

**The University of Texas Health Science Center at Houston (UTHealth)  
Internal Audit Annual Report for 2015**

**Purpose of the Annual Report:** To provide information on the benefits and effectiveness of the internal audit function. In addition, the annual report assists central oversight agencies in their planning and coordination efforts.

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**Purpose of the Annual Internal Audit Report:** To provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual internal audit report assists oversight agencies in their planning and coordination efforts.

**Section I - Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on the Internet Web site**

The Internal Audit plan and Internal Audit Annual Report is contained within the Reports to the State section of UTHealth's web site as required by Texas Government Code, Section 2102.015. An updated report is provided to the web developer in the Office of Institutional Advancement via email. The web developer then posts the information no later than one day prior to the due date for submission to the appropriate reporting state agencies.

**Section 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 [institution] 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.

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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.

**Section III - Internal Audit Plan for Fiscal Year 2015**

Audit Number	FY 2015 Audit Plan Audit/Project	Report Date	Note	Audit Status
	<b><i>Financial Audits</i></b>			
15-101	Financial Statements FY 2014 Assurance Work	Report issued by D&T at UT System level	Controls and transaction testing, analytical review, and other procedures assigned as part of the financial statements assurance audit.	Complete
15-102	Financial Statements FY 2015 Assurance Work	Report issued by D&T at UT System level	Interim work for FY 2015 financial statement audit.	Complete
15-103	Assist State Auditor's Office and other state and/or federal auditors	No Report Issued	Provide assistance to the State Auditor's Office and other State or Federal auditors.	Complete
15-105	Presidential Travel and Entertainment	Report issued at the UT System level	Coordination of effort and assistance to UT System during their audit of presidential travel.	Complete

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15-106	Joint Admission Medical Program (JAMP)	10/30/14	Added during FY 2015	Complete
15-107	Texas Higher Education Coordinating Board (THECB)	12/5/14	Added during FY 2015	Complete
15-108	Executive Travel and Entertainment	11/6/14 2/13/15 6/4/15 8/25/15	Periodic review of official function and travel expenses in FY 2015	Complete
15-112	ARP/ATP	9/9/14	Advanced Research Program and Advanced Technology Program Biannual Audit	Complete
15-113	Training	N/A		In Progress
15-117	Practice Acquisition Process	N/A		In Progress
15-118	Student Housing Management	8/7/15		Complete
15-119	Preparedness from Internal Threats	N/A		In Progress
15-121	Clinical Trials Billing	N/A		In Progress
15-301	Proportional Benefits Funding	1/22/15	Added during FY 2015	Complete

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15-600	Change in Management	N/A	N/A – no change in management requiring an audits	N/A
	<b>Operational Audits</b>			
15-115	Confirm Review and Validation	11/4/14		Complete
15-116	Buycard Program Review	1/7/15		Complete
	<b>Compliance Audits</b>			
15-109	Delivery System Reform Incentive Payment (DSRIP)	N/A		In Progress
15-111	Dental School Practice Plan (DSRDP)	6/26/15		Complete
15-114	Title IX Compliance	8/10/15		Complete
15-122	Emergency Preparedness Plan	4/8/15		Complete
15-123	PCI/DSS	10/27/15		Complete
	<b>Information Technology Audits</b>			
15-201	General Controls	8/24/15		Complete
15-202	Texas Administrative Code 202 (TAC 202)	6/17/15		Complete
15-203	Exemption From Security Policy	1/22/15		Complete

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15-204	Disaster Recovery Capabilities	5/5/15		Complete
15-205	Yardi System – Integrated Audit	8/7/15		Complete
15-206	Exchange System	7/10/15		Complete
15-207	Practice Acquisition Process – Integrated Audit	N/A		In Progress
15-208	PCI/DSS – Integrated Audit	10/27/15		Complete
	<b><i>Follow-up Audits</i></b>			
15-104	Follow-up on Open Recommendations	Reports issued quarterly	Quarterly follow-up review on open recommendations.	Complete

The following audits were canceled from the FY2015 UTHealth Auditing and Advisory Services annual audit plan:

- **UTP Governance (300 hours):** UTP governance was included in the risk assessment for audit 15-117/207 Practice Acquisition Process.
- **Medical School Practice Plan (MSRDP) (300 hours):** Was included in the FY 2015 plan in the event that a System-Wide audit was performed; however, no such audit was required this year. Two audits, 15-117/207 Practice Acquisition Process and 15-109 Delivery System Reform Incentive Payment (DSRIP), are on the 2015 plan and fulfill the annual requirement to perform an MSRDP audit.

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**Section IV - Consulting Services and Nonaudit Services Completed**

No formal consulting services or nonaudit services were scheduled for FY 2015; however, Audit & Advisory Services made an IT auditor available for questions while Student Housing Management worked with their application vendor to implement the recommendations from the 15-118 Student Housing Management/15-205 Yardi System Integrated Audit.

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**Section V - External Quality Assurance Review (Peer Review)**



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May 21, 2014

Mr. Dan Sherman, Assistant Vice President and Chief Audit Officer  
The UT Health Science Center at Houston  
7000 Fannin Street, Houston, TX 77030

We have completed an External Quality Assessment ("EQA") of The University of Texas Health Science Center at Houston ("UTHSC Houston" or "institution") Office of Auditing and Advisory Services ("A&AS"). 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 A&AS generally conforms. We did identify process enhancement opportunities.
- GAGAS - Our assessment of GAGAS was limited, based on A&AS's disclosure that no internal audits were performed during our assessment period under GAGAS. Based on our work, we identified a conformance observation that A&AS deferred the external peer review as directed by the UT System in order to coordinate the process System wide. We also identified 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 March 6, 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 UTHSC Houston.

We would like to offer a sincere thank you to you and your staff, and the Audit Committee and management of UTHSC Houston, 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,

  
PricewaterhouseCoopers LLP

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

V.

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**Section VI - Internal Audit Plan for Fiscal Year 2016**

<b>FY 2016 Audit Plan</b>	<b>Budgeted</b>	<b>% of</b>	
<b>Audit/Project</b>	<b>Hours</b>	<b>Total</b>	<b>Description</b>
<b><i>Financial</i></b>			
Financial Statements FY2015 Assurance Work	160		Controls and transaction testing, analytical review, and other procedures assigned as part of the financial statements assurance audit
Financial Statements FY2016 Assurance Work	175		Interim work for FY 2016 financial statement audit.
Assist State auditor's Office and other external auditors	150		Provide assistance to the State Auditor's Office and other external audit functions.
Review and Validation	60		Review for compliance with UTS 142.1, Section 6 requiring audits of the monitoring plan to validate the assertions on segregation of duties and account reconciliations
<b>Financial Subtotal</b>	<b>545</b>	<b>4.2%</b>	
<b><i>Operational Audits and Projects</i></b>			
HIPAA – Integrated Audit	200		A review of process to ensure compliance with HIPAA information security standards
Presidential Travel and Entertainment	50		Audit performed by the System Audit Office as required by Regents Rule 20205. Hours are to provide coordination and assistance.
Executive Travel and Entertainment	200		Review of official function, and travel and entertainment expenses
Cash Counts	300		Review for compliance with UTS 166: Cash Management and Cash Handling Policy
Faculty Hiring Process	450		Review faculty hiring process and controls in place to ensure compliance with Federal and State regulations

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Procurement	300		A review of the process to ensure compliance with formal bid procedures including sole source justification. <b>Will address contract management and other requirements of Senate Bill 20 (84<sup>th</sup> Legislature).</b>
Faculty Compensation	400		Review of the faculty compensation process including equity and compliance with Regents Rule 20204 and UTS 144
ID Management – Integrated Audit	200		Review verification of foreign students, etc.
Information Technology Asset Management System (ITAMS) – Integrated Audit	200		To review control process over IT assets
Change in Management	300		UTHealth entities, schools, departments, or divisions with changes in key management, based on an assessment of risk.
Carryforward	300		
<b>Operational Subtotal</b>	<b>2900</b>	<b>22.2%</b>	
<b><i>Compliance Audits and Projects</i></b>			
THECB	60		Provide opinion on revenue and expenditure reporting on annual financial report
Conflict of Interest	300		Review COI and management plan process for compliance with HOOP 20
MSRDP	300		Assess compliance with MSRDP process or bylaws. Will be performed based on risk
DSRDP	300		DSRDP audit to assess efficiency and effectiveness of operations of biopsy services
Physician Credentialing	300		Review provider credentialing process to review for compliance with federal regulations
Benefits Proportionality	300		Audit of benefits proportional by fund for FY 2012, 2013, and 2014, as required by a rider to the FY 2016 – 17

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			Appropriations Act
Annual Evaluations	100		Assurance work to determine whether annual faculty evaluations have been performed
<b>Compliance Subtotal</b>	<b>1660</b>	<b>12.7%</b>	
<b><i>Information Technology Audits and Projects</i></b>			
HIPAA – Integrated Audit	400		HIPAA standards with regards to technology
TAC 202	300		Review new requirements effective Feb 2016
Vendor Access	300		Review external access to our systems granted to vendors
Change Management	400		Review institutional policy, procedures, and recent projects
Proofpoint	300		Review data loss prevention capabilities, configuration, filtering, etc.
ID Management – Integrated Audit	250		Review technical controls, external authentication, etc.
ITAMS – Integrated Audit	300		Review access, device classifications, completeness of inventory, etc.
Medical Devices	300		Review decommissioning process
Vendor Master File	300		Review access, change management, validity, etc.
ImageNow	400		Review access, application controls, etc.
Carryforward	400		
<b>Information Technology Subtotal</b>	<b>3650</b>	<b>27.9%</b>	
<b><i>Follow-up</i></b>	400		
<b>Follow-up Subtotal</b>	<b>400</b>	<b>3.1%</b>	
<b><i>Projects</i></b>			
Internal Audit Committee	300		
FY 2017 Audit Plan	250		
Institutional Committees	200		

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Internal Quality Assessment	100		
Internal Staff Meetings	300		
Teammate, IDEA, etc.	150		
UT System Requests, etc.	200		
Internal Audit Annual Report	40		Preparation and posting of the Internal Audit Plan, Internal Audit Report, and other information as required by House Bill 16
Training Provided by A&AS	100		
<b>Projects Subtotal</b>	<b>1640</b>	<b>12.5%</b>	
<b><i>Development – Initiatives and Education</i></b>			
Continuing Professional Education	540		
System Audit Office Initiatives	139		
<b>Development – Initiatives and Education Subtotal</b>	<b>679</b>	<b>5.2%</b>	
<b><i>Reserve</i></b>			
Emerging Risk	700		
Investigations	300		
Consulting/Management Requests	600		
<b>Reserve Subtotal</b>	<b>1600</b>	<b>12.2%</b>	
<b>Total Hours</b>	<b>13074</b>	<b>100%</b>	

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<b>High Risks Not Included in FY 2016 Audit Plan</b>	<b>Note</b>
Partnerships with hospitals are not clearly defined, resulting in data and/or electronic health record issues.	N/A
Internal threats are not properly identified and addressed.	Covered by FY 2015 Preparedness for Internal Threats audit.
Cloud-based solutions do not recognize anticipated cost savings.	Covered by FY 2015 Institutional Use of Cloud Computing audit.
Security awareness training is not given or inadequately tracked	Covered by FY 2015 Training audit
Hackers infiltrate the network.	Covered by FY 2015 Exchange System audit
Phishing attacks compromise network security.	Covered by FY 2015 Exchange System audit
The selection of a new Electronic Health Record (EHR) system does not meet internal and external requirements.	A&AS is consulting on EHR Steering Committee
The response to a hurricane or other natural disaster is not sufficient.	Covered by FY 2015 Disaster Recovery Capabilities
Changes in healthcare legislation negatively affect UTHealth	Covered by FY2015 DSRIP and ongoing monitoring

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Employees are allowed to carry guns in the workplace	Covered by FY2015 Preparedness From Internal Threats
Practice acquisitions are not adequately monitored and/or effective controls implemented subsequent to acquisition.	Covered by FY 2015 Practice Acquisition Process
Reliance on external income (grants, appropriations, etc.)	N/A
Resources are not available to support expanded operations.	N/A
Inconsistencies in billing practices lead to higher costs	N/A
Invoices are not consistently prepared by all departments	N/A
Noncompliance with Title IX	Covered by FY 2015 Title IX
Decennial accreditations are not performed on a timely basis.	N/A
Inability to effectively communicate with UT System.	N/A
Errors are made when prescribing and/or distributing medications to patients	N/A

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Noncompliance with PCI requirements.	Covered by the FY 2015 PCI DSS
Cloud-based technologies are self-provisioned without proper administrative controls	Covered by the FY 2014 Institutional Use of Cloud Computing
Collections could decline as a result of changes in billing and collection process.	N/A
Surgery charges are not captured and billed.	N/A
Vendors do not bill according to the contract.	N/A
Details are cut and pasted from electronic medical records to billing documentation.	N/A
Noncompliance with ICD-10.	External consultant hired to ensure compliance
Payments are not collected at time of service.	N/A
Denials management is not properly managed.	N/A
Waiver funding continues to decrease.	Covered by FY 2015 DSRIP



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Our risk assessment methodology included interviews and questionnaires to update the annual risk assessment. For each identified risk, a rating was assigned using a variety of qualitative, operational, and quantitative risk factors. Risks are then ranked and the audit plan developed accordingly.

A subset of the new TAC 202 standards required by February 2015 were audited in FY 2015. TAC 202 audits are scheduled for both FY 2016 and FY 2017 in order to cover the standards phased in over the next two years.

**Section VII - External Audit Services Procured in Fiscal Year 2015**

Service	Provider
A-133 Audit of CPRIT Funds	Deloitte Certified Public Accountants
Financial Statement - HCPC	BKD, LLP
Opinion on financial statements of UT Physicians (501a Corporation supporting UTHealth)	Blazek & Vetterling LLP Certified Public Accountants
Opinion on financial statements of UT System Medical Foundation (a Corporation supporting UTHealth)	Blazek & Vetterling LLP Certified Public Accountants

**Section VIII - Reporting Suspected Fraud and Abuse**

UTHealth's home page contains a link to information on how to report suspected fraud, waste, and abuse. The information has a link to the State Auditor's fraud reporting website and its hotline number, as well as information on the various ways to report suspected fraud internally. Institutional policies and procedures address the requirement to report fraud and the Standard of Conduct Guide, applicable to all employees, also addresses the reporting of fraud. The intranet sites of the departments of Institutional Compliance and Auditing & Advisory Services contain information and links for reporting suspected fraud.