

SAN DIEGO: AUDIT & MANAGEMENT ADVISORY SERVICES
0919

June 13, 2007

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Subject: *Physician Assessment and Clinical Education Program (PACE)
Audit & Management Advisory Services Project #2007-16*

The final audit report for Physician Assessment and Clinical Education Program (PACE), Audit Report #2007-18, is attached. We would like to thank all members of PACE and the Department of Family and Preventive Medicine for their cooperation 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 any remaining draft documents to AMAS personnel or destroy them.

Stephanie Burke
Director
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
San Diego

**Physician Assessment and Clinical Education Program (PACE)
June, 2007**

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Project Number: 2007-16

*Physician Assessment and Clinical Education Program (PACE)
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***Physician Assessment and Clinical Education Program (PACE)
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I. Background

Audit & Management Advisory Services (AMAS) conducted an audit of the UCSD Physician Assessment and Clinical Education Program (PACE), a division of the Department of Family and Preventive Medicine (F&PM), in accordance with the 2006/07 audit plan. This report summarizes the results of our review.

PACE was established in 1996. The program's stated mission is "to improve the quality of healthcare throughout the nation by offering assessment and remediation services to medical professionals." PACE provides assessment and continuing education programs to physicians and other health care professionals who are required to seek additional training to maintain their professional licenses; and specialized services to institutions on a contract basis. To date, services have been provided to the California State Department of Corrections and to several hospitals and medical boards in and outside of California. The strategic business plan anticipates the expansion of program services to additional states.

PACE offers the following custom clinical education courses:

- *Anger Management*: A course designed to help those physicians who have contributed to a disruptive work environment by way of inappropriate expression of anger.
- *Professional Boundaries*: A program designed to help those physicians who have had a complaint or grievance filed against them for sexual harassment or misconduct in the workplace, or who otherwise behave in an interpersonally insensitive manner.
- *Physician-Patient Communication*: A workshop designed to improve healthcare communication skills of physicians.
- *Medical Record Keeping*: A program designed to help the physicians create the highest quality clinical documentation, code and bill more accurately and improve the strength of the medical record as a legal document.
- *Physician Prescribing*: A program designed to improve the participant's prescribing behavior by providing education on the legal, biomedical, pharmacologic and clinical aspects of prescribing drugs, particularly controlled substances.

In addition to and separate from the assessment programs, PACE offers a professional enhancement program (PEP). This program provides longitudinal assessment, education and improvement for physicians in practice.

As a division of F&PM, PACE receives administrative support and oversight of its business operations from the F&PM business office. PACE reported net revenue of \$7,212 in fiscal year 2004/05 and net surplus of \$225,151 in fiscal year 2005/06. The Program projects a budget surplus of \$36,256 for fiscal year 2006/07.

PACE management contracted with the Adams & Adams Consulting & Training group in 2006 to assist them with creating a strategic business plan. As a result of the consulting engagement, a PACE Business Manager was hired in October 2006. Since joining the

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Program, the Business Manager has been working closely with the Director and PACE management to establish a strong organizational structure, set goals, objectives and job responsibilities and establish a strong communication connection between all PACE program staff.

II. Audit Objectives, Scope, and Procedures

The objectives of this audit were to determine whether PACE business process controls provided reasonable assurance that the risk associated with providing contract services was minimized and general operations were effective, efficient and conducted in compliance with relevant University policies and procedures.

AMAS completed the following audit procedures to achieve the audit objectives:

- ◆ Interviewed PACE management and staff;
- ◆ Reviewed the PACE program documentation and website to gain an understanding of their business environment;
- ◆ Reviewed selected contracts and external documents in relation to good business practices and compliance with all applicable rules and regulations relevant to PACE programs and business operations;
- ◆ Communicated with UCOP General Council to discuss PACE program issues and to obtain an opinion on unrelated business income tax (UBIT) issues;
- ◆ Conducted interviews with selected individuals in the F&PM Business Office, campus and UCSD Medical Center staff concerning their role in the PACE business processes;
- ◆ Reviewed relevant University and UCSD campus policies; and,
- ◆ Analyzed a judgmental sample of faculty payments, cash receipts and deposits, travel vouchers, payment authorizations, purchase orders and express card transactions.

III. Conclusions

We concluded that PACE business process controls provided reasonable assurance that contract risk was minimized and general operations were effective, efficient and conducted in compliance with relevant University policies and procedures. PACE management and staff were knowledgeable about all aspects of the program and were committed to identifying opportunities for growth. Open collaboration has been established between PACE and the F&PM Business Office. In addition, PACE management has implemented changes to the financial structure of the organization by creating and reorganizing indexes, which has improved financial reporting and oversight.

We determined that contracting risk was mitigated through a comprehensive contract review process. Various University departments were asked to review PACE agreements including the F&PM Business Office, the School of Medicine (SOM) Contracting Office, UC General Counsel and UC Risk Management, as needed, to ensure that appropriate terms and conditions were included based on the type of service and the state laws in which services are provided.

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AMAS consulted with UC General Counsel and UCSD General Accounting to determine whether PACE could be subject to unrelated business income tax (UBIT). According to the UBIT definition provided by the Internal Revenue Service, for most organizations, an activity is an unrelated business (and subject to unrelated business income tax) if it meets three requirements: (1) it is a trade or business; (2) it is regularly carried on, and; (3) it is not substantially related to furthering the exempt purpose of the organization. Based on advice from General Counsel and General Accounting, because PACE business activities are substantially related to the educational exempt purpose of the UCSD School of Medicine, the Program is not subject to UBIT.

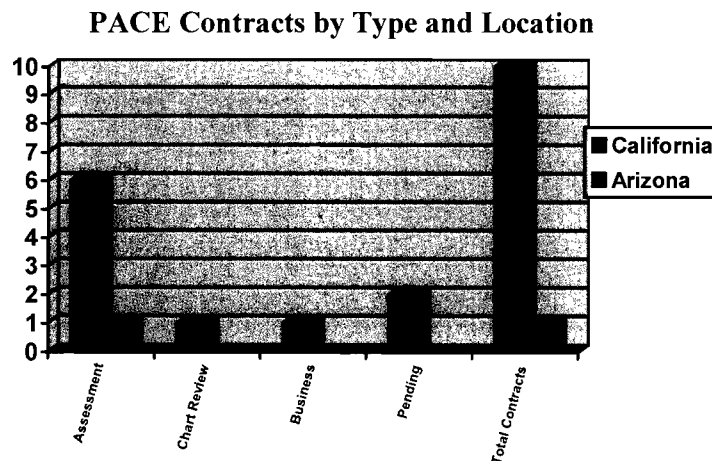
We further concluded that process controls should be strengthened for cash handling and express card management, purchase approvals, and physical security of cash and equipment. Opportunities for process improvements are discussed in the remainder of this report.

IV. Observations and Management Corrective Actions

A. PACE Program Growth

PACE management planned to expand program services nationally, which could increase the risk of legal liability if the laws related to PACE services in other states differ from California state law.

PACE program services are unique and provide a benefit to non-UC organizations and individuals. Because PACE services are designed to improve the performance of medical professionals, outcomes based on professional judgment could, at times, be challenged legally. As shown in the graph below, PACE has 11 active service contracts as of March 28, 2007 (two of which are pending further negotiation).



These contracts provide for physician and physician assistant assessments, chart reviews, and team programs to hospitals in California and Arizona and the

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California state medical board, as well as one unique business contract for assessment and education services provided to the California State Department of Corrections. The majority of services are currently provided within the state of California. However, PACE plans to continue to expand the number of customers in locations outside of California.

The PACE external advisory committee meets monthly. The F&PM Department Business Officer is a member of this committee and she updates the F&PM Department Chair regarding PACE business activities. In addition, General Counsel's input is routinely sought for all contracts involving services provided out of California. However as the program expands to other states in which laws governing PACE services differ, additional legal assistance would most likely be required. It is important that senior Health Sciences management be aware of potential legal risk associated with expanded or modified program activities.

Management Corrective Action

F&PM and PACE managements will periodically provide program expansion plans to the Vice Chancellor of Health Sciences to ensure that senior management is aware of and concurs with potential benefits and risks associated with program change.

B. Cash Management

1. Cash Receipts – Separation of Duties

One individual was primarily responsible for completing cash management procedures. This condition is not compliant with UC Business and Finance Bulletin (BUS-49) requirements.

According to *UC Business and Finance Bulletin BUS-49, Cashiering and Responsibilities Guidelines (BUS-49)*, cash receipts received by departments through the mail shall be documented, and any checks shall be endorsed with a "U.C. Regents" stamp immediately upon receipt. The policy also requires that all transfers of cash from one staff member to another shall be documented on forms specifically designed for that purpose.

Current cash handling procedures were performed by the PACE Financial Coordinator without secondary review. A log was not maintained to document the transfer of checks from the PACE receptionist or case managers to the Financial Coordinator. In addition, the Financial Coordinator received the deposits and reconciled receipts to Financial Link. The concentration of cash handling duties in one individual and the lack of accountability for cash transferred between staff represent cash processing control weaknesses, which could increase the risk of cash misappropriation.

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Management Corrective Actions

PACE management has modified cash handling procedures to improve documentation and separation of key duties among existing employees by establishing the following additional procedures:

1. The front office staff member who receives mail or other deliveries is required to log all payments received by PACE.
2. Staff is required to initial the cash log to document any transfer of cash between different individuals.
3. Pace management has re-assigned accountability for reconciling deposits to the general ledger to the F&PM business office.

2. Cash Deposits – Safeguarding

The existing cash handling procedures were not compliant with BUS-49 requirements.

*UC Policy for Handling Cash and Cash Equivalent*s BUS-49 requires the deposit of funds to a Main Cashiering station at least weekly or whenever collections exceed \$500. Cash receipts held more than one day are required to be stored as follows:

- ◆ Up to \$1,000 in a locking receptacle
- ◆ From \$1,001 to \$2,500 in a safe
- ◆ From \$2,501 to \$25,000 in a steel door safe, with a door thickness of not less than one inch and wall thickness of not less than ½ inch
- ◆ From \$25,001 to \$250,000 in a class TL-15 composite safe

PACE deposit records for December 2006 identified six deposits for a total of \$126,363. The average amount of each deposit was \$21,060. January 2007 deposit records identified eight deposits for a total of \$218,232. Each January deposit averaged \$27,279. This data suggested that daily receipts, including cash and credit card payments typically exceeded \$500. The Financial Coordinator stated the majority of PACE receipts were credit card payments. Deposits were made (typically before 12:00 pm) whenever cash payments were received to avoid storing cash in the PACE business office. If additional payments were received after the mid-day deposit was made, they were held until the following day in a locked drawer, regardless of the amount of funds being stored.

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The requirements of BUS-49 were established to ensure that University assets are protected, accurately processed, and properly reported.

Management Corrective Action

PACE management now requires that cash and credit card receipts be deposited daily with the Central Cashier's office whenever receipts total \$500 or more.

C. Express Card Transactions – Separation of Duties

Express Card purchase documentation and reconciliation controls needed improvement.

University Express Card Policy requires that the Department Express Card Administrator, who in this case is the F&PM supervisor, must keep statement data and proof of reconciliation including all receipts, and packing slips on file for review. In addition, adequate separation of duties must be implemented.

AMAS was unable to review express card transactions at the F&PM Business Office because receipts were not available for purchases after January 2006. F&PM management realized that this was an issue after the prior fund manager left the department.

The PACE Express Card holder makes all purchases and maintains the receipts. She was advised by the F&PM fund management that she should keep the receipts at PACE, if all charges were to be allocated to the PACE administrative index, CFM2425. We noted that the Financial Coordinator maintained complete records. However, the F&PM fund manager did not complete the reconciliation of Express Card charges to Financial Link to ensure appropriate separation of duties was maintained.

Re-evaluation and clarification of the reconciliation process will ensure appropriate secondary review of Express Card purchases is being performed.

Management Corrective Action

Improved Express Card process controls have been implemented. The Express Card Administrator, who is currently employed by the F&PM Business Office, is responsible for obtaining and reviewing supporting documentation for all Express Card purchases to ensure that purchases are appropriate and are related to PACE business operations.

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D. Purchase Orders – Approval Hierarchy

High value purchases did not receive appropriate approval in all cases.

AMAS reviewed a sample of five purchase orders (PO) processed by PACE and the F&PM Business Office. Of the five POs reviewed, two were high value and neither of them were approved by authorized PACE or F&PM personnel. In one case, staff from a different department approved the purchase. In the second case, the PO was not approved by PACE or F&PM personnel before it was submitted to Disbursements for payment. Because the PACE and F&PM business offices have experienced staff turnover, updates to high value PO approval hierarchies are required.

Formal purchase approval policies ensure that all high value purchases are appropriately reviewed and authorized.

Management Corrective Actions

Purchasing processes have been revised to require that high value purchase orders be approved by PACE management and the F&PM Business Office Supervisor.

PACE management will also document formal purchase approval procedures and ensure that the Financial Link PO approval hierarchy includes only authorized PACE personnel.

E. Physical Security – Computer Equipment Room

There was no backup sprinkler system located in the basement computer server room.

AMAS conducted a site visit of the PACE Information Systems and Research area, which was located in the basement of a converted apartment building. The computer equipment room was secure. However, because the space was not built to house computers and records, it was not equipped with typical environmental control devices, such as fire and/or flood detectors and alarms; or an air cooling system. Because it remains cool in the basement computer room, PACE information systems management stated that an air cooling system has not been necessary.

Minimum standards for UCSD computer server rooms recommend specific environmental controls to help ensure that these computer systems that store critical data are reasonably protected during power failures, fires, floods and other emergency situations.

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Management Corrective Actions

PACE management has raised the file server off of the floor and now stores all backup data in a fireproof safe located in the same location that PACE research and information services currently resides. A second copy of PACE backup data will also be stored offsite in the F&PM business office.

PACE management will request that the SOM Information Technology Service Group assist with identifying other appropriate environmental controls necessary to mitigate the potential adverse affects of heat, fire or water damage in this area.