

September 17, 2020

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Interim Chair
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7894

Subject: *Department of Orthopaedic Surgery*
Report 2020-15

The final report for the Department of Orthopaedic Surgery, Report 2020-15, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

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

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

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Orthopaedic Surgery
Report No. 2020-15
September 2020

FINAL REPORT

Performed By:

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Approved By:

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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 Orthopaedic Surgery as part of the approved audit plan for Fiscal Year 2019-2020. The objective of our review was to evaluate whether internal controls provided reasonable assurance that financial results were accurately reported, operations were effective and efficient, and activities were compliant with relevant policies and procedures.

Based on our review, we concluded that internal controls provided reasonable assurance that financial results were accurately reported, operations were effective and efficient, and activities were compliant with relevant policies and procedures. The Department appeared to have effective administrative oversight and was performing review and reconciliation of transactions. The detailed results of business processes reviewed is provided in **Attachment A**.

We identified some of enhancements that could be made in the reconciliation of scrip and gift cards, event travel documentation, and export control training. Management action plans to address these opportunities for improvement are:

A. Enhancements to Internal Controls

1. Department management will distribute guidance to staff to confirm they should ensure that scrip and gift card logs are maintained, and the logs are independently, periodically reconciled to the participant logs.
2. Department travel preparers and approvers will ensure that additional documentation is included to support cost considerations and unusual circumstances, and will ensure that group travel is performed in strict compliance with policy.
3. Department management will provide information on Export Control regulations to all faculty engaged in activities where these regulations may apply.

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 Orthopaedic Surgery as part of the approved audit plan for Fiscal Year 2019-2020. This report summarizes the results of our review.

The Department of Orthopaedic Surgery is dedicated to inspiring students, residents, fellows and faculty to work towards discovery of the knowledge, attitudes, skills, and resources needed to deliver quality patient care that is responsive to the general needs of the local community as well as meeting the specialized needs of the world. Further, the Department is determined to provide comprehensive orthopaedic medical and surgical care to a broad range of patients in both inpatient and outpatient settings. Five UC San Diego Health Department of Orthopaedic Surgery (Department) physicians were named “Top Docs” in the annual *San Diego Magazine* “Physicians of Exceptional Excellence” survey.

The Department’s Interim Chair, Dr. Reid Abrams, was appointed following Dr. Steven Garfin’s appointment as the interim Dean of the School of Medicine. There are 24 clinical faculty, nine research faculty, and 15 clinical faculty supporting UC Health’s affiliation with Rady Children’s Hospital. The Administrative Vice Chair joined the Department in April 2019 and is supported by eight Business Office staff.

The Department Business Office staff provide support for critical department business processes, including financial analysis and reporting. Information system support was provided by UCSD Health Information Services (IS). Faculty and payroll and personnel administration was provided by the Academic Resource Center (ARC) (for academics) and Health Human Resources (HHR) (for staff). The Department participates in the Research Service Core (RSC) for the administration of research award administration. The primary organization for the Department had nearly \$10M in expenditures from July 1, 2020 through February 29, 2020.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls provided reasonable assurance that financial results were accurately reported, operations were effective and efficient, and activities were compliant with relevant policies and procedures. In order to achieve our objective, we performed the following:

- Reviewed applicable University policies and procedures;
- Interviewed:
 - The Administrative Vice Chair (AVC),
 - Assistant Department Business Officer, and
 - Department Business Office staff as considered necessary;
- Evaluated:
 - Expenditure by Month Reports for July 1, 2019 through February 29, 2020,
 - Current Delegations of Authority,
 - A sample of Ledger Annotator activity as of March 25, 2020,

- The Audit Profile Management Report for July 1, 2019 through April 30, 2020,
- Campus Asset Management System (CAMS) Inventory as of March 25, 2020,
- Integrated Financial Information Systems (IFIS) Approval Templates as of March 25, 2020,
- Deficit Balance Analytics as of April 7, 2020,
- Expenditures by Month for the main organization as of June 30, 2020,
- Business Unit Management Tool as of March 24, 2020,
- Personnel Activity Notification Reviewer Report as of April 7, 2020,
- Leave Activity Report as of April 10, 2020,
- STAR Fund Report as of April 15, 2020,
- Effort Certification Reports as of April 16, 2020,
- Current service agreements,
- Accounts Receivable Aging as of April 29, 2020,
- Revenue transactions July 1, 2019 through April 20, 2020 on organization 414891,
- Control Tracker as of March 2020,
- Leave activity accruals as of April 10, 2020 and May 18, 2020; and
- Outside Activity Tracker System (OATS) as of May 4, 2020;
- Tested a sample of July 1, 2019 through March 31, 2020:
 - Scrip and gift card transactions for cash handling controls,
 - Travel expenditures,
 - Entertainment and meeting expenditures,
 - Express Card transactions,
 - Non-payroll transactions, and
 - Clinical compensation payments.

The scope of our review did not include detailed analysis of services provided by Health Sciences shared services centers (RSC, ARC, HSHR, and UCSDH IS), including contract and grant processes; payroll transactions other than clinical compensation incentive payments; and information systems

IV. CONCLUSION

Based on our review, we concluded that internal controls provided reasonable assurance that financial results were accurately reported, operations were effective and efficient, and activities were compliant with relevant policies and procedures. The Department appeared to have effective administrative oversight and was performing review and reconciliation of transactions. The detailed results of business processes reviewed is provided in **Attachment A**.

However, we identified some of enhancements that could be made in the reconciliation of scrip and gift cards, event travel documentation, and export control training. These opportunities for improvement are discussed in the remainder of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A. Enhancements to Internal Controls	
We identified some enhancements to practices for documentation, reconciliations, and training that could improve some internal controls in certain areas evaluated.	
Risk Statement/Effect	
Strengthening internal controls for the log and reconciliation of scrip and gift cards, event travel documentation, and export control training will assist in protecting University assets and in validating that activities were compliant with University policies and procedures.	
Management Action Plans	
A.1	Department management will distribute guidance to staff to confirm they should ensure that scrip and gift card logs are maintained, and the logs are independently, periodically reconciled to the participant logs.
A.2	Department travel preparers and approvers will ensure that additional documentation is included to support cost considerations and unusual circumstances, and will ensure that group travel is performed in strict compliance with policy.
A.3	Department management will provide information on Export Control regulations to all faculty engaged in activities where these regulations may apply.

A. Enhancements to Internal Controls – Detailed Discussion

Based on our testing of internal controls and sampling of transactions, we found that the Department had effective administrative oversight of transactions. However, some enhancements could be made to the log and reconciliation of scrip and gift cards, event travel documentation, and export control training.

Human Subjects Gift Card and Scrip Reconciliation

Scrip and gift cards are used by Principal Investigators for the payment or reimbursements for compensation to human subjects in research. Scrip is like a check, but the name of the payee is not printed on scrip. Scrip and gift cards must be tracked, audited, and controlled by the department and is subject to University policy (*Policy for Cash and Cash Equivalents Received BUS-49*). Scrip and gift cards should be reconciled within 90 days of issuance. We determined that logs were being maintained for scrip and gift cards; however, the gift card number was not documented on the log and the reconciliations were not be performed for scrip or gift cards. The scrip program will be discontinued in June 2020, and Gift Card Program will continue. Departments may continue to issue any scrip still on hand. Periodic reconciliations performed by an individual other than the scrip/gift card coordinator are necessary to ensure these University assets are properly maintained.

Travel Documentation

University policy (*Travel Regulations G-28*) has been developed to comply with Internal Revenue Service (IRS) regulations regarding the provision and reimbursement of business-related travel and to conform to the IRS “accountable plan” rules. Therefore, compliance with University travel policy is necessary to provide evidence to ensure compliance with IRS regulations for the University and traveler. In our testing of travel transactions, some additional information was necessary in the travel documentation to document business necessity, and reasons for selecting travel options to ensure the travel is most economical. Examples where additional documentation or explanations would have better supported the reimbursement include:

- The need to stay at locations exceeding the lodging maximum per night;
- Extended stays and/or other costs that appear to not be the most reasonable for the travel and support for cost savings, and
- The reimbursement and necessity of travelers for whom attendance is not apparent from the travel support.

In addition, we determined that one traveler was reimbursed for the expenses paid on behalf of other persons. University policy (G-28) states that University travelers normally should not be reimbursed for expenses paid on behalf of other persons with limited exceptions for payment of group subsistence expenses. However, in one travel event a faculty member staying separately from a group of travelers was reimbursed for the travel. Department preparers and approvers should ensure that travel expenses comply with University policy.

Export Control Training

In general, Export Control regulations cover four main types of University activities:

- Shipment—from the United States to a foreign country of controlled physical items, such as scientific equipment, that require export licenses,
- Travel to certain sanctioned or embargoed countries for purposes of teaching or performing research,
- Transfer of information related to export-controlled items, including technical data, to persons and entities outside the United States, and/or
- Verbal, written, electronic, or visual disclosure to, or sharing with, foreign nationals of controlled scientific and technical information related to export-controlled items, even when it occurs within the United States.

Through our testing of foreign travel, we determined that some travelers had received training on Export Controls through research conduct and/or training. However, one traveler was only more generally and informally aware of Export Control requirements. Therefore, the Department should ensure that all researchers conducting activities in which Export Control regulations may apply have received formal training on these regulations.

Department of Orthopaedic Surgery
 Attachment A – Audit Results by Business Office Process
 Audit & Management Advisory Services Project #2020-15

Business Office Process	AMAS Audit Review Procedure			Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Cash Controls	✓	✓	Evaluated 2 scrip transactions and 1 gift card transaction, traced to participant logs and reconciliations.	No	Improvement Needed	Cash controls apply to scrip and gift cards used to reimburse clinical trial participants. Scrip and gift cards should be logged and independently reconciled within 90 days of issuance. Report Finding A
Travel & Entertainment	✓	✓	Reviewed 13 judgmentally selected travel transactions and 10 entertainment transactions and traced to supporting documents and approvals.	Yes	Improvement Suggested	Overall travel & entertainment expenditures we tested were conducted in accordance with University policies. However, additional documentation and/or support should be included to support exceeding lodging maximums, cost savings for extended stays and/or modes of transportation that do not appear to be the most reasonable, and provide a description of the necessity of travelers for whom attendance is not apparent. Also, travel reimbursements should not be made on behalf of others and/or group travel should be conducted in accordance with Group Subsistence Payment policies. Report Finding A
Export Controls Review	✓		Reviewed travel to foreign countries and interviewed Management on training for those travelers selected.	No	Improvement Suggested	At the time of our review, Management was not ensuring all foreign travelers had received export control training. Report Finding A

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

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Business Office Process	AMAS Audit Review Procedure			Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Express Card	✓	✓	Reviewed overall transactions; evaluated Department Express Card cardholders, reviewers and approvers as of March 24, 2020; and judgmentally selected 5 transactions; traced to supporting documents.	No	Satisfactory	All transactions we reviewed were conducted in accordance with University policies.
Deficit Management	✓	✓	Examined Deficit Balance Analytics as of April 7, 2020. Interviewed Management to confirm processes.	Yes	Satisfactory	We discussed with Management the deficits identified on the Deficit Balance Analytics report. We were advised that the current clinical deficits would be transferred to reserve funds. Grant deficits were being closely monitored and were awaiting allocations that should occur and be cleaned up before fiscal close. Therefore, no deficit remediation plans were anticipated as necessary.
Conflict of Commitment	✓	✓	Reviewed OATS system for listing of required forms and approvals as of May 4, 2020 for FY 2018/2019 and FY 2019/2020 annual certifications.	Yes	Satisfactory	We determined that all the certifications for FY 2018/2019 had been submitted and some Category I activities had been submitted for FY 2019/2020.
Financial Oversight and Approvals	✓	✓	Examined operating ledgers, transactional sampling reports, approval hierarchies, financial reports, and Control Tracker activity.	Yes	Satisfactory	We noted transaction sampling and Control Tracker activities were being performed and documented and approval hierarchies were current and adequate.

Department of Orthopaedic Surgery
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Business Office Process	AMAS Audit Review Procedure			Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Faculty Compensation	✓	✓	Reviewed a judgmental sample of 3 faculty, traced payroll to salary agreement worksheet, Compensation Plans and DOPEs for two quarters. Reviewed payroll charges and incentive payments, traced to productivity reports, and reviewed incentive rate calculations for these faculty.	Yes	Satisfactory	Faculty compensation and payment process and controls appear satisfactory. Calculation and payment of productivity incentives appeared reasonable and in accordance with approved clinical productivity and compensation plans.
Service Agreements	✓	✓	Evaluated delegations of authority for service agreements and evaluated the Accounts Receivable Aging as of April 29, 2020.	Yes	Satisfactory	We determined that service agreements were generally performed in accordance with University delegations of authority and all accounts receivable accounts were within 120 days.
Equipment Management	✓	✓	Evaluated the CAMS reports for the Department custody code as of March 3, 2020.	Yes	Satisfactory	The CAMS inventory records for the Department inventory were current as of March 3, 2020.
Gift Fund Management	✓		Reviewed list of gift funds for Department for consideration of timely spending per policy.	Yes	Satisfactory	We determined that the gift funds were generally timely spent. A campus-wide audit of gift funds is planned for FY 20/21. Therefore, testing has been deferred to that review.
Recharge Rate Activity	✓		Evaluated financial transactions and significant recharge activities were not identified.	Yes	Satisfactory	None.
Information Systems Environment	N/A	N/A	Discussed Department business Systems, IS environment oversight resides with VCHS.	Yes	Satisfactory	The IS environment oversight resides with UCSDH IS. Department currently has no unique business system needs.