OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Auditor of State Mary Mosiman today released a report on a review of the operations of certain departments of the University of Iowa Hospitals and Clinics (UIHC) for the period July 1, 2010 through December 31, 2012, which included concerns regarding the use of procurement cards, inventory, technology allowances, travel, supporting documentation, and bonuses. The review was requested by University of Iowa officials as a result of concerns identified during a special investigation of the Department of Orthopaedics. As a result of the concerns identified in the report issued on October 24, 2012, University Officials requested the Office of Auditor of State review the policies and procedures related to the use of procurement cards, inventory, technology allowances and travel in other UIHC departments.

Mosiman reported 5 Departments were selected for testing based on several factors, including the total expenditures, number of employees, number of procurement cards assigned to staff, and expenditures by class, such as travel, equipment, technology allowances, and bonuses. The Departments were selected in a manner which ensured at least a large, a medium, and a small Department was included in the review. The Departments selected included the Departments of Anesthesia, Internal Medicine, Ophthalmology and Visual Sciences, Pediatrics, and Surgery (Departments).

Mosiman reported the review of the Departments identified the following:

- Purchases of computers, printer ink, and toner were made from non-contract vendors without supporting documentation showing why the purchases could not be made from a contract vendor.

- The Departments did not maintain inventory listings or tag items with a value less than the $5,000.00 threshold established by the University's capitalization policy but which are highly susceptible to loss. Examples of these items include computers, iPads, iPods, cameras, and other items which are highly susceptible to loss. After the special report on the Department of Orthopaedics was issued on October 24, 2012, all UIHC departments were instructed to undertake an inventory of all computer equipment under the University's capitalization threshold. However, the inventory did not include items such as cameras, portable hard drives, iPods, or other items susceptible to loss. Because the inventory listings do not include these items, Departments may not be able to determine when an item has been misappropriated or if the item is being used for personal use.

- Supporting documentation for disbursements did not always provide a clear purpose. For example,

    o Individuals requesting reimbursement for meals when meals were included in the conference registration fee.

    o Departments paid registration fees for conferences/training but the support did not show if the individual attended the conference/training.

    o The purchase of food for Department staff, meetings, and training, but the purpose of the purchase was not clear.

- Departments may authorize bonus payments, such as exceptional performance pay, spot awards, and other performance based pay, to staff, excluding physicians. Physicians are allowed to earn incentive pay for meeting certain goals included in their individual contracts and for meeting goals established in the Departments' practice plans. Because bonus payments and incentive payments are recorded to the same accounting codes in the University's accounting system, it is not possible to easily determine the amounts paid by type of additional payment.

The report includes recommendations to strengthen internal controls and overall operations, such as improving controls over purchases made with Department funds, establishing and maintaining appropriate inventory records for items which are susceptible to theft or loss, and ensuring supporting documentation is scanned and available for review and approval by an independent party.

Copies of this report have been filed with the Board of Regents, Office of Internal Audit, University of Iowa Hospitals and Clinics and the University of Iowa. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at http://auditor.iowa.gov/specials/1361-8010-B0P1.pdf.

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**REPORT ON A REVIEW OF THE
UNIVERSITY OF IOWA HOSPITALS AND CLINICS
DEPARTMENTS OF ANESTHESIA, INTERNAL MEDICINE,
OPHTHALMOLOGY AND VISUAL SCIENCES,
PEDIATRICS, AND SURGERY**

**FOR THE PERIOD
JULY 1, 2010 THROUGH DECEMBER 31, 2012**

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Mary Mosiman, CPA
Auditor of State

Auditor of State's Report

To the Members of the Board of Regents,
  State of Iowa:

As a result of concerns identified in the Report on a Special Investigation of the University of Iowa Hospitals and Clinics (UIHC), Department of Orthopaedics issued on October 24, 2012, University of Iowa (University) officials requested we conduct a review of selected departments of the UIHC. We have applied certain tests and procedures to selected transactions recorded in the University's accounting system for 5 Departments selected for review. Based on a review of relevant information and discussions with University, UIHC, and Department personnel and officials, we performed the following procedures for the period July 1, 2010 through December 31, 2012, for the Departments of Anesthesia, Internal Medicine, Ophthalmology and Visual Sciences, Pediatrics, and Surgery, or for the period specified:

(1) Reviewed University and UIHC policies and procedures regarding purchasing, inventory, travel, bonuses, and technology allowances to obtain an understanding of the policies and procedures in place.

(2) Interviewed UIHC and Department personnel to obtain an understanding of the operations of the Departments selected for review.

(3) Evaluated internal controls over purchases made by the Departments to determine whether adequate policies and procedures were in place and operating effectively.

(4) Evaluated the Departments' internal controls over the purchase, inventory and disposal of computer and other electronic equipment. We also evaluated policies established by the Departments and the University for purchasing, inventorying, and disposing of computers and other electronic equipment.

(5) For selected transactions, we examined available supporting documentation to determine if the disbursements were appropriate, properly supported, and properly approved.

(6) Observed computers and related equipment purchased by the Departments to determine if the equipment was assigned to Department employees and was included on the Departments' inventory list, tagged, and could be located by the Department.

(7) Reviewed purchases made with the procurement cards (PCard) issued to Department staff and examined supporting documentation for certain transactions to determine if the purchases were for the Department or were personal in nature.

(8) Obtained and reviewed payroll information to identify additional compensation, such as bonuses, technology allowances, and other provisions, to determine propriety and whether the payments were supported by adequate documentation.

(9) Reviewed the charges and reimbursements for travel to determine propriety.

As a result of the procedures performed, we became aware of certain aspects concerning Department operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. These recommendations have been discussed with University and UIHC personnel and the University's responses to these recommendations are included in this report. While we have expressed our conclusions on the University's responses, we did not audit the University's responses and, accordingly, we express no opinion on them.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures or had we reviewed all operations of the Departments, other matters might have come to our attention which would have been reported to you.

Copies of this report have been filed with the Board of Regents, Office of Internal Audit, the University of Iowa, and the University of Iowa Hospitals and Clinics.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Board of Regents, Office of Internal Audit, the University of Iowa, the University of Iowa Hospitals and Clinics, and the Departments during the course of our review.

MARY MOSIMAN, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 25, 2013

Report on a Review of the
University of Iowa Hospitals and Clinics
Departments of Anesthesia, Internal Medicine,
Ophthalmology and Visual Sciences, Pediatrics, and Surgery

Review Summary

Background Information

The University of Iowa Hospitals and Clinics (UIHC) is Iowa's only comprehensive academic medical and regional referral center. The UIHC's mission is "Changing Medicine. Changing Lives." UIHC is part of the State University of Iowa (University), which is owned and operated by the State of Iowa and under the supervision of the Board of Regents (Board).

UIHC includes substantially all of the healthcare provider activities for patient care associated with the University other than the physicians and dentist services and research activities provided by the faculties of the University's College of Medicine and Dentistry. UIHC is a comprehensive tertiary care referral center located in Iowa City, Iowa, offering a full range of clinical services in substantially all specialties and subspecialties of medicine and dentistry.

According to the UIHC website, UIHC employed 1,548 physicians, residents and fellows and 8,221 non-physician employees, including 1,845 professional nurses, during fiscal year 2012. UIHC also relies on the help of more than 1,300 volunteers. Many of the physicians also hold teaching appointments or conduct research for 1 of the 27 academic departments at UIHC.

University officials establish policies and procedures for the entire University, including UIHC. The policies and procedures are included in the operations manual and are listed on the University's Accounts Payable website. These policies and procedures can be accessed by all University employees. University departments and UIHC are allowed to establish policies or procedures which are more restrictive but, at a minimum, meet the University's policy.

In order to purchase goods and services from various vendors, departments use the EPro application or a University procurement card (PCard). The PReq system within the EPro application is used for purchases requiring a purchase order. EPro also has a link to the EBuy application which allows authorized University employees to order goods and services online from a list of specific vendors.

Once a purchase is initiated, the voucher is electronically processed. Supporting documentation is scanned in to the accounting system and electronically attached to the voucher. The voucher and any attached supporting documentation are reviewed and approved by department personnel including fiscal staff and the department head. If a purchase is processed using the EBuy system, the electronic invoice is approved by the person designated to process EBuy purchases. If the EBuy purchase exceeds $10,000.00 or is for capital equipment, additional approvals are required. After approval at the department level, all vouchers and EBuy transactions are routed to the University Accounts Payable Department (Accounts Payable) which applies the final approval and pays vendors for purchases made through the EPro system.

In addition, purchases and travel expenses may also be paid with a PCard. When a PCard is used, there are no approvals prior to the transaction. When traveling, staff incur costs for lodging, meals, taxis, and other miscellaneous costs. Staff may pay for these costs using a PCard, or may pay for items themselves and request reimbursement. PCards are often used for conference registrations, booking airfare, and making hotel reservations. Staff will routinely request reimbursement for food, taxi, and other incidental charges related to their travel. PCards are also used to buy supplies and equipment from businesses such as Office Depot, Best Buy, Target, and Amazon.com.

When staff use a PCard, transactions are reviewed after the charge is made and posted to the University Accounting System and the supporting documentation is scanned into the system.

Transactions are approved by department staff assigned to review the charges and Accounts Payable staff.

When staff use the PCard, their expenses are submitted through the ProTrav system. Because not all staff are assigned a PCard, it is common practice for a PCard holder to purchase goods and services and book travel for other staff within their department. University policy requires departments to maintain supporting documentation for a reasonable time and electronically scan in the supporting documentation related to charges on the PCard. Departments may assign staff the responsibility of maintaining all supporting documentation for the department or the employee may maintain the supporting documentation themselves. After the supporting documentation is scanned in, the supporting documentation and the activity on the PCard are reviewed and approved by the Accounts Payable after it is approved at the department level.

Accounts Payable staff may ask for additional information from the PCard holder if they have any questions regarding purchases or travel expenses. If a purchase is not in compliance with the University's policies and procedures, Accounts Payable staff may require the individual to reimburse the University.

As a result of the Report on a Special Investigation of the University of Iowa Hospitals and Clinics (UIHC), Department of Orthopaedics issued on October 24, 2012, University officials requested we review the operations of UIHC to determine if the issues identified in the report were isolated to the Department of Orthopaedics or if there were similar issues in other UIHC departments. After discussions with University officials and the Board, it was determined the operations of 5 Departments would be reviewed. The 5 Departments selected include the Departments of Anesthesia, Internal Medicine, Ophthalmology and Visual Sciences, Pediatrics, and Surgery (Departments).

The Departments were selected based on several factors, including total expenditures, number of employees, number of procurement cards assigned to staff, and expenditures by class, such as travel, equipment technology allowances, and bonuses. All UIHC departments were ranked from highest to lowest for each of these factors and an overall rank was assigned. We selected the 5 Departments in a manner which ensured Departments of varying sizes and total expenditures were selected for testing.

Table 1 summarizes information as of June 30, 2012 for the 5 Departments selected for review.

Table 1

Description	Anesthesia	Internal Medicine	Ophthalmology and Visual Sciences	Pediatrics	Surgery
Total number of employees^	153	575	109	174	139
Number of procurement cards	6	137	22	92	24
Percent of employees with a procurement card	3.9%	23.8%	20.2%	52.8%	17.3*
Total expenditures	$ 43,019,405	113,437,280	29,443,993	60,255,321	23,431,279
Total procurement card expenditures	568,805	3,451,259	1,402,857	1,827,971	712,163
Procurement card expenditures as a percent of total expenditures	1.3%	3.5%	5.3%	3.5%	3.2%

^ - Includes physicians, residents, fellows, nurses, and administrative staff.

Based on University officials' request, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2010 through December 31, 2012. The results of these procedures are presented in the following sections of the report.

Results

The procedures performed identified certain aspects concerning Department operations and internal controls. Specifically, the procedures identified the following:

- Purchases of computers, printer ink, and toner were made from non-contract vendors without supporting documentation showing why the purchases could not be made from a contract vendor.

- Supporting documentation was not consistently maintained for conference registrations and other travel reimbursements. Supporting documentation did not include enough information to determine why meal expenses were reimbursed when meals were included in the conference registration.

- Supporting documentation scanned into the accounting system did not consistently provide a clear purpose for purchasing food and beverages not related to a travel reimbursement. For example, the Department of Internal Medicine made 18 food purchases from Hy-Vee from September 10, 2010 through October 26, 2010. Each charge was for $211.60.

- The Departments may authorize bonus payments, such as exceptional performance pay, spot awards, and other performance based pay to staff, excluding physicians. Physicians are allowed to earn incentive pay for meeting certain goals included in their individual contracts and for meeting goals established in the Department's practice plan. Because bonus payments and incentive payments are recorded with the same accounting codes in the University's accounting system, it is not possible to easily determine the amounts paid by type.

- Departments did not maintain inventory listings or tag items with a value less than the $5,000.00 threshold established by the University's capitalization policy but which are highly susceptible to loss. Examples of these items include computers, iPads, iPods, cameras, and other items. As a result of the special report on the Department of Orthopaedics issued October 24, 2012, Departments within UIHC were instructed by the UIHC IT Department to undertake an inventory of all computer equipment. According to IT staff we spoke with, UIHC departments were directed to record desktops, laptops, tablets, and network attached printers in the IT inventory system. The instructions did not specify if departments were to record ancillary devices such as external hard drives, iPods, or digital cameras. The IT Department discourages the use of external hard drives for data security and privacy reasons. Because items such as external hard drives, iPods, and cameras are not included in inventory, the University cannot track these items and determine if the items are in the University's possession, lost, or stolen.

In addition to the Departments selected for review, we also reviewed procedures used by Accounts Payable to identify and track errors found in the processing of PCard transactions. **Table 2** summarizes the errors found by Accounts Payable staff for the period July 1, 2010 through December 31, 2012.

Table 2

Accounts Payable "Type of Error"	Anesthesia	Internal Medicine	Ophthalmology and Visual Sciences	Pediatrics	Surgery	Total	% of Total
Additional information required	44	558	252	163	465	1,482	49.3%
Personal/unallowable expenses	-	120	51	13	66	250	8.3
Missing receipt	23	139	114	38	180	494	16.5
Travel (meals/airfare)	-	26	39	6	66	137	4.6
Sales tax	12	193	82	28	146	461	15.3
Business meal/alcohol	3	52	13	13	46	127	4.2
Other	3	12	14	6	20	55	1.8
Total	85	1,100	565	267	989	3,006	100.0%
Total expenditures	$ 43,019,405	113,437,280	29,443,993	60,255,321	23,431,279	269,588,278	

The **Table** shows the following:

- 49.3% of the errors were related to insufficient information on the original supporting documentation,

- 16.5% of the errors were related to missing receipts, and

- 8.3% of the errors were related to personal or unallowable expenses.

We reviewed selected errors identified by Accounts Payable staff to determine if the error was resolved and if the resolution was documented. The logs provided by Accounts Payable staff did not contain the resolution of the error. In order to determine if the error was resolved, each individual transaction would need to be reviewed. We reviewed the selected items and determined the errors were properly resolved by Accounts Payable staff and the individual Department's staff. In most cases, Accounts Payable staff agreed the purchase was allowable after additional support was received from the individual. The following are a few examples of items questioned and the final resolution by Accounts Payable staff.

- Purchase of 2 Mac Book Pros originally classified as personal expense by Accounts Payable staff. According to the information submitted to Accounts Payable staff by the individual who submitted the voucher, the computers were being used for research so the researchers could access the information when not in their offices. Accounts Payable staff accepted the explanation.

- Purchases from the Apple iTunes store were originally classified as personal. In this case, the individual noted it was for personal use and the amount was reimbursed to the University through payroll deduction. Accounts Payable staff did not take any other action as a result of the personal charges.

- A charge of $39.00 at the Hotel Vetro. Accounts Payable staff asked for additional information. The support received from the Department showed it was for a meeting with visiting faculty.

For the 5 Departments selected, we reviewed the policies and procedures regarding procurement card purchases, travel, technology allowances, inventory and performance pay. For selected transactions, we examined available supporting documentation to determine if the disbursements were appropriate, properly supported, and properly approved.

As previously stated, we reviewed the operations of the Departments for the period July 1, 2010 through December 31, 2012. The period covers fiscal years 2011, 2012, and the first 6 months of fiscal year 2013. The following sections provide background information and our findings for each area included in the review. The findings are in addition to items identified and addressed by the Departments and Accounts Payable staff. Had we reviewed additional transactions for the Departments, additional items may have been identified.

Purchasing – UIHC staff can purchase equipment and supplies through the use of the purchase requisition (PReq) system or by using a University-issued procurement card (PCard). The PReq system allows authorized University employees to go online and order goods and services from various vendors. For example, the University has a contract with Dell for desktop and laptop computers. Dell computers are ordered by department staff through the PReq system. Desktop and laptop computers purchased from other vendors, such as Apple, and peripheral equipment, such as monitors, printers and external hard drives, can be purchased from the manufacturer or third party vendors using either the PReq system or a PCard. Accounts Payable pays vendors for purchases made through the PReq system.

Staff may be assigned a PCard based on decisions made by officials in each department. When staff use the PCard, their expenses are submitted through the ProTrav system. The employee, or the department, is required to maintain supporting documentation for a reasonable time and electronically scan in the supporting documentation related to charges on the PCard. According to Accounts Payable staff we spoke with, supporting documentation should be maintained until the voucher has been reviewed, all questions have been answered, and the voucher has been approved by Accounts Payable staff. The supporting documentation and the activity on the PCard are reviewed and approved by Accounts Payable staff after it is approved at the department level. Because the charge has already been processed by the vendor, Accounts Payable staff request reimbursement from the individual who made the charge if an error is found.

An individual not assigned a PCard can request staff assigned a PCard to purchase items for them. In many cases, a department will approve a card for a physician's executive assistant and the department's financial staff instead of each individual. As a result, these individuals purchase items for various members of the department.

We reviewed selected PCard purchases for each of the 5 Departments selected and identified the following, which were common to several Departments.

- Supply purchases – Of the 5 Departments tested, 2 allowed multiple staff to purchase printer ink, toner, and other supplies on PCards instead of ordering the items from vendors which have a contract with the University. Allowing multiple staff to purchase supplies prevents the Department from detecting or preventing unnecessary purchases of supplies and provides staff the opportunity to purchase supplies for personal use. In addition, the Department may not receive the best price available.

    o Anesthesia – We identified 5 instances where printer ink and toner was purchased from suppliers who are not under contract with the University, including BestBuy.com, Newegg.com, and Amazon.com.

    o Surgery – We identified 2 instances where toner and ink cartridges were purchased from non-contract vendors, including Amazon.com and CDW.

- Computer and electronic equipment – Of the 5 Departments reviewed, 4 purchased computers and other electronic equipment from non-contract vendors. By allowing the Department and multiple staff to purchase equipment from non-contract vendors, the Department and UIHC has no means to detect or prevent unnecessary purchases of electronic equipment and ensure adequate security measures are taken for all equipment. In addition, Departments may not receive the best price available and may

pay for additional items, such as warranties, which may not be the best use of Department resources.

- o Internal Medicine - We identified 5 computers and 2 iPads purchased from non-contract vendors, including BestBuy.com and Newegg.com.

- o Ophthalmology and Visual Sciences - We identified 4 computers purchased from non-contract vendors, including Best Buy and Amazon.com.

- o Pediatrics - We identified 6 iPad2s, 3 iPads, and 8 hard drives purchased from non-contract vendors, including Best Buy and Amazon.com.

- o Surgery - We identified a printer and a computer purchased from non-contract vendors, including CDW and Best Buy.

We also identified the following which are specific to a Department:

- Pediatrics - We identified a purchase from Office Depot which was split into 4 separate charges to avoid the single transaction limit. The purchases occurred over a 20 minute span, and included a printer, toner cartridges, iPod Touch, and an HP computer. The purchases totaled $5,159.35. We also identified 3 transactions occurring approximately 4 minutes apart for the purchase of 3 iPads from a non-contract vendor (Best Buy). The total cost for the 3 iPads was $4,024.81. The purchase of the 3 iPads appears to have been split into 3 transactions to avoid the transaction limit established for the individual's PCard. The University has established daily and single transaction limits to help control the University's exposure to fraudulent transactions. Splitting a transaction to avoid these controls may increase the University's exposure to fraud.

- Ophthalmology and Visual Sciences - We identified an instance where a registration receipt was used to support a conference registration fee. The receipt included only a hand written note showing the amount paid.

- Surgery – We determined an individual purchased Windows Ultimate, a version of the Windows operating system, from Newegg.com. University computers typically are purchased with an operating system installed. Because there was no indication on the documentation why the operating system was purchased, it may be personal in nature.

Travel – Physicians and other staff may be required to travel as part of their job duties. Many of the physicians attend and present at conferences in their area of expertise. When traveling, staff incur costs for lodging, meals, taxis, and other miscellaneous costs. Staff may pay for the costs using a PCard or pay for items themselves and request reimbursement. In most cases, a PCard is used for conference registrations, paying airfare, and making hotel reservations. Staff usually request reimbursement for food, transportation, and other incidental charges related to their travel. As previously stated, if an individual is not assigned a PCard, they can request staff who are assigned a PCard to book the travel for them. In most cases, this is the department's financial staff or an executive assistant.

Staff are required to complete travel vouchers once they return from the trip. If the travel costs were charged to the PCard, the information is automatically downloaded into a voucher from the PCard system. Staff will add to the voucher or prepare a second voucher for any expenses they paid personally. The vouchers are reviewed by department personnel and forwarded to Accounts Payable staff for final approval and payment.

University policies require supporting documentation for airfare, rental cars, or other forms of transportation, hotel and conference fees, and any individual expense of more than $75.00 be scanned into the accounting system and attached to the voucher. In addition, receipts for the actual meal costs which exceed the maximum daily allowance for the area of travel must also be

scanned in to receive reimbursement for more than the maximum allowance for the area. For example, according to the Accounts Payable travel policies, staff members are allowed $31.00 per day for meals in Iowa or $71.00 per day in Chicago.

Table 3 summarizes travel expenses for each Department reviewed for the period July 1, 2010 through December 31, 2012.

<div align="right">Table 3</div>

| Department | Travel Costs by Fiscal Year | | | |
	2011	2012	2013^	Total
Anesthesia	$ 374,700	334,933	155,670	865,303
Internal Medicine	897,349	884,870	378,912	2,161,131
Ophthalmology and Visual Sciences	442,101	472,357	161,878	1,076,336
Pediatrics	532,963	492,200	264,155	1,289,318
Surgery	276,634	277,871	107,736	662,241
Total	$ 2,523,747	2,462,231	1,068,351	6,054,329

^ - For the period July 1, 2012 through December 31, 2012.

We reviewed selected travel expenditures for each Department and identified the following:

- Supporting Documentation – University policy requires supporting documentation be scanned and attached to the claim. Supporting documentation is not required for purchases less than $75.00. We identified the following concerning supporting documentation:

  o Anesthesia:

    ▪ 14 transactions included payments for registrations for which documentation was not provided to show the individuals attended the conference. The University does not require documentation which shows who attended the conference. Without documentation of attendance, it is possible the individual did not attend the conference they were registered for.

    ▪ 1 transaction lacked documentation for the purchase of airfare. Additional documentation attached with the voucher showed the individual did travel to the conference.

  o Internal Medicine:

    ▪ 1 instance where airfare was changed to depart Cedar Rapids 2 hours earlier at an additional cost of $427.00. No supporting documentation was provided indicating why the change was required. Because supporting documentation was not attached, it cannot be determined if the change was for personal reasons or the additional cost was an appropriate use of Department funds.

  o Pediatrics:

    ▪ 1 instance where Accounts Payable staff questioned the purchase of a one-way ticket. Supporting documentation was not scanned in explaining why the ticket was one-way. Follow up by the Department identified an email had been sent to Accounts Payable staff showing the return trip was paid for by another organization. Supporting documentation for the entire transaction should have been included with the transaction and not maintained separately.

- Meal allowance – We determined staff were reimbursed for meals when the meals were included in the conference registration fee. In addition, University policy does not require receipts for meals under the daily limit for the city in which the meeting or function is taking place. Because the conference registration fee included the cost of some meals and meal receipts are not required, we cannot determine the propriety of meals staff were reimbursed for. We identified the following concerning meals:

  o Internal Medicine - A meal was reimbursed when the meal was included in the conference registration.

  o Ophthalmology and Visual Sciences:

    ▪ 2 transactions where individuals were reimbursed for meals which were included in the conference registration fee. There was no supporting documentation indicating why the meals were claimed when the conference registration fee included the meals.

    ▪ An instance where an individual claimed the full amount of the meal allowance ($75.00/day) each day. The email attached to the claim indicated the individual believed the allowance was a per diem.

    ▪ An instance where the individual was reimbursed $15.00 in excess of the maximum allowed for meals.

- Reimbursement – When the Department or Accounts Payable staff identifies items which are not allowable, they are to seek reimbursement from the individual if the claim has already been paid. We identified the following related to the timeliness of the reimbursement of unallowable expenditures by staff.

  o Ophthalmology and Visual Sciences – We identified an instance where a companion ticket was purchased, but was repaid through payroll deduction. However, the room was paid for based on double occupancy when single occupancy would have been $118.22 less. We could not locate any reimbursement to the Department for the excess cost.

  o Pediatrics – We identified an instance where hotel charges were paid for in advance for a physician and a former graduate student. This was approved prior to payment with the understanding the former graduate student would reimburse the University for his share of the room. The hotel charges were paid on February 17, 2012 with the PCard. UIHC received reimbursement from the former graduate student on August 21, 2012.

Food and Beverages – The University allows departments to purchase or request reimbursement for food and beverages, not related to travel, if certain conditions are met. University policy allows alcohol to be purchased only if paid from an agency or gift fund. In accordance with the policy, written justification documenting a clear University purpose must be included and explain why food and beverages were required at a meeting if it is not evident by the nature of the event. The policy allows a maximum of $55.00 per individual if only food is provided and $75.00 per individual when food and beverages, including alcohol, is provided.

The University also provides for exceptions to the policy limits. Exceptions may be granted if approved by the Dean, Department head or budget officer and is routed to Accounts Payable staff for approval by the Executive Vice President and Provost, the Senior Vice President, and the Treasurer or their designee.

Examples of allowable activities where food and beverages can be provided include:

- Business meetings,

- Recognition events where the department has an approved "Rewards and Recognition" plan,

- Recruiting,

- Training,

- Guests performing a service,

- New employee orientation,

- Lectures, symposiums, presentations, and

- Student orientation and support events.

Using the vendor information recorded in the accounting system, we sorted the information by vendor and totaled the amounts spent at food vendors. **Table 4** shows the amount spent by Departments, using UIHC and Foundation funds, from July 1, 2010 through December 31, 2012.

Table 4

Department	Fiscal Year			Total
	2011	2012	2013^	
Anesthesia	$ 5,345	2,210	319	7,874
Internal Medicine	120,058	139,611	54,247	313,916
Ophthalmology and Visual Sciences	24,220	11,984	6,513	42,717
Pediatrics	104,890	118,515	47,574	270,979
Surgery	14,289	14,941	9,192	38,422
Total	$ 268,802	287,261	117,845	673,908

^ - For the period July 1, 2012 through December 31, 2012.

The **Table** shows Internal Medicine and Pediatrics spent the most on food over the period of our review. According to Department staff we spoke with, food and beverages are routinely purchased for meetings held by Departments to discuss cases and provide training. The number of meetings depends, to some extent, on the function of the Department and the number of staff in the Department. For example, Internal Medicine and Pediatrics see more patients on a daily basis and usually have daily and weekly meetings for staff to discuss the various cases.

According to the University of Iowa Foundation website, the Foundations mission is, "Advancing the University of Iowa and fulfilling the aspirations of those it serves." In addition, the website states, the Foundation funds a broad array of needs, from student scholarships, breakthrough research, and life-changing health care to innovative facilities, community outreach and global education. Foundation funds should not be used for rewards and recognitions programs unless it is clear they support the mission of the UIHC and the University.

The only way to determine what was purchased from the vendors is to review each individual voucher. According to the vouchers we reviewed, food was purchased for meetings, seminars, alumni receptions, and lunch and dinner meetings for staff. According to Department staff we spoke with, Departments purchase lunch and dinner for staff because it is the only opportunity for staff to discuss on-going cases and discuss new methods. An example provided by the Department of Internal Medicine was the purchase of food for "Grand Rounds" for the Residents. According to the Department staff we spoke with, this is done so Residents can discuss cases and learn from the attending physicians what they did correctly and what areas need improvement in diagnosing and working with patients. This meeting is usually held over lunch as it is the only time all Residents can meet to review cases.

The purpose of the meeting or event was not always clearly stated on the supporting documentation. As stated previously, University policy requires a written justification why food and beverages were required at a meeting if it is not evident by the nature of the event. Although

many of the items are evident to the Departments, it is not possible for individuals who are not familiar with the Departments' operations, such as Accounts Payable staff, to determine the purpose without a clear justification.

In reviewing the food purchases, we also considered the taxability of the meals to individuals. Under IRS guidelines, the provision of meals is not a taxable event if the purpose of the meal is related to training. Meals provided which are not related to training may be taxable unless they are considered de minimis in nature. The University should ensure the cost per person and a list of who attends each meeting where meals are provided is maintained to support the meals are de minimis in nature.

Rewards and Recognition – Departments are allowed to create a Rewards and Recognition policy. The policies are developed to recognize staff and demonstrate appreciation of their efforts. The policies are required to be reviewed and approved annually by the Senior Human Resource Representative and the Budget Officer. The policy must include:

- Eligible staff,
- Business purpose,
- Process for making the award (for example, awarded semiannually based on review of nominations),
- Type of award (for example, plaque, luncheon, monetary incentive, etc.),
- Items to be purchased (for example, lunch, or a plaque),
- Source of funding, and
- Results (for example, improved staff morale).

Examples of recognition events include a department-wide staff appreciation event, going away celebration, department open house, birthday recognition, and a life event recognition (i.e. marriage, death of an immediate family member or a medical procedure).

If a Rewards and Recognition program allows an individual to receive a monetary payment, the amount is processed through the payroll system and included in the individual's pay check for the month. University policy requires all non-cash awards over $75.00 be reported to payroll. If the program allows a gift card, luncheon, or some other token of appreciation, the expense is recorded in the accounting system under the appropriate expense code. For example, a luncheon would be recorded under food and beverage expense. In addition, the individuals who may have benefited from the program are not always listed on the supporting documentation.

Expenditures for rewards and recognition are not recorded separately in the University's accounting system. As a result, we cannot identify specific transactions paid for using UIHC funds related to rewards and recognition policies without reviewing each individual voucher. We were able to identify the amount spent on gifts using Foundation funds as shown in **Table 5**.

Table 5

| Department | Fiscal Year | | | |
	2011	2012	2013^	Total
Anesthesia	$ 3,312.26	6,483.43	1,511.64	11,307.33
Internal Medicine	821.33	1,431.34	402.42	2,655.09
Ophthalmology and Visual Sciences	9,597.07	1,072.82	2,385.93	13,055.82
Pediatrics	18,398.70	12,590.57	2,068.80	33,058.07
Surgery	5,267.77	9,471.85	5,113.44	19,853.06
Total	$ 37,397.13	31,050.01	11,482.23	79,929.37

^ - For the period July 1, 2012 through December 31, 2012.

As shown by the Table, the 5 Departments spent approximately $80,000.00 of Foundation funds on gifts. As previously stated, we are unable to determine the amount of UIHC funds expended on gifts because of how the expenditures are coded in the accounting system.

According to the University of Iowa Foundation website, the Foundation's mission is, "Advancing the University of Iowa and fulfilling the aspirations of those it serves." In addition, the website states the Foundation funds a broad array of needs, from student scholarships, breakthrough research, and life-changing health care to innovative facilities, community outreach and global education. Foundation funds should not be used for rewards and recognition programs unless it is clear they support the mission of the UIHC and the University.

Flexible Pay/Bonuses – University policy allows all University departments and the UIHC to develop plans to award staff additional pay based on performance or bonuses for meeting certain criteria. In accordance with the University's policy, the 2 primary types of flexible pay are Flexible Pay for Exceptional Performance (Exceptional Performance) and SPOT Awards. Both of these apply to non-organized (non-union) professional and scientific employees. Doctors/Physicians and other staff covered by the UIHC practice plan are not allowed to receive an Exceptional Performance or SPOT Award under the UIHC practice plan.

University policy allows employees to receive an Exceptional Performance award or bonus up to a maximum of 10% of their base salary per year for above average performance evaluations. For an Exceptional Performance award, a staff person must have a commendable or distinguished performance evaluation in the past year.

A SPOT Award can be given any time during the year and is to be less than $75.00. An individual may receive up to 4 SPOT Awards in a fiscal year. SPOT Awards are used to recognize an individual's work on a specific task/project.

Physicians are covered under the UIHC practice plan and each department's individual practice plan. The UIHC practice plan covers the operations of the UIHC. Under the UIHC practice plan, each department creates its own practice plan which covers the specific operations of the department and is approved by UIHC. The practice plan is reviewed and approved by UIHC administration. Each practice plan may have different "tracks" for different staff, such as physicians and researchers.

Physicians, researchers and other staff designated in the practice plan are governed by the department practice plan and also by the UIHC practice plan. Each physician, researcher and other staff specified in the practice plan sign a contract when they are offered employment with UIHC. The contract specifies what they are to be paid and the expectations of their position.

Under the practice plans, physicians and other staff covered by the practice plans may receive a bonus based on meeting certain criteria or goals. Many of the criteria/goals are based on productivity or Relative Value Units (RVU). RVUs are defined as "a comparable service measure used by hospitals to permit comparison of the amounts of resources required to perform various services within a single department or between departments. It is determined by assigning weight to such factors as personnel time, level of skill, and sophistication of equipment required to render patient services. RVUs are a common method of physician bonus plans based partially on productivity."

Examples of some of the items included in Department practice plans are as follows:

- Semi-annual bonus – if a physician exceeds the RVU goal for the period, he or she will receive a set dollar amount for each RVU which exceeds their goal. If a Department determined each RVU was worth $50.00, a physician who exceeded the established goal by 50 RVU's would receive a bonus of $2,500.00.

- Research bonus – if researchers are able to cover 10% of their salary by receiving a federal grant, they are eligible for a research bonus based on RVUs.

- Point system - physicians and other eligible staff earn points for various job duties. For example, each faculty member is to receive 5 points for each clinical day or 1 point for every hour on-call. If the on-call time is on a holiday, the point value may be multiplied by 2. At the end of each quarter, all points earned are added together and the funds available for incentive pay will be allocated based on the percentage of total points. For example, if a department has $10,000.00 available for incentives and a physician has 10% of the total points, the physician will receive a bonus of $1,000.00

The practice plans also allow base salary to be increased or decreased based on meeting the goals established in the practice plan.

Table 6 shows the total amount coded as bonus payments, including fringe benefits, for each Department for fiscal years 2011 through 2013. As previously stated, bonuses are recorded to the same object codes in the University accounting system. As a result, we are unable to determine the amounts paid for Exceptional Performance, SPOT awards, and incentive/bonuses for staff covered under Department practice plans.

Table 6

Department	Fiscal Year			Total
	2011	2012	2013	
Anesthesia	$ 3,833,668	4,598,764	3,844,876	12,277,308
Internal Medicine	2,298,177	6,037,633	2,986,422	11,322,232
Ophthalmology and Visual Sciences	675,331	1,902,272	609,017	3,186,620
Pediatrics	635,939	691,449	741,574	2,068,962
Surgery	863,146	1,426,168	1,940,178	4,229,492
Total	$ 8,306,261	14,656,286	10,122,067	33,084,614

As illustrated by the **Table**, the amount paid for bonuses increased for each Department from fiscal year 2011 to fiscal year 2012 and then decreased in fiscal year 2013 for Anesthesia, Internal Medicine and Ophthalmology, and Visual Sciences. Pediatrics and Surgery increased from fiscal year 2011 to fiscal year 2012 and again in fiscal year 2013. As previously stated, Departments develop practice plans which include incentives for physicians and also set forth how profits from the Department are to be allocated. Prior to fiscal year 2012, incentives were recorded quarterly when they were paid (cash basis). Beginning in fiscal year 2012, the practice plans changed to an accrual basis. The increase in fiscal year 2012 is because there were 5 payments recorded in fiscal year 2012, including the final payment related to fiscal year 2011 and the accrual for the final fiscal year 2012 payment.

Based on our review and testing of each Department's payroll, we determined exceptional performance pay, incentive pay, additional pay for clinical coverage, and other types of additional pay were recorded in the same object codes in the University's accounting system. Because performance based pay, such as bonuses, is recorded with other types of pay which are based on job duties, such as clinical coverage, it is difficult to identify payments which were based on performance and not the Department's practice plan or physician contracts. According to Department staff we spoke with, they can only identify the additional pay type by requesting the details from Human Resources and reviewing the support themselves.

As a result of coding performance based pay in the same object codes as other pay types, it makes it difficult for Departments to provide oversight, budget and provide information to individuals who request information on performance based pay.

We did identify an instance where a staff person was given a performance award in fiscal year 2010, 2011, and 2012 based on a narrative prepared by his supervisor. The justification listed in each narrative are duties a person would expect a Research Support Manager to perform as part of their typical responsibilities. In addition, the narratives were almost identical each year.

Inventory – University policy requires UIHC and its departments to inventory and tag all assets valued at $5,000.00 or more. The policy does not require UIHC or its departments to maintain a listing or tag items valued under the $5,000.00 threshold. However, UIHC Healthcare Information Systems Department requires all departments to maintain a listing of computers and printers which connect to the EPIC computer system regardless of the value. This is required to ensure only authorized computers connect to EPIC, which is the UIHC system for maintaining patient information.

The report issued by the Office of Auditor of State regarding the Department of Orthopeadics included a recommendation to perform a complete inventory of all electronic equipment, such as computers, camera's, iPads, printers, hard drives, and monitors, including those items maintained at locations other than UIHC. As a result, the UIHC IT Department asked all departments to take a complete inventory of all computer equipment located at the hospital facilities and at locations outside UIHC, including staff's homes. The various assets were to be listed and tagged as property of the University.

According to IT staff we spoke with, UIHC departments were directed to record desktops, laptops, tablets, and network attached printers in the IT inventory system. The instructions did not specify whether departments were to record ancillary devices, such as external hard drives, iPods, or digital cameras. The IT Department discourages the use of external hard drives for data security and privacy reasons. Because items such as external hard drives, iPods, and cameras are not included in inventory, the University cannot track these items and determine if the items are in the University's possession, lost, or stolen.

We traced computer and other electronic equipment identified during our review of purchases made on the Departments' PCards to each Department's inventory list or to documentation showing its disposition. We identified an instance where an iPod left in a waiting room for use by patients was reported as stolen. In addition, many of the research grants received by faculty at the UIHC require equipment purchased to be transferred with the individual if they leave employment with UIHC.

By reviewing the vouchers and the Departments' inventory procedures, most of the items on the inventory list included the serial number, location of the asset, tag number, and a brief description of the asset. However, we identified additional areas which could be improved, including:

- The vouchers did not always include serial numbers, which made it difficult to trace the item to the listings. By requiring the serial numbers on the vouchers, it will be easier for the Departments to track who an asset is assigned to and where it is located.

- The descriptions used on the listings were sometimes vague. Examples of vague descriptions include Dell computer, Apple computer or camera. Not having more specific information, such as a model number, makes it difficult to ensure the items purchased are the item included on the listing.

- The voucher number, date of purchase, and the value of the asset were not always included. Providing this information helps identify when an asset's useful life may end and allows Departments to value assets in case of loss.

- The listings did not include items such as external hard drives, iPods, and cameras. As previously stated, the instructions did not specify whether Departments were to record ancillary devices, such as external hard drives, iPods, or digital cameras. Including these items in an inventory list helps the University identify items which may be misappropriated or lost.

Because the lists had recently been created or updated, the Departments did not have time to determine when each item was purchased and the cost of the item. Some of the computers were more than 2 or 3 years old. According to Department staff we spoke with, the Departments will begin to track the purchase date and cost of each item included on the inventory list.

Extended Warranties – Extended warranties are offered by many companies which sell computers and other electronic equipment. Extended warranties are sometimes referred to as service plans. These plans often extend the manufacturers original warranty for a period of 1 to 3 years.

According to the Associate Vice President of Health Care Information Systems, UIHC does not advocate the use of extended warranties. According to a University Official we spoke with, "They try to get 4 years of productive use out of PC's and laptops. If the standard warranties on these devices are less than this time period, we would run an analysis of whether the cost of an extended warranty is merited."

When computers or other equipment are purchased under a University contract or from another vendor, an extended warranty may be purchased if there are some components which are not covered for the entire period of the warranty. When staff request an extended warranty be purchased, the IT Department discusses the issue with staff to determine if the warranty is necessary. However, when staff purchases items off contract or use a PCard at a store such as Best Buy, they are expected to have justification for the purchase of an extended warranty. The IT Department is not usually aware of these warranties since they are not involved in the actual purchase. According to Accounts Payable staff we spoke with, they do not question the purchase of extended warranties because it is a departmental decision.

While reviewing PCard purchases and the supporting documentation, we identified purchases of computer equipment and other electronic equipment which included extended warranties. In some cases, the warranty was clearly identified on the supporting documentation. In other cases, we had to research the coding printed on the receipt to determine if the additional charge was for an extended warranty or service plan.

Based on our review of the supporting documentation, we identified warranties purchased by the following Departments.

- Ophthalmology and Visual Sciences – 8 warranties at a cost of $1,333.00 for equipment with a total purchase price of $14,426.00.

- Pediatrics - 15 warranties at a cost of $2,224.00 for equipment with a total purchase price of $17,136.00. In addition, the Department purchased technical support plans at a cost of $508.00.

- We did not identify any warranties purchased by the Departments of Anesthesia, Internal Medicine or Surgery.

Had we reviewed all equipment purchased by each Department, we may have identified additional warranties, service plans or technical support agreements.

Because we did not have access to the warranty documents, we are unable to determine if the warranty only covered repairs or if it would replace the computer if broken for any reason or if only in the case of a manufacturer's defect. Computers typically come with a 1 year manufacturer's warranty.

Because technology is continually changing and computers and other electronic equipment can be quickly outdated, the purchase of extended warranties may not be the best use of Department resources. In addition, the cost of an extended warranty may not be beneficial for items with a low purchase price, such as an iPod.

Technology Allowances – Prior to October 2, 2013, UIHC policy allowed departments to pay for employees' cell phone service and reimburse internet charges for staff. In order for staff to receive a technology allowance, the departments submitted an annual request for each staff member who is to receive this benefit. The annual request requires a copy of a monthly bill showing the cost of the plan. Once approved, staff receive the amount determined to be reimbursable by the department as part of their payroll check for 12 consecutive months. In some cases, this was the full amount of the cell phone or internet charge or a portion of the bill. **Table 7** shows the total amount paid in fiscal years 2011, 2012 and the first 6 months of fiscal year 2013 for cell phones and internet charges by each Department.

Table 7

Department	Fiscal Year			Total
	2011	**2012**	**2013^**	**Total**
Anesthesia	$ 10,575	9,333	5,230	25,138
Internal Medicine	6,511	2,417	-	8,928
Ophthalmology and Visual Sciences	3,117	943	1,323	5,383
Pediatrics	14,479	8,423	2,625	25,527
Surgery	3,105	2,783	2,402	8,290
Total	$ 37,787	23,899	11,580	73,266

^ - For the period July 1, 2012 through December 31, 2012.

During fiscal year 2013, UIHC revisited the technology allowance policy. The new policy states, "UI Health Care will not reimburse faculty or staff for cell phone or internet access fees, with the following exceptions:

1. Department owned contracts with pooled-minutes plans.

2. Extramural support e.g. If a granting agency allows funds to be used to pay for cell phone charges, a dedicated phone may be used. However, personal calls are not permissible."

Employees who were previously approved for a technology allowance will continue to receive the allowance until their currently approved allowance ends. Beginning in fiscal year 2014, no new allowances will be approved unless one of the exceptions shown above is met.

Recommended Control Procedures

As part of our review, we reviewed the controls used by the University of Iowa Hospitals and Clinics' Departments of Anesthesia, Internal Medicine, Ophthalmology and Visual Sciences, Pediatrics, and Surgery. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from errors or irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the University's and UIHC internal controls.

(A) <u>Centralized Purchasing</u> – Departments purchase computers and related electronic equipment through the normal expense voucher system or by using PCards at any vendor selling electronic equipment items. As a result, the Departments have no means to prevent or detect duplicate and unnecessary purchases of electronic equipment in a timely manner and ensure adequate security measures are taken for all equipment, such as installation and update of antivirus software. In addition, the lack of a centralized purchasing function does not allow the Departments to maintain a complete inventory of all equipment which is susceptible to theft.

Use of a PCard allows staff to purchase any items they deem necessary. It also allows items, such as ink and other office supplies, to be bought at a number of vendors rather than with preferred vendors with whom the University has established contracts at favorable rates. In addition, because many staff can make purchases, the Departments' Administrators may not be aware of a number of the items purchased.

<u>Recommendation</u> – UIHC should establish procedures which ensure equipment purchases are centrally controlled. The procedures should be applied to all purchases, regardless of funding source. Purchases made with grant funds should follow all Department purchasing procedures.

PCards should be provided only to staff who have a need to make purchases on behalf of the Departments. In addition, having the ability to make immediate purchases with a PCard at any local vendor, on-line, or in any other type of situation does not relieve the purchaser from the obligation to ensure the price paid is the best price available to the University.

The University should also establish procedures to ensure purchases are made from approved vendors under contract, unless supported by documentation showing a better price or superior quality product could be purchased off the contract.

<u>Response</u> – Subsequent to the Orthopaedics audit, the University of Iowa Health Care entities, of which the audited departments are a part, has developed a draft policy and procedure document that, when approved by the Vice President for Medical Affairs and the University Controller, will centralize the purchase of computing devices and limit the use of procurement cards for this purpose to the central Health Care Information Systems (HCIS) office in urgent situations. This policy will also centralize the receipt of devices and the placement so as to limit the risk of theft and to maintain a more accurate and comprehensive inventory.

Purchases using grant funds, like all departmental purchases, follow University purchasing procedures, with added review to insure compliance with the intent of the funding agency.

In addition, limits on the cards are reviewed annually and adjusted to fit actual expenditure patterns and minimize risk. Procurement cards are intended to be used by staff who make purchases and also by staff who travel. Procurement card policy and best practices recommend the use of University preferred suppliers and contracted vendors. Departments are diligent in reviewing the prices of all purchases, including pricing of our contracted vendors. Procurement cards offer an efficient means of handling purchases for externally funded research labs that require a high volume of purchasing to support the operations of each lab. The reconciliation of all procurement cards utilizes "separation of duties" best practices to approve transactions on these cards.

Conclusion - Response accepted. After the draft policy and procedures document is approved and implemented, we will review compliance with the document in subsequent audits.

(B) Lack of Inventory Records and Internal Controls - By its nature, computer equipment and other technology products purchased by the Departments are attractive to individuals and susceptible to loss. These items are frequently small and designed to be portable, such as laptop computers and iPads. The University's and the Departments' policies do not require maintaining an inventory or tagging equipment which individually cost less than $5,000.00 but are susceptible to loss.

The University has a policy which requires all tagged and non-tagged computer and digital storage media leaving the University's possession and/or control while still intact be transferred in accordance with Part V, Chapter 12 of the University's Operations Manual.

Because sufficient inventory records were not maintained, we were unable to determine what specific pieces of equipment purchased by the Departments were, or should have been, in the Departments' possession.

According to IT staff we spoke with, UIHC Departments were directed to record desktops, laptops, tablets, and network attached printers in the IT inventory system. The instructions did not specify whether Departments were to record ancillary devices, such as external hard drives, iPods, or digital cameras. The IT Department discourages the use of external hard drives for data security and privacy reasons. Because items such as external hard drives, iPods, and cameras are not included in inventory, the University cannot track these items and determine if the items are in the University's possession, lost, or stolen.

The Departments have created an inventory of computer equipment. However, the computer equipment inventory does not include a complete description of the equipment, make and model, date of purchase, and cost of the equipment.

Recommendation – In addition to capitalization policies already established by the University, inventory records should be established and maintained to facilitate proper insurance coverage, maintenance, and safeguarding of property and equipment susceptible to loss. A complete inventory of all electronic equipment, such as computers, cameras, iPads, printers, hard drives, and monitors, should be completed and items should be tagged. The inventory should include equipment kept at the homes of staff or other offsite locations.

An inventory of all equipment should be conducted periodically and compared to the fixed asset records by a person independent of the record keeping function. The University should also implement procedures which ensure Departments comply with disposal policies. As part of the inventory process, all old or outdated equipment should be sent to surplus in accordance with University policy. This includes any equipment maintained in the homes of staff or other offsite locations.

In addition, packing slips should be maintained for items purchased by Departments. Packing slips should be compared to invoices prior to payment and a person independent of the record keeping function should ensure the items purchased are added to the inventory listing. Also, access to the location where computer equipment is stored should be limited only to those individuals authorized to distribute or maintain the equipment. In addition, a listing should be maintained of all individuals with access to the location.

Response – The University of Iowa implemented a Computer Inventory and Internal Control Policy in May of 2012. This policy requires each VP or collegiate unit to develop a methodology for tracking equipment (desktop and laptop computers and printers). At a minimum, the date of acquisition, description of equipment, serial number, employee and location of the equipment should be recorded. All equipment should be procured through the University campus wide vendor contracts. In addition, the policy states that this equipment should be disposed of through UI Surplus according to University policy.

As mentioned previously, the University of Iowa Health Care entities, of which the audited departments are a part, has developed a draft policy and procedure document that, when approved by the Vice President for Medical Affairs and the University Controller, will centralize the purchase of computing devices. This policy will also centralize the receipt of devices and their placement so as to limit the risk of theft and to maintain a more accurate and comprehensive inventory.

In addition, the HCIS has already started an inventory of all computing devices in every room of a Hospital or College of Medicine building in order to develop a baseline inventory for each department. This will be complete by April 2014. The inventory will then be updated as devices are received and placed using the centralized purchasing process in the new policy mentioned previously.

It would be cost prohibitive to tag and track all items listed in this recommendation.

Departments are required to record receipt of purchases. Depending on the value of the equipment, the receipt is required in the procurement system. Departments are encouraged to retain the packing slip or other documentation. However, in the recent months, freight delivery companies have switched to electronic packing slips or no packing slips at all, making it impossible to require departments to retain original packing slips or other forms of documentation in a paper format.

Conclusion – Response acknowledged. UIHC and the University should consider tagging all items received in a centralized location or requiring staff in the various UIHC and University departments to tag the equipment and report the tag number to the appropriate staff. While tracking smaller items such as hard drives and IPads maybe cost prohibitive, affixing a tag stating it is the property of the University will help deter the misappropriation of these items.

(C) PCard Internal Controls – The University issues PCards to employees to be used for travel expenses and to purchase equipment, supplies and other items allowed by the University. Employees are to keep original receipts and scan the support into the accounting system when they submit their vouchers. However, supporting documentation is not required to be scanned in for all items, such as meal receipts, taxi receipts, and meeting agendas.

Purchases made with PCards are to initially be reviewed by the employee's supervisor and subsequently by Accounts Payable staff. Any questions regarding purchases are sent to the cardholder for response or for additional supporting documentation.

Staff assigned PCards make purchases for other staff in their Departments. In addition, some cardholders share their card or card number with other staff.

During our review of the purchases made by Department employees with their PCards, we determined the original supporting documentation was not always maintained after it had been scanned into the PCard system.

We also determined updates to PCard policies and errors or questions identified by Accounts Payable staff were sent only to the cardholder and not the employee's supervisor. As a result, the supervisor may not be aware of updated policies or when certain expenses have been deemed unallowable or additional supporting documentation was required in order for the purchase to be approved.

Recommendation – UIHC and University officials should ensure Departments maintain original supporting documentation until after the annual audit of the University has been completed for the year during which the purchase was made. In addition, the University should implement procedures which ensure sufficient supporting documentation and/or explanations are provided which allow the supervisor to verify the propriety of the charge. The policy should also provide for disciplinary action when personal charges are identified.

Also, PCard holders should ensure no one else has access to or uses the PCard assigned to them. The University should also ensure updates to PCard policies, as well as errors or questions identified for PCard purchases, are communicated to supervisors as well as the cardholders in a timely manner.

Response - Subsequent to the Orthopaedics audit, the following action items were taken:

- Since November 2012, audit errors and questions were sent to all employees who approved the transaction, including the cardholder. The number of errors identified for procurement card transactions in 2013 has decreased by 40% after having implemented this procedure.

- Since July 2013, the University changed the retention policy for Procurement and Travel transactions. All original receipts must be maintained in the originating department until the transaction has been reviewed by Accounts Payable and posted to the General Ledger.

- Since July 2013, all procurement card purchases require a written business purpose for the purchase. The business purpose is provided on the transaction for review by the employees who are assigned to approve the transaction.

- Since July 2013, best practices for Procurement Card purchases were issued to cardholders. The communication stated that procurement card holders should utilize preferred and contracted suppliers, should not share procurement cards and reiterated that personal use may result in card revocation and discipline, up to and including termination.

- UI Travel policy requires documentation, including proof of payment, for the primary travel expenses: airfare, hotel, rental car, registration, etc. Documentation for miscellaneous expenses, such as taxi, meals, tolls, etc., under $75 is not required. This policy directly reflects the current IRS policy.

<u>Conclusion</u> – Response acknowledged. While best practices provide a framework on which to build policy and procedures, they are not required to be followed by employees. UIHC and the University should use the best practice guides to develop policies and procedures to ensure the best practices are consistently applied throughout UIHC and the University. Policy and procedures will be reviewed during subsequent audits.

(D)   <u>Travel Costs</u> – During our review of disbursements of Department funds, we identified concerns with the supporting documentation associated with travel, including:

- Registration receipts and materials for training events, such as an agenda or other conference materials, were not included to support amounts paid.

- Documentation submitted by employees was not adequately reviewed by supervisory staff. This allowed personal charges and unallowable charges to not be identified by supervisory staff prior to being reviewed and identified by Accounts Payable staff.

<u>Recommendation</u> – UIHC and University officials should implement policies which ensure travel vouchers are thoroughly reviewed and the related costs are appropriate. Specifically, the following items should be addressed:

- Documentation submitted with travel vouchers should clearly document the costs incurred and provide proof of payment.

- Registration receipts and materials from training events, such as an agenda or other conference materials, should be submitted with the travel vouchers to support the amounts paid.

- Actual documentation (not scanned images) should be thoroughly reviewed by the employee's supervisor. The review process should be critical and skeptical in nature – trust, but verify. The supervisor and Accounts Payable staff who review all travel vouchers should ensure the dates of travel match the documentation submitted for the conferences attended. In addition, the supervisor and Accounts Payable staff should be watchful for excessive and unnecessary costs.

- University officials should implement a policy which requires each individual traveling to pay their own travel expenses and request reimbursement on their own travel voucher. For payments made for multiple staff members with a PCard, proper supporting documentation should be required. The payment should not be split up and placed on multiple vouchers.

<u>Response</u> – Subsequent to the Orthopedics audit, in July 2013, the University Travel policy was modified as follows:

1. Travel expense approvers responsibilities are clarified

2. Original receipts must be retained by the department until the TEV has been approved by the Travel Department AND posted to the General Ledger.

3. Lodging reimbursement is limited to the actual/reasonable cost for a standard room. The citation of 200% of federal travel directory per diem was eliminated from the policy.

4. Conference site hotel documentation must be provided with request for reimbursement.

5. Registration or meeting agenda must be provided at the time of reimbursement documenting which meals are included.

6. Meals included in the registration for a conference/meeting should not be claimed for reimbursement without specific justification for the exception.

7. Travel expense approval by the traveler and signatory authorization of their supervisor, department head, dean or their delegate.

In November of 2012, Accounts Payable staff implemented additional review of travel expenses. Excessive and unusual expenses are questioned and documented with additional business justification when allowed.

It is often necessary and efficient for travelers to pay for the travel expenses of other travelers. The person initially paying the expense should always claim the expense. The UI ProTrav system allows the traveler to split the transaction between travelers and the expense is recorded on the travel record of the other employee. In May 2013, the travel system was enhanced to send an email acknowledgement to any employee for whom an expense was being claimed on their behalf by another traveler. If the traveler denies the expense was paid on their behalf, the expense will not be reimbursed.

Conclusion – Response acknowledged. UIHC and the University should require original supporting documentation be retained until the completion of the fiscal year's audit. An important aspect of internal controls is the comparison of the scanned document to the original document in order to detect any alterations of the scanned image.

(E) Food Purchases – University policy allows the purchase of food for training, meetings and other events. University policies require written justification documenting a clear University purpose be included and explain why food and beverages were required at a meeting if it is not evident by the nature of the event.

We identified food was routinely purchased with UIHC and Foundation funds. According to staff we spoke with, food was purchased for meetings with staff, Residents and other department personal. In some cases, food was purchased daily and weekly. The supporting documentation was not always specific as to the reason food and beverages were purchased and did not allow an individual not familiar with the Department's operations to determine the propriety of the transaction.

Recommendation – UIHC and University officials should implement policies which ensure the purpose for the purchase of food and beverages are clearly documented so the propriety of the transactions can be determined by an individual not familiar with the Department's operations and the purchase was necessary and reasonable for the operations of the Department. The University should ensure the cost per person and a list of who attends each meeting is maintained to support the meals are de minimis in nature.

Response – The University agrees with the recommendation and updated the University voucher system to require this information for all food purchases.

Current University policy requires a written justification documenting a clear University purpose for incurring the expense. The justification should include an explanation of why food or beverages was required at the meeting if it is not evident by the nature of the event. In addition, it requires the cost per person and list of attendees to be included. In clinical departments, food is often provided for recurring lunch-hour conferences as a way to facilitate attendance. The physicians (faculty and residents) are very busy with patient care and would not have time to attend important

departmental conferences (e.g. Grand Rounds, M&M, or department-wide faculty conferences) and also get lunch. University rules governing per person cost limits are applied in all cases.

Conclusion – Response accepted. Changes to policies and procedures will be reviewed during subsequent audits.

(F) Cell Phone Allowance – University policy permits "a monthly allowance that is based on the approximate proportion of the service that is used for business purposes, not to exceed the actual monthly service cost incurred by the employee for the communication device or remote internet service." According to a University official we spoke with, the amount reimbursed to employees is not to exceed what is paid for a single line of service. Multiple lines of cell phone service are not eligible for the allowance.

In order to receive the cell phone allowance, employees had to submit only a copy of a single bill from the provider of cell phone service. An original invoice was not required. The monthly invoice submitted was used to determine the monthly allowance for the entire year and employees were allowed to choose which monthly bill to submit. University policy does not require submitting a bill from the month at the beginning of the period covered by the allowance. As a result, significant changes in calling plans were not adjusted for in a timely manner.

We reviewed the cell phone allowance payments provided to the Department's staff and determined several payments were not adequately supported and reasons for approving exceptions to the policy were not documented.

When the reimbursement policy was established, it was not common for individuals to carry cell phones as primary personal communication devices. However, the use of personal cell phones has become pervasive and it is now common for individuals of all ages and demographics (students, clerical staff, professional staff, etc.) to carry cell phones. In addition, a number of individuals have eliminated their home "land line" phone and rely solely on a cell phone.

Recommendation – The University should implement procedures which ensure all cell phone allowances are properly calculated based on authentic documentation. In addition, the documentation should be from a recent billing cycle and requests should be submitted in a timely manner. In addition, the University should consider whether it is necessary to reimburse employees for the cost of their personal cell phone.

Response – The University agrees with the recommendation. In October 2013, UIHC implemented a policy eliminating reimbursements of cell phone and internet charges, except for two limited exceptions related to shared-phone pools required for the conduct of business and phones required to meet the specific aims of a research protocol. The University is currently vetting a new technology allowance policy which would further restrict the reimbursement of cell phone and internet charges across the University, except in limited circumstances.

Conclusion – Response accepted. Changes to policies and procedures will be reviewed during subsequent audits.

(G) Warranties – UIHC discourages the purchase of extended warranties in most cases. When equipment is purchased through the IT Department, the IT Department requires justification for the purchase of an extended warranty. However, Departments purchase extended warranties when purchasing computers and other electronic equipment using a PCard. By allowing computer and other equipment to

be purchased using a PCard, UIHC staff can circumvent the policy and purchase extended warranties.

Recommendation – The University should implement procedures which prevent the purchase of extended warranties without proper authorization. If extended warranties are purchased, Departments should ensure the warranties are tracked for each piece of equipment.

Response – The purchase of extended warranties is at the discretion of the individual department and should be maintained by the department with the equipment. The number of computers purchased on PCards is less than 1% of total procurement and by extension so is the purchase of extended warranties.

Conclusion – Response acknowledged. UIHC and the University should provide specific policies on when an extended warranty should be purchased. The policy could include the expected life of the item purchased, the value of the item compared to the cost of the warranty and the cost of replacing the item. Purchases of computers or other items using a procurement card prevents UIHC and the University from recognizing cost savings by using the University contracts, does not allow UIHC and the University to track computer and other equipment, and does not allow management to determine if the purchase was in the best interest of UHIC and the University.

(H) Supporting Documentation – University policies require supporting documentation be scanned and attached to the voucher. We identified instances where supporting documentation was not attached to the voucher and additional explanations were provided by email without supporting documentation. As a result of the supporting documentation not being available, the reason for reimbursement or the purchase of equipment and supplies is not clear.

Recommendation – The University should implement procedures to ensure all disbursements are supported by appropriate documentation which contains sufficient information so the reviewer can determine the propriety of the purchase. The original documentation should be reviewed in a critical manner by a responsible party with no other purchasing responsibilities.

The University should also implement procedures to ensure all Departments maintain the original supporting documentation until an audit is completed for the period in which the purchase was made.

Response – Subsequent to the Orthopedics audit, additional communication regarding required documentation of transactions was provided during Accounts Payable review. All transactions are required to be supported by appropriate documentation. When questions arise, additional follow up and documentation is received for the transaction and documented in the transaction system.

University policy was updated to state that original supporting documentation must be retained by the department until the transaction has been approved by Accounts Payable and posting to the General Ledger. The University supports as a best practice retaining the electronic or scanned documentation as support of a transaction after posting to the General Ledger.

Conclusion - Response acknowledged. UIHC and the University should require original supporting documentation to be retained until the completion of the fiscal year audit. An important aspect of internal controls is the comparison of the scanned document to the original document in order to detect any alterations of the scanned image. While best practices provide a framework on which to build policy and procedures,

they are not required to be followed by employees. UIHC and the University should use the best practice guides to develop policies and procedures to ensure the best practices are consistently applied throughout UIHC and the University.

(I) Performance Pay – University policy allows employees to receive an Exceptional Performance Award or bonus up to a maximum of 10% of their base salary per year for above average performance evaluations. In addition the Department's practice plans allow staff covered by the practice plans to receive incentives or bonuses for reaching certain goals defined in the practice plan and/or individual contracts.

Because the performance bonuses, SPOT awards and incentives to Department staff are coded to the same object codes, it is difficult for Departments and other users of the system to determine the amounts paid as a result of these types of performance pay.

We identified an employee who received a performance award in fiscal years 2010, 2011, and 2012 based on a narrative prepared by his supervisor. The narrative contained very similar information on the individual's abilities as a grant writer. For each year, the information provided would be what is expected of an individual who writes, manages, and administers grants.

Recommendation – University and UIHC officials should consider recording performance pay types in separate object codes. By recording performance pay separately, Departments and other users may clearly identify the amounts paid for the different types of incentive pay and bonuses. In addition, it will allow Departments to provide oversight and track and budget for performance pay.

In addition, University officials should ensure Departments only award bonuses, when justified, for work "above and beyond" the employee's normal job duties. Documentation supporting the bonuses should clearly document the factors considered and how the amount awarded was determined.

Response – Subsequent to the Orthopaedics audit, University Human Resources reviewed exceptional performance requirements within each college and division to ensure the highest standards would be met going forward. In addition to departmental approval, each award is reviewed at both the college/division level and the central level to ensure that the rationale is sound and clearly documented, and award amounts appropriate. The Vice President for Human Resources has now, on an annual basis, addressed the importance of appropriate use of these awards with the campus-wide HR unit representatives. Going forward, University Human Resources will do additional campus education regarding the use of already existing pay codes that do distinguish different types of performance, incentive, and bonus pay. Since the Orthopaedic audit, 4 additional pay codes have been created or modified to help specify type of payment.

The UIHC has a flexible pay program, approved by the central UI and conforming to University policies that rewards for exceptional performance may include rewarding a variety of outcomes and behaviors (e.g., project completion, sustained above average performance and revenue generation, etc.). The policy does not require that the performance relate to efforts outside the normal duties of the individual's position. We will, however, redouble our efforts to insure that flexible pay awards are not simply a substitute for annual base salary increases.

Conclusion – Response accepted.

(J) <u>Rewards and Recognition</u> – The University Operation Manual allows Departments to develop Rewards and Recognition programs. The policies are developed to recognize staff and demonstrate appreciation of their efforts. Examples of some of the rewards and recognitions events include holiday parties, retreats, birthdays and other life events, retirement dinners and receptions, and appreciation lunches.

The University "Guide for Creating a Recognition Program" provides the items which must be addressed in a Rewards and Recognition program. One of the areas is business purpose. Under the guide, a business purpose is defined as "an effort that is of primary benefit to the University and its mission."

In reviewing the guide and the policies of the Departments, we identified the following:

- The guide provides little guidance in determining what constitutes a business purpose.

- The guide states, "An award should validate the magnitude of the event." This can lead to a wide ranging definition as to the magnitude of an event. For example, completing a project may be considered worthy of an award, while others may see the same project completion as part of the individual's job duties.

- The policies provide little guidance on cost limits. Some policies use the term "within reason" while others establish a limit of $75.00, which is the amount at which when the Payroll Department must be notified for tax purposes.

- The business purpose of providing a gift, food, or beverages for an employee's birthday is not clear.

- Polices are not clear if expenditures for a holiday party, staff appreciation event or other celebrations are open to all staff of the department, hospital, university or the public.

We question the use of UIHC and University funds to purchase gifts for employees to recognize events of a personal nature, such as birthdays, weddings, births, etc.

Expenditures for rewards and recognition should clearly and directly benefit the University and the UIHC to help support its efforts of providing quality education and medical services at the lowest possible cost to its students and patients.

<u>Recommendation</u> – The University should revisit its written policies and procedures governing rewards and recognition to ensure a clear benefit to UIHC and the University is documented, expenditures are necessary, prudent, and properly supported. The support should clearly document the benefit to UIHC and the University. UIHC and the University should reconsider policies allowing the use of funds for items of a personal nature, such as birthdays, weddings, births, etc. Events which are allowed per the policy should have established limits and the dollar amount allowed should be prudent and appropriate for the event or milestone.

<u>Response</u> – Subsequent to the Orthopaedics audit, the University revised its Rewards and Recognition policy in September 2013 and has presented the updated policy to constituents throughout the University. Presentations were given at UIHC's HR Unit Representative regular meetings, and HR has met with and guided several UI Medicine Leadership Groups on appropriate Rewards and Recognition. The new policy can be found in Chapter 38 of the UI Operations Manual. Reward and recognitions, properly done, are an important ingredient to retain and motivate employees for delivery of exemplary performance.

Items to note within the policy include:

- Awards for performance must be submitted through the HR Transaction system and follow University extra-meritorious performance rules.

- Annual gift certificate limitation of $100.

- Gift certificates should not be used to recognize employees' personal events such as births, weddings, birthdays, or holidays.

- More detailed recordkeeping is required.

- Appropriate funding sources should be utilized.

Conclusion – Response accepted.

Report on a Review of the
University of Iowa Hospitals and Clinics
Departments of Anesthesia, Internal Medicine,
Ophthalmology and Visual Sciences, Pediatrics, and Surgery

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