

Valla F. Wilson, CIA, CRMA
Assistant Vice President

UT Southwestern Medical Center

Office of Internal Audit

October 31, 2015

John Keel, CPA
Office of the State Auditor
206 East Ninth Street, Suite 1900
Austin, TX 78701

Dear Mr. Keel:

We have prepared this report on the activities of The University of Texas Southwestern Medical Center's Office of Internal Audit in compliance with the requirements established in the Texas Internal Auditing Act (Texas Government Code, Section 2102). This report provides information on our FY 2015 and 2016 audit plans, audits completed and recommendations. The FY 2015 Audit focused on key externally requested and Institutional risk-based areas including patient care, research, information technology, compliance, core business processes, and other areas based on risk.

Our recommendations will help enhance the effectiveness of Medical Center operations by improving internal controls such as the reliability and integrity of financial information, safeguarding of assets, compliance with applicable policies and procedures, economical and efficient use of resources and accomplishment of goals and objectives.

We appreciate the opportunity to participate in this process. For further information about the contents of this report and/or to request copies of audit reports, please contact me at 214-648-6106.

Sincerely,



Valla Wilson

cc: Kate McGrath, Governor's Office of Budget and Planning
Ed Osner, Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office
Ken Levine, Sunset Advisory Commission
Daniel K. Podolsky, M.D., President, University of Texas Southwestern Medical Center

The University of Texas
Southwestern Medical Center
Internal Audit Annual Report for Fiscal Year 2015



October 31, 2015

THE UNIVERSITY OF TEXAS
SOUTHWESTERN MEDICAL CENTER

INTERNAL AUDIT ANNUAL REPORT FOR FISCAL YEAR 2015

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

The UT Southwestern Office of Internal Audit prepares an annual report and submits the report before November 1 of each year to the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor and the Governor's Office of Budget and Planning. In accordance with House Bill 16, these reports have been made available on the UT Southwestern internet website.

Past reports (including required annual Internal Audit Plans) can be seen at:
<http://www.utsouthwestern.edu/legal/required-documents.html>

II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions

Rider 8, page III-39, the General Appropriations Act (84th Legislature, Conference Committee Report), requires that higher education institutions conduct an internal audit during fiscal year 2016 of benefits proportional by fund, using a methodology prescribed by the State Auditor's Office. The rider requires that the audit examine Appropriation Years (AY) 2012 through 2014, and be completed no later than August 31, 2016. To comply with Rider 8, a benefits proportionality audit is included in the UT Southwestern FY 2016 Annual Audit Plan.

An internal audit of the proportionality of higher education benefits process was conducted during FY 2015 at the request of the Governor. The scope of the audit included benefits funding proportionality for Appropriation Year (AY) 2013. Audit procedures were consistent with the methodology prescribed by the State Auditor's Office to comply with Rider 8, and included review of source information obtained from the internal accounting system and the State's Uniform Statewide Accounting System (USAS), review of the benefits proportionality reporting process, validation of the accuracy of information and proportional funding calculations reported to the State Comptroller on the Benefits Proportionality by Fund Report (APS 011), and testing to verify eligibility of employee benefits paid with appropriated funds.

Because AY 2013 was included in the prior year audit, the benefits proportionality audit conducted during FY 2016 will include only AY 2012 and AY 2014. The results of the AY 2013 audit will be included in the resulting audit report, with a statement certifying that the procedures followed were consistent with the methodology prescribed by the State Auditor's Office.

III. Audit Plan for Fiscal Year 2015

FY 2015 Audit Plan		Budgeted Hours
Audit/Project		
Financial Audits		
15:05 Accounts Receivable - Billing Audit (Hospitals and Clinics) <i>Report issued July 13, 2015</i>		400
<i>UT System Requested/Externally Required Audits</i>		
15:07 FY2014 UTS Financial Statement Audit – Financial/IT (YE) <i>Complete</i>		600
15:07 FY2015 UTS Financial Statement Audit – Financial/IT (Interim) <i>Complete</i>		215
15:09 Presidential Travel and Entertainment Expenses Assistance <i>Report issued March 17, 2015</i>		40
15:08 Direct Reports' Travel and Entertainment Expenses Review <i>Report issued May 12, 2015</i>		200
15:22 UTS 142.1 Account Reconciliation and Monitoring Plan <i>Report issued November 12, 2014</i>		100
Financial Audits Subtotal		1,555
Operational Audits		
<i>Risk Based Audits</i>		
15:10 Pharmacy Review (Hospitals and Clinics) <i>Report issued March 2, 2015</i>		450
15:11 PeopleSoft HCM/Payroll Audit <i>Audit in Process</i>		500
15:12 Timekeeping Audit <i>Report issued October 13, 2015</i>		300
15:15 Office of Technology Development <i>Report issued June 16, 2015</i>		500
15:16 DaVita Joint Venture Review <i>Audit in Process</i>		250
15:17 ICD-10 <i>Completed – Ongoing Consulting</i>		200
<i>Change in Management Audits</i>		
15:42.01 Change in Management - Department of Plastic Surgery Financial Review <i>Report issued November 7, 2014</i>		575
15:33 Change in Management Review - VP, Marketing, Communications, and Public Affairs <i>Report issued June 16, 2015</i>		200
Operational Audits Subtotal		2,975

Compliance Audits	
<i>Risk Based Audits</i>	
15:19 Animal Controlled Substances Audit <i>Report issued October 13, 2015</i>	300
15:20 HIPAA Privacy Compliance <i>Report issued July 6, 2015</i>	300
<i>Regulatory Required</i>	
15:23 Proportional Funding of Benefits Review <i>Memo issued December 19, 2014</i>	200
Compliance Audits Subtotal	800
Information Technology Audits	
<i>Risk Based Audits</i>	
15:26 Decentralized Application Reviews <i>Report issued March 2, 2015</i>	600
15:27 Project Management/System Acquisition Methodology <i>Report issued October 13, 2015</i>	200
<i>Regulatory Required</i>	
15:31 TAC 202 Compliance (Biennial Requirement) <i>Report issued October 13, 2015</i>	200
<i>System Development/Regulatory Consulting Projects</i>	
15:29 Archibus Facilities Management System <i>Completed – Ongoing Consulting</i>	100
15:30 Other System Development Consulting <i>Completed – Ongoing Consulting</i>	300
Information Technology Audits Subtotal	1,400
Remediation – Follow-up	
<i>Follow-up Audits</i>	
15:39 Audit Follow-up <i>Completed</i>	550
Follow-up Audits Subtotal	550
UT System Support	
15:37 Annual Internal Audit Report <i>Report issued October 31, 2014</i>	100
UT System Support Subtotal	100
State/Federal Support	
15:36 External Auditor Support (SAO, Others) <i>Completed</i>	250

State/Federal Support Subtotal	250
Projects/Audit Committee Reporting	
15:42 Hotline/Special Projects <i>Completed</i>	1,694
Various Projects - Wrap up of 2014 audits	1,075
15:40 Audit Committee Reporting <i>Completed</i>	500
15:41 FY16 Risk Assessment and Audit Plan Development <i>Completed</i>	400
15:44 Continuous Monitoring Audit Plan <i>Completed</i>	250
Internal Audit Development	150
Projects/Audit Committee Reporting Subtotal	4,069
Total Budgeted Hours	11,699

Explanation of Deviations from Fiscal Year 2015 Audit Plan

The FY 2015 Audit Plan noted above represents a modified plan that was approved by the Institutional Audit Committee in March 2015. Additional audits deferred to FY16 were approved in July 2015 when the FY2016 Audit Plan was approved. Modifications to the audit plan were due to several reasons to include further assessment of risks (approximately a year after original assessment) revealed certain risks were no longer considered to be as high risk as originally classified during the original assessment, delays in system implementation or management initiatives, and unanticipated shortages in staffing model.

The modified plan represented a reduction in total FY 2015 hours from 14,849 to 11,699.

The following audits were in-process at the end of FY 2015 and will be reported in the December Audit Committee meeting:

- 15:11 PeopleSoft HCM/Payroll Audit
- 15:16 DaVita Joint Venture Review
- 15:46 External Audit Support

The following FY 2015 audits from the modified plan were cancelled:

- Sample Off-Site Clinic Operational Review – recurring annual project included in FY 2016 plan
- Database Layer Audit – cyclical and not risk based
- Mobile Device Security Review – performed by the UT System for all institutions

The following FY 2015 audits from the modified plan were deferred to FY 2016:

- Vendor Recall Audit
- Charge Capture/Reconciliation Audit (Hospitals & Clinics)
- Charity and Uncompensated Care Audit
- Sponsored Programs Administration Review
- Clinical Trials Billing Audit
- Document Retention Audit
- IACUC Process/Program Review
- Business Continuity/Disaster Recovery
- Patient Collections Review

IV. Consulting Services and Non-Audit Services Completed

Activity	Impact
Performed reviews of complaints received through Medical Center's <i>EthicsLine</i> .	Provides the Medical Center with investigation resources.
Conducted facilitated risk assessment workshops and developed comprehensive risk assessment results documents.	Collaborates with Medical Center management to provide an enterprise risk management approach for the Medical Center in addition to identifying auditable risk

Activity	Impact
	areas to be included in Internal Audit Plan.
Assisted in identifying controls for adequate Departmental Financial Review processes	Provides Medical Center employees with guidance on how to review and reconcile their departmental accounts to minimize errors and irregularities in the normal course of business activities.
UTS142.1 Testing	Provides validation for annual financial certification processes and monitoring controls.
Fraud Analysis	Provides independent consultation and evaluation tools to management for preventing, detecting and monitoring of fraudulent activities.
Archibus Implementation	Provides independent consultation and guidance of internal controls for process flows within Archibus application implementation.
Business Resumption and Disaster Recovery Planning	Provides independent consultation and guidance to help Medical Center address Emergency preparedness and Business Continuity risks.
Participation in the quarterly Executive Compliance Committee	Provides consultation and guidance on emerging issues in risk management and audit initiatives.
Participation in monthly Information Security/Privacy Steering Committee Meetings	Provides consultation and guidance on emerging issues in areas of physical security initiatives, privacy and information security.
Participation in the following Committees or work groups: <ul style="list-style-type: none"> • Executive Compliance Committee • Executive Wellness Committee • Business Services Group • Financial Administrative Group • Information Security/Privacy Steering Committee • Revenue Integrity Committee • Student System Steering Committee • University and Professional Billing Compliance Committee (UPBCC) • UT System Risk Assessment Work Group • UT System Audit Committee Reporting Work Group 	Participates in focused groups and provides consultation on process improvement, development of new processes, institutional initiatives, emerging issues in risk management, and audit initiatives.

Coordination of External Audits	Provides operational support for the following: State Auditor's Office single statewide audit (A-133 and Financial portions), Deloitte Financial Audit (Interim and Year-end), Deloitte Information Security Assessment and Effectiveness Review, US Department of Health and Human Services Office of Inspector General.
Assistance to External Audit Professional Organizations	Provides professional assistance or participation in the following associations: Association of Healthcare Internal Auditors (AHIA), Institute of Internal Auditors (IIA), Information Systems Audit and Control Association (ISACA), Association of College and University Auditors (ACUA).
Assistance to UT System Internal Audit function	Participates in focused groups and provides consultation and assistance for implementing institutional initiatives. Provides institution risk information, internal Audit reporting, quality and other related matters.

V. External Quality Assurance Review (Peer Review)

An External Quality Assurance Review was performed in FY 2014 by an independent outside firm (PwC). Internal Audit has implemented action items in response to recommendations identified during the EQA review. The letter accompanying the Quality Assurance Report is noted below.



July 7, 2014

Ms. Valla Wilson, Assistant Vice President and Chief Audit Executive
The UT Southwestern Medical Center
6363 Forest Park Rd, Dallas, TX 75235

We have completed an External Quality Assessment ("EQA") of The University of Texas Southwestern Medical Center ("UT Southwestern", "UTSW", or "institution") Office of Internal Audit ("IA"). The EQA included an assessment of the level of conformance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing ("the IIA Standards"), the Generally Accepted Government Auditing Standards ("GAGAS"), as well as the relevant requirements of the Texas Internal Auditing Act ("TIAA"). Listed below are our observations:

- IIA Standards - Based on our work, overall IA generally conforms. We did identify process enhancement opportunities.
- GAGAS - Our assessment of GAGAS was limited, based on IA's disclosure that no internal audits were performed during our assessment period under GAGAS. Based on our work, we did not identify conformance observations. We did identify process enhancement opportunities.
- TIAA requirements - Other than the observations related to IIA Standards and GAGAS, no conformance observations were identified during our work. We did identify a process enhancement opportunity.

Our services were performed and this report was developed in accordance with our contract dated February 18, 2014 and are subject to the terms and conditions included therein. Our Services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"). Accordingly, we are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us. Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through May 23, 2014, when field work was substantially completed. Accordingly, changes in circumstances after this date could affect the findings outlined in this report. This information has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with The University of Texas System Administration. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than The University of Texas System Administration and UT Southwestern.

We would like to offer a sincere thank you to you and your staff, and the Audit Committee and management of UT Southwestern, for the time and attention they provided during this assessment. We appreciate the opportunity to serve The University of Texas System Administration on this important engagement.

Very truly yours,

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', written over a light blue horizontal line.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 1201 Louisiana, Suite 2900, Houston, TX 77002-5678
T: (713) 356 4000, F: (713) 356 4717, www.pwc.com/us

Information contained herein is for the sole benefit and use of PwC's Client

VI. Internal Audit Plan for Fiscal Year 2016

The internal audit plan for 2016 was developed using a risk assessment process that involved gaining a deeper understanding of the organization and its strategic plan and institutional priorities. The process involved meeting with key leaders of the organization to identify key objectives and risks to achieving the objectives, as well as other risks to the institution, taking into account risks identified in the previous year's risk assessment. As a result of the process, we captured high and medium risks and determined those that are auditable risks to be included in our 2016 Internal Audit Plan.

FY16 Audit Plan	Budget	% of Total
<i>Financial Risk Based Audits</i>		
Accountable Care Network Audit	400	
MSRDP/Ambulatory Procurement Audit	350	
Procurement Audit	450	
Hospital Accounting Operations Audit *	400	
Accounts Payable Audit *	400	
Patient Financial Services (PFS) - Managed Care Contract Adjustments Audit *	250	
Patient Financial Services (PFS) - Customer Service Audit *	300	
Patient Financial Services (PFS) - Cash Posting Audit *	300	
Charge Capture/Reconciliation Audit (Hospitals and Clinics) +	600	
Charity and Uncompensated Care Audit	200	
Sponsored Programs Administration Audit	400	
Financial Risk Based Audits Subtotal	4,050	20.6%
<i>Financial Audits (Non-Risk Based)</i>		
Deloitte Financial Audit Support	775	
UTS 142.1 Annual Monitoring Plan Review	100	
Financial Audits (Non-Risk Based) Subtotal	875	4.5%
Financial Audits Subtotal	4,925	25.1%
<i>Operational Risk Based Audits</i>		
Recruiting Audit	400	
Graduate Medical Education (GME) Audit *	550	

Vendor Management/Third Party Relationships Audit	700	
Employee Compensation Audit	400	
Sample Offsite Clinic(s) Operational Review(s)+	350	
Vendor Recall Audit (Hospitals and MSRDP)	250	
Carryover of FY15 Audits	700	
Operational Risk Based Subtotal	3,350	17.0%
<i>Operational Audits (Non-Risk Based)</i>		
Direct Reports' Travel & Entertainment Review	150	
Assistance to UT System for Presidential Travel & Entertainment Review	40	
Operational Audits (Non-Risk Based) Subtotal	190	1.0%
<i>Operational Consulting Projects</i>		
Internal Control and Fraud Awareness Training	100	
Operational Consulting Based Subtotal	100	0.5%
<i>Operational - Change in Management Audits</i>		
Change in Management Reviews for key leaders (TBD)	800	
Change in Management Subtotal	800	4.1%
Operational Audit Subtotal	4,440	22.6%
<i>Compliance Risk Based Audits</i>		
UT System Identified Risk-Based Review - Practice Plan	400	
IACUC Process/Program Review (Compliance)*	400	
Clinical Trials Billing	300	
Document Retention Audit	300	
Compliance Risk Based Audit Subtotal	1,400	7.1%
<i>Compliance Audits (Non-Risk Based)</i>		
Texas Higher Education Coordinating Board (THECB)	100	
Proportional Funding of Benefits Review	300	
Contracts Management Review	300	
Compliance Audits (Non-Risk Based) Subtotal	700	3.6%
Compliance Audits Subtotal	2,100	10.7%
<i>Information Technology Risk Based Audits</i>		
Disaster Recovery/Business Continuity Audit	400	
IT Governance Audit	400	

Information Technology Risk Based Subtotal	800	4.1%
<i>Information Technology Consulting Projects</i>		
PeopleSoft 9.2 Upgrade	200	
Bio-Informatics	100	
ICD-10	100	
Other System Development Consulting	300	
Information Technology Consulting Subtotal	700	3.6%
<i>Follow-up</i>		
Audit Follow-Up	550	
Follow-up Subtotal	550	2.8%
<i>Development - Operations</i>		
Continuous Auditing/Monitoring	250	
Annual Internal Audit Report	100	
Audit Committee Reporting	500	
FY17 Risk assessment and Audit Plan Development	400	
State Auditor's Office (SAO) Support	50	
Staff Meetings	650	
Development - Operations Subtotal	1,950	9.9%
<i>Development - Initiatives and Education</i>		
Training for Internal Audit	610	
Internal Audit Development	250	
Development - Initiatives and Education Subtotal	860	4.4%
<i>Reserve</i>		
Hotline/Special Projects & Consulting Reserve	3,331	
Reserve Subtotal	3,331	16.9%

* - denotes Integrated audits to be performed using IT Audit expertise.

+ - denotes Cyclical audits to be performed each year in different areas based on risk profile

Total	19,656	100%
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The following are risks identified as high or high/medium risks and are not included in our plan. They include:

- Campus safety
- Clinical transformation
- Faculty compensation
- Patient access
- Patient quality and safety
- Clinical coding and documentation

These risks are not included in the plan due to one or more of the following reasons:

- Risks were not considered auditable
- Risks areas are included in the Compliance Office plan
- Management may have institutional initiatives focused on mitigation strategies for addressing risks

- Transition of leadership or program is underway
- Internal Audit performed an audit of the risk area within the last few years

VII. External Audit Services Procured in Fiscal Year 2015

The following is a list of audits completed by outside agencies at the Medical Center in FY2015.

External Auditor/ Organization	Purpose
Cancer Prevention Research Institute of Texas (CPRIT) Internal Auditors	Desk Audits for three CPRIT Grants
Cancer Prevention Research Institute of Texas (CPRIT)	FY14 Financial Audit
Cancer Prevention Research Institute of Texas (CPRIT)	Breast Screening and Patient Navigation
Deloitte	Annual Financial Report (AFR) Audit (FY2014 Year End Testing and FY2015 Interim Testing)
Food and Drug Administration	Two routine audits performed
State Auditor's Office (SAO)	Single Audit A-133 (Research & Development Cluster and Financial Audit)
State Auditor's Office (SAO)	TRS Salary Data Testing – Limited Scope
State Fire Marshall	Routine Inspection
Texas Higher Education Coordinating Board	FY15 Audit of College Access Loan Compliance
US Department of Agriculture	Annual Inspection - Limited in Scope
Weaver & Tidwell	FY 2014 CPRIT Audit of Expense Reimbursement, Matching Funds, and Assets

In addition, UTSW procured internal audit services from Protiviti during 4th quarter FY 2014 to supplement the IA resource due to unfilled staff positions during the year. The work was completed in first quarter of FY2015. The two FY 2014 audits (Charge Master Review and Denials Management Review) were reported to the Audit Committee in December 2014.

VIII. Reporting Suspected Fraud and Abuse

- Fraud Reporting - Section 7.10, General Appropriations Act (82nd Legislature), Article IX.
- Coordination of Investigations - Texas Government Code, Section 321.022.
 - UT Southwestern maintains a fraud, waste and abuse hotline webpage that links to the State Auditor's fraud hotline information and website for fraud reporting.

- UT Southwestern complies with the code for coordination of investigations, progression of investigations and reporting of results.