Valla F. Wilson, CIA, CRMA
Associate Vice President

Office of Internal Audit

October 31, 2018

Office of the State Auditor
1501 North Congress Ave.
Austin, TX 78701

Dear Office of the State Auditor:

We have prepared this report on the activities of The University of Texas Southwestern Medical Center's (Medical Center) 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 2018 and 2019 audit plans, audits completed and recommendations. The FY 2018 Audit activities focused on key externally requested and Institutional risk-based areas including patient care, information technology, compliance, core business processes, and other areas based on risk analysis.

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 L. Wilson

Valla F. Wilson

cc: John Colyandro, Texas Governor's Office of Budget and Policy Division
        Jennifer Jones, Texas Sunset Advisory Commission
        Julie Ivey, Legislative Budget Board
        Daniel K. Podolsky, M.D., President, The University of Texas Southwestern Medical Center

The University of Texas
Southwestern Medical Center
Internal Audit Annual Report for Fiscal Year 2018

October 31, 2018

THE UNIVERSITY OF TEXAS
SOUTHWESTERN MEDICAL CENTER

INTERNAL AUDIT ANNUAL REPORT FOR FISCAL YEAR 2018

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I. Compliance with Texas Government Code, Section 2102.015: 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 Policy Division. In accordance with House Bill 16, these reports have been made available on the UT Southwestern website.

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

II. Audit Plan for Fiscal Year 2018

FY 2018 Audit Plan - Based on approved plan modified in FY 2018	Budget	% of Total
Risk Based Audits		
18:01 Sponsored Programs Administration Audit *Completed; Report will be issued October 29, 2018*	200	
18:02 Clinical Trials Audit *Completed; Report will be issued October 29, 2018*	200	
18:03 Revenue Cycle - Charge Capture Review/Reconciliation Audit *Deferred until FY 2019; approved by Audit Committee*	-	
18:04 Revenue Cycle - Denials Management *Report Issued April 3, 2018*	250	
18:05 Revenue Cycle - Patient Account Credit Balances Audit *Report Issued July 24, 2018*	250	
18:06 CORE/Recharge Center Audit *Report Issued July 24, 2018*	400	
18:07 Office of Development Audit *Report Issued July 24, 2018*	250	
18:08 Third Party Vendor Relationships Audit (recurring) *Deferred until FY 2019; approved by Audit Committee*	-	
18:09 Change In Management Reviews for Key Leaders *Completed; Report will be issued October 29, 2018*	800	
18:10 Off Site Clinic Operations Audit *Report Issued January 12, 2018*	250	
18:11 Capital Projects Audit *Deferred until FY 2019; approved by Audit Committee*	-	

18:12 University Hospitals Building & Equipment Maintenance Audit *Report Issued April 3, 2018*	300	
18:13 IT-Biomedical Devices Audit *Report Issued July 24, 2018*	400	
18:14 IT-Decentralized Computing Audit *Deferred until FY 2019; approved by Audit Committee*	-	
18:15 IT - Data Security *Completed; Report will be issued October 29, 2018*	250	
Risk Based Audits Subtotal	**3,550**	**22.3%**
Required Audits (External and/or Internal)		
18:19 UTS 142 *Report Issued January 12, 2018*	100	
18:20 THECB *Report Issued April 3, 2018*	100	
18:17 T&E - Direct Reports *Completed; Report will be issued October 29, 2018*	150	
T&E - President's Office (support to UT System) *Cancelled*	-	
Financial Audit Support *Completed, no Internal Audit report issued*	700	
18:18 Uniform Guidance Review *Report Issued July 24, 2018*	200	
18:47 Willed Body Program Audit *Report Issued January 12, 2018*	200	
18:48 Proportional Funding of Benefits *Report Issued July 24, 2018*	200	
Required Audits Subtotal	**1,650**	**10.4%**
Consulting Projects		
System Development Consulting (Risk areas such as project management, controls design, data conversion, user testing, and security access) *Completed and ongoing*	1000	
IT-Continuous Monitoring *Completed and ongoing*	300	
Capital Projects *Completed and ongoing*	300	
SWHR Population Health *Completed and ongoing*	250	
SWHR Consulting *Completed and ongoing*	250	

SWHR - Financial Reviews *Report issued December 22, 2017*	500	
SWHR - IT Controls Review *Completed and ongoing*	350	
Internal Control & Fraud Awareness Training *Completed and ongoing*	200	
ERM Initiative *Completed and ongoing*	300	
Consulting Projects Subtotal	**3,450**	**21.7%**
Investigations		
Investigations *Completed*	1750	
Investigations Subtotal	**1,750**	**11.0%**
Follow Up		
Q1 Follow Up *Completed*	150	
Q2 Follow Up *Completed*	150	
Q3 Follow Up *Completed*	150	
Q4 Follow Up *Completed*	150	
Follow Up Subtotal	**600**	**3.8%**
General Reserve		
General Reserve *Utilized as needed for FY2018 audit projects*	500	
FY 18 Project Carryforward *Completed*	800	
General Reserve Subtotal	**1,300**	**8.2%**
Development - Operations		
Annual Internal Audit Report *Completed*	100	
Audit Committee Reporting *Completed*	500	
FY19 Risk Assessment and Audit Plan Development *Completed*	400	
State Auditor's Office (SAO) Support *Completed*	230	
Staff Meetings *Completed*	650	
Institutional Committee Meetings *Completed*	250	
Development - Operations Subtotal	**2,130**	**13.4%**

Development - Initiatives and Education		
Training for Internal Audit *Completed*	800	
Internal Audit Development *Completed*	450	
System Audit Initiatives (workgroups, committees, research, etc.) *Completed*	250	
Development - Initiatives and Education Subtotal	**1,500**	**9.4%**
Total	**15,930**	**100.0%**

Explanation of Deviations from Fiscal Year 2018 Audit Plan

The FY 2018 Audit Plan noted above represents a modified plan that was approved by the Institutional Audit Committee in April 2018. Modifications to the audit plan were due to several reasons, including unplanned changes in staff and available staff hours, and further assessment of risks (approximately a year after original assessment) which revealed certain areas were undergoing reorganization or other management initiatives. The modified plan represented a reduction in total FY 2018 hours from 17,370 to 15,930.

The following FY 2018 audits from the modified plan were deferred to FY 2019:
- Revenue Cycle – Charge Capture Review/Reconciliation Audit
- Third Party Vendor Relationships Audit
- Capital Projects Audit
- Decentralized Computing Audit

The Travel and Expense President's Office Audit was not performed in FY2018 because UT Southwestern was not selected for testing.

Compliance with the Purchasing and Contracting Requirements for Higher Education Institutions

Senate Bill 20 (84th Legislative Session) made several modifications and additions to Texas Government Code (TGC) and Texas Education Code (TEC) related to purchasing and contracting. Effective September 1, 2015, TEC 51.9337 requires that, *"The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor."*

Based on review of current institutional policy and the UT System Board of Regents' Rules and Regulations, UT Southwestern Medical Center has generally adopted all of the rules and policies required by TEC 51.9337. Review and revision of institutional and System policy is an ongoing process. These rules and policies will continue to be assessed annually to ensure continued compliance with TEC 51.9337.

III. Consulting Services and Non-Audit Services Completed

Activity	Impact
Performed reviews of complaints received through Medical Center's *EthicsLine.*	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 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.
Fraud Analysis	Provides independent consultation and evaluation tools to management for preventing, detecting and monitoring of fraudulent activities.
Business Resumption and Disaster Recovery Planning	Provides independent consultation and guidance to help the Medical Center address Emergency preparedness and Business Continuity risks.
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), and others as noted in Section VI. External Audit Services Procured.
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).
Internal Control and Fraud Awareness Training	Provide training to Medical Center departments on internal controls and fraud awareness.

Activity	Impact
Participation in the following Committees or work groups: · Business Administrative Systems Governance Committee · Business Resource Group – African American Interest Group · Executive Compliance Committee · Executive Wellness Committee · Financial Administrative Group · Historically Underutilized Businesses (HUB) Committee · Human Talent and Work Environment Committee · Information Systems Acquisition Committee · Information Security/Privacy Steering Committee · Mede Analytics Executive Steering Committee · PeopleSoft Project Reboot (various committees) · Revenue Integrity Committee · Six-Year Plan Steering Committee · Student System Steering Committee · University and Professional Billing Compliance Committee (UPBCC) · UT System System-wide Communication Committee · UT System Risk Assessment Work Group · UT System Shared TeamMate Project – Deployment Team & Technical Team · UT System TeamMate Governance Committee · UT System IT Risk Assessment Methodology Steering Committee · UT System Consulting Workgroup	Participates in committees and focused groups, providing consultation on process improvement, development of new processes, institutional initiatives, emerging issues in risk management, and audit initiatives.

IV. External Quality Assurance Review (Peer Review)

A Quality Assurance Self-Assessment was completed in FY 2017 and External Validation was completed in Q1 FY 2018. Independent consultants from Baker Tilley performed the external validation review.

BAKER TILLY

Candor. Insight. Results.

September 22, 2017

Ms. Valla Wilson, Associate Vice President of Internal Audit and Chief Audit Executive
The University of Texas Southwestern Medical Center

In September 2017, The University of Texas Southwestern Medical Center (UTSW) Office of Internal Audit (OIA or IA) completed a self-assessment of internal audit activities in accordance with guidelines published by the Institute of Internal Auditors (IIA) for the performance of a quality assessment review (QAR). UTSW OIA engaged an independent review team consisting of three internal audit professionals with extensive higher education and healthcare experience to perform an independent validation of UTSW's QAR self-assessment. The primary objective of the validation was to verify the assertions made in the QAR report concerning IA's conformity to the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* (the IIA *Standards*) and Code of Ethics, Generally Accepted Government Auditing Standards (GAGAS), and the relevant requirements of the Texas Internal Auditing Act (TIAA).

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally conforms" is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Based on our independent validation of the QAR performed by OIA, we agree with OIA's overall conclusion that the internal audit function **"Generally Conforms"** with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, as well as with OIA's conclusions regarding GAGAS and TIAA requirements. Our review noted strengths as well as opportunities for enhancing the internal audit function.

This information has been prepared pursuant to a client relationship exclusively with, and solely for the use and benefit of, UTSW and the University of Texas System Administration and is subject to the terms and conditions of our related contract. Baker Tilly 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 Southwestern Medical Center and The University of Texas System Administration.

The review team appreciates the cooperation, time, and candid feedback of executive leadership, stakeholders, and OIA personnel.

Very truly yours,

Baker Tilly Virchow Krause, LLP

an independent member of
BAKER TILLY
INTERNATIONAL

V. Internal Audit Plan for Fiscal Year 2019

The internal audit plan for FY 2019 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 FY 2019 Internal Audit Plan.

FY 2019 Audit Plan	Budget	% of Total
Risk Based Audits		
Tissue Collection, Storage and Security Audit	300	
HR - Leave Administration and Compensation Audit	400	
Revenue Cycle - Patient Account Follow Up Audit	300	
Revenue Cycle - Patient Account Write-Offs Audit	300	
Revenue Cycle - Professional and Hospital Billing Edits	300	
University Hospitals - Patient Discharge Process	350	
Accounting - Fiscal Reports Audit	400	
Institutional Advancement - Office of Communications, Marketing, & Public Affairs	250	
Capital Projects Audit *	350	
External Reporting Audit	350	
Research Data Protection and Validation Audit	400	
Sponsored Programs Administration Audit	250	
Clinical Trials Audit	400	
Revenue Cycle - Charge Capture Review/Reconciliation Audit	300	
CORE Facilities/Recharge Center Audit	200	
Third Party Vendor Relationships Audit *	250	
Change In Management Reviews for Key Leaders	800	
Off Site Clinic Operations Audit	200	
Uniform Guidance Review	200	
Southwestern Health Resources - Financial Reviews	300	

UTS 142.1 Compliance and Monitoring Plan	100	
IT - Decentralized Computing Audit	400	
IT - System Accessibility Audit	300	
IT - TAC 202 Compliance - Cybersecurity	200	
Risk Based Audits Subtotal	**7,600**	**41.7%**
Risk Based Consulting Projects		
Consulting General	150	
System Development Consulting (Risk areas such as project management, controls design, data conversion, user testing, and security access)	500	
Student Survey Analysis	80	
HR - Benefits Administration	150	
IT - Continuous Monitoring	300	
Capital Projects	200	
SWHR Consulting	500	
Management training offerings such as Internal Control & Fraud Awareness/Leadership Foundations Training and Other Courses and Presentation	400	
ERM Initiative	400	
Institutional Committee Meetings	250	
Risk Based Consulting Subtotal	**2,930**	**16.1%**
Risk Based Reserve		
General Reserve	838	
FY18 Project Carryforward	200	
Risk Based Reserve Subtotal	**1,038**	**5.7%**
Required Audits		
THECB	100	
Texas SB20 Compliance	100	
T&E - Direct Reports	150	
T&E - President's Office (support to UT System)	40	

Annual Financial Report Audit Support	400	
Required Audits Subtotal	**790**	**4.3%**
Investigations		
Investigations	1,750	
Investigations Subtotal	**1,750**	**9.6%**
Follow-Up		
Q1 Follow Up / Sustainability	150	
Q2 Follow Up / Sustainability	150	
Q3 Follow Up / Sustainability	150	
Q4 Follow Up / Sustainability	150	
Follow-Up Subtotal	**600**	**3.3%**
Development - Operations		
Annual Internal Audit Report	100	
Audit Committee Reporting	500	
FY20 Risk Assessment and Audit Plan Development	400	
Internal Audit Development	450	
External Audit Support (i.e., State Auditor's Office (SAO) and other agencies)	250	
Staff/Management Meetings	750	
Development - Operations Subtotal	**2,450**	**13.5%**
Development - Initiatives and Education		
Training for Internal Audit	800	
System Audit Initiatives (workgroups, committees, research, etc.)	250	
Development - Initiatives and Education Subtotal	**1,050**	**5.8%**
Total Budgeted Hours	**18,208**	**100.0%**

* Indicates coverage in capital budget controls, or any other limitation or restriction in the General Appropriations Act as well as contract management.

The following are risks identified as high or high/medium risks and are not included in our plan. They include:

- Execution of institutional strategic initiatives
- High quality patient safety for patients of faculty practice
- Preserve Medical Center brand while expanding business relationships
- Monitoring of regulatory environment

- Resource optimization to support SWHR initiatives
- Quality of care for patients of faculty practice
- Adequate governance to support infrastructure needs

These risks are not included in the plan due to one or more of the following reasons:
- Management may have institutional initiatives focused on mitigation strategies for addressing risks
- Risks were not considered auditable
- Risks areas are included in the Compliance Office plan
- Transition of leadership or program is underway
- Internal Audit performed an audit of the risk area within the last few years

VI. External Audit Services Procured in Fiscal Year 2018

The following is a list of audits in progress or completed by outside agencies at the Medical Center in FY2018.

External Auditor/ Organization	Purpose
Cancer Prevention Research Institute of Texas - CPRIT (performed by Deloitte)	Independent Auditor's Report on the Schedule of Expenditures of State Awards for the CPRIT Program, and Report on Program Compliance and Internal Control over Compliance
Centers for Medicare & Medicaid Services (CMS)	External CMS contractor review (CERT)
Centers for Medicare & Medicaid Services (CMS)	External CMS contractor review - NOVITAS Solutions (Billing) E/M Coding Review Focus
Centers for Medicare & Medicaid Services (CMS)	External CMS contractor review - NOVITAS Solutions Targeted Probe
Centers for Medicare & Medicaid (CMS) KEPRO	Quality Improvement Organization (Billing): Two Midnight Short Stay Review - Clements University Hospital Mandated review conducted by QIOs of short-stay outliers

External Auditor/ Organization	Purpose
Centers for Medicare & Medicaid (CMS) Recovery Audit Contractor (RAC)	Review by RAC-Medicare Complex and NOVITAS - DRG Validation
Deloitte	Annual Financial Report (AFR) Audit (FY2017 Year End Testing and FY2018 Interim Testing
Deloitte	FDA Expanded Access Investigational New Drug submission (IND) Audit
Deloitte	FY2018 Student Financial Aid Compliance Audit
Baker Tilly	Quality Assurance Review of the Internal Audit function (External Validation)
State Auditor's Office (SAO)	Audit of Historically Underutilized Businesses (HUB) Program
State Auditor's Office (SAO)	Audit A-133 Statewide Single Audit for FY 2017 (Research & Development Cluster and follow up on prior year findings)
State Auditor's Office (SAO)	Audit A-133 Statewide Single Audit for FY 2018 (Research & Development Cluster and follow up on prior year findings)
State Auditor's Office (SAO) performed by KPMG	Audit Delegation request for an Independent Auditor's assessment on the PeopleSoft 9.1 Payroll System
State Comptroller's Office Post Payment Audit	Routine audit by the Fiscal Management Division of the Comptroller of Public Accounts to validate the Medical Centers' payroll, purchase, procurement and travel expenditures comply with state laws and regulations.
Texas Higher Education Coordinating Board (THECB)	FY 2018 Audit of Formula Funding Data Integrity

During FY2018, the Medical Center did not procure any internal audit services from external providers.

VII. 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.
  - o Medical Center maintains a fraud, waste and abuse hotline webpage that links to the State Auditor's fraud hotline information and website for fraud reporting.
  - o Medical Center complies with the code for coordination of investigations, progression of investigations and reporting of results.