated.
   3. All employees with cash handling responsibilities will complete training at least once per year.

C. Financial Oversight
   1. Management will ensure that all sampled transactions are appropriately reviewed and reconciled on a timely basis.
   2. Management will include secondary Department approval for transactions.
   3. Management will ensure approving authority is at the supervisor of (or at a higher classification than) the person claiming the expenditure.

D. Gift Fund Balances
   1. Management will review fund balances and date of last expenditure, and ensure spending plans are filed in a timely manner.
   2. Management will review deficit balances and correct through expense transfers or in-cash gifts.
E. Travel Expenses
   1. Management will remind Department travelers that University travel should always be pre-authored, and any use of travel packages should conform to policy requirements.
   2. Management will obtain a reimbursement from the traveler for the double hotel payment.

F. Conflict of Commitment Reporting
   1. Management will implement a process for timely receipt of conflict of commitment disclosures and follow-up.

Observations and related management action plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Neurosciences (Department) as part of the approved audit plan for Fiscal Year 2018-19. This report summarizes the results of our review.

As a top-ranked NIH funding recipient amongst the nation’s neurosciences departments, the Department of Neurosciences faculty and staff contribute extensively to federal and privately funded research, in addition to managing highly respected post graduate educational programs and providing state-of-the-art clinical care. There are 125 academic appointees in the Department, composed of a blend of clinical neurologists and basic research scientists. In addition to the Chair, who was appointed in March 2018, the Business Office is managed by a Department Business Officer, and includes a staff of ten with a group of faculty administrative support personnel.

The Department also supports adult and pediatric residency training programs in Neurology, utilizing clinical facilities at the UC San Diego Health (UCSDH) Medical Centers in Hillcrest and La Jolla, the Veteran’s Administration San Diego Medical Center, and Rady Children’s Hospital and Health Center. Areas of particular interest include the diagnosis, management, and treatment, of neurodegenerative diseases especially Alzheimer’s disease and Parkinson’s disease, Huntington’s disease, Down syndrome, stroke, epilepsy, neuromuscular disorders such as ALS, metabolic disorders, and neuro-developmental disorders, including autism.

For the fiscal year (FY) ended June 30, 2018, the Department had a total operating budget based on revenues in excess of $19 million. Revenue sources included gifts, core operating budgets, service and affiliation agreements, department assessments, health system professional services, and CARE\(^1\) Payments. Expenditures totaled $15.7 million, with 86% of total expenditures going towards salaries and benefits.

\(^1\) Clinical and Reimbursable Events (CARE) Payments represent funds transferred from the UC San Diego Physician Group to the departments as compensation for physician clinical services.
III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to determine whether the Department of Neurosciences internal controls provided reasonable assurance that operations were effective, in compliance with relevant policies and procedures, and resulted in accurate financial reporting. The scope of our review focused on the evaluation of business processes and supporting documentation for the FY ended June 30, 2018 and for the period July 1, 2018 through March 31, 2019. In order to achieve our objective, we performed the following:

- Reviewed:
  - The Department website, organizational structure, and financial information,
  - Department policies and procedures and selected internal financial reports,
  - Applicable University policies including University Business & Finance Bulletins (BFB), the Academic Personnel Manual (APM), UCSD Policies & Procedure Manual (PPM), and Blink guidance,
  - Physician compensation plans,
  - Delegations of Authority for special entertainment,
  - Departmental roles and responsibilities,
  - CANRA\(^2\) compliance, and
  - Custody and accountability over equipment;
- Verified the financial status of Department funds and indices for the audit scope;
- Interviewed Department management and key personnel to discuss business processes and potential areas of concern, including:
  - Department Business Officer,
  - Director – Fiscal Affairs,
  - Program Manager – Stroke Center, and
  - a Lab Administrator;
- Evaluated IFIS\(^3\) approval hierarchies, Business Unit Management Tool roles, and Express card roles and responsibilities;
- Evaluated business process controls utilizing internal control questionnaires and segregation of duties matrices;
- Analyzed procedures and performed detailed testing in the following areas to verify that internal controls were adequate and functioning in compliance with University policy:
  - Non-payroll expenses including travel, entertainment, recharges, marketplace, pay authorizations, and Express Cards,
  - Service agreements,
  - Gift funds,
  - Equipment management,
  - Conflict of commitment, and
  - Physician compensation.

The scope of our review did not include detailed analysis of services provided by Health Sciences shared services centers, including those managed by the Research Service Core (pre- and post-award activity), Health Human Resources (payroll and timekeeping) and Health Sciences Information Technology (IT.

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\(^2\) Child Abuse and Neglect Reporting Act

\(^3\) Integrated Financial Information System
systems, security, and maintenance). We also excluded from the scope of our review the Alzheimer's Disease Cooperative Study (ADCS), a major research unit within the Department that has a separate administrative infrastructure and functions independently of the Department Business Office.

IV. CONCLUSION

Based on our review, we concluded that improvement was needed to provide assurance that business operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. We identified areas for improvement related to express cards, cash handling, financial oversight, gift fund balances, travel expenses, and conflict of commitment reporting. These items are addressed in the remainder of this report.

We noted management of physician compensation was administered in accordance with University and Department policy. Additionally, we noted equipment management has improved since the current equipment custodian has taken over. His efforts have included continual work to validate equipment items not validated during the last inventory and updating missing or outdated information in the Campus Asset Management System.

A deficit balance of $6 million existed during the review, which was largely attributed to a deficit that existed prior to the current Chair’s appointment. A resolution plan has been developed to address $2 million prior to the end of FY 2018-19. The Department has continued to work with the Vice Chancellor Health Sciences and UCSDH to address the remaining $4 million.

Attachment A provides the results of the business and retail process review. Specific recommendations are noted for those areas that were rated “improvement needed” or “unsatisfactory,” as noted in the attachment. Our results are provided in more detail in the remainder of the report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

<table>
<thead>
<tr>
<th>A.</th>
<th>Express Cards</th>
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<tr>
<td>Express Card usage and administration was not conducted in compliance with policy and program guidelines.</td>
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</table>

Risk Statement/Effect

Weaknesses in Express Card administration can increase the risk of restricted purchases, misuse of University funds, and non-compliance with policy.

Management Action Plans

A.1 Express Card Transaction Reviewer assignments will be reviewed and updated. The number of Express Cards assigned to each reviewer will be limited to a maximum 10 Express Cards if possible. Cardholders will not be listed as their own reviewers.

A.2 Management will ensure cardholders obtain annual refresher training to ensure they are aware of Express Card policies and restrictions.
University policy (Business and Finance Bulletin (BFB) (BUS 43) Material Management, Procurement Card Program) outlines University requirements on use of procurement cards. UCSD’s Express Card is a procurement option in the form of a Visa credit card for faculty and staff who have buying responsibilities, which simplifies buying routine, low-cost goods and services. Express Cardholders are responsible for abiding by Express Card usage guidelines. Designated Express Card Department Administrators (ECDAs) are responsible for reviewing expenditures to make sure they are compliant with the University policy and program guidelines.

Our review noted the Department has one ECDA for 42 cardholders, but additional Transaction Reviewers had been assigned. Of the 42 Department cards, 36 cardholders were also listed as their own Transaction Reviewer. Program guidelines instruct that there be at least one Transaction Reviewer designated for every ten Express Cards assigned to an ECDA to assist in the review process. Because ECDAs bear review responsibility, the best practice is to train more than one ECDA and assign more than one transaction reviewer to a cardholder to serve as backup; however, cardholders who were also assigned as their own reviewers created an environment where restricted purchases may be made without being detected.

We judgmentally selected a sample of ten Express Card transactions to review in greater detail. In the sample that we reviewed, we noted three instances where a single purchase exceeded the $4,999 individual transaction limit and payment was split into two transactions to avoid the purchase limit. Additionally, one of those purchases was for equipment, which is also a restricted purchase and should have been made through Marketplace.

Our review also disclosed instances in which Express Cards were used to purchase goods and services available through the campus recharge process. The purchases we reviewed were made at the Bookstore.

Express Card cardholders were required to take training prior to being issued cards in addition to an annual refresher training. Cardholders were also required to sign an Express Card Cardholder Agreement form that specifically indicated policy violations include restricted items and “use of the Express Card for purchases of more than $4,999 by splitting the purchase into more than one transaction.” However, in four of the five instances (two bookstore purchases and three split purchases) in which restricted purchases were made, the cardholders indicated they were not aware of the policy restricting their purchases.

We also noted instances in which receipts were not uploaded via the Attachment Tool in Express Card Manager. In these instances, documentation was provided during the review by the Department upon request. It is the Cardholder’s responsibility to provide purchase documentation to the ECDA or Transaction Reviewer to upload via the Attachment Tool.
B. Cash Handling

Cash collection processes for service agreements did not always provide an efficient way to reconcile receipts and deposits. Additionally, the Department cash handler had not completed annual training.

Risk Statement/Effect

Non-compliance with policy may result in inaccurate cash processing, lost or stolen payments, and may put University assets and employees at risk.

Management Action Plans

B.1 Management will ensure cash collections for service agreements are recorded by receipt and deposit log.

B.2 Management will ensure that invoices for service agreements are dated.

B.3 All employees with cash handling responsibilities will complete training at least once per year.

B. Cash Handling – Detailed Discussion

Cash Handling - Service Agreements

The Department currently has nearly 30 active service agreements, including some affiliated with ADCS and some managed by the RSC. During our review, we judgmentally selected five agreements managed by the Department, including one consulting agreement, one clinical service agreement, and three laboratory service agreements. We reviewed the agreement and collections to determine if invoices were sent timely and payments were received in accordance with the terms.

We were not always able to determine if payments were deposited timely as the consulting agreement and one laboratory service agreement did not have a formal receipt and deposit log process to track payments received, and invoices for the laboratory service agreement were not dated. Additionally, we noted one instance when the Principal Investigator personally picked up a payment for his consulting agreement, but did not immediately deliver it to the Department for processing. University policy (BFB BUS-49 Policy for Cash and Cash Equivalents Received) requires cash and cash equivalents to be deposited in an accurate and timely manner; for Departments, deposits are to be made “at least weekly or whenever collections exceed $500.”

Cash Handling - Training

University policy (BUS-49) requires cash handling training for all employees who handle cash, including when a new employee begins work in a cash handling job and once per year to refresh knowledge. We noted that the Department employee responsible for collecting and depositing cash had not completed annual refresher training.
C. Financial Oversight

Controls for monitoring and oversight of financial activities could be improved to ensure the appropriate use of funds and compliance with University policy.

Risk Statement/Effect

The absence of appropriate monitoring controls for financial activity increases the risk of inappropriate use of funds and/or the lack of supporting documentation for expenditures. Adequate oversight and monitoring of transactions is necessary to ensure that transaction errors are quickly identified and resolved.

Management Action Plans

| C.1 | Management will ensure that all sampled transactions are appropriately reviewed and reconciled on a timely basis. |
| C.2 | Management will include secondary Department approval for transactions. |
| C.3 | Management will ensure approving authority is at the supervisor of (or at a higher classification than) the person claiming the expenditure. |

C. Financial Oversight – Detailed Discussion

Transaction Sampling

Transaction sampling is an operating ledger review process overseen by the Controller’s Office in which the system randomly selects financial transactions for review during the monthly operating ledger reconciliation and account validation process. This sampling process is intended to reduce the ledger review workload inherent to 100% reconciliation of the ledger. Department participation is contingent on the timely reconciliation of all sampled items. Ledger review is a key internal control to ensure that expenditures are appropriate and supported by adequate documentation.

The Department utilized the campus transaction sampling process for monthly review of non-payroll expenditures in the operating ledger, including recharges (e.g. the Bookstore and the Faculty Club). However, our review noted that a significant number of transactions that had been selected for review had not yet been reviewed during the scope period. Specifically, for FY 2017-18, 679 of 3,643 (19%) of sampled transactions had not been reviewed as of May 2019. And, 460 of 2618 (18%) had not been reviewed for FY 2018-19 through February 28, 2019 as of May 2019.

Expense Approval Hierarchies

While reviewing IFIS approval templates, we noted that a number of employees did not have a designated secondary Departmental approval. This created a condition where the document preparer could complete a transaction without a second Department member reviewing the transaction. In addition, we noted certain templates for the Chair allowed subordinate approval.

During our testing of purchase transactions, we identified one expenditure by the Chair that was approved by an indirect subordinate. University policy provided that approving authority should be the
supervisor of (or at a higher classification than) the person claiming the expenditure. The Department had separate templates for the Chair in an effort to separate his Chair duties from his “non-Chair” faculty duties. The Chair template approvals were routed through the Office of the Vice Chancellor for Health Sciences; however, his “non-Chair” templates were routed through the Department for approvals and created instances in which his expenditures were approved by subordinates.

D. Gift Fund Balances

<table>
<thead>
<tr>
<th>Risk Statement/Effect</th>
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<tbody>
<tr>
<td>A lack of timely expenditures increases the risk that the donors’ intents are not carried out and does not ensure donors are aware of the impact of their philanthropy.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Management Action Plans</th>
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</thead>
<tbody>
<tr>
<td>D.1 Management will review fund balances and date of last expenditure, and ensure spending plans are filed in a timely manner.</td>
</tr>
<tr>
<td>D.2 Management will review deficit balances and correct through expense transfers or in-cash gifts.</td>
</tr>
</tbody>
</table>

D. Gift Fund Balances – Detailed Discussion

University policy (PPM 410 Gifts and Endowments) requires annual endowment fund payouts to be expended within two years and expendable (current-use) gift fund balances to be spent within a reasonable time, respective to the unique aspects of the gift. If material spending has not occurred within five years of the receipt of a current-use gift, “a spending plan must be provided within 90 days of receiving notice from the Office of Donor Stewardship.”

We reviewed the Departmental list of gift funds provided by the Controller that included detailed information on each fund, including its balance and spending status as well as corrective actions needed for those without recent payouts or those with fund deficits. We selected five funds to review in further detail and confirmed two current-use funds had not had expenditures during the audit scope. The purpose of one fund was to “support clinical and experimental research with regard to the causes, treatment, and prevention of stroke in the Division of Neurosciences.” As of March 31, 2019, the fund had a balance of $94,002. As of March 2018, fund notes indicated that the recent transition of the new Chair had resulted in a lack of expenditures in the prior year, but that the fund would be transferred to the new Chair’s name and “funding will be used in support of Stroke Division faculty and research efforts at UCSD.” We noted no financial expenditures had been made during the scope of this review.

Review of another current-use fund whose purpose was “to provide funding for a functional behavioral testing position in the laboratory at the UC San Diego Center for Neural Repair” had a total balance of $48,411, and had not had any financial expenditures during the scope of this review.

Another fund used to support Department research had a deficit balance of $23,976 as of March 31, 2019. The Controller noted that the deficit needed to be corrected by an expense transfer or an
increase to cash-in gifts. They further indicated that an overdraft fee may be applied to the fund and that the deficit prevented the closure of “the fund to assist with the IFIS clean-up.”

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<th>E.</th>
<th>Travel Expenses</th>
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<tbody>
<tr>
<td></td>
<td>Travel was not always pre-authorized, one trip included a non-allowable package purchase of hotel and airline with purchase protection, and hotel expenses for one trip were reimbursed twice.</td>
</tr>
</tbody>
</table>

**Risk Statement/Effect**

Inadequate controls for travel expenses increase the risk of inappropriate reimbursements.

**Management Action Plans**

- **E.1** Management will remind Department travelers that University travel should always be pre-authorized, and any use of travel packages should conform to policy requirements.
- **E.2** Management will obtain a reimbursement from the traveler for the double hotel payment.

**E. Travel Expenses – Detailed Discussion**

University Policy (Business and Financial Bulletin G-28 Travel Regulations) describes requirements for prior approval and reimbursement of University business travel. In general, University policy governing travel requires all official UCSD travel to be preauthorized, submitted timely (within 21 days of travel), and to be properly supported. During our review we noted some instances where travel was not processed in strict compliance with this policy:

- Two trips (one totaling $4,025.39 and the other for $2,243.80) were not preauthorized. The Department stated that both trips that had not been pre-authorized were for new faculty members, and the Department was not notified of the trips until after they were completed. The faculty members have been informed of travel policy and notified that future travel may not be reimbursed, if not pre-approved.
- One trip included a purchase for a package deal that included hotel and airline without itemizing the expenses individually. University policy required itinerary receipts showing payment and fare class for airfare and itemized receipts for hotels, stating “Travel packages offered by internet vendors typically do not include itemized expenses. Therefore, no business-related travel should be booked through such vendors unless the traveler has confirmed that each aspect of the package will be separately itemized....” The total amount of $2,614.18 for hotel and airfare was not itemized on one trip and included a “package protection plan” of $171. The traveler reconciled the trip herself, which had been pre-approved by the Department.
- During a review of gift fund expenditures, we noted a guest lecturer had been erroneously reimbursed for his hotel expense twice. The Department has reached out to the traveler to resolve this error.
F. Conflict of Commitment Reporting

The Department was not in strict compliance with the annual conflict of commitment/outside professional activities reporting requirement required by APM 671. Faculty members did not always submit required forms, and those submitted were not submitted timely. Some forms did not include required information including total income earned from outside activities. Management did not implement effective follow-up to ensure completion of the requirement.

Risk Statement/Effect

Without full compliance with the policy, the process for oversight of potential conflicts of commitment is ineffective.

Management Action Plan

F.1 Management will implement a process for timely receipt of conflict of commitment disclosures and follow-up.

F. Conflict of Commitment Reporting – Detailed Discussion

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

We noted that Conflict of Commitment forms for FY 2017-18 had not been fully collected, and forms that had been collected were not collected timely. During our review of FY 2017-18 collection of forms, we noted 19 of 63 forms had not been returned. Of the forms collected: one was being revised, two were pending prior document approval, one form was not signed, and eight forms did not indicate total income earned in order to confirm whether it exceed the annual allowed amount. For FY 2017-18: one form was returned in February 2019, two were returned in March 2019, with the remainder collected in April and May 2019.
<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Audit Conclusion</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing Processes - Express Card</td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td>√</td>
<td>No Improvement Needed</td>
</tr>
<tr>
<td>Purchasing Processes - Express Card</td>
<td>Process Walk-through (Ltd Document Review)</td>
<td>√</td>
<td>Separation of duties appeared generally adequate. Additionally, we noted an instance of a subordinate approving the Chair’s expense. <strong>Report Finding C</strong></td>
</tr>
<tr>
<td>Purchasing Processes - Express Card</td>
<td>Transaction Testing (Sample Basis)</td>
<td>√</td>
<td>Express card transactions were supported by documentation; however, the online Attachment Tool was not always used to upload supporting documents. We noted multiple instances when transactions were split to circumvent the $4,999 limit; in one instance, the purchase was for equipment. Additionally, Express Cards were used for Bookstore purchases instead of using the recharge process. <strong>Report Finding A</strong></td>
</tr>
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1 Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory
<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Audit Conclusion 1</th>
<th>Comments</th>
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<td></td>
<td>Analytical Review of Financial Data</td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td>Process Walk-through (Ltd Document Review)</td>
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<td>Travel &amp; Entertainment</td>
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<td>Operating Ledger Review &amp; Financial Reporting</td>
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<tr>
<td>Equipment Management</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Cash and Recharge</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Gift Fund Balances</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Business Office Process</td>
<td>AMAS Audit Review Procedure</td>
<td>Audit Conclusion¹</td>
<td>Comments</td>
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<td>Analytical Review of Financial Data</td>
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<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
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<td>Process Walk-through (Ltd Document Review)</td>
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<td>Transaction Testing (Sample Basis)</td>
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<td>Risk &amp; Controls Balance Reasonable (Yes or No)</td>
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<td>Audit Conclusion¹</td>
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<td>Comments</td>
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<tr>
<td>Conflict of Commitment</td>
<td>√</td>
<td>✓</td>
<td>Reviewed listing of required forms for FY18 as well as collected forms.</td>
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<tr>
<td>Physician Compensation</td>
<td>√</td>
<td>✓</td>
<td>Selected five physicians to review salary and incentive payments in greater detail</td>
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1. The majority of required forms for FY18 were not collected until April and May of 2019. 19 of 63 required forms had not submitted. **Report Finding F**

Clinical productivity exceeded targets for those sampled. The compensation was disbursed in accordance with the compensation plan. Compensation was tracked monthly to determine reason for any discrepancies.