

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

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.

Table of Contents

I.	Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Report, and Other Audit Information on Internet Web site.....	2
II.	Internal Audit Plan for Fiscal Year 2016, Compliance with Benefits Proportionality Requirements & Compliance with the Texas Education Code §51.9337.....	2
III.	Consulting Services and Non-audit Services Completed.....	6
IV.	External Quality Assurance Review (Peer Review).....	7
V.	Internal Audit Plan for Fiscal Year 2017.....	8
VI.	External Audit Services Procured in Fiscal Year 2016.....	13
VII.	Reporting Suspected Fraud and Abuse.....	14

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

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 Texas Government Code, Section 2102.015: 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 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.

II. Internal Audit Plan for Fiscal Year 2016

Audit Number	FY 2016 Audit Plan Audit/Project	Description	Status	Report Date
	<i>Financial Audits</i>	<i>Description</i>	Complete	
16-101	Financial Statements FY 2015 Assurance Work	Control and transaction testing, analytical review, and other procedures assigned as part of the financial statements assurance audit	Complete	Report issued by D&T at UT System level
16-102	Financial Statements FY 2016 Assurance Work	Interim work for FY2016 financial statement audit	Complete	Report issued by D&T at UT System level
16-103	Assist State Auditor's Office and other state and/or federal auditors	Provide assistance to the State Auditor's Office and other external audit functions	Complete	No Report Issued
16-115	Review and Validation	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	Complete	11/05/2015
	<i>Operational Audits</i>			
16-109	HIPPA – Integrated Audit	A review of process to ensure compliance with HIPAA information security standards	Complete	09/06/2016
16-108	Executive Travel and Entertainment	Review of official function, and travel and entertainment expenses	In Progress	Not Yet Issued
16-105	Presidential Travel and Entertainment	Audit performed by the System Audit Office as required by Regents Rule 20205. Hours are to provide coordination and assistance	Cancelled	No Report Issued

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

16-112	Cash Counts	Review for compliance with UTS 166: Cash Management and Cash Handling Policy	Complete	02/03/2016
16-113	Faculty Hiring Process	Review faculty hiring process and controls in place to ensure compliance with Federal and State regulations	Complete	10/17/2016
16-114	Procurement	A review of the process to ensure compliance with formal bid procedures including sole source justification	Complete	05/13/2016
16-122	Faculty Compensation	Review of the faculty compensation process including equity and compliance with Regents Rule 20204 and UTS 144	In Progress	Not Yet Issued
16-116	ID Management – Integrated Audit	Review ID verification and credentialing of students	Complete	04/19/2016
16-117	Information Technology Asset Management System (ITAMS)	To review control process over IT assets	In Progress	Not Yet Issued
16-118	Change in Management	UTHealth entities, schools, departments, or divisions with changes in key management, based on an assessment of risk	Cancelled	No Report Issued
	<i>Carryforward Audits</i>			
15-117	Practice Acquisition Process	Review operational controls, performed as integrated audit	Complete	11/15/2015
15-113	Training	An assessment and inventory of training resources	Complete	05/25/2016
15-119	Preparedness from Internal Threats	Review processes to identify and respond to internal threats to IT and facilities	Complete	02/10/2016
15-121	Clinical Trials Billing	Review of clinical trials billing practices	Complete	01/13/2016
	Compliance Audits			
16-107	Texas Higher Education Coordinating Board Residency Program	Provide opinion on revenue and expenditure reporting on annual financial report	Complete	03/24/2016
16-119	Conflict of Interest	Review COI and management plan process for compliance with HOOP 20	Complete	09/20/2016
16-110	Medical School Practice Plan (MSRDP)	Assess compliance with MSRDP process or bylaws. Will be performed based on risk	Complete	No Report Issued
16-111	Dental School Practice Plan (DSRDP)	DSRDP audit to assess efficiency and effectiveness of operations of biopsy services	Complete	10/07/2016
16-120	Physician Credentialing	Review provider credentialing process to review for compliance with federal regulations	Complete	06/02/2016
16-121	Benefits Proportionality	Audit of benefits proportional by fund for FY 2012, 2013 and 2014	Complete	02/09/2016

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

	<i>Carryforward Audits</i>			
15-109	Delivery System Reform Incentive Payment (DSRIP)	To review the processes and supporting documentation available to evaluate compliance with DSRIP program guidelines	Complete	11/03/2015
15-114	Title IX	Compliance with HOOP policies designed to comply with Title IX of the Education Amendment of 1972	Complete	09/04/2015
15-111	DSRDP	DSRDP audit to assess efficiency and effectiveness of operations at the pediatric dental clinic	Complete	07/27/2015
15-123	PCI/DSS	To assess IT and IS processes developed to comply with the payment card industry security standards council requirements.	Complete	10/27/2015
	<i>Information Technology Audits</i>			
16-201	HIPAA – Integrated Audit	HIPAA standards with regards to technology	Complete	09/06/2016
16-202	Texas Administrative Code 202	Review new requirements effective Feb 2015	Complete	07/27/2016
16-203	Vendor Access	Review External access to our systems granted to vendors	Complete	07/29/2016
16-204	Change Management	Review institutional policy, procedures, and recent projects	Complete	08/31/2016
16-205	Proofpoint	Review data loss prevention capabilities, configuration, filtering, etc.	Cancelled	No Report Issued
16-206	ID Management	Review ID verification and credentialing of students	Complete	04/19/2016
16-207	ITAMS – Integrated Audit	Review access, device classifications, completeness of inventory, etc.	In Progress	Not Yet Issued
16-208	Medical Devices	Review decommissioning process	Complete	11/25/2015
16-209	Vendor Master File	Review access, change management, validity, etc.	Complete	03/10/2016
16-210	ImageNow	Review access, application controls, etc.	Complete	05/12/2016
16-211	Physical Access	Review physical access to various areas across UTHealth campus	In Progress	Not Yet Issued
	<i>Carryforward IT Audits</i>			

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

15-201	General Controls	Data Center Controls	Complete	11/30/2016
15-208	PCI/DSS – Integrated Audit	To assess IT and IS processes developed to comply with the payment card industry security standards council requirements.	Complete	10/27/2015
	<i>Follow-up Audits</i>			
16-104	Follow-up on Open Recommendations		Complete	09/06/2016

A Physical Access audit (#16-211) was added to the FY2016 Audit Plan. This request stems from work performed during the Medical Devices audit, which reviewed the physical access of various rooms used to store medical equipment and hard drives. Based on the results from that audit, we determined issues found may be systemic in nature and therefore have included this audit to verify whether physical access levels are appropriate across UTHealth and processes are in place to review and modify such levels on a periodic basis. The estimated hours required to complete this audit is 300 hours.

The Proofpoint audit (#16-205) was included in the FY2016 audit plan as a result of risks identified during the Exchange System audit previously performed during FY 2015; however, the majority of risks around Proofpoint were addressed by management while implementing recommendations from the Exchange System audit. These improvements will be verified during our follow-up of the Exchange System audit. As a result, the 300 budgeted hours from this audit were allocated to a newly added Physical Access audit (#16-211).

The Change in Management audit was included to allocate hours if needed to perform work related to the anticipated hiring of several new deans. Based on our updated assessment of risks, these hours would be better be allocated toward management requests and consulting projects. Therefore, the 300 budgeted hours from this audit were reallocated to management requests and consulting projects.

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 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 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 (#16-121) was included in UTHealth’s 2016 annual audit plan and the audit results have been submitted.

Compliance with the Texas Education Code §51.9337

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*

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

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.” UTHealth’s Auditing and Advisory Services conducted this required assessment for fiscal year 2016, and found the following:

Based on review of current institutional policy and the UT System Board of Regents’ *Rules and Regulations*, UTHealth 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

Report No.	Report Date	Name of Project	High-Level Consulting Engagement/Non-audit Service Objective(s)	Observations/ Results and Recommendations
16-414	Report in Draft	Infusion Center	Review of operational processes of the Infusion Center for efficiency and effectiveness of the practice	Results communicated to the department.
16-501	In Progress	Lunch Punch	Review of UTHealth’s handling of non-exempt employee lunch breaks	Results communicated to the department.

The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016

IV. External Quality Assurance Review (Peer Review)



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

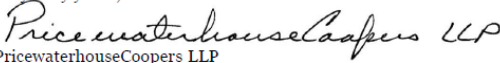
We have completed an External Quality Assessment ("EQA") of The University of Texas Health Science Center at Houston ("UTHSC Houston" or "institution") Office of Auditing and Advisory Services ("A&AS"). The EQA included an assessment of the level of conformance with the Institute of Internal Auditor's 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,


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

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

V. Internal Audit Plan for Fiscal Year 2017

FY 2017 Audit Plan	Budgeted	
Audit/Project	Hours	Description
<i>Risk Based Audits</i>		
Medical Service Research and Development Plan (MSRDP)	300	Annual required audit of Medical School Practice Plan.
Dental Service Research and Development Plan (DSRDP)	400	Axium Dental Software System
Core Labs	300	Provide assistance to the State Auditor's Office and other external audit functions
SoD General Practice	300	Operational review of efficiency and effectiveness
Physician Billing and Collections	500	Review effectiveness and efficiency of processes recently taken back from the billing vendor
Records Retention Policy	400	Review of the process to comply with State and UT System guidelines
Infection Prevention Control	400	Process review of efficiency and effectiveness
Family Medical Leave Act (FMLA) process	450	Review for compliance with federal and state guidelines
Rooney Rule	400	Review to determine compliance with UT System requirements
Hitech Act/Omnibus Rule	300	Compliance review of changes to the applicable federal guidelines
New Innovations (replacement for GMEIS) - Integrated audit	500	Compliance review of changes to the applicable federal guidelines
Hemophilia - Integrated	500	Review of the billing and collections process as well as system controls.
Security Information and Event Management System (Splunk)	400	Functionality and usage as a monitoring tool
Sunrise Clinical Manager (SCM) E.H.R.	400	Application audit
Digital Loss Prevention (Digital Guardian)	350	Post-Implementation review and operational assessment
Clinical Data Usage	400	Review of data access and usage approvals
Phishing Attack Preparedness	250	Training
Learning Management System (Canvas)	400	Review of Add-On applications, shared authentication and application controls
Patient Privacy System (Fair Warning)	350	Application audit to include notification process/requirements and false positives
Carryforward	400	
Risk Based Audits Subtotal	7700	
<i>Required Audits (Externally and Internally)</i>		

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

TAC 202	300	Review of new requirements effective Feb 2017
Financial Statements FY 2016	160	Controls and transaction testing, analytical review, and other procedures assigned as part of the financial assurance audit
Financial Statements FY 2017	175	Interim work for FY 2017 financial statement audit
Assist State Auditors Office and other external auditors	150	Provide assistance to the State Auditor's Office and other external audit functions
THECB	50	Provide an opinion on revenue and expenditure reporting of program funds
Review and Validation	50	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
Executive Travel and Entertainment	200	Review of official function. And travel and entertainment expenditures
Required Audits Subtotal	1085	
Consulting Projects		
Consulting	600	
Consulting Subtotal	600	
Investigations		
Investigations	300	
Investigations Subtotal	300	
Follow-up		
Follow-up on Open Recommendations	400	
Follow-up Subtotal	400	
General Reserve		
Emerging Risk	700	
Reserve Subtotal	700	
Development		
Internal Audit Committee	300	
UT System Requests	150	
Institutional Committees	200	
Training Provided by Audit & Advisory Services	100	
FY 2017 Audit Plan	250	Development of annual audit plan using risk assessment techniques as required by GC 2102
Internal Audit Annual Report	40	Preparation and posting of the Internal Audit Plan, Internal Audit Report, and other information as required by HB 16

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

External Quality Assessment	100	EQA required every three years
Internal Staff Meetings	280	
IDEA and TeamMate	60	Data Analytic and computer assisted audit technique software
Continuing Professional Education	495	
System Audit Office Initiatives	102	
TeamMate – System Guided Initiative	250	
Development Subtotal	2327	
Total Hours	13112	

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

High Risks Not Included in FY 2017 Audit Plan	Explanation/Mitigation	Internal Audit Action
Transition to new E.H.R.	UTH/UTP to engage Impact Advisors to perform readiness assessment	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
Breach occurs at third-party hosting site.	BAA being developed for future E.H.R. partner	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
Employees continue to use unsanctioned (and potentially unsecure) cloud services.	Risk addressed by FY2015 Institutional Use of Cloud Computing audit.	Report Submitted
Employees can still access UTH data after termination.	Cloud provisioning technology solution currently under consideration.	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
Sensitive UTH data is stored on non-university mobile devices.	Risk covered under 16-109/201 HIPAA and FY2017 Digital Loss Prevention	Report Submitted
Telehealth communications are not properly secured.	Telehealth product is still under consideration and will be addressed with future E.H.R. partner.	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
Known vulnerabilities are not remediated.	Covered under 16-204 Change Management (patching, etc.)	Report Submitted
Funds for data center upgrades/maintenance/replacement are not available	Recent audit of Data Center in FY2015	Report Submitted
Physical security is not adequate	Covered under 15-119 Preparedness From Internal Threats and upcoming FY2016 Physical Access audit	Report Submitted
Federal Programs may be eliminated due to Affordable Care Act	Monitor Developments	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
Emergency response to local threats (e.g. floods, hurricanes) is not well defined at remote sites	Covered under 15-122 Emergency Preparedness Plan	Report Submitted
Conflict of Interest	Covered by 16-119 Conflict of Interest audit	Results scheduled to be reported to Audit Committee during FY17

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

Internal Audit Annual Report for 2016

Neurosurgery and arrangement with PhyTex.	Agreement reviewed by Office of Legal Affairs and Institutional Compliance	Monitor Developments
Physician Credentialing	Covered in audit 16-120 Physician Credentialing	Report Submitted
Faculty Hiring - do we have a process to ensure we complete hiring under the rules?	Covered in audit 16-113 Faculty Hiring Process	Report Submitted
Conflict of Interest - are faculty fully reporting outside activity	Covered by 16-119 Conflict of Interest audit	Report Submitted
New EHR - who owns the patient data?	Consideration as part of contract with future E.H.R. partner.	Monitor Developments
EHR - what happens if implementation does not go well?	UTH/UTP to engage Impact Advisors to perform readiness assessment	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
CPRIT: How much will UTH need to make up when this funding goes away?	The A-133 audit is performed by Deloitte	Monitor Developments
Faculty pay inequality, and inability to recruit/retain prominent faculty damage the UTHealth image.	Covered by 16-122 Faculty Compensation audit	Audit in Progress
Offer letters - is there a methodology for developing salaries	Covered by 16-113 Faculty Hiring Process	Report Submitted
Title IX - there is no one to look at faculty complaints from start to finish	Covered under 15-114 Title IX audit	Report Submitted
Biopsy: Billing & collections	Covered under 16-111 DSRDP - Biopsy Services	Results scheduled to be reported to Audit Committee during FY17
Ability to maintain interfaces with Campus Solutions to ensure business continuity may be at risk	UTH/UTP to engage Impact Advisors to perform readiness assessment	Risk will be re-evaluated each year and will be added to a future audit plan based on the annual risk assessment
Processes surrounding vendor bank account changes to receive direct deposits	Covered under Phishing Attack Preparedness & Training	Audit schedule during FY2017

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

Some physician conflicts of interest may not be adequately identified and addressed	Covered by 16-119 Conflict of Interest audit	Results scheduled to be reported to Audit Committee during FY2017
New FASB for FY2019 may impact lease agreements	FASB not in effect until FY2019	Monitor Developments
Employee integration following acquisition of physician practices.	Covered by 15-117 Practice Acquisition audit	Report Submitted
Recent implementation of the applicant tracking system - drug testing	Covered in part by audit 16-113 Faculty Hiring Process.	Results scheduled to be reported to Audit Committee during FY2017
Violations of university policy regarding PHI by medical school employees are not consistently addressed	Covered in part by audit 16-113 Faculty Hiring Process.	Results scheduled to be reported to Audit Committee during FY2017
additions/deletions to vendor master file may not be authorized	Covered under audit 16-209 Vendor Master File	Report Submitted
Lack of preparation for Medicare Access and Chip Reauthorization (MACRA) and effect on reimbursement rates	Takes effect in 2019.	Monitor Developments
Physician billing - modified capitation type contracts	Monitor Developments	Monitor Developments
Faculty compensation - has an adequate process been established to document faculty pay	Covered in audit 16-122 Faculty Compensation	Audit in Progress

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 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.

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2016**

VI. External Audit Services Procured in Fiscal Year 2016

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
Opinion on financial statements of Harris County Psychiatric Clinic (HCPC)	BKD Certified Public Accountants
Annual Financial Statement Assurance	Deloitte and Touche LLP (Deloitte) Certified Public Accountants
Opinion on compliance and controls for Cancer Prevention Research Institute of Texas (CPRIT)	Deloitte and Touche LLP (Deloitte) 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.