

**DEPARTMENT OF SURGERY
MISCELLANEOUS CONCERNS**

UNIVERSITY OF NEW MEXICO

**Report 2004-19
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ABBREVIATIONS

Surgery	The Department of Surgery
FLSA	Fair Labor Standards Act
UBPPM	University Business Policy and Procedures Manual

EXECUTIVE SUMMARY

We received specific financial concerns regarding the operations in the Department of Surgery and one of its clinical divisions. We reviewed the specific concerns, related procedures and processes to determine whether the concerns were valid.

We verified that Surgery has departmental inventory procedures for handling equipment and they were in compliance with the University policies. In addition, we verified that the equipment that was alleged to have been taken for personal use was still at the University. However, we have recommendations for increased internal controls in the areas of payroll processing, petty cash, and accounting for the faculty time spent performing outside professional services.

The following summary provides management with an overview of conditions requiring attention. Numbers in brackets[] refer to page numbers in the report.

PAYROLL PROCESSES [3]

Surgery was not requiring its hourly employees to use internal time slips to record their time worked. The employee's direct supervisor did not sign the Payroll timesheet. Surgery responded that all hourly employees are now completing internal time slips and they are being reviewed and signed by the supervisors.

FACULTY OUTSIDE PROFESSIONAL SERVICES [4]

Surgery is not recording the time taken by faculty members for non-University professional consulting, in compliance with the School of Medicine policy on "Outside Professional Activity." Surgery responded that they are now recording and tracking the time that faculty spend on outside professional activities.

PETTY CASH [5]

Although we did not find intentional wrong doing, Surgery was not in compliance with University policies in reimbursing petty cash purchases. Surgery responded that there has been training for the staff on purchasing policies as well as proper documentation required.

UNCLEAR UNIVERSITY POLICY [7]

The University Business Policies and Procedures Manual for General Policies and Information regarding Allowable and Unallowable Expenditures is unclear as to what entertainment expenses are allowable. The Vice President for Administration responded that there is reason for the "discretion of management" in the policy; however, the Administration will be reviewing the policy within the next few months and will solicit input from the Internal Audit Department.

INTRODUCTION

BACKGROUND

The Department of Surgery (Surgery) at The University of New Mexico offers a full range of academic medical programs and is organized into ten clinical divisions. Concerns were brought to our attention by two confidential informants regarding both the Department of Surgery and one of the clinical divisions. The concerns were expressed over a year ago. At this time, Surgery has a new Department Chair and a new Division Chief for the division we reviewed.

Surgery has 59 full-time faculty members that conduct clinical and basic research in all surgical specialties, and offers a wide variety of post-graduate educational opportunities. Underlying its research and training programs is an extensive clinical program. The Chair of the Department of Surgery reports to the Dean of The University of New Mexico School of Medicine. The Department Administrator is responsible for the equipment inventory and the purchases for Surgery. The Office Manager handles and supervises the payroll process. The division, where there were allegations, handles its own petty cash reimbursements.

PURPOSE

The purpose of our review was to investigate financial concerns in the Department of Surgery and one of its clinical divisions.

SCOPE

We reviewed specific concerns, related procedures, and processes to determine whether:

- Surgery had inventory procedures, they were in compliance with University property management policies, and could account for the equipment that was alleged to have been taken from the University for personal use.
- Surgery had written procedures and adequate internal controls over the payroll process.
- Surgery was recording the time faculty spent performing medical/legal consulting and litigation support, in compliance with the School of Medicine policy on “Outside Professional Activity.”
- Petty cash purchases, in the division where the concerns were expressed, comply with University policies.

Our procedures included meeting with employees, and reviewing various types of University documents and internal controls regarding the specific concerns. The field work was completed by June 25, 2004.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

PAYROLL PROCESSES

In our review, we verified that Surgery has written procedures on how to handle timekeeping and the payroll process. However, the employees were not using internal time slips to record their time. Therefore, there was no detailed record of when the employees worked.

The Fair Labor Standards Act (FLSA) requires that an employer must keep records for each non-exempt (or hourly) employee. These records must include the hours that the employee worked each day. To comply with UNM policies and FLSA, hourly employees should complete internal time slips to document the actual hours that they work. The information from the internal time slips should be used to complete the timesheets that are given to the Payroll Department to generate the employee's paycheck. The supervisor should occasionally check the time slip to verify that the employee is completing it on a daily basis and that the information is correct. The time slips should be signed by both the employee and supervisor at the end of each pay period.

In addition, at the time of our review, the person approving the Payroll timesheet was not the supervisor who would be able to verify that the hours recorded on the timesheet were correct. An employee's direct supervisor should sign either the internal time slip or Payroll timesheet. The person, who approves the timesheet, should be able to verify that the information recorded and submitted to Payroll reflects the actual hours that the employee worked.

Recommendation 1

We recommend Surgery use internal time slips to support the Payroll timesheet. The internal time slip should be prepared daily, checked periodically, and signed by both the employee and the supervisor.

Response from the Chair of the Department of Surgery

The Department concurs with the findings and recommendations of this audit.

Internal time slips have been required from all staff members to record their daily schedule since April 10, 2004. These slips are signed by the immediate supervisor and the employee prior to completing and signing the Payroll timesheets. The time sheets of the entire department are reviewed and approved by the Office Manager/Administrator of the Department. The time slips are attached to department's copies of the Payroll time sheets before they leave our office.

Recommendation 2

We recommend the hourly employee's direct supervisor sign either the internal time slip or the Payroll time sheet to approve the hours recorded.

Response from the Chair of the Department of Surgery

As mentioned above, the immediate supervisor signs the daily time slips which are attached to Payroll time sheets before the Office Manager approves the hours recorded and submitted to Payroll.

FACULTY OUTSIDE PROFESSIONAL SERVICES

Surgery is not recording the time taken by faculty members for non-University professional consulting. Health Sciences Center's policy, "Faculty Outside Professional Activities" states that the faculty member must inform the Chair, or Unit Director, and get approval in writing about the nature and extent of any current or proposed outside professional commitments that are conducted during normal duty hours. The Chair, or Unit Director, may approve the time if it does not interfere with University duties. The Chairs and Directors are required to report the number of days used for professional activities to the Dean.

Recommendation 3

We recommend that Surgery notify the faculty that they must comply with the policy for "Faculty Outside Professional Activities." In addition, Surgery needs to set up a tracking system to assure that the hours are recorded, approved, monitored, and reported to the Dean.

Response from the Chair of the Department of Surgery

The Department concurs with the findings and recommendations of this audit.

A new form "Faculty Leave Request Form" has been implemented effective July 1, 2004. The form requires prior approval from the Division Chief for any type of leave: Annual Leave, Educational/Professional Leave, Outside Professional Services Leave or Leave Without Pay, prior to the Chair's approval. The form also confirms that coverage has been arranged for clinics and the monthly call schedule. Division Chiefs are requested to submit the same form directly to the Chair for leave approvals. Time taken for these activities will be tracked and reported to the Dean as required by the HSC Policy.

PETTY CASH

We reviewed the petty cash purchases in the division where the concerns were expressed and determined that, although we did not find intentional wrongdoing, the division was not in compliance with University policies. At the time of our review, we found:

- There were nine receipts that were over ten days old and a few that were over 60 days old. Receipts to be reimbursed should be submitted in a reasonable amount of time after the purchase. University Policies and Procedures Manual (UBPPM) 4320 4.1, Purchasing Goods off Campus, states that, “the reimbursement should be processed no more than ten (10) days after the date of purchase.”
- There were occasions when an employee paid taxes on goods. The business already had a UNM tax certificate on file. Taxes should not be paid on goods. UBPPM 4320 1.1, Purchasing Goods off Campus, states that, “The University does not pay gross receipts tax on purchases of tangible property.”
- There were several occasions where there was only a list of division employees to support food purchases for a meeting. In other situations there was a sheet where employees who attended signed-in, which is excellent documentation. If the reimbursement is for entertainment, including business meals or snacks, there should be clear documentation as to who was present. UBPPM 4320 4.1, Purchasing Goods Off Campus, states, “If the reimbursement is for entertainment, list the name of each person entertained on the Petty Cash Receipt form.”
- There was one unallowable purchase reimbursed through petty cash. The division purchased flowers and decorations for a retiring Chief. UBPPM 4320 4.1, Purchasing Goods Off Campus, states that, “Items not authorized for reimbursement through Petty Cash include... any unallowable expenditures.” UBPPM 4000 4.5, Allowable and Unallowable Expenditures, states, “The purchase of personal gifts, including but not limited to flowers and other gifts expressing sympathy, bereavement, or congratulations to faculty, staff and students *is prohibited*,...” UBPPM 4000 4.6, Allowable and Unallowable Expenditures, states, “University funds may *not* be used to purchase holiday decorations for University offices and buildings.
- There was one duplicate payment, where an employee was reimbursed twice for the same expense. The expense was reimbursed from the original itemized receipt, then later reimbursed from the credit card slip. To avoid reimbursing an expense twice the Department should only accept the original invoice or itemized receipt (credit card slips are not itemized receipts) for documentation. UBPPM 4320 4.1, Purchasing Goods Off Campus, states that, for petty cash to be reimbursed you should, attach the original paid receipt to the Petty Cash Receipt form for each item purchased by the employee.

Recommendation 4

We recommend that the employees preparing and approving the Petty Cash reimbursements read and comply with University policy.

Response from the Chair of the Department of Surgery

The Department concurs with the findings of this audit.

The employee involved in the above infractions has been made aware of the problems mentioned above. However, all other staff employees have been instructed through staff meetings that all reimbursements should be submitted in a timely fashion. The policy regarding unallowable purchases as well as the Gross Receipts Tax on purchases continue to be addressed periodically during the monthly staff meetings.

Recommendation 5

We recommend that the individual who received the duplicate reimbursement paid from both the original receipt and the credit card receipt reimburse the University.

Response from the Chair of the Department of Surgery

The individual has acknowledged this error and has reimbursed the University for the duplicate payment. Again, continuous reminders and instructions regarding reimbursement policies are presented at the monthly staff meetings.

Recommendation 6

We recommend that the individual responsible for the unallowable purchases document how the expenses were allowable expenses or reimburse the University.

Response from the Chair of the Department of Surgery

We concur with the findings of this report.

The individual responsible for the unallowable purchases has stated that this was a hospitality event and that prior approval was granted for these purchases at two different university levels prior to proceeding with the purchases.

Based on comments received from other attendees at the above mentioned function, it was determined and confirmed that the event was indeed held to acknowledge the faculty member's contribution to the Albuquerque medical community, not just UNM. Hence, many other outside guests were present as well as representatives from other institutions such as the VA medical center and Lovelace. However, we will continue to include this as part of the on-going presentations and training during the staff meetings.

UNCLEAR UNIVERSITY POLICY

During our review of petty cash expenditures, we identified several purchases that were potential violations of University Business Policies and Procedures Manual (UBPPM) 4000, Allowable and Unallowable Expenditures. Petty cash purchases included flowers, decorations and refreshments for staff meetings and a retirement celebration. The provisions of UBPPM 4000 are somewhat vague and can be interpreted several ways.

- Section 4.6 states: “University funds may *not* be used to purchase holiday decorations for University offices and buildings.” The policy does not address other types of decorations, such as for retirement celebrations. It is unclear whether these other decorations are allowable.
- Section 4.8 states: “The purchase of office refreshments (including coffee makers, food and beverages) *is prohibited*, except when the refreshments are to be consumed primarily by guests of the University or at business meetings.” The policy does not define “business meeting,” so it is not clear if refreshments for routine departmental staff meetings would be allowable.
- Section 4.13 states in part: “Entertainment of University employees (for example, meal expenses), other than pursuant to the University’s travel policy, is prohibited. Exemptions are allowed when the function is a hospitality event that includes both University employees and invited guests of the University.” The policy does not define “hospitality event.” Because retirement celebrations and holiday parties may include invited guests, refreshments for these types of events may be interpreted as allowable under UBPPM 4000.
- The UBPPM does not specifically address the allowability of retirement celebrations and retirement gifts in any of its sections.

To ensure consistency across the University, the policies for purchase of food, gifts and other personal use items should be clear and not subject to interpretation. The policies should specifically address frequently occurring events such as retirements and routine staff meetings.

Recommendation 7

We recommend that the Executive Vice President for Administration review the current policy and clarify any language that is vague and subject to interpretation. The policy should clearly state management’s position on the allowability of expenditures for entertainment and personal use items.

Response from the Executive Vice President for Administration

I have reviewed UBPPM Policy 4000, Allowable and Unallowable Expenditures. The policy, by necessity, does not cover each and every item of expenditure which could be incurred by an organization of the size and complexity as the University of New Mexico. Compliance with all policies is expected to be accomplished within the context of general fiscal accountability. Purchasing policies and procedures are intended to provide flexibility to managers to enable them to perform their duties and to achieve the maximum benefit from the resources for which each manager is responsible. Generally, personal expenditures are unallowable. Reasonable expenditures made for the benefit of the university and which are in compliance with state and federal law are normally allowable.

Under this general concept of allowability, paragraphs 4.1 through 4.20 address problematic areas for managerial guidance. They are not intended to be all-inclusive and managers are expected to exercise prudent fiscal judgment under these guidelines.

Paragraph 4.6 addresses only the purchase of holiday decorations for university offices and buildings. It does not attempt to address the allowability of specific events sponsored by the University. Normally if the event is allowable, associated expenditures are allowable. For example, flowers and décor for commencement exercise are considered an allowable expenditure.

Paragraph 4.8 – the term “business meeting” is a definition in itself and needs no further definition. A bit of guidance here would be: if the meeting is incidental to the food or meal, it is unallowable. If the food is incidental to the meeting, it is allowable. In other words, one must look at the purpose of the meeting, not the object (food). Currently, justification of the business purpose is required on all disbursements of this nature.

Paragraph 4.13 – Hospitality events would encompass those events in which the University serves as host, i.e., receptions, honorary banquets, etc. If the event itself were an allowable function, the associated expenditures would normally be allowable.

Other than token and diminutive gifts, gifts of any kind are a violation of state law and are unallowable expenses of the University. Retirement functions, of themselves, are not much different than employee recognition programs whereby managers are urged to publicly recognize 5, 10, and 15-year service awards. Again, if the University sanctions the event, the associated expenditures are probably allowable. There is currently no specific policy on retirement receptions. Subsequently, such events are at the discretion of management. We will ask Human Resources to address this issue in future policy releases.

All policies and procedures should be reviewed periodically for current applicability and we will be reviewing UBPPM Policy 4000 within the next few months. At the appropriate time we will solicit input from our department of Internal Audit so that issues and clarifications may be improved.

GENERAL COMMENTS FROM AUDITEE

Comments from the Chair of the Department of Surgery

The Chair of the Department of Surgery concurs with the findings of this report.


It should be noted that all these concerns originated from situations that occurred several years ago. The Department has undergone significant changes in leadership and staffing since that time and many of these problems have already been addressed prior to this report.

Due to many changes at the staff level, including a new office manager, renewed efforts are in effect to assure that the staff remains fully trained and informed of all UNM policies.

CONCLUSION

We researched the concerns that were brought to us and verified that Surgery has departmental inventory procedures for handling equipment and they were in compliance with the University property management policies. We have recommendations for increased internal controls in the areas of payroll processing, petty cash, and accounting for the faculty time spent performing outside professional services.

APPROVALS



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Approved for Publication



Chair, Audit Committee