



## Pathology

*Internal Audit Report No. I2014-205*

July 12, 2014

***Prepared By***

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INTERNAL AUDIT SERVICES  
IRVINE, CALIFORNIA 92697-3625

July 12, 2014

**EDWIN MONUKI, MD, PHD  
ACTING CHAIR, PATHOLOGY & LABORATORY MEDICINE  
UC IRVINE SCHOOL OF MEDICINE**

**RE: Department of Pathology & Laboratory Medicine  
Report No. I2014-205**

Internal Audit Services has completed the Department of Pathology & Laboratory Medicine review 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*

Mike Bathke  
Director  
UC Irvine Internal Audit Services

Attachment

C: Dr. Roger Steinert, Professor and Interim Dean of the School of Medicine  
Tara Kasmarek, Chief Administrative Officer, Pathology & Laboratory Medicine

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year 2013-2014 audit plan, Internal Audit Services (IAS) reviewed the internal controls and business processes of the UC Irvine School of Medicine (SOM), Department of Pathology & Laboratory Medicine (Pathology). Certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concern was noted.

**Faculty Compensation Grant Offset** - When a faculty member obtains extramural funding, Pathology pays two-thirds of the "cost savings" back to the faculty member as an incentive. During FY 2012-13, \$66,000 in grant offset payments was made to faculty. Further details to this observation are discussed in section V.1.

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## II. BACKGROUND

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Pathology is dedicated to the diagnosis and understanding of human diseases through biomedical and clinical research. Using the latest technologies, pathologists help advance medicine by finding better ways of diagnosing, managing and treating diseases.

Pathology offers clinical diagnostic services to UC Irvine Health patients, and consultative and referral services to over 30 hospitals in Orange County, and over 30 other regional hospitals. Additionally, SOM Pathology provides graduate-level and physician residency training opportunities in areas such as general pathology, experimental pathology, and neuropathology.

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## III. PURPOSE, SCOPE AND OBJECTIVES

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The scope of the audit included the following SOM Pathology administrative areas from July 2013 – present: faculty compensation, purchasing, sponsored project administration, biomedical equipment tracking, tissue bank operations, and travel expenses/reimbursements.

Based on the assessed risks, the following audit objectives were established:

1. Review faculty compensation practices to ensure compliance with University policies and procedures;
2. Review sampled expenditures (i.e. purchases and travel expenses/reimbursements) to ensure appropriateness and compliance with University policies;
3. Verify if biomedical equipment management practices are compliance with University policies and procedures;
4. Review Tissue Bank operations to ensure compliance with University policies and other regulatory (e.g. Institutional Review Board) requirements; and
5. Verify sponsored project administration practices ensure compliance with University policies and procedures.

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#### IV. CONCLUSION

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In general, internal controls and processes reviewed appear to be functioning as intended. However, internal control concerns were identified in the area of faculty compensation.

Observation details and recommendations were discussed with management, who formulated an action plan to address the issue noted. These details are presented below.

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#### V. OBSERVATION AND MANAGEMENT ACTION PLAN

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##### 1. Faculty Compensation - Grant Offset Payments

###### Background

SOM faculty compensation generally consists of a base salary, which is based on UC faculty salary schedules, and an additional salary amount (“Y

component”) that is negotiated between the faculty member and the chair of his/her department. Unlike the base salary, the Y component is not used for retirement or benefit calculations.

### **Observation**

Currently, the Pathology faculty’s Y components are funded by grant offset payments. Grant offset payment are made when faculty members are awarded with extramural funding for their research projects. When a faculty member obtains extramural funding, Pathology views this as a cost savings opportunity, since they can retain the funding that would have been used to pay the Y component of his/her salary. As an incentive, the department pays two-thirds of the "cost savings" back to the faculty member. During FY 2012-13, \$66,000 in grant offset payments was made to faculty.

IAS noted that this grant offsetting process does not appear to be consistent with other SOM department faculty compensation plans. IAS reviewed the faculty compensation plans for four other SOM departments and noted that none of them include the grant offsetting process as a means of providing additional compensation to the faculty.

Additionally, tenure-track faculty is expected to obtain extramural funding for their research projects as part of their career progression. Incentivizing faculty to complete tasks that are already within the scope of their duties is not a sound business practice.

### **Management Action Plan**

Pathology had a \$3.5 million deficit as of March 1, 2014, and can no longer support grant offset payments to faculty. Pathology management is currently addressing pre-existing issues with billing and collections that have resulted in underpayment for various Pathology services (e.g. Referral Lab, Histology, etc.), and cannot maintain this grant offset plan.

The Chief Administrative Officer of Pathology stated that a revised faculty compensation plan that does not include a grant offset payment provision has been submitted to the SOM Compensation Plan Committee for their review and approval. Effective May 2014, Pathology began following the proposed incentive plan without grant offset payment provision.