



INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2016

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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 Texas Internal Auditing Act requires state agencies to file an annual report of the agency's internal audit activities and to post the report on the institution's internet web site. The purpose of the annual internal audit report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual report assists central oversight agencies in planning their work and coordinating efforts.

Within 30 days of approval, an entity should post the following information on its Internet Web site:

- The approved fiscal year 2017 audit plan, as required by Texas Government Code, Section 2102.008.
- The fiscal year 2016 internal audit annual report, as required by Texas Government Code, Section 2102.009.

In addition, as required by Texas Government Code, Section 2102.015, Sections II and III of this report will include a detailed summary of the weaknesses, deficiencies, wrongdoings and concerns noted, as well as a summary of the actions taken to address the concerns. The report will be posted by November 1st of each year.

II. Internal Audit Plan for Fiscal Year 2016

MODIFIED FY16 INTERNAL AUDIT PLAN		
Engagement / Report Name	Number	Report Date / Status
<u>Financial</u>		
FY 15 Financial Statement Audit (Year-End)	16-01	Completed
FY 16 Financial Statement Audit (Interim)	16-02	Completed
Subcertification Process and Monitoring Key Controls	16-03	11/5/2015
Account Reconciliations Process	16-06	5/31/2016
Delivery System Reform Incentive Payment (DSRIP)	16-07	8/24/2016
PeopleSoft Financials Upgrade	16-C-17	8/31/2016
Facilities Management AiM™ Work Order System (Carryforward)	16-C-20	11/25/2015
<u>Operational</u>		
President's Travel, Entertainment and University Residence Maintenance Expenses Audit (<i>assistance to System Audit Office</i>)	16-08	Cancelled
Executive Travel and Entertainment Expenses Audit	16-09	2/26/2016
Contract Administration Review	16-11	8/30/2016
Institutional Research Core Laboratories (Carryforward)	16-C-21	2/29/2016
Department of Emergency Medicine (Carryforward)	16-C-22	8/24/2016

Engagement / Report Name		Report Date / Status
<u>Compliance</u>		
State Auditor's Office (SAO) A-133 Single Audit Assistance	16-14	Completed
Residency Program Award/Family & Community Medicine	16-15	1/8/2016
Residency Program Award/McAllen Family Practice	16-17	2/2/2016
Benefits Proportionality	16-18	2/25/2016
Research Export Controls	16-22	Cancelled
HIPAA Privacy Rule	16-23	8/31/2016
State Auditor's Office Internal Audit Activity Report	16-C-01	Completed
Research Imaging Institute Investigation (Carryforward)	16-C-19	10/13/2015
Facilities Management Procurement Investigation	16-C-24	3/17/2016
Senate Bill 20 Compliance Assessment for State Auditor's Office		Completed
<u>Information Technology</u>		
TAC 202 & UTS 165 Compliance	16-24	5/31/2016
IT Risk Assessment (Carryforward)	16-C-12	Completed
<u>Follow-up</u>	16-29	Completed
<u>Development - Operations</u>		
Annual risk assessment/audit plan development	16-C-02	Completed
Internal audit committee preparation/participation	16-C-03	Completed
Institutional committee/council participation	16-C-04	Completed
Internal Quality Assurance and Improvement Program activities	16-C-05	Completed
TeamMate, IDEA, website, etc. development/maintenance	16-C-06	Completed
Staff meetings related to the management of the internal audit function	16-C-07	Completed
<u>Development - Initiatives and Education</u>		
System Audit Office initiatives participation (committees, workgroups, research, etc.)	16-C-08	Completed
Institutional strategic or quality initiatives (EQA action plans)	16-C-09	Completed
Individual Continuing Professional Education (CPE) training (includes related travel)	16-C-10	Completed

Notes:

- The Benefits Proportionality audit was performed to address the benefits proportionality audit requirement prescribed in Rider 8, page III-41, the General Appropriations Act (84th Legislature).
- 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.*”

The internal audit office conducted this required assessment for fiscal year 2016. Based on review of current institutional policy and the UT System Board of Regents’ *Rules and Regulations*, The UT Health Science Center San Antonio 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.

FY16 Internal Audit Plan Deviations

The FY16 Audit Plan represents a modified plan that was approved by the Institutional Audit Committee on April 2016. Modifications to the audit plan were due to a deficit in the fiscal year's available hours due to vacancies. The modified plan represented a reduction in total FY16 hours from 14,560 to 9,376. The following are deviations to the modified plan:

- The investigations of two SAO Hotline Complaints were added and performed in FY16.
- The audit of Research Export Controls project was not performed in FY16 but based on risk, may be completed in FY17.
- The assistance to UT System Audit Office for President's Travel, Entertainment and University Residence Maintenance Expenses Audit was cancelled - not selected for review.

FY16 Summary of Internal Audit Recommendations and Implementation Status

Report Date, Name & Number	Internal Audit Recommendations	Implementation Status of Recommendations
11/5/2015 Subcertification Process and Monitoring Key Controls (16-03)	None noted.	No management response required.
1/8/2016 Residency Program Award/Family and Community Medicine (16-15)	None noted.	No management response required.
2/2/2016 Residency Program Award/McAllen Family Practice (16-17)	None noted.	No management response required.
2/25/2016 Benefits Proportionality (16-18)	Amend the APS 011 reports for AY2012 and AY2014 for the errors noted during this audit and resubmit the reports to the State Comptroller. Strengthen the internal controls related to the preparation of the APS 011 report.	Fully implemented.
2/26/2016 Executive Travel and Entertainment Expenses Audit (16-09)	None noted.	No management response required.
5/31/2016 TAC 202 & UTS 165 Compliance (16-24)	Include policies in the Handbook of Operating Procedures related to System and Services Acquisition and to System and Communications Protection.	Fully implemented.
8/24/2016 Delivery System Reform Incentive Payment (DSRIP) (16-07)	None noted.	No management response required.
8/24/2016 Department of Emergency Medicine (16-C-22)	Recommendations related to consistency in coder reviews, collaboration with affiliated hospital to obtain complete and accurate patient insurance information and reduction of write-offs attributable to providers.	In-progress.
8/30/2016 Contract Administration Review (16-11)	None noted.	No management response required.
8/31/2016 HIPAA Privacy Rule (16-23)	Enhance process to ensure all employees complete required HIPAA training. Clinic staff should receive training to ensure most current NPP is provided to patients and patient acknowledgement is obtained.	In-progress.

III. Consulting Services and Nonaudit Services Completed

The table below summarizes the key FY16 consulting and nonaudit services performed by Internal Audit.

Report Date, Name & Number	Objective	Observations/Recommendations
10/13/2015 Research Imaging Institute Investigation (16-C-19)	Investigate allegations.	Strengthening of internal controls were recommended and implemented.
11/25/2015 Facilities Management AiM™ Work Order System (16-C-20)	Determine whether project funding was properly allocated and whether project costs were appropriately aggregated and capitalized.	Strengthening of internal controls were recommended related to plant fund accounting. Other opportunities related to the billing of capital project costs and the transparency of the pricing structure.
2/29/2016 Institutional Research Core Laboratories (16-C-21)	Determine compliance with rules and regulations, evaluate financial performance and ascertain whether strategies were documented and in alignment with those of the research strategic plan of the institution.	Certain opportunities for improvement were noted concerning the absence of (1) an institutional policy for service centers, (2) a standardized user fee rate setting methodology for the institutional cores and (3) a documented institutional core strategic plan. Other opportunities for improvement were also noted.
3/17/2016 FM Procurement Investigation (16-C-24)	Investigate allegations.	Strengthening of certain internal controls were recommended. Further investigation was referred to the Office of Regulatory Affairs and Compliance.
5/11/2016 SAO Hotline Complaint	Investigate allegations.	Allegations were unsubstantiated.
5/31/2016 Account Reconciliations Process (16-06)	Determine whether appropriate internal controls were designed in the new EA Account Reconciliation and Financial Review and Analysis process and to provide value-added suggestions for consideration in the design of the new process.	Provided guidance on internal control design in the new process. Certain opportunities related to development of written procedural guidance, update of monitoring plan and template for review of detailed payroll expense were noted.

Report Date, Name & Number	Objective	Observations/Recommendations
7/25/2016 SAO Hotline Complaint	Investigate allegations.	Allegation was unsubstantiated.
8/31/2016 PeopleSoft Financials Upgrade (16-C-17)	Determine whether the functionality and security of the upgraded PeopleSoft FSCM application was operating as intended and evaluate whether appropriate internal controls were designed in the new Payment Request Module.	We identified certain opportunities to strengthen the new Payment Request Module regarding: (1) automated procedures for instances when the Payment Request payee is both the department and project ID approver (2) assurance supervisory approvals are obtained as required (3) assurance that executive approval is obtained as required and (4) update of the applicable policies and procedures.

IV. External Quality Assurance Review (Peer Review)

An external Quality Assurance Review was performed by PricewaterhouseCoopers in FY14. See Exhibit A.

V. Internal Audit Plan for Fiscal Year 2017

The Institutional Internal Audit Committee approved the FY17 Internal Audit Plan on July 12, 2016.

FY17 Planned Engagement	Budgeted Hours	Description
<u>Financial</u>		
FY16 Financial Statement Audit (Year-End)	60	Assist the external auditors in the performance of substantive testing for the audit of the Annual Financial Report (FY16 year-end work).
FY17 Financial Statement Audit (Interim)	120	Assist the external auditors in the performance of financial and IT control testing for the audit of the Annual Financial Report (FY17 interim work).
Subcertification Process and Monitoring of Key Controls	125	Validate the institutional monitoring plan related to segregation of duties and New Enterprise Analytics account reconciliation and Financial Review and Analysis.
Payroll	240	Assess the adequacy and effectiveness of internal controls over payroll.
Bursar's Review of Segregation of Duties and Access User-Roles	120	Review and evaluate Segregation of Duties and Access User Roles at the Bursar's Office.
Accounts Payable	350	Assess the adequacy and effectiveness of internal controls over accounts payable disbursements.
	1015	
<u>Operational</u>		
President's Travel and Entertainment Expenditures	20	Assist the System Audit Office in evaluating and testing compliance with Regents' Rule 20205: Expenditures for Travel, Entertainment, and Housing by Chief Administrator.
Executive Travel and Entertainment Expenditures	100	Evaluate and test compliance with Health Science Center (HSC) and UTS policies for travel and entertainment expenses incurred by senior leaders.
Business Operations at UT Dentistry	400	Evaluate the financial internal controls over business operations at UT Dentistry.
Facilities Management	440	Review and evaluate the internal controls for Facilities Management, including accounting and vendor selection processes.
Practice Plan - Billing & Collections	500	Review and evaluate the internal controls over billing and collections at UT Medicine.
	1440	
<u>Compliance</u>		
Audit Assistance to External Agencies (SAO, THECB, etc.)	40	Coordinate external agency audits.
Residency Program Award/Family & Community Medicine	80	Review expenditures for the Residency program and report on the compliance with grant regulations to the Texas Higher Education Coordinating Board.
Senate Bill 20 Annual Compliance Assessment	20	Perform annual policy review to meet the requirements for Senate Bill 20 - State Agency Contracting.
CTRC Clinical Trials Billing	400	Assess the adequacy and effectiveness of internal controls over cancer clinical trials billing at the CTRC.
Decentralized Cancer Clinical Trials Billing	400	Assess the adequacy and effectiveness of internal controls over cancer clinical trials billing outside of CTRC.
Gift Compliance Review	300	Ascertain compliance with restricted gifts and donations.
	1240	

FY17 Planned Engagement	Budgeted Hours	Description
<u>Information Technology</u>		
Epic Application Review	500	Review of risks and controls associated with utilization of the Epic System (UT Medicine Electronic Health Record).
AxiUm Application Review	348	Review of risks and controls associate with utilization of the Axiom System (Dental Clinic Electronic Health Record).
PeopleSoft User Access Review	350	Review of user access in the PeopleSoft Financials and Human Capital Management system modules.
To Be Determined	550	Areas of risk to be determined.
	1748	
<u>Follow-Up</u>		
	240	Perform follow-up of audit recommendations on a quarterly basis.
<u>Development - Operations</u>		
Annual risk assessment/audit plan development	300	Perform the annual risk assessment and develop the annual audit plan.
Internal Audit Committee preparation/participation	160	Prepare materials and organize the institutional audit committee meetings.
Institutional committee/council/participation	100	Participate in institutional committees.
Quality Assessment Review - Self Assessment with Independent Validation	250	Performance of a Quality Assessment Review Self Assessment with Independent Validation as required every three years by the Institute of Internal Auditors.
Continuous Monitoring and Internal Quality Assurance and Improvement Program activities	160	Implement quality assurance and improvement programs. This is an Institute of Internal Auditors requirement per the Professional Practices Framework.
TeamMate, IDEA, website, etc. development/maintenance	400	Resources dedicated to the transformation of audit management software (TeamMate), the Internal Audit Department website, and IDEA implementation, etc.
Staff meetings related to the management of the internal audit function.	288	Time required for the weekly Internal Audit Department Staff Meetings.
SAO Internal Audit Activity Report	40	Resources required to develop the SAO Internal Audit Activity Report.
	1698	
<u>Development - Initiatives and Education</u>		
System Audit Office initiatives participation (committees, workgroups, research, etc.)	80	Provide an opportunity to collaborate with System Audit Office on initiatives.
Institutional strategic initiatives	48	Participate in initiatives focused on adding value and enhancing quality.
Individual Continuing Professional Education (CPE) training (includes related travel)	280	Provide continuing professional education to staff for development of internal audit skills and competencies.
	408	
<u>Reserve</u>		
Investigations	400	Provide support for institutional investigations.
Total Budgeted Hours	8,209	

Risk Assessment Used to Develop the Internal Audit Plan and Additional “High” Risks Not Included

The institutional annual risk assessment was conducted using the methodology developed by the UT System Audit Office. The risk assessment entailed using a top-down approach based on the institutional strategic objectives and priorities. Internal Audit assigned scores to risk factors for each objective to obtain the overall risk score. Internal audit determined residual risks to the institution and included areas of higher risk in the annual internal audit plan. Applicable IT risks related to Texas Administrative Code, Chapter 202, *Information Security Standards* and risks related to benefits proportionality were assessed and deemed low risk since reviews of these areas were performed in FY16.

In addition to the audits derived from the risk assessment, the audit plan includes other required, recurring, and/or requested projects as directed by the University of Texas System, external regulatory agencies, and Health Science Center management. An additional high-risk area identified but not included in the FY17 Internal Audit Plan relates to the enhancement of acute care affiliations with local hospitals. This risk continues to be monitored by Internal Audit for potential inclusion in a revised FY17 audit plan, or in subsequent annual audit plans.

VI. External Audit Services Procured in Fiscal Year 2016


The University of Texas System contracted with Deloitte and Touche, LLP to perform an independent audit of the FY16 University of Texas System financial statements, which included the performance of certain audit procedures at the Health Science Center.

VII. Reporting Suspected Fraud and Abuse

Actions taken to comply with Article IX, Section 7.09, page IX-37, the General Appropriations Act (84th Legislature) and Texas Government Code, Section 321.022, *Coordination of Investigations*, include:

- The Health Science Center home page provides a link to the Compliance Hotline web page (<http://uthscsa.edu/compliance/compline.asp>) which provides its phone number and information on how employees can confidentially report suspected improper conduct, illegal actions, and fraud.
- The Compliance Hotline web page provides a link to the State Auditor’s Office (SAO) Hotline web page (<http://sao.fraud.state.tx.us>) which provides information on reporting suspected fraud, waste and abuse to the SAO.
- The Health Science Center Handbook of Operating Procedures (HOP) Policy 2.6.3, *Fraud, Abuse and False Claims Act* (<http://uthscsa.edu/hop2000/2.6.3.pdf>) provides information on the coordination of investigations and reporting of suspected fraud and abuse.

Exhibit A - External Quality Assurance Review (Peer Review) Executive Summary


June 25, 2014

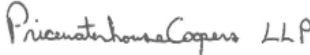
Ms. Gail Madison-Brown, Assistant Vice President and Chief Audit Executive, *Ad Interim*
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We have completed an External Quality Assessment ("EQA") of The University of Texas Health Science Center at San Antonio ("UTHSC San Antonio" or "institution") Internal Audit & Consulting Services ("IA"). 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 IA generally conforms. We did identify process enhancement opportunities.
- GAGAS – Our assessment of GAGAS was limited, based on IA's disclosure that no internal audits were performed during our assessment period under GAGAS. Based on our work, we identified process enhancement opportunities.
- TIAA requirements – In addition to observations related to IIA Standards and GAGAS, a conformance observation was identified during our work. The current UTHSC San Antonio chief audit executive (*ad interim* since September 2013) is not a certified public accountant or certified internal auditor nor has at least three years of auditing experience as required in TIAA Section 2102.006. UTHSC San Antonio disclosed that all workpapers prepared supporting IA's audit reports were reviewed by an individual that is a certified public accountant and certified internal auditor with more than three years of auditing experience as well as a chief audit executive has been hired to start in July 2014 who is a certified public accountant and certified internal auditor with more than three years of auditing experience.

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 June 11, 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 San Antonio.

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