

**CENTER FOR COMMUNITY PARTNERSHIPS  
AUDIT OF PAYROLL PROCESSES**

**THE UNIVERSITY OF NEW MEXICO**

**Report 2006-02  
August 9, 2006**



The University of New Mexico

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# CONTENTS

|  |           |
|--|-----------|
| <b>EXECUTIVE SUMMARY .....</b>                           | <b>1</b>  |
| <b>INTRODUCTION.....</b>                                 | <b>3</b>  |
| BACKGROUND .....   | 3         |
| PURPOSE.....   | 3         |
| SCOPE .....  | 4         |
| <b>OBSERVATIONS, RECOMMENDATIONS AND RESPONSES .....</b> | <b>5</b>  |
| <b>SERVICE PROGRAMS.....</b>                             | <b>5</b>  |
| Medical Provider Agreements .....                        | 5         |
| Development of Payroll Procedures Manual .....           | 6         |
| Development of Medical Provider Manual.....              | 7         |
| Separation of Duties.....                                | 7         |
| Cross Training.....                                      | 9         |
| <b>PAYROLL ADMINISTRATION .....</b>                      | <b>9</b>  |
| Inaccurate Time Reporting .....                          | 9         |
| Deferred Salary – Timeliness of Payroll Time Sheets..... | 12        |
| Methods of Time Sheet Submission .....                   | 14        |
| Pre-signed Special Compensation Forms .....              | 15        |
| <b>DEPARTMENT POLICIES .....</b>                         | <b>16</b> |
| Travel Policy .....                                      | 16        |
| Departmental Purchase of Textbooks .....                 | 17        |
| Reserved Parking Spaces .....                            | 18        |
| Telecommunications and Cell Phones .....                 | 18        |
| Professional Leave .....                                 | 19        |
| <b>COMPENSATION FOR OUTSIDE WORK.....</b>                | <b>20</b> |
| <b>CONCLUSION .....</b>                                  | <b>22</b> |
| <b>APPROVALS .....</b>                                   | <b>22</b> |

## ABBREVIATIONS

|                          |  |
|--------------------------|--|
| CCP .....                | Center for Community Partnerships                  |
| Center .....             | Center for Community Partnerships                  |
| FCM .....                | Family and Community Medicine                      |
| HSC .....                | University of New Mexico Health Sciences Center    |
| Human Resources .....    | Department of Human Resources                      |
| Locum Tenens .....       | UNM Locum Tenens Program                           |
| LT .....                 | UNM Locum Tenens Program                           |
| PAN .....                | Personnel Action Notice                            |
| Payroll Department ..... | University Payroll Department                      |
| SES .....                | UNM Specialty Extension Services Program           |
| SOM .....                | School of Medicine                                 |
| Stark .....              | Stark Physician Self-Referral Law                  |
| UBP .....                | University Business Policies and Procedures Manual |
| University .....         | The University of New Mexico                       |
| UNM .....                | The University of New Mexico                       |

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## **EXECUTIVE SUMMARY**

The Assistant Dean for Administration at the School of Medicine (SOM) requested a review of certain anonymous allegations concerning travel expenses, textbook purchases, and use of reserved parking spaces at the Center for Community Partnerships (the Center), which reports to the Department of Family and Community Medicine. We expanded the scope of our audit to include a review of the Center's payroll processes. Our findings on the methodology for reporting time to the University Payroll Department (Payroll Department) indicated that illegal activity may have occurred, and we requested that University Counsel render an opinion pursuant to the Board of Regents policy on Internal Auditing. The Center should implement medical provider agreements, develop written procedures to document the payroll process, report actual hours worked, and strengthen control over department policies.

The following summary provides management with an overview of conditions requiring attention.

### **SERVICE PROGRAMS**

The Center should use employment agreements that govern the relationship between the medical providers and the Center. Management should enhance controls by developing procedure manuals, segregating payroll-processing procedures, and providing cross training for key positions. The Chair of the Department of Family and Community Medicine agrees with the findings and will implement the changes.

### **PAYROLL ADMINISTRATION**

The Center should enhance controls over payroll administration by limiting acceptable methods of reporting hours to the Payroll Department. The Center should also implement guidelines for timely submission of hours worked, reporting actual hours worked to the Payroll Department, and reconciliation of annual leave. The Chair of the Department of Family and Community Medicine responded that they will implement procedures that address payroll administration issues.

### **DEPARTMENT POLICIES**

The Center should develop stronger policies and implement tighter controls over international travel, purchase of textbooks, and use of parking spaces and cell phones. The Center should also clarify the policy on use of professional leave to perform assignments in the Locum Tenens program. The Chair of the Department of Family and Community Medicine responded that they will develop and implement the departmental policies.

## **COMPENSATION FOR OUTSIDE WORK**

The presidential leadership team should review the types of faculty activities resulting in honoraria or other compensation that is treated as outside the scope of regular faculty contracts. The presidential leadership team agrees and will conduct a review of policies and take necessary corrective action.

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## **INTRODUCTION**

### **BACKGROUND**

The Center is a division of the Department of Family and Community Medicine at The University of New Mexico (UNM) SOM. The Center's mission is to align and coordinate UNM SOM institutional resources to address medical needs within the state by working with communities and creating partnerships to improve the health of New Mexico's culturally diverse populations.

The Center is involved in a number of collaborative research projects and administers several community outreach programs. The Center's main service programs are the UNM Locum Tenens Program (Locum Tenens) and Specialty Extension Services (SES). Locum Tenens provides primary care practice relief emphasizing rural and medically underserved areas in New Mexico. The program provides primary care physicians with practice relief allowing for continuing education, vacation, illness, or assistance while recruiting for the practice. The program exposes upper level primary care residents and recent graduates to medical practices that are recruiting for primary care physicians. Practice sites are usually billed a per diem rate for Locum Tenens coverage based on a sliding scale which prioritizes rural and medically underserved practices. There are additional charges for hospital coverage, and weekend and night call availability.

SES provides practice relief and regular outreach clinics with emphasis on the medical specialty needs of New Mexico's rural communities. The goal of SES is to help meet the needs of New Mexico's widely dispersed citizens and health care professionals. The program provides practice relief to New Mexico's specialty physicians and providers allowing them to meet personal needs such as vacation, sick leave, and continuing education. The SES program helps expand the scope of practice of existing health professionals in local communities, and provides small communities with access to certain specialty services based on their requests and needs. The program assists in recruiting scarce physician specialists into areas of need across the state, coordinates outreach clinics provided by UNM physicians, and expands and diversifies the patient base for UNM faculty, students and resident trainees. Practice sites and clinics are billed at various rates depending on the specialty involved and the location of the practice.

### **PURPOSE**

The purpose of our audit was to investigate anonymous complaints of noncompliance with various department policies, to review the payroll processing function of the Center to determine whether adequate policies and procedures are in place, and to assess whether the department is compliant with these policies and procedures.

## **SCOPE**

Our audit was limited to a review of the payroll processing procedures at the Center for Community Partnerships, and certain other issues brought to our attention through anonymous complaints. The fieldwork was completed on May 18, 2006. Our audit procedures included analyzing the payroll procedures currently in use and assessing the adequacy of documentation of those procedures.

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## **OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

### **SERVICE PROGRAMS**

#### **Medical Provider Agreements**

Medical providers for Locum Tenens and SES are operating without the benefit of a formal written agreement. In most cases, they are providing services through a verbal understanding of the relationship between the Center and the medical provider. Certain terms of the arrangement, such as assignment of work and method of payment are outlined in department manuals; however, the documents are incomplete and there is no indication that there is a mutual agreement to the terms.

Prudent practice and the Stark Physician Self-Referral law (Stark) requires that the Center have written agreements with medical providers. Stark prohibits physicians from referring Medicare and Medicaid patients to entities in which they have a financial interest. Stark provides an exception for a bona fide employment relationship as long as the services are provided at fair market value and the arrangement is documented in a written contract. The contract should document the responsibilities of each party, the nature of work assignments, the process for requesting time off, responsibility for timely submission of hours worked, pay rates and compensation formulas, and any other relevant terms and conditions of employment as mandated by Stark.

Formal contracts between the Center and the medical providers are preventive controls that set forth the general terms of employment with the Center. Documented agreements, while not addressing every possible employment scenario, can prevent misunderstanding of the rights and responsibilities of each of the parties to the employment relationship and would ensure compliance with Stark and mitigate damages for both the Center and the medical providers.

#### **Recommendation 1**

We recommend that the Center work with University Counsel, the University of New Mexico Health Sciences Center (HSC) Compliance Office, and the Department of Human Resources (Human Resources) to document the arrangement between the Center and the medical providers through a standard work agreement signed by the provider and the Director of the Center.

#### **Response from the Chair of the Department of Family and Community Medicine**

***Agreement with the Audit Finding: Yes***

#### ***Corrective Action Taken (Date of Corrective Action):***

*The Family & Community Medicine (FCM) Department Manager of Business Development and Operations and the Department's Director of the Center for Community Partnerships (CCP) and Vice Chair of Service met with University of New Mexico Health Sciences Center Legal Counsel.*



*A draft “Acknowledgement of Pay Rate for UNM Locum Tenens and Specialty Extension Services Providers” is being reviewed by UNM HSC Legal Counsel. HSC Human Resources Consultant will then review and approve the document.*

***Date of Corrective Action:** LT and SES Programs started using the draft form 7/1/06 for all clinical providers. The clinical providers will sign the form each year. Once a final agreement form is approved by HSC Legal Counsel and HSC Human Resources, that form will be utilized.*

*Locum Tenens (LT) and Specialty Extension Service (SES) clinical providers include School of Medicine (SOM) faculty, resident trainees, and recent graduates in the category of on-call staff providers. Faculty and residents have contractual agreements through the UNM SOM. On-call staff providers have clinical appointments through the appropriate clinical department, with completed Personnel Action Notices (PAN). UNM Health Sciences Center (HSC) Legal Counsel, UNM HSC Contracting and the CCP review and approve contract boilerplates for each customer site. Fair market value is determined using established benchmarks, after review by HSC Legal Counsel, HSC Contracting, CCP, the appropriate SOM clinical department chair, and the Department of FCM.*

### **Development of Payroll Procedures Manual**

A comprehensive payroll manual is essential to efficient management and operation of program services at the Center. Locum Tenens and SES, although independent of each other, have significant similarities in operations and payroll processing. Having the same payroll procedures for both operations will provide consistency and increased efficiency in payroll functions.

Both operations have begun drafting payroll procedures, however, the procedures are not complete and assembled into a comprehensive manual that documents the payroll procedures or the payment process for the Center as a whole.

### **Recommendation 2**

We recommend the Center assemble into a single document comprehensive procedures for payroll processing at Locum Tenens and SES.

### **Response from the Chair of the Department of Family and Community Medicine**

***Agreement with the Audit Finding: Yes***

***Corrective Action Taken (Date of Corrective Action):** The Department FCM will assemble a single comprehensive payroll procedures document for the LT and SES Programs.*

***Date of Corrective Action:** August 31<sup>st</sup>, 2006*

### **Development of Medical Provider Manual**

In addition to a payroll procedure manual, the Center should develop a medical provider manual containing information about the operation of each program. The provider manual should set forth departmental policies with regard to the relationship between the Center and providers, methods of compensation, policies on annual, sick and professional leave, request for time off, responsibility for maintaining and timely submitting hours worked, pay rates and compensation formulas, and any other relevant operational information.

### **Recommendation 3**

We recommend that the Center develop a medical provider manual that contains information useful to providers and employees serving the Center.

### **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM will develop a medical provider manual with useful information for providers and employees service the CCP.*

*Date of Corrective Action: August 31<sup>st</sup>, 2006*

### **Separation of Duties**

Sound internal control practices include separating duties within the payroll process so that certain functions are not under the control of a single person. The Program Director of SES performs all functions related to payroll processing, including medical provider assignments, data entry for invoicing hospitals, preparing journal vouchers for funds transfers, reconciliation of individual time sheets for providers, and preparation of reports to the Payroll Department. In addition, the Program Director has input into the hiring process for medical providers.

### **Recommendation 4**

We recommend that the Center strengthen internal controls over payroll processing by separating the duties in the payroll function at SES.

## **Response from the Chair of the Department of Family and Community Medicine**

### ***Agreement with the Audit Finding: Yes***

***Corrective Action Taken (Date of Corrective Action):*** *The Department FCM and CCP have strengthened internal controls over payroll processing by separating the duties in the payroll function at SES. These functions will be managed by a CCP Accountant.*

*The CCP drafted, obtained approval and posted a CCP Accountant II position in 11/05. The position was filled in late January 2006, with the plan to separate the invoicing function of the LT and SES Programs and assign it to this position. Unfortunately, the Accountant resigned the position in May due to personal reasons and moved out of state. The position was re-posted in May. Because the initial pool was not experienced enough, the position was recently re-posted at a higher grade level (Accountant III).*

*The Department FCM Manager of Business Development and Operations, the Department's Director of the Center for Community Partnerships (CCP) and Vice Chair of Service, LT Program Coordinator, SES Program Director met with the Manager, Fiscal Services Accounting and the Accounts Receivable Coordinator to define and delineate the invoicing, receipting, aged accounts reporting, and Banner data entry process. In addition, the Department FCM and CCP hired an analyst programmer through the HSC Library to develop, implement and maintain a LT and SES database to automate and make consistent certain processes – such as web based submission of clinical provider Time Reports to certify dates and hours worked in customer sites. In January of 2006, the LT Program implemented this system – currently over 95% of the providers submit and certify their Time Reports through the web-based system. The remaining providers write it on a hard copy of the form, sign the form, and submit it via fax or by dropping it off in the LT Office. This data is used to key enter the hours data into the Banner system for Invoicing customer sites by Fiscal Services. The Time Report data is also used to process payroll for the LT providers. These modifications and processes will be included in the Payroll Procedures Manual referenced in Recommendation 2.*

*After successfully piloting this process in the LT Program, the SES database was implemented on 6/12/06. Like the LT pilot, several modifications had to be made to the database in the initial two weeks. SES Providers will submit Time Reports through the web based system starting 7/1/06.*

***Date of Corrective Action:*** *Assign Payroll and Invoicing functions to CCP Accounting Manager. Begin SES provider submission of Time Reports July 1<sup>st</sup>, 2006. By August 31<sup>st</sup>, 2006 all (100%) Time Reports will be submitted through the web based system in LT and SES. The Locum Tenens Program Coordinator began preparing and submitting Payroll on 7/7/06. Hourly pay rates above a certain amount are being rejected by the Payroll system, and have to be*

*processed using the old methodology to pay providers in a timely manner. CCP, FCM, Payroll, HSC Management, and Human Resources will work to resolve those problems.*

### **Cross Training**

Payroll processing, work assignment, and the account invoicing functions at SES are all performed by the Program Director. The concentration of these duties into a single individual exposes the department to risk of disruption in the event of turnover or prolonged absence in the Program Director position. Other positions within the Center also require cross training. For example, we found that upon turnover of key positions at Locum Tenens, replacement personnel were not provided with training and system access required to perform client invoicing. Due consideration of the cross training aspect of disaster recovery and contingency planning will reduce the Center's risk of business interruption, costly training, and inefficient use of departmental resources should there be sudden or excessive turnover in key positions.

### **Recommendation 5**

We recommend that the Center provide adequate cross training for Locum Tenens and SES payroll processes to ensure proper knowledge and technical skill is available in-house.

### **Response from the Chair of the Department of Family and Community Medicine**

***Agreement with the Audit Finding: Yes***

***Corrective Action Taken (Date of Corrective Action):*** *The Department FCM will provide cross training for LT and SES payroll processes to ensure proper knowledge and technical skill is available with the CCP and Department FCM. As explained in the Response to Recommendation 4, a CCP Accounting Manager III will provide additional help, and assist with cross training.*

***Date of Corrective Action:*** *September 30<sup>th</sup>, 2006*

## **PAYROLL ADMINISTRATION**

### **Inaccurate Time Reporting**

Time reports prepared by the Center and submitted to the Payroll Department do not reflect actual hours worked by medical providers. Actual hours are routinely adjusted on time reports to derive the compensation set by the Center for the services provided.

A Personnel Action Notice (PAN) is prepared at the Center for each medical provider and submitted to Human Resources for approval. Human Resources inputs the PAN with a standard

pay rate into the Human Resources system and the Payroll Department uses this rate when calculating payroll payments to the medical provider. The actual rate paid to the provider can vary depending on the location of the hospital, the hospital contract, the type of service or specialty provided, the certification of the provider, or position at the University held by the provider. The Center's payroll personnel adjust the hours reported by the doctors in order to back into the Center's rate paid to the provider. As a result, the actual pay rates are established by the Center through a process that does not include Human Resources.

The time reports sent to the Payroll Department do not reflect what is actually occurring; the hours reported to the Payroll Department are not actual hours worked and the pay rate listed on the time reports differ from the rate the provider actually receives. For example, the PAN may indicate the provider is earning \$60.00 per hour when the actual rate paid to the provider is \$105.00 per hour, which is the fair value of the services as determined by reference to industry guides. The Director informed us the Center had previously consulted with Human Resources on the practice of adjusting hours which resulted in the procedures where reporting hours are not accurate.

Board of Regents Policy on Internal Auditing, 7.2 states, "If the investigation reveals possible fraudulent activity has occurred, Internal Audit will ask University Counsel to render an opinion as to whether the audit findings indicate that illegal activity may have occurred." When Internal Audit requested an opinion from University Counsel regarding inaccurate time reporting, University Counsel responded that illegal activities may have occurred.

### **Recommendation 6**

We recommend that the Center work with HSC management and Human Resources to develop alternatives to the practice of misreporting hours to the Payroll Department. This should include approval of rate changes by Human Resources.

### **Response from the Chair of the Department of Family and Community Medicine**

***Agreement with the Audit Finding: Partial Agreement with the Audit Finding which Requires Expansion of Recommendation 6 (see explanation, and Corrective Action #4)***

***Explanation:*** While the amount paid to providers accurately reflects provider work effort, the method of reporting hours originally devised by Human Resources and Payroll many years ago meant that the Time Reports reflected on the Payroll forms did not reflect actual hours worked. The pay rate was at \$50 per hour, and a formula used to come up with the number of hours to achieve the appropriate pay amount.

*Internal Audit informed the CCP Director of this issue in the Fall of 2005. The Director was not aware that the Time Reports submitted by providers were then modified, and a formula used to*

pay the appropriate rate off of a \$50 increment. Since being notified of that practice, the LT and SES Program Managers indicated that this is what they had been told to do by Payroll to get the clinical providers paid the appropriate rate.

In response to suggestions made by Internal Audit and HSC Legal Counsel, a table was created for what customer sites are charged, what providers are paid, with columns showing how fair market value is determined using standard national benchmarks for each specialty. All current customer site contracts were reviewed and summarized in a table. The Department FCM will assemble a single comprehensive payroll procedures document for the LT and SES Programs as discussed in the Response to Recommendation 2. In Response to Recommendation 3, providers will sign an Acknowledgement of Pay Rate for UNM Locum Tenens and Specialty Extension Services Providers each year.

**Corrective Actions Taken (Date of Corrective Action):**

1. Piloted web based submission of Time Reports by providers 1/06 in LT Program. Now over 95% of these Time Reports are submitted electronically. SES will begin web based submission of Time Reports by providers 7/1/06. All providers will submit web based Time Reports by 8/31/06.
2. Piloted using Time Report hours in new Payroll process. This was implemented 1/06. The Time Reports now reflect the hours worked and the pay rate on the same form. This eliminated the formula previously required by Payroll and simplified the process for LT and SES staff. SES has gone through three Payroll process cycles piloting this format – Payroll denied payment for several providers unless the previous methodology was used. This information was relayed to University Counsel to assist CCP working with Payroll and Human Resources to implement the new system, which more clearly reflects the hours worked and the pay rate for those hours. This will be fully implemented 7/31/06.
3. Providers will sign an “**Acknowledgement of Pay Rate for UNM Locum Tenens and Specialty Extension Services Providers**” starting 7/1/06 for all clinical providers. The clinical providers will sign the form each year. Once a final agreement form is approved by HSC Legal Counsel and HSC Human Resources, that form will be utilized.
4. A meeting was held on July 10, 2006 with the Chair of FCM, the Assistant Dean of Administration, the Manager of HSC Human Resources, the CCP Health Services Outreach Officer and the FCM Manager of Business Development and Operations to review the steps taken by CCP, Human Resources and Payroll to accurately enter hours worked and pay rates into the Time Reports. All the individuals attending this meeting agreed that the new method for accurately entering hours worked and pay rates would adequately address the relevant problem identified by Internal Audit.
5. Because the previous method of time reporting was a product of discussions between CCP, Human Resources and Payroll we request Internal Audit expand its recommendation to include that a higher administrative authority ensure Human Resources and Payroll comply with this important recommendation.

***Date of Corrective Action:** July 1<sup>st</sup>, 2006 Begin LT and SES Submit Electronic Time Reports; by 8/31/06 All Providers Will Submit Electronic Time Reports; 8/31/06 Work with Payroll, Human Resources, HSC Management to Modify Payroll Submission Process.*

### **Deferred Salary – Timeliness of Payroll Time Sheets**

Section 2. “Time Reporting for Biweekly Payrolls” Policy 2610, University Business Policies and Procedures Manual (UBP) states:

In order for hourly employees to be paid on a biweekly payroll, the department must report the time worked to either the University Payroll Office (staff employees) or the University Student Employment Office (student employees) in a timely manner. Time Reports are due into these offices by noon on Monday following the close of the biweekly work period.

Under federal tax law circumvention of the payroll system with the purpose of deferring salary is prohibited. IRS Reg. §1.451-2(a) states:

Income although not actually reduced to a taxpayers possession is constructively received by him in the taxable year during which it is credited to his account, set apart for him, or otherwise made available so that he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had been given.

An employee requested that Center personnel delay submitting hours worked, and the Center’s personnel honored this request effectively deferring the salary earned to a subsequent tax year. Under IRS regulations, the employee is in constructive receipt of the salary earned, and the practice of delaying receipt of earned wages does not defer taxable income to a later tax year.

Because there are no written guidelines and standard payroll processing procedures at the Center, employees are able to decide when and how to turn in time sheets. We recommended that the Payroll Department issue corrected Forms W-2 reporting the employee’s wages in the proper tax year. The Payroll Department adjusted the employee’s records for the years affected and issued corrected Forms W-2 to the employee; however, the process is not complete because the employee has not picked up the corrected Forms W-2 and signed for receipt of refunded FICA taxes that were over withheld.

### **Recommendation 7**

We recommend the Center work with the Payroll Department to develop clear and enforceable guidelines for timely submitting hours worked, and the Center counsel employees on proper practice for submitting time sheets.

## **Response from the Chair of the Department of Family and Community Medicine**

### ***Agreement with the Audit Finding: Yes***

***Corrective Action Taken (Date of Corrective Action):*** *The Department FCM developed a clear and enforceable guideline for submitting hours worked. The CCP counseled employees on proper practice for submitting time sheets. The web based submission of Time Reports instructs providers to submit the reports within five (5) working days.*

***Date of Corrective Action:*** *Implemented*

## **Recommendation 8**

We recommend that the Payroll Department make proper corrections to the affected employee's Forms W-2 and follow up on delivery of corrected Forms W-2 to the employee.

## **Response from the Associate Vice President of Financial Services**

*In February 2006, Payroll received supporting documentation from Internal Audit and reviewed it to determine what time reports and tax years were involved due to the delayed submission of time reports by UNM Locum Tenens Department. It was discovered that a 2004 time report had also been delayed until the 2005 tax year. Payroll contacted the Locum Tenens Department and requested copies of the departmental time reports for the December 2004 time that they delayed in submitting for payment until January 2005.*

*By March all the documentation was assembled and the W-2c's were generated to reflect the corrections to 2004 and 2005 W-2's per UNM Internal Audit's findings. In doing this, it was determined that a refund of FICA withheld on 2004 earnings paid in 2005 and corrected back to 2004 resulted in a FICA refund due to the employee as the FICA gross (\$87,900) and FICA withholding (\$5,449.80) maximums for 2004 had been reached. FICA withheld on 2005 earnings paid in 2006 and corrected back to 2005 resulted in a FICA refund due to the employee, as the FICA gross (\$90,000) and FICA withholding (\$5,580) maximums for 2005 had been reached.*

*The employee picked up his FICA refund check and his copies of his W-2c's in June. In preparing a response to the UNM Internal Audit preliminary report, it has been discovered that a new, potential issue could occur for 2006 W-2 reporting purposes. The employee has not had any earnings in the current tax year, 2006 to report the federal and state income taxes withheld in 2006 on the 2005 earnings that had been corrected back to 2005. Per IRS W-2c Instructions, Box 2, Federal Income Tax Withheld may not be corrected if it reflects the amount actually withheld. Therefore, as the taxes were withheld in the current year, the federal and state income taxes withheld do not have any associated earnings to report on a 2006 W-2. At the time the corrections occurred, this was not an issue as the employee had, and continues to have, an active*



*assignment, through 01-12-07. However, Payroll reviewed the employee's current year earnings and discovered that no time has been submitted for 2006 work and therefore contacted the Locum Tenens Department on June 30, 2006 to inquire as to whether or not the employee would be working for Locum Tenens in 2006. The Locum Tenens Department indicated that while the employee has not officially separated from The University of New Mexico, they do not anticipate additional hours to be submitted by the employee.*

*A determination must be made on how the federal and state income taxes withheld in 2006 should be reported, should the employee not have any earnings in the current year. Payroll contacted Internal Audit about this latest development and was advised to consult the Internal Revenue Service on how this should be reported on the employee's W2.*

*A decision by the Controller's Office has been made that if the employee has no earnings in 2006, that the federal and state income taxes withheld will be refunded to the employee since Payroll can not issue a W2 with zero earnings and federal and state income taxes withheld.*

### **Methods of Time Sheet Submission**

The Center allowed employees to use at least five different methods to submit hours worked for payroll processing. The process for reporting time should be consistent, accurate, reliable, and timely as required by UNM Policy.

Section 2. "Time Reporting for Biweekly Payrolls" Policy 2610, UBP states:

In order for hourly employees to be paid on a biweekly payroll, the department must report the time worked to either the University Payroll Office (staff employees) or the University Student Employment Office (student employees) in a timely manner. Time Reports are due into these offices by noon on Monday following the close of the biweekly work period.

Historically, the Center has accommodated medical providers with flexibility in submitting hours by allowing several different methods to report hours. Medical providers submitted hours to the department using e-mail, fax, live phone-in, voice mail, or hand-delivered timesheets.

Consequently, there was inconsistency and delay, leading to increased time and effort in order to accurately process payroll.

To correct this situation, the Center has developed a web-based timesheet and requires time to be submitted over the Internet using the new time sheet report. A signed fax of the timesheet report will be accepted in the event a medical provider is unable to submit a timesheet over the Internet. Although the Center has developed a time submission policy, they have not yet incorporated the policy into a written payroll procedures manual.

## **Recommendation 9**

We recommend that the Center document its policy for time sheet reporting in the payroll procedures manual.

### **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM will document its policy for time sheet reporting in the payroll procedures manual. As indicated in Response to Recommendation 2, this manual will be completed by 8/31/06.*

*Date of Corrective Action: August 31<sup>st</sup>, 2006*

### **Pre-signed Special Compensation Forms**

The Center uses several different methods for paying medical providers, which depending on the relationship of the provider to the University may include regular bi-weekly payroll, a purchase requisition, or a special compensation form. The payment process for special compensation forms requires several levels of approval including signature approval by the primary department Chairperson or supervisor, the Dean, Department Director, Director of Graduate Medical Education, and the HSC Controller.

The entire process takes approximately four to five weeks from the date the providers submits hours worked to the Center until final payment. The Center had medical providers sign blank special compensation forms in order to expedite the process and to make it convenient for the medical providers who perform services away from the Center. That this practice is documented in the Locum Tenens Provider Manual indicates a lack of awareness of internal controls in the department. A signature attests to the facts and data contained on the form, and signing before establishing the facts renders the form invalid. This practice also creates an environment where taking short cuts which circumvent controls is acceptable.

We were informed that other departments within the School of Medicine also use pre-signed special compensation forms to expedite payroll processing for deferred compensation.

## **Recommendation 10**

We recommend that the Center discontinue the practice of having medical providers sign blank special compensation forms, and work with the medical providers to develop other means to expedite the process.

## **Response from the Chair of the Department of Family and Community Medicine**

***Agreement with the Audit Finding: Yes***

***Corrective Action Taken (Date of Corrective Action): (Implemented)*** *The Department FCM and the CCP have discontinued the practice of having medical providers sign blank special compensation forms. LT and SES staff have been educated about this policy. LT and SES staff will work with medical providers to expedite the process.*

***Date of Corrective Action: Implemented***

### **Recommendation 11**

We recommend that the Office of the Dean of the School of Medicine notify the departments to stop using pre-signed special compensation forms.

## **Response from the Office of the Dean of the School of Medicine**

*The Dean's Office will communicate with all departments in the School of Medicine to remind the leadership that they should NOT ask faculty or staff to pre-sign special compensation forms.*

***Date of Corrective Action: July 14, 2006***

## **DEPARTMENT POLICIES**

### **Travel Policy**

There are two main categories of travel at the Center. First, there is routine, recurring travel predominantly within the State of New Mexico by physicians providing service in rural areas of the State. The other type of travel is international travel.

The Center is involved with an international healthcare professional organization called The Network, which focuses on developing models to provide medical care to rural areas throughout the world. The missions of the Network and the Center for Community Partnerships complement each other and the Center uses its involvement with the Network to develop models for delivering medical care to rural areas of New Mexico. The Center has numerous employees who attended the 2005 annual conference held in Saigon, Vietnam.

Section 4.2. "Travel" Policy 4030, UBP states:

Faculty and staff traveling on international business should receive the prior approval of their dean, director, department head, or PI. In the case of a dean,

director, department head, or PI, the approval must be made by the person who is in a position of authority over the traveler. Where the traveler has continuing business overseas, such approval may cover multiple trips.

The Center follows the UBP travel policy for international travel; however, the Center has not established an approved international travel policy that covers the unique circumstances arising from involvement with the Network. Management has created a draft policy for discussion at the Family and Community Medicine Vice Chair meeting where the draft policy will be discussed, modified, and approved by the Vice Chairs.

### **Recommendation 12**

We recommend that the department expedite the approval of the international travel policy so it can be applied to the Center and its involvement with the Network.

### **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM has reviewed and finalized its Departmental international travel policy. The policy was distributed to the Center and Department staff and faculty.*

*Date of Corrective Action: Implemented*

### **Departmental Purchase of Textbooks**

Anonymous complaints alleged that the Center's policy of paying for employee textbooks was inconsistently applied. The Center's policy was to pay for employees' textbooks provided the books ultimately benefited the department and were available as a departmental resource. The Director told us that the policy applied to everyone in the department; however, the department purchased textbooks for only one employee creating the perception of favoritism. The department no longer purchases textbooks for employees but has not written the new practice into policy.

### **Recommendation 13**

We recommend that the Center draft a clear policy on departmental purchase of textbooks and incorporate the policy in the department's business policies and procedures manual.

## **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM and the CCP will draft and implement a clear policy on departmental purchase of textbooks and incorporate the policy into the Department's business policies and procedures manual.*

*Date of Corrective Action: 8/31/06*

### **Reserved Parking Spaces**

We investigated anonymous allegations regarding the improper use of a reserved parking space. The Director told us that the department had purchased a reserved parking space for the stated purpose of convenience for visitors to the department, and any employee who was in and out of the office on a regular basis. A single employee was using the reserved space, which led to the perception the space was purchased for the convenience of that employee. The Center did not renew the reserved parking space.

### **Recommendation 14**

We recommend that the Center prohibit employees from using reserved spaces, and that each employee be responsible for his own personal parking arrangements.

## **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM and the CCP discontinued having reserved spaces. Employees are responsible for their own parking arrangements.*

*Date of Corrective Action: Implemented*

### **Telecommunications and Cell Phones**

Proper stewardship over telecommunications account and cell phones use is a sound business practice. Regular review of telecommunication bills results in early detection of errors and savings to the department.

Two telephone lines were double billed to the Center by the Telecommunications Department, and the Center is paying for a cell phone only used on a minimal basis.

### **Recommendation 15**

We recommend the Center contact the Telecommunications Department to correct double billing of telephone lines and ensure that any over billing is credited to the Center's account.

### **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM and the CCP have contacted the Telecommunications Department to correct double billing of telephone lines and ensured that any over billing was credited to the CCP account.*

*Date of Corrective Action: Implemented*

### **Recommendation 16**

We recommend the Center evaluate cell phone usage and determine if more cost effective plans are available.

### **Response from the Chair of the Department of Family and Community Medicine**

*Agreement with the Audit Finding: Yes*

*Corrective Action Taken (Date of Corrective Action): The Department FCM and the CCP have evaluated cell phone usage to determine the most cost effective plan.*

*Date of Corrective Action: Implemented*

### **Professional Leave**

The SOM policy on professional leave went into effect October 1, 2004, and granted faculty up to twelve work days of paid leave to pursue professional activities provided the time off is beneficial to both the individual and the institution and is pre-approved in writing. The SOM policy on professional leave states:

Professional leave should be utilized for academic pursuits including, but not limited to: lecturing offsite; pursuing collaborative research activities – including those that have been written into institutionally approved, extramurally funded grants and contracts; attending national/regional scientific, professional, or committee meetings; serving as a board examiner or member of a study section or other review group. It may also include activities that are pursued to maintain or

update skills and knowledge base in a faculty member's given field(s) by attending accredited Continuing Medical Education or other professional activities.

The Department of Family and Community Medicine policy states:

Activities that require the individual to request Annual Leave . . . include, but are not limited to:

- Speaking engagements that are compensated with an honorarium
- Consultations that are compensated with a fee or honorarium
- Locum Tenens activities

We found instances where faculty used professional leave while working on Locum Tenens assignments, a violation of the above policy: faculty receive their regular salary while on professional leave. Using professional leave for Locum Tenens assignment results in faculty being paid twice for the same time. We discussed this with the SOM Executive Dean who assured us that annual leave balances have been adjusted for faculty who worked at Locum Tenens while on professional leave.

### **Recommendation 17**

We recommend the Office of the Dean of the School of Medicine work with the Center to clarify the proper use of the professional leave within the departments.

### **Response from the Office of the Dean of the School of Medicine**

*The Senior Associate Dean for Academic Affairs will meet with the Director of CCP to review the professional leave policy for the School of Medicine.*

***Date of Corrective Action:** This meeting will take place by August 15, 2006.*

## **COMPENSATION FOR OUTSIDE WORK**

The University has conflicting and confusing policies regarding when faculty can be paid for outside employment while on an employment contract with UNM. In addition to salaries under faculty contracts, members of the faculty often receive compensation from third parties for outside professional activities. The following is a summary of the potential conflicts that arise because of the uncertainty in the application of the policies:

- Under the Faculty Handbook, within a nine-month contract period, faculty is allowed one day per week of outside employment or extra compensation from the University. SOM

administration is uncertain whether this policy applies to SOM faculty who are on twelve-month contract and accrue annual leave.

- The SOM faculty have twelve-month appointments and are allowed 12 days of professional leave per fiscal year. It is not clear whether the faculty can receive pay from a third party while on professional leave.
- Faculty at the University accepts honoraria for services, such as speeches and Grand Rounds. We were told that the faculty on main campus does not report this activity as part of their one day per week allowed for outside employment, and faculty at SOM does not count the activity toward annual leave. This may not be the appropriate way to handle honoraria payments.
- NM State statute does not allow public employees to accept honoraria of more than \$100 per day. It is unclear how this affects University faculty.

Management has not defined how the above policies apply. As a result, faculty is left to interpret the policies, which may result in inconsistent application of policy and possible conflicts with state statutes.

### **Recommendation 18**

We recommend that the presidential leadership team clarify the application of policies for outside compensation and honoraria, and resolve any potential conflict with state statute.

### **Response from the Presidential Leadership Team**

*We agree that the policies regarding special compensation for faculty members can lead to confusion and that management needs to clarify these policies and their applications especially with respect to outside compensation and honoraria.*

*The Office of the Provost and the Office of the Executive Vice President of the Health Science Center will begin a joint review of these policies and applications immediately. We will work with University Counsel to determine whether New Mexico state statute regarding state employees accepting honoraria applies to faculty members. We expect to complete our review by October 15, 2006. Any corrective actions that our review suggests should occur will be implemented by November 1, 2006. Depending on the outcome of our review and faculty actions prior to implementation of possible corrective actions, a one- or two-month transition period may be required before full implementation occurs.*



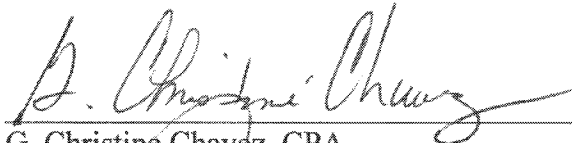
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## CONCLUSION

The Center for Community Partnerships does not have a complete written payroll policies and procedures manual for its program services. The Center should document policies and procedures for payroll administration and other indicated department policies, and Management should implement appropriate internal controls. Once a payroll policies and procedures manual is completed, we will follow up to review the documented procedures. The Center should implement provider agreements that clarify the relationship between the Center and medical providers. Outside compensation practices should be reviewed and any conflicts in policy should be resolved.

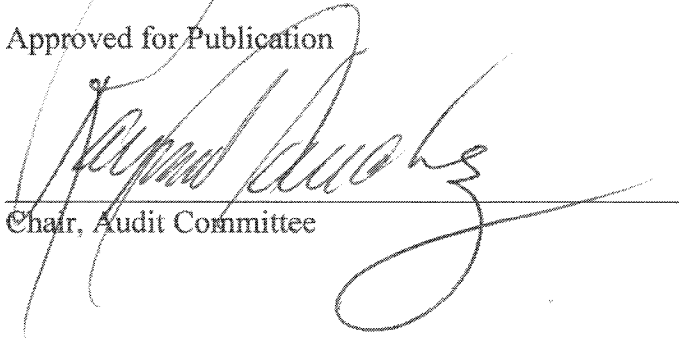
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## APPROVALS



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Approved for Publication



Chair, Audit Committee