

**UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES**

**CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

February 22, 2013

Prepared by:
Mike Shead
Senior Auditor

Reviewed by:
Gregory Moore
Health Sciences Audit Manager

Reviewed by:
Mike Bathke
Interim Director

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JOHN C. LONGHURST, M.D., Ph.D.
DIRECTOR
SUSAN SAMUELI CENTER FOR INTEGRATIVE MEDICINE

Re: Susan Samuelli Integrative Medicine Clinic Audit
Report No. I2013-202A

Internal Audit Services has completed the cash handling review of the Susan Samuelli Integrative Medicine Clinic and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.



Mike Bathke
Interim Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Terry Belmont, Chief Executive Officer, UC Irvine Medical Center
Ralph Clayman, Professor and Dean of the School of Medicine
Alice Issai, Chief Operating Officer, UC Irvine Medical Center
Ginger Osman, Assistant Dean, Finance and Chief Financial Officer
Laurie MacAulay, Associate Director, Susan Samuelli Center for Integrative Medicine

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2012-2013 audit plan, Internal Audit Services (IAS) reviewed cash handling and charge capture processes in the Susan Samuelli Integrative Medicine Clinic (Samuelli Clinic). Based on the audit work performed, certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Cash Collection and Depositing Processes – Cash handling processes need to be adequately separated. The details related to this issue are provided in Section V.1.

Charge Capture and Related Processes – Processes for transferring billing forms between the Samuelli Clinic and the University of California (UC) Irvine Medical Center Professional Billing Group (PBG) need improvement. In addition, procedures for reconciling funds collected by PBG to patient appointment logs and billing documentation need to be improved. Furthermore, processes at the Samuelli Clinic to verify a patient’s insurance eligibility and benefits prior to the patient’s appointment; and verify a patient’s proof of insurance at the time of the appointment could be further strengthened. The details related to these issues are provided in Section V.2

Supplements Inventory – Processes pertaining to inventory management at the Samuelli Clinic need improvement. The details related to these issues are provided in Section V.3.

II. BACKGROUND

The Samuelli Clinic is under the direction of the Susan Samuelli Center for Integrative Medicine (Samuelli Center), which was established in 2001. The Samuelli Center is organized under the School of Medicine (SOM), and is supported by an Advisory Board. Daily operations are managed by the Samuelli Center’s Director who is also a professor in the SOM-Department of Medicine. The Samuelli Center’s mission is to perform scientific research, educate, and provide clinical care in integrative medicine. Currently, the Samuelli Center consists of an administrative unit, a research laboratory, and two clinics.

The Samuelli Center’s two clinics are the Samuelli Clinic and the recently acquired Executive Health Clinic. The Samuelli Clinic provides healthcare services in integrative medicine; daily operations are managed by a clinic director who is also a professor in SOM-Family Medicine/Geriatrics. The Samuelli Clinic Director reports to the Samuelli Center Director. The Samuelli Clinic is staffed by four employees, including a naturopathic physician, an acupuncturist, a massage therapist, and an

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

administrative assistant. All employees except for the Samuelli Clinic Director and administrative assistant are contracted. Temporary workers are also utilized by the clinic to fill vacancies. The clinic earns revenue from professional fees and sales of over-the-counter nutritional supplements. The Samuelli Clinic does not receive any public financial support, and is sustained solely by earned revenue and gifts from private donors.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit focused on FY 2012-2013 business activities at the Samuelli Clinic. The primary purpose of the audit was to assess internal controls associated with cash collections, cash handing, and charge capture processes. In addition, internal controls were evaluated to assess their ability in preventing or detecting fraudulent financial transactions while ensuring the efficiency and effectiveness of business operations.

The objectives of our review were as follows:

1. A review of the clinic's registration procedures;
2. A review of the clinic's patient check-in and verification procedures;
3. A review of the clinic's internal controls over co-payment collection and depositing;
4. A review of processes by which charge documents are transferred to PBG;
5. A review of the processes by which PBG bills patients and third-party payers, collects amounts owed, and posts collections;
6. A review of the processes for selling nutritional supplements, and internal controls over supplements inventory;
7. A review of certain developmental activities; and
8. An assessment of selected information technology (IT) general controls.

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

IV. CONCLUSION

In general, the selected Samuelli Clinic processes reviewed appeared to be functioning as intended. However, business risks and internal control concerns were identified in the areas of cash collections and depositing, charge capture and related processes, and supplements inventory.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Cash Collection and Depositing Processes

Background

The Samuelli Clinic collects payments from patients for professional fees, nutritional supplement sales, and taxes on supplement sales. Deposits are made to the UC Irvine Medical Center Cashiers Office (Cashiers Office) via armored carrier.

Observation

Cash handling processes at the Samuelli Clinic are not always adequately separated. Frequently, just one staff member verifies patients' co-payment obligations, handles and records cash collections, and prepares the deposit.

UC policy states that the business unit head is responsible for establishing procedures that ensure that no single individual is responsible for collection, handling, depositing and accounting for cash received by that unit. Failure to maintain an adequate separation of responsibilities in cash handling processes may result in a diversion of University funds and/or a financial loss.

Management Action Plan

The Samuelli Clinic is currently in transition, with plans to move to a new location during the latter part of FY 2012-2013. In its current location, the Samuelli Clinic is not approved for two front desk staff members working concurrently. To compensate during the transition phase, the Samuelli Center finance office will closely monitor all Samuelli Clinic operations.

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

Once the move is completed, the Executive Health Clinic co-locates with the Samuelli Clinic, and additional staff members are available, management will assign responsibilities at the combined clinics so that an adequate separation of duties is maintained. Anticipated implementation date is September 2013.

2. Charge Capture and Related Processes

Background

Primary charge capture processes occur at the Samuelli Clinic. The Samuelli Clinic's billing forms are picked up daily by a PBG staff member. PBG performs billing and collection services for the Samuelli Clinic, as well as other UC Irvine Medical Center/SOM departments and clinics.

Observation

Charge Entry

Control measures to verify that PBG has received all of the clinic's billing forms need to be implemented. Charges for two of twenty sampled July 2012 patient appointments had not been entered into the billing system as of the audit date. Due to the length of time that has elapsed, the clinic may not be able to obtain reimbursement for both appointments.

In one of the sampled appointments, the patient was self-insured and paid the required professional fees during the patient's July 16, 2012 appointment. The Samuelli Clinic's copy of the billing form was located at the clinic by IAS, confirming that a billing form had been prepared for the patient's visit. However, PBG management denied ever receiving a copy of the billing form from the Samuelli Clinic, and charges for the appointment were never entered into the billing system. Because the patient's charges were never recorded, the patient's account had a \$250 credit balance as of the audit date.

In the second sampled appointment, the patient was covered by a third-party payer that required a \$20 co-payment. The patient paid the full amount of the co-payment during the patient's July 13, 2012 appointment. However, the Samuelli Clinic did not retain a copy of the billing form. According to the Samuelli Clinic medical assistant, a temporary worker accidentally sent all billing form copies to PBG. However, PBG management denied ever receiving a copy of the billing form from the clinic, and charges for the appointment were never entered into the billing system. As a result, the insurance company was never billed for the patient's visit, and the required \$20 co-payment was never entered into the billing system. The patient's account had a \$20 credit balance as of the audit date.

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

Failure to maintain adequate accountability over billing forms as they are transferred from the clinic to PBG may result in lost revenue.

Management Action Plan

To strengthen control measures involving the transfer of accountability for the billing forms, management will implement a system to track the Samuelli Clinic's billing forms and obtain concurrence from the PBG courier with regard to which billing forms are being transferred. This system will be utilized to track all billing documents given to PBG. Anticipated implementation date is September 2013.

Reconciliation

Control measures that allow the Samuelli Clinic to reconcile funds collected from patients and third-party payers to patient appointments and billing documentation need improvement. A review of the reconciliation processes disclosed the following concern.

Monthly, the Samuelli Center finance office downloads information from PBG that provides a detailed accounting of funds collected by PBG from both third-party payers and patients. The information provided by PBG is sufficiently detailed to enable the finance office to reconcile patient payments and third-party payer reimbursements to the patient appointment logs and billing documentation. However, the finance office is only using the downloaded information to determine the total amount of revenue generated monthly by the clinic. No effort is made to reconcile patient and third-party payments for each clinic appointment.

Failure to reconcile funds collected by PBG limits management's ability to ensure that all of the Samuelli Clinic's revenue has been captured.

Management Action Plan

The Financial Administrator has now obtained the training and information necessary to reconcile funds collected by PBG to patient appointments and billing documentation. Effective immediately, funds reported as collected by PBG will now be reconciled on a monthly basis.

Patient Insurance Eligibility Verification

Processes at the Samuelli Clinic to verify a patient's insurance eligibility and benefits prior to the patient's appointment need improvement. A review revealed that pre-registration processes are not in place whereby, a few days prior to each

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

patient's appointment, the clinic verifies the patient's insurance eligibility and benefits. University policy requires a patient's insurance eligibility and benefits to be verified prior to his/her appointment.

In addition, a review of the processes for re-confirming a patient's insurance coverage on the day of the appointment need improvement. Photocopies of patient's insurance cards on file at the Samuelli Clinic were reviewed for a sample of twenty patient visits. Observations disclosed that one of the sampled insurance cards was not on file at the clinic. The observation indicated that the patient's insurance card had not been verified and photocopied at the time of the current appointment, or the patient's previous appointments.

Failure to properly verify the patient's insurance eligibility and benefits through pre-registration processes, and confirm a patient's insurance coverage at the time of the appointment may result in lost revenue.

Management Action Plan

Training has been provided to the Samuelli Clinic's temporary workers in processes for verifying and documenting each patient's insurance eligibility and benefits prior to the appointment. Training has also been provided in verifying and photocopying a patient's insurance card on the day of the appointment. These procedures will be added to the new clinic coordinator's job performance metrics. Anticipated date for full implementation is September 2013.

3. Supplements Inventory

Observation

Processes for managing the supplements inventory at the Samuelli Clinic need improvement. A review of inventory control procedures revealed the following concerns.

Inventory Management

- a. Responsibilities for managing the supplements inventory have all been placed with the Samuelli Clinic's medical assistant, resulting in an inadequate separation of responsibilities.
- b. Supplement purchases are neither made by, nor pre-approved by a manager independent of daily inventory management responsibilities who can validate the propriety and accuracy of supplements to be ordered.

**UC IRVINE SCHOOL OF MEDICINE
CASH HANDLING AT CLINICS
SUSAN SAMUELI INTEGRATIVE MEDICINE CLINIC
Report No. I2013-202A**

Perpetual Inventory Records

- a. The perpetual inventory system has no password controls. Inventory recording responsibilities are performed by more than one employee. In addition, inventory is recorded by employees who also handle supplements inventory.
- b. Reconciliations of inventory records to physical inventory counts are not performed by a Samuelli Center finance office employee who is independent of daily inventory operations.
- c. Adjustments to perpetual inventory records are not pre-approved by a manager who is able to validate the cause of and need for the inventory adjustment.

Physical Inventory

- a. Supplements are stored in several locations at the Samuelli Clinic, some of which are unsecured. Supplements are placed on top of desks and cabinets without any apparent inventory organization. More than one employee was observed to enter Samuelli Clinic rooms in which supplements are stored.
- b. Par levels and/or minimum inventory balances have not been established. As a result, inventory overages and shortages may frequently occur.

Failure to maintain adequate internal controls over supplements inventory can result in a diversion of supplements and financial loss.

Management Action Plan

The sale of supplements by the clinic has grown very rapidly over the last two years. After the clinic moves to its new location, a new inventory system with more sophisticated inventory reporting will be implemented. All supplements will be stored in a single location with the exception of a few kept on display. Other inventory management processes noted in this observation will be utilized by the new coordinator to develop the standards for appropriate supplements inventory management. Anticipated implementation date is September 2013.