

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2013**

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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**The University of Texas Health Science Center at Houston (UTHealth)
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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.

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

The Internal Audit plan and Internal Annual Report is contained within the Reports to the State section of UTHealth's web site as required by HB 16. 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.

II. Internal Audit Plan for Fiscal Year 2013

Audit Number	FY 2013 Audit Plan Audit/Project	Budgeted Hours	Description	Status	Report Date
	<i>Financial Audits</i>		<i>Description</i>		
13-101	Financial Statements FY 2012 Assurance Work	310	Controls and transaction testing, analytical review, and other procedures to provide defined level of assurance on financial statements.	Complete	Report issued by D&T at UT System level
13-102	Financial Statements FY 2013 Assurance Work	350	Interim work for FY 2013 financial statement audit.	Complete	Report issued by D&T at UT System level
13-103	Assist State Auditor's Office and other state and/or federal auditors	225	Provide fieldwork assistance to the State Auditor's Office and other state or federal auditors; assist UTHealth with responding to requests and recommendations.	Complete	No Report Issued
13-105	Presidential Travel and Entertainment	160	Perform quarterly review of expenditures for FY2013.	Complete	10/30/2012
13-106	Joint Admission Medical Program Financial Review	65	Provide opinion on revenue and expenditure reporting on annual financial reports (biannual).	Cancelled	No Report Issued
13-108	Executive Travel and Entertainment	200	Periodic review of official function and travel in FY 2013.	Complete	08/13/2013
13-112	ARP/ATP	85	Advanced Research Program and Advanced Technology Program biannual audit.	Complete	06/14/2013
13-113	Clinic and Departmental Cash Controls Review	300	Surprise counts and controls review of cash and change funds for selected clinics and departments.	Complete	09/30/2013
	Financial Audits Subtotal	1695			
	<i>Operational Audits</i>				

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13-115	Confirm Review and Validation	60	Review of compliance with UTS 142.1, which requires the development of a monitoring plan for the segregation of duties and reconciliation of accounts.	Complete	10/30/2012
13-116	Clinical Trials Billing	300	Review of clinical trials billing practices.	In Progress	
13-400	Management Requests	400			
13-500	Investigations	325			
	<u>Carryforward Audits</u>				
12-117	Departmental Audit – External Billing - Bayshore	200	Analysis of billing process and lag times.	Complete	01/28/2013
12-417	OrthoOto Billing	200	Review processes in departments that directly bill external customers.	Complete	Results communicated to Management
	Operational Audits Subtotal	1485			
	Compliance Audits				
13-107	Texas Higher Education Coordinating Board Residency Program - Five Programs	50	Provide opinion on revenue and expenditure reporting on annual financial reports.	Complete	12/18/2012
13-109	Willed Body Program	350	Required audit of the Willed Body Program.	Complete	11/02/1012
13-110	Medical School Practice Plan (MSRDP)	250	Assess compliance with UT policies and by-laws	Complete	Performed by UT System Audit w/assistance of UTHealth A&AS
13-111	Dental School Practice Plan (DSRDP)	200	Assess if amended by-laws are in place and functioning as intended.	Complete	08/01/2013
13-114	International Observers/visiting Scientists	350	Review the process for monitoring and supervising international observers and visiting scientists.	Complete	05/07/2013
13-119	Compliance with IACUC Regulations	400	Review of compliance with Institutional Animal Care and Use Committee (IACUC) regulations.	In Progress	Report in Draft
13-120	Compliance with Regent's Rules for Highly Compensated Individuals	300	Review compliance with Regent's Rules for documenting and determining the reasonableness of compensation for highly compensated personnel.	Complete	10/17/2013
13-121	Medical Billing Coding	340	Review of medical billing compliance.	Complete	Results communicated to Management
12-118	ICD-10 Update	125	Monitor the process to prepare for the conversion to the ICD-10 coding standards	In Progress	Audit postponed to coincide with revised date for ICD-10 implementation of 10/1/14

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12-120	Compliance with ACGME Rules and Regulations	150	Review of controls in place to ensure compliance with Accreditation Council for Graduate Medical Education (ACGME) rules.	Complete	01/24/2013
	Compliance Audits Subtotal	2515			
	Information Technology Audits				
13-200	IT Consulting	200			
13-201	Encryption of University Information	225	UT System request to determine if confidential and protected information is appropriately encrypted	Complete	08/09/2013
13-202	Compliance with TAC 202	250	Review institutional compliance with selected sections of the Texas Administrative Code 202 Information Security Standards.	Complete	01/30/2013
13-204	HIPAA	400	To assure management that applications containing personal health information (PHI) comply with HIPAA security requirements.	Complete	10/18/2013
13-205	Web Applications	400	Review of controls in place to ensure the confidentiality, integrity, and availability of the data for selected web applications.	In Progress	Report in Draft
13-206	Follow-up on Deloitte Security Assessment	200	UT System request to follow-up on recommendations made in the Deloitte Security Assessment.	Cancelled	No Report Issued
12-203	Blackboard	200	Review controls to ensure the accuracy, availability, confidentiality, and integrity of data that is processed and protected by the Blackboard environment.	Complete	05/06/2013
	Information Technology Subtotal	1875			
	Follow-up Audits				
13-104	Follow-up on Open Recommendations	300		Complete	08/14/2013
	Follow-up Audits Subtotal	300			
	Projects				
13-405	Internal Audit Committee	300		Complete	No Report Issued
13-401	UT System Requests	200		Complete	No Report Issued
13-402	Institutional Committees	74		Complete	No Report Issued
13-403	Quality Assurance Review - Self Assessment	150		Cancelled	No Report Issued
13-404	Training Provided by A&AS	50		Complete	No Report Issued
13-407	FY 2014 Audit Plan	120		Complete	No Report Issued

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13-408	Internal Audit Annual Report	30	Complete	10/31/2013
13-409	IDEA Implementation	80	Complete	No Report Issued
13-410	UT System Working Group	100	Complete	No Report Issued
13-411	TeamMate Upgrade/TeamMate Fixes	80	Complete	No Report Issued
	Projects Subtotal	1184		
	Total Hours	9054		

The UT System Board of Regents allocated funds to address issues identified during the Deloitte Security Assessment. Recommendations made from the Security Assessment are not yet far enough along in their implementation to provide a meaningful audit. As a result, a planned follow-up on the recommendations was cancelled and will be included in the FY 2014 audit plan.

The financial review for the Joint Admission Medical Plan (JAMP) was cancelled for FY 2013. This audit is a bi-annual audit. Although hours JAMP audit budgeted for this project, it was cancelled based on correspondence from the Joint Admission Medical Practice Plan that it was not necessary.

III. Consulting Services and Non-audit Services Completed

Report No.	Report Date	Name of Project	High-Level Consulting Engagement/Non-audit Service Objective(s)	Observations/ Results and Recommendations
12-415	No Report Issued	HCPC - Kronos Review	Review of the timekeeping system used by HCPC	Results communicated to the department.
12-417	No Report Issued	OrthoOto Billing Revenue	Review of billing and collection services for selected physicians.	Not Applicable
13-412	Report in Draft	Texas Physician Uncompensated Care Analysis	Review of UTHealth's calculations and submission for TXPUC	Results communicated to the department.

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IV. External Quality Assurance Review (Peer Review)

Letter of Transmittal



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All information included in this report is proprietary and confidential and is intended for UT Health Science Center at Houston's internal use only and may not be distributed to any other third party other than your regulator or external auditor without the prior written consent of Basil Woller & Associates, LLC.

This external quality assessment provides management with information about the internal audit activity at UT Health Science Center at Houston as of February 11, 2010. Future changes in environmental factors and actions by personnel, including actions taken to address our recommendations, may have an impact upon the operation of the internal audit activity in a manner that this report did not and cannot anticipate.

Considerable professional judgment is involved in evaluating the findings and developing our recommendations. Accordingly, it should be recognized that others could evaluate the results differently, and draw different conclusions. The criteria that we used to determine our views on conformance with the *International Standards for the Professional Practice of Internal Auditing* are defined on page 4 to this report and are consistent with the guidance provided by The Institute of Internal Auditors in their *Quality Assessment Manual, Sixth Edition*.

February 11, 2010

Lois K. Pierson, CPA, CIA
Assistant Vice President, Auditing and Advisory Services
The University of Texas Health Science Center at Houston
7000 Fannin Street, Suite M20
Houston, Texas 77030

Dear Ms. Pierson,

Basil Woller & Associates, LLC completed an external quality assessment of Auditing and Advisory Services ("A&AS") for The University of Texas Health Science Center at Houston ("UTHSC-H") on February 11, 2010. An external quality assessment is required under the *International Standards for the Professional Practice of Internal Auditing* ("Standards") at least once every five years and under *Generally Accepted Governmental Auditing Standards* ("GAGAS") at least once every three years.

The main objectives of the external quality assessment were to:

- Assess conformance with IIA Standards and applicable GAGAS;
- Identify opportunities, offer recommendations for improvement and provide counsel to the CAE and staff for improving their performance and services; and
- Assess the effectiveness of internal audit in providing assurance and consulting services to the board, senior management, and other key stakeholders.

In our opinion, Auditing & Advisory Services for UTHSC-H generally conforms with the IIA Standards. This is the highest rating available for an internal audit activity. It is also our opinion that Auditing & Advisory Services for UTHSC-H conforms with applicable GAGAS consistent with the self-assessment conducted by A&AS in July 2009 and documented on "Texas State Agency Internal Audit Forum (SAIAF) Master Peer Review Program".

Our report also describes areas where we believe A&AS is operating in an innovative manner and opportunities that we see for continuous improvement. This information is consistent with our view that an external quality assessment should provide insight and ideas for positive change in your function.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Basil Woller', written over a horizontal line.

Basil Woller & Associates, LLC

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V. Internal Audit Plan for Fiscal Year 2014

FY 2014 Audit Plan	Budgeted	
Audit/Project	Hours	Description
<i>Financial</i>		
Financial Statements FY 2013 Assurance Work	310	Controls and transaction testing, analytical review, and other procedures to provide defined level of assurance on financial statements.
Financial Statements FY 2014 Assurance Work	350	Interim work for FY 2014 financial statements audit.
Presidential Travel and Entertainment	100	Perform quarterly review of expenditures for FY 2014.
Assist State Auditor's Office and other State and/or Federal auditors	150	Provide fieldwork assistance to the State Auditor's Office and other State or Federal auditors; assist UTHealth with responding to requests and recommendations.
Executive Travel and Entertainment	200	Periodic review of official function and travel expenses in FY 2014.
Review of Payroll Processes	300	Review of payroll expenditures to ensure they are correct and authorized. This audit will be performed concurrent with a review of IT controls in the payroll system.
Financial Subtotal	1410	
<i>Operational</i>		
Confirm Review and Validation	60	Review of compliance with UTS 142.1, which requires the development of a monitoring plan for the segregation of duties and reconciliation of accounts.
Unfunded Research	400	Review of costs for research not funded by grants or contracts..
Accounts Receivable Processing/Cost of Collections	500	Efficiency and effectiveness review of billing, accounts receivable, and collections processes for patient charges.
Change in Management	400	Operational review of UTHealth entities, schools, departments, or divisions with changes in key management, based on an assessment of risk.
Revenue Cycle Review	400	Review of revenue cycle for selected clinical departments. A detailed review from point of service through final adjudication of bill. Performed in conjunction with medical billing compliance.
Review of UTP Employee Reimbursement Process	200	Review of employee reimbursements at UTP.
Environmental Health and Safety	350	Operational review of EH&S program.

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Dental School Student Clinic	250	Operational review of non-DSRDP income.
<u>Carryforward Audits</u>		
Carryforward Audits	300	Hours to complete carried forward from FY2013
Operational Subtotal	2860	
Compliance		
Texas Higher Education Coordinating Board Residency Program -Remaining Programs	50	Provide an opinion on revenue and expenditure reporting on annual financial reports.
Medical Service Research and Development Plan (MSRDP)	250	Annual required audit of Medical School Practice Plan.
Dental Service Research and Development Plan (DSRDP)	250	Annual required audit of Dental School Practice Plan.
Cash Controls – Non-clinical Areas	300	Review of compliance with UTS 166 in non-clinical areas receiving cash payments.
Evaluation of Tenured Faculty	350	Review of compliance with Regents' Rule 31102
Compliance Subtotal	1200	
Information Technology		
HCM – Integrated Audit	200	Review of IT controls in the payroll system. This audit will be performed concurrent with the review of the payroll processes noted above.
Campus Solutions – Post Implementation Review	450	Review of Campus Solutions to determine the extent to which the project met its objectives.
Clinic Compliance with IT policies	300	To determine whether newly acquired clinics are implementing the controls necessary to ensure compliance with security policies.
Follow-up on Deloitte Security Assessment	200	UT System request to follow-up on recommendations made in the Deloitte Security Assessment.
Institutional Use of Cloud Computing	500	Review of Institutional use of cloud computing and the measures in place to maintain security.
Assist SAO – IT Requests	150	Provide assistance to the State Auditor's Office and other state or federal auditors; assist UTHealth with responding to requests and recommendations.
<u>Carryforward Audits</u>		
Web Applications Audit	300	Hours to complete audit carried forward from FY2013
Information Technology Subtotal	2100	
Follow-up		
Follow-up on Open Recommendations	400	
Follow-up Subtotal	400	

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Projects		
Internal Audit Committee	300	
UT System Requests	200	
Institutional Committees	165	
Participation in Professional Associations	80	
Biweekly Audit Status/Staff Meetings	300	
Training Provided by Audit & Advisory Services	50	
FY 2015 Audit Plan	120	
Internal Audit Annual Report	30	
Quality Assurance Review – External	150	
TeamMate Upgrade/TeamMate Fixes	100	
Projects Subtotal	1495	
Reserve		
Consulting/Management Requests	400	
Investigations	325	
Reserve for Audit of Emerging Risks	300	
Reserve Subtotal	1025	
Total Hours	10490	

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Risk	Explanation/Mitigation	Internal Audit Action
Exchange	System upgrade planned for FY14	One of five high risk areas to be considered as a replacement audit based upon changes in institutional risk or completion of the audit plan.
Outdated or inadequate facilities or equipment	Monitored by management and Facilities	One of five high risk areas to be considered as a replacement audit based upon changes in institutional risk or completion of the audit plan.
Potential insecurities due to applications and operating systems that are not adequately patched and maintained	Monitored by management and Information Technology	One of five high risk areas to be considered as replacement audit based upon changes in institutional risk or completion of the audit plan.
Lack of ability to integrate newly purchased and newly expanded physician practices into the institution	Processes currently undergoing revision	One of five high risk areas to be considered as a replacement audit based upon changes in institutional risk or completion of the audit plan.
Patients are admitted rather than observed causing findings in Medicare Recovery Audits	Monitored by management	One of five high risk areas to be considered as a replacement audit based upon changes in institutional risk or completion of the audit plan.
Excessive reliance on limited number of clinical partners (MHH) for operational revenues	Audit of the Annual Operating Agreement performed in FY13 by PwC	Monitor
Purchase contracts for acquired clinics not reviewed by legal council	UTHealth is taking a more active role in the governance of UTP by providing legal, procurement and financial services	Monitor
Lack of salary equity for faculty	Performed as part of Faculty Compensation audit and also covered by FY13 audit of Compensation	Risk being audited as part of FY 13 audit plan
Reduction in donations due to economic conditions, placing capital projects and key faculty and administrative appointment in jeopardy	Monitored by management and Development. New development officer recently hired	Monitor
Time and Effort Reporting	Included in the A-133 audit conducted by the State Auditors Office	Monitor

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AllScripts Electronic Medical Record (EMR) system	Monitored by management and Compliance	Monitor
Blackboard	Audited in past year	Risk being audited as part of FY 13 audit plan
IDX - Medical Billing System	Information Technology monitors the IDX (now GE Centricity) application	Monitor
Oracle	Oracle databases are typically administered by Central IT or experienced individuals in decentralized areas	Controls for critical Oracle databases are reviewed as part of the external financial review, the A-133 audit, and as part of the audit process when reviewing an application
PeopleSoft Financial Management System (FMS)	General controls for the FMS application are reviewed as part of the annual financial audit and the A-133 audit. A&AS assists the SAO and Deloitte with these audits	A&AS provides assistance to Deloitte and the State Auditor's Office. A&AS can assess security of the FMS application during the financial audit and A133 audit
Potential for building new web sites without proper security scans	Monitored by management and Information Technology	Monitor
Lack of monitoring the movement of patient data between clinics, systems, and across the network causes unknown/insecure data	Monitored by management and Information Security	Monitor
Potentially insecure use of USB drives/CDs/DVDs to store sensitive (HIPAA) data	P&P recently changed	Monitor until new P&P have had sufficient time to take affect
Physicians not taking required medical billing training	Monitored by management and Billing Compliance	Monitor
Medical records unavailable, incomplete or not safeguarded	Monitored by management and HIPAA compliance office	Monitor
Faculty recruitment and retention	Faculty Compensation audit performed by UT System Audit	Monitor

Our risk assessment methodology included interviews and questionnaires to update the annual risk assessment. The identified risks were organized into institution-wide areas such as financial management, human resources management, and purchasing/warehousing. We developed detailed risk assessments of high-risk areas of research, information technology, and patient care. For each identified

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risk, probability and impact were determine using three to seven factors such as regulatory environment and frequency of identification in responses for the financial/operational risks and scope of process and age of system for IT risks.

VI. External Audit Services Procured in Fiscal Year 2013

Service	Provider
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
Annual Operating Agreement between Memorial Hermann Hospital and UTHealth	Pricewaterhouse Coopers LLP Certified Public Accountants

VII. 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.