

November 1, 2012

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

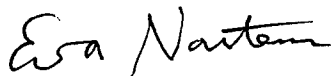
Dear Mr. Keel:

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 2012 and 2013 audit plans, audits completed and recommendations. Our audit work for FY 2012 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 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,



Eva Narten, CIA, CPA, CISA
Assistant Director of Internal Audit

cc: Jonathan Hurst, Governor's Office of Budget, Planning and Policy
Ed Osner, Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office
Ken Levine, Sunset Advisory Commission

The University of Texas
Southwestern Medical Center
Internal Audit Annual Report for Fiscal Year 2012



November 1, 2012

THE UNIVERSITY OF TEXAS
SOUTHWESTERN MEDICAL CENTER

INTERNAL AUDIT ANNUAL REPORT FOR FISCAL YEAR 2012

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I. Internal Audit Plan for Fiscal Year 2012

FY 2012 Audit Plan	
Audit/Project	Hours
Financial Audits	
<i>UT System Requested/Externally Required Audits</i>	
FY2011 UTS Financial Statement Audit - Financial/IT (YE)	650
FY2012 UTS Financial Statement Audit - Financial/IT (Interim)	550
Presidential Housing, Travel and Entertainment Expenses	200
<i>Consulting</i>	
Reserve for Special Requests/Investigations - Financial (non-priority)	100
Financial Audits Subtotal	1500
Operational Audits	
<i>Risk Based Tier One Audits</i>	
MSRDP Contract Administration	500
<i>Risk Based Tier Two Audits</i>	
Hazardous Materials Disposal and Handling	500
Recharge Centers (non-priority)	500
<i>Change in Management Audits</i>	
Business Office	150
Accounting	150
TBD (non-priority)	300
<i>Consulting</i>	
Reserve for Special Requests/Investigations - Operational (non-priority)	100
<i>Carryforward Audits Misc.</i>	100
Operational Audits Subtotal	2300

Compliance Audits	
<i>UT System Requested/Externally Required Audits</i>	
Assistance to the SAO (including A-133)	300
Dependent Eligibility Act	300
THECB and Other Required Grant Audits	300
UTS 155: Policies and Procedures Regarding Practice Plan Operations - FSP School of Health Professions and MSRDP	450
Research Compliance	400
FY11 LBB Performance Measures	200
<i>Risk Based Tier One Audits</i>	
HIPAA Compliance Monitoring (Privacy Office) (non-priority)	300
HITECH Funds Compliance (moved to FY13)	400
<i>Risk Based Tier Two Audits</i>	
Clinical Trials Billing (Velos-Epic Implementation)	400
Electronic Equipment Disposal (HIPAA and PCI) (non-priority)	300
Willed Body	300
<i>Consulting</i>	
Reserve for Special Requests/Investigations - Compliance	800
<i>Carryforward Audits Misc.</i>	200
Compliance Audits Subtotal	4650

Information Technology Audits	
<i>UT System Requested/Externally Required Audits</i>	
Follow-up: Deloitte IT Security Review	300
<i>Risk Based Tier One Audits</i>	
EPIC Security Administration	400
PeopleSoft Financials - post-implementation review of roles and responsibilities	300
<i>Risk Based Tier Two Audits</i>	
EPIC ADT/Hospital billing Conversion - System Interfaces (non-priority)	376
<i>Consulting</i>	
PeopleSoft Conversion	600
Continuous Monitoring	300
Reserve for Special Requests/Investigations – IT (non-priority)	100
<i>Carryforward Audits Misc.</i>	100
Information Technology Audits Subtotal	2476

Follow-up Audits	
<i>Follow-up Audits</i>	
Follow-up Audits	750
Follow-up Audits Subtotal	750
Projects	
Quality Assurance Review (External/Internal)	600
Requests for Information/Assistance	300
Internal Audit Annual Report	100
FY13 Annual Audit Plan & Risk Assessment	400
Internal Audit Committee	400
Projects Subtotal	1800
Total Budgeted Hours	
	13,476

FY 2012 Audit Reports

Report Number	Title	Report Date
12:03	Presidential Housing, Travel & Entertainment Expenses	1/6/2012
12:05	MSRDP - Contract Administration	5/22/2012
12:06	Hazardous Materials Disposal & Handling	3/6/2012
12:08	Business Office	5/23/2012
12:13	Dependent Eligibility Audit	3/21/2012
12:14	THECB and Other Required Grant Audits	3/15/2012
12:15.01	UTS 155 MSRDP	5/17/2012
12:15.02	UTS 155 FSP	3/2/2012
12:25	Epic Security Administration	9/5/2012

The following audits are near completion or in process: 12:09 Accounting, 12:16 Research Compliance, 12:20 Clinical Trials Billing (Velos-Epic Implementation), 12:22 Willd Body, 12:24 Recharge Centers, 12:26 PeopleSoft Financials and 12:29 Continuous Monitoring.

Explanation of Deviations from Fiscal Year 2012 Audit Plan

Deviations from the FY 2012 Audit Plan were due to staff turnover and were approved by the audit committee. Priority audits not completed for FY 2012 include: 12:07 Follow-up: Deloitte IT Security Review was cancelled by UT System and replaced by the non-priority audit 12:24 Recharge Centers. The 12:19 HITECH funds compliance audit was moved to the FY13 audit plan.

II. External Quality Assurance Review



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Galveston, Texas 77555-0150
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February 27, 2012

Mr. Robert F. Rubel, CPA, CIA, CISA
Director, Office of Internal Audit
The University of Texas Southwestern Medical Center
5323 Harry Hines Blvd.
Dallas, TX 75390-9017

Dear Robert,

At your request, I performed a review of the departmental actions taken in response to the external quality assessment of the Office of Internal Audits (Internal Audits) at The University of Texas Southwestern Medical Center (UT Southwestern) conducted May 4-6, 2009. The objective of my review was to determine the implementation status of the recommendations made by the external review team. The scope of my review included: two site visits, interviews with you, members of your staff, two members of senior leadership, and the UT System Chief Audit Executive, and examination of a sample of working papers and reports produced by the department.

Overall Opinion

In my opinion, Internal Audits has made significant progress in the implementation of the recommendations of the external peer review team.

A summary of each recommendation and the activities taken is outlined below:

Increase Continuing Professional Development

The review team made the following recommendations related to professional development to improve the department's proficiency and due professional care including:

- *Identifying specific training resources.*
- *Developing a training and development plan.*
- *Implementing Project Evaluations.*
- *Promoting and encouraging staff certifications.*
- *Developing a new hire training program.*

Over the past 3 years, the department has made significant strides in improving both auditor proficiency and continued overall professional development. The department has placed an emphasis on leadership development with participation in the institutionally sponsored master's program, manager leadership programs, and aspiring future leaders programs. Additionally, review of recent departmental training records indicates more industry specific training after a consideration of individual skillset needs. New hire training/orientation activities have been implemented and although formal project evaluations are not

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completed, verbal feedback is provided throughout the project and after each engagement. In addition to recruiting more experienced staff, all staff members now maintain one or more certifications as a CPA, CIA, or CISA.

Management Development

The review team made the following recommendations to encourage management development including:

- *Establishing roles and responsibilities.*
- *Investing time in mentoring and coaching the managers.*
- *Increasing leadership opportunities.*

There has been ongoing development of the management team through training, regular coaching and increased leadership opportunities as noted in interviews and review of training records. Additionally, the management team now attends and presents to the Institutional Audit Committee on a routine basis. While roles and responsibilities of the managers are established during each engagement's initial project meeting, based on interviews with the staff, it appears the involvement of both managers in all engagements at a minimum during the planning and reporting phases continues to create some redundancies and inefficiencies in the audit process. Although these improvements have had a positive impact, it should be noted that the current structure of 3 supervisors, 2 managers, an assistant director and director can be cumbersome, if not managed effectively, particularly with the depth of skill sets that have been recruited over the past several years.

Engagement Management

The review team recommended four actions to improve engagement management:

- *Clarify managing and monitoring roles and responsibilities*
- *Establish a clear report writing process.*
- *Establish specific project meetings*
- *Conduct a post-engagement review.*

Interviews with departmental staff and review of select audit working papers indicate implemented improvements in engagement management. These improvements include initial project meetings clearly establishing roles and responsibilities, ongoing project team meetings, and ongoing reviews by supervisors, managers and the assistant director. As noted above related to Management Development, the current management structure can be cumbersome, creating inefficiencies in the audit process.

Engagement Evidence

The review team recommended the development of departmental standards for audit evidence. Based on a review of select projects, it appears the department has reduced its reliance on interviews and other less reliable evidence which resulted in this recommendation. It appears more projects are incorporating re-performance or third party confirmation in the testing, particularly in reviews of the more technical operational areas of the institution.

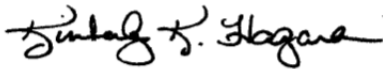
Follow-up Process

The review team recommended the reevaluation of the follow-up process related to frequency and staffing. Subsequent to the external review, Internal Audit modified its follow-up process increasing the frequency, reporting to the Institutional Audit Committee, and ensuring appropriate staffing. Feedback received from members of senior leadership on these changes was very positive.

Independence

The review team expressed concern related to a perception of an independence impairment due to the administrative reporting relationship with the Executive Vice President for Business Affairs (EVPBA) that included the Director attending the EVPBA's weekly managers' meeting, monthly one-on-one meetings, and the EVPBA's review and agreement of all draft reports. Since the time of the external peer review and with the recent change in EVPBA, the independence impairment issue appears to have been mitigated. Additionally, the Director is now more directly engaged on a regular basis with the President.

Sincerely,



Kimberly K. Hagara, CPA, CIA, CISA
Associate Vice President, Audit Services

c: Charles G. Chaffin, Chief Audit Executive, UT System

III. List of Consulting Engagements 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.
Assisted Budget Office with review of LBB Performance Measures Data prior to reporting.	Provides review of information submitted for reporting performance measures information to LBB.
Conducted facilitated risk assessment workshops	Collaborates with Medical Center management to provide an enterprise risk management process for the Medical Center
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
Fraud Analysis	Provides independent consultation and evaluation tools to management for monitoring and detection of fraudulent activities.
PeopleSoft Implementation	Provides independent consultation and guidance of internal controls for process flows within PeopleSoft applications 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 monthly Information Security/Privacy Steering Committee meetings	Offers commentary, consultation and guidance on emerging issues in areas of physical security initiatives, privacy and information security.
Billing Oversight Committee	Addresses contemporary billing issues, e.g., AR statistics, collection reports, Medicaid issues, and management initiatives such as fee schedule analysis.
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, Review of Administrative and Clerical Costs at UT Southwestern Medical Center, Audit of Physician Supplemental Payments
Assistance to External Audit Organizations	Provides assistance to 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)

IV. Internal Audit Plan for Fiscal Year 2013

UT Southwestern Medical Center

INSTITUTION TOTAL FY 2013 BUDGETED OPERATING EXPENDITURE AMOUNT: \$1.8 BILLION

The total hours are based on 11 budgeted auditor positions net of 1 estimated vacancy.

Fiscal Year 2013 Audit Plan

Audit/Project	Budgeted Hours	% of Total
<u>Financial Audits</u>		
<i>UT System Requested/Externally Required Audits</i>		
FY2012 UTS Financial Statement Audit (YE) (Deloitte assistance)	600	
FY2013 UTS Financial Statement Audit (Interim) (Deloitte assistance)	260	
Presidential Housing, Travel & Entertainment Expenses	600	
Joint Admission Medical Program (JAMP)	300	
Financial Audits Subtotal	1760	12%
<u>Operational Audits</u>		
<i>Risk Based Tier One Audits</i>		
Parkland Contract Review	550	
<i>Risk Based Tier Two Audits</i>		
New University Hospital Transition Planning	600	
Transplant Services	650	
<i>Change in Management Audits</i>		
University Hospitals CFO	200	
Vice President for MSRDP-Billing	200	
<i>Carryforward Audits</i>		
Misc.-12:09 Accounting, 12:24 Recharge Centers	250	
Operational Audits Subtotal	2450	16%
<u>Compliance Audits</u>		
<i>UT System Requested/Externally Required Audits</i>		
SAO Assistance	300	
UTS 142.1 Account Reconciliation and Monitoring Plan	100	
THECB and Other Required Grant Audits	200	
<i>Risk Based Tier One Audits</i>		
HITECH funds compliance	700	
Environmental Health & Safety Department	700	
<i>Risk Based Tier Two Audits</i>		
Practice Plan MSRDP	600	

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Clinical Trials Billing	700	
Animal Resource Center (ARC)	500	
 <i>Consulting</i>		
FY12 LBB Performance Measures	300	
Reserve for Special Requests /Investigations	1000	
Compliance Audits Subtotal		5100 33%
 <u>Information Technology Audits</u>		
<i>UT System Requested/Externally Required Audits</i>		
Laptop Encryption Initiative	450	
TAC 202 Compliance Audit (Biennial Requirement)	350	
 <i>Risk Based Tier One Audits</i>		
Payroll Conversion Process – Transition from OAS-HRMS to PeopleSoft-HCM	700	
 <i>Risk Based Tier Two Audits</i>		
EPIC Resolute Post Implementation – University Hospitals	800	
 <i>Consulting</i>		
PeopleSoft Implementation Processes	80	
 <i>Carryforward Audits</i>		
Misc.-12:26 PeopleSoft Financials, 12:29 Continuous Auditing	200	
Information Technology Audits Subtotal		2580 17%
 <u>Follow-up Audits</u>		
Follow-up Audits	1000	
Follow-up Audits Subtotal		1000 7%
 <u>Projects</u>		
Quality Assurance Review (Internal/External)	600	
Requests for Information/Assistance	474	
UTS Internal Audit Process Workgroups	40	
Internal Audit Annual Report	100	
FY14 Annual Audit Plan & Risk Assessment	700	
Internal Audit Committee	500	
Projects Subtotal		2414 16%
Total Audit Plan Hours		15304 100%

Explanation of High Risks Not Covered from Fiscal Year 2012 Audit Plan

High risk areas identified during the FY 2012 risk assessment have been mitigated or addressed with previous audit or compliance coverage.

Risk Assessment Methodology

The audit plan and risk assessment is developed through a three step process:

- Identify the Audit Universe - The audit universe consists of the thirteen business areas for all UT System health institutions
- Identify and Prioritize Risks - The Enterprise Risk Management (ERM) methodology is used to identify and prioritize risks across an organization. Through questionnaires, interviews and facilitated workshops, all risks are assessed according to their impact and probability and assigned a total risk value (Impact/Probability). For example, a risk assessed as "HM" would represent a risk with a high impact and medium probability. Risks are then depicted in a risk assessment matrix. Several criteria are used to determine impact and probability.
- Develop Audit Plan linked to the Risk Assessment - High risks (HH or HM) are placed on and must be mapped to the upcoming fiscal year's audit plan. Any high risks not placed on the audit plan due to limited resources or other factors are explained. Audits are categorized as financial, operational, compliance, information technology, follow-up and projects.

V. External Audit Services

The following is a list of audits completed by outside agencies at the Medical Center in FY2012.

- State Auditor's Office FY2011 Federal A-133 Audit
- State Auditor's Office FY2011 Statewide Financial Audit
- Deloitte FY2011 - UT System Financial Audit - Financial and IT
- Deloitte Information Security Assessment and Effectiveness Review - UT System Audit

VI. 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.