



Fiscal Year 2018 Internal Audit Annual Report

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

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Report, and Other Audit Information on Internet Website

Texas Government Code, Section 2102.015 requires that state agencies, including institutions of higher education, post on their website:

- the agency's approved internal audit plan, as provided by Texas Government Code Section 2102.008
- the agency's annual report, as required by Texas Government Code Section 2102.009

Texas Government Code, Section 2102.015, also requires entities to update the posting described above to include the following information on the website:

- a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report
- a summary of the action taken by the agency to address the concerns, if any, that are raised by the audit plan or annual report

A state agency is not required to post information contained in the agency's internal audit plan or annual report if the information meets an exception from public disclosure under Texas Government Code Chapter 552.

The UT Health Science Center at Tyler's Internal Audit Department (IAD) complies with these requirements by posting fiscal year (FY) audit plans and annual internal audit reports on the institution's external website in the "Reports to the State" section. Detailed summaries of weaknesses and deficiencies raised by the audit plan or annual report, along with the summary of actions taken to address the concerns, are included within the annual internal audit reports.

Reference Exhibit B: FY 2018 Audits - Summary of Issues and Current Status

II. Internal Audit Plan for Fiscal Year 2018

FY 2018 Audit Plan	Project No.	Original Budget	Revised Budget	Actual Hours Q1-Q4	Status
Risk Based Audits					
Stark Law Physician Contract Review	18-1	500.0	6.0	6.0	Removed
Employee Licensure Audit (Non-Physician Employees)	18-2	375.0	328.5	328.5	Completed
Controlled Substance Contracts Audit	18-3	375.0	450.0	450.0	Completed
Carryforward Audits	18-4	100.0	98.0	98.0	Medicare Bad Debts Audit - Completed
Risk Based Audits Subtotal		1,350.0	882.5	882.5	
Required Audits (External and/or Internal)					
Family Medicine Residency Program Grant Audit FYE 8/31/2017	18-5	90.0	88.5	88.5	Completed
CPRIT Grant External Audit (assistance to management)	18-6	25.0	9.0	9.0	Completed
UTS 142.1 Assurance Work	18-7	23.0	22.0	22.0	Completed
State Institution of Higher Education Contracting Assessment	18-8	40.0	40.0	40.0	Completed
Reserve Applied - Benefits Proportionality		200.0	198.0	198.0	Completed
Required Audits Subtotal		378.0	357.5	357.5	
Risk Based Consulting					
IT Advisory Project	18-9	350.0	0.0	0.0	Removed
Patient Revenue Cycle Advisory Team Participation	18-10	150.0	101.0	101.0	Completed
Electronic Medical Record Advisory Team Participation	18-11	100.0	0.0	0.0	Removed
Institutional Committees and Workgroups - Advisory Role	18-12	100.0	5.0	5.0	Removed
Training Provided by Internal Audit		50.0	0.0	0.0	Removed
Reserve Applied		50.0	100.0	100.0	Completed
Consulting Subtotal		800.0	206.0	206.0	
Investigations					
Investigations - Assistance	18-13	50.0	50.0	50.0	Completed
Investigations Subtotal		50.0	50.0	50.0	
Follow-Up					
Follow-up procedures conducted to verify the implementation status of past recommendations made	CATS/ TM	175.0	115.0	115.0	Completed
Follow-Up Subtotal		175.0	115.0	115.0	
Risk Based Reserve					
Reserve for TBD Engagements	TBD	50.0	0.0	0.0	Reserve Reduced/Applied
General Reserve Subtotal		50.0	0.0	0.0	
Development - Operations					
Annual Risk Assessment and Audit Plan Development		200.0	250.0	250.0	Completed
Internal Audit Committee preparation and participation		200.0	300.0	300.0	Completed
Quality Initiatives		150.0	150.0	150.0	Completed
UT System & SAO Reports and Requests		50.0	50.0	50.0	Completed
Automated Tools Skills Development and Maintenance		150.0	105.0	105.0	Completed
Project Management Collaboration and Oversight		50.0	1.0	1.0	Removed
Development - Operations Subtotal		800.0	856.0	856.0	
Development - Initiatives and Education					
System Audit Office Initiatives Participation		50.0	50.0	50.0	Completed
Individual Continuing Professional Education (CPE) Training, including travel		160.0	160.0	160.0	Completed
Development - Initiatives and Education Subtotal		210.0	210.0	210.0	
Total Budgeted Hours		3,813.0	2,677.0	2,677.0	

The FY 2018 Annual Audit Plan was developed in June 2017 based upon three (3) full-time employees (FTEs), in anticipation of replacing both the Audit Manager, who had plans to retire in September 2017, and the Audit Associate, who transferred to another department in June 2017. The Audit Associate position was not filled during FY 2018 due to a hiring freeze associated with the UT Health East Texas transaction that took place on March 1, 2018. As a result, certain projects were removed from the FY 2018 Audit Plan to account for the reduction in hours that were planned for that FTE. The largest project that was removed from the FY 2018 Audit Plan was the Stark Law Physician Contract Review Audit. Please note that this project is part of the approved FY 2019 Audit Plan. All changes to the FY 2018 Audit Plan were approved by the Institutional Audit Committee (IAC).

Rider 8, page III-41 of the General Appropriation Act (85th Legislature).

Rider 8, page III-41, the General Appropriations Act (85th Legislature, Conference Committee Report), requires that higher education institutions conduct an internal audit of benefits proportional by fund, using a methodology prescribed by the State Auditor’s Office. The rider requires that the audit examine FY 2015 through 2017 and be completed no later than August 31, 2018.

The IAD completed an audit of benefits proportionality by fund for FY 2015 through 2017, using the methodology prescribed by the State Auditor’s Office, as a project under the risk-based reserve for the FY 2018 audit plan, titled “Reserve Applied – Benefits Proportionality” (see page 4).

Texas Education Code, Section 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 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 IAD conducted this required assessment for FY 2018, and found the following:

Based on review of current institutional policy; the UT System Board of Regents’ *Rules and Regulations*; and UT System policies and procedures, the UT Health Science Center at Tyler has generally adopted all of the rules and policies required by TEC §51.9337. Review and revision of Institutional and System policy is an on-going 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 Date	Report Title	High-Level Objective	Results
No Formal Report Ongoing	Patient Revenue Cycle Advisory Team Participation	To improve the institution's operating margin, by prioritizing investments in revenue enhancement initiatives that have the most impact (time to value).	Procedures to improve institution's operating margin have been implemented. Monitoring of revenue performance is in process.
No Formal Report	Reserve Applied & Budgeted - Ad Hoc Requests	To fulfill ad hoc advisory or analysis requests by institutional and UTS customers.	Improvement of entity's operations, risk management, control and governance processes.
No Formal Report	School of Community & Rural Health – Advisory Role	To assist the School of Community & Rural Health with their program reaffirmation with the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).	According to the project's 2-year timeline, the institution will submit its Compliance Certification by December 14, 2018.
No Formal Report	Institutional Committee or Meeting Participation – Advisory Role	Contribute to institutional governance by participating in an advisory role on several institutional committees.	Internal Audit served in an advisory capacity on several standing and ad hoc committees during the year and completed various action items assigned during the committee meetings.
No Formal Report	Supply Inventory Recounts	To assist the Accounting department with the annual verification of departmental supply inventories for the purpose of financial statement asset valuation.	Supply inventory test recounts of assigned areas were substantially accurate.

IV. External Quality Assessment Review (QAR)

Baker Tilly was engaged to conduct an independent validation of the IAD's self-assessment with the assistance of an internal audit executive from a peer institution, which took place in September 2017. The primary objective of the validation was to verify the assertions made in the self-assessment report concerning adequate fulfillment of the organization's expectation of the internal audit activity and its conformity to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, Generally Accepted Government Auditing Standards, and relevant requirements of the Texas Internal Auditing Act.

Based on Baker Tilly's independent validation of the self-assessment performed by the IAD, the internal audit function received an overall rating of "Generally Conforms" with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics. The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally conforms" is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Reference Exhibit A: External Quality Assessment Review Executive Summary

V. Internal Audit Plan for Fiscal Year 2019

The FY 2019 Audit Plan was primarily developed based upon the results of the institution-wide risk assessment completed late in FY 2018, which focused on UT Health Science Center at Tyler's critical strategic and operational objectives and related risks. To identify audits and projects for the plan, the IAD considered the level of risk for strategic and operational objectives and monitoring activities of the risks performed internally and externally. In addition, audits and projects externally required or requested by UT System or the Board of Regents were also included in the plan.

The audit plan was divided into the following categories:

- Risk Based Audits;
- Consulting Projects;
- Reserve;
- Required Audits (Externally and Internally);
- Investigations;
- Follow-up;
- Development – Operations; and
- Development – Initiatives and Education.

Audits and projects were included in the plan based upon the level of risks and the audit resources available, but allocations were made to ensure an adequate level of coverage within each of the categories. Although the plan was developed to cover as many of the high risks as possible, there were some risks related to strategic or operational objectives which were ranked as "high" that were identified in the risk assessment process in which a project was not scheduled. Many of these "high" risk objectives for which a project was not scheduled were deemed to be mitigated by the secondary line of defense such as Compliance, Risk

Management, functional teams, or committees. Specific “high” risks not covered by the plan were communicated to senior leaders and the Internal Audit Committee. High risks not covered by the FY 2019 Audit Plan include the following subject areas:

High-risk Strategic or Operational Areas Not Covered in the FY 2019 Audit Plan	
Compliance Program	Campus Police
Recruitment	Patient Safety
Contracting Oversight	Budgeting/Decision Support
Pre-award & Award Acceptance	Biosafety
Research Institutes/Centers	Joint Ventures
Academic Support	Graduate Education
Risk Management	Revenue Cycle
Medical Training	IT Asset Management

The FY 2019 Audit Plan was approved electronically by the UT Health Science Center at Tyler’s IAC on July 5, 2018 and by the UT System Board of Regents’ Audit, Compliance and Risk Management Committee and full board at the August 9-10, 2018 meeting.

Risk Assessment Process

As a basis for the FY 2019 Audit Plan, a risk assessment was completed to identify and evaluate risks relative to UT Health Science Center at Tyler’s critical strategic and operational objectives. This risk assessment methodology was developed under the leadership of the UT System Audit Office and implemented System-wide. The process is designed to capture and evaluate critical strategic and operational risks for the organization utilizing a top-down approach.

The risk assessment approach consisted of the following procedures:

- Identified and considered UT System-wide risks;
- Reviewed important institutional financial and operational documents, and industry data to become aware of recent institutional performance and challenges in the industry in which the institution operates;
- Identified the institution’s important strategic and operational priorities and defined objectives at-risk relative to these priorities;
- Collaborated with certain top organizational and operational leaders to evaluate and update strategic priorities and objectives and to score risks; and
- Conducted cross-functional risk assessments involving the areas of Information Security, Compliance, Legal and Security.

The risk assessment approach used is structured around the Three Lines of Defense model that is endorsed by the Institute of Internal Auditors. This model provides a structured approach for various departments or areas within an organization to be responsible for managing the organization’s risks. In summary, management is primarily responsible for risk. Risk assessing and risk managing functions such as Compliance, Information Security, Risk Management, Police, and Legal make up the secondary line of defense. Finally, Internal Audit is responsible for independently and objectively providing advice on how to strengthen risk management in the first and second lines of defense and to mitigate risk.

Fiscal Year 2019 Audit Plan

Engagements	Project Number	Original Budget	Percent of Total
Risk Based Audits			
Stark Law Physician Contract Review	19-1	500	
Employee Off-Boarding Audit	19-2	350	
Network Management, Incident Detection and Response Audit (Texas Administrative Code Section 202 Audit)	19-3	300	
UTS 142.1 Assurance Work	19-4	40	
Risk Based Audits Subtotal		1190	39.6%
Consulting Projects			
Institutional Committees and Workgroups - Advisory Role	19-5	200	
Institutional Strategic Initiatives	19-6	40	
Training provided by Internal Audit	19-7	50	
Opioid Stewardship Committee - Advisory Role	19-8	50	
UT System Cyber Board Reporting Advisory Group	19-9	15	
Consulting Subtotal		355	11.8%
Reserve			
Reserve for TBD Engagements	TBD	250	
Reserve Subtotal		250	8.3%
Required Audits			
Executives' Travel and Entertainment Expenses Audit	19-10	125	
Family Medicine Residency Program Grant Audit FYE 8/31/2018	19-11	80	
State Institution of Higher Education Contracting Assessment	19-12	40	
Financial Statement Audit Assistance	19-13	15	
CPRIT Grant External Audit (assistance to management)	19-14	15	
Required Audits Subtotal		275	9.2%
Investigations			
Investigations - Assistance	19-15	50	
Investigations Subtotal		50	1.7%
Follow-Up			
Follow-up procedures conducted to verify the implementation status of past recommendations made	CATS/ TM Reports	60	
Follow-Up Subtotal		60	2.0%
Development - Operations			
Annual Risk Assessment and Audit Plan Development		150	
Internal Audit Committee preparation and participation		200	
Quality Initiatives		75	
UT System & SAO Reports and Requests		40	
Automated Tools Skills Development and Maintenance		40	
Development - Operations Subtotal		505	16.8%
Development - Initiatives and Education			
System Audit Office initiatives participation		50	
Professional organization/association participation		100	
Professional writing, publications, external presenting		50	
Individual Continuing Professional Education (CPE) Training, including related travel		120	
Development - Initiatives and Education Subtotal		320	10.6%
Total Budgeted Hours		3005	100.0%

Texas Education Code, Section 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 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 IAD has included this required assessment as an audit on the FY 2019 Audit Plan.

VI. External Audit Services Procured in Fiscal Year 2018

The IAD did not engage in, or require any, external audit services for FY 2018.

VII. Reporting Suspected Fraud and Abuse

UT Health Science Center at Tyler has taken the following actions to implement the requirements of:

- Section 7.09, page IX-39, the General Appropriations Act (84th Legislature, Conference Committee Report): The institution’s website includes the State Auditor’s Office fraud hotline information and a link to the State Auditor’s website for fraud reporting. The information is linked from the institution’s home page via a link entitled, “Compliance”. The institution has also included information on how to report suspected fraud involving state funds to the State Auditor’s Office in its Compliance and Ethics Hotline Reporting (PolicyStat ID #2132218) in the Institutional Handbook of Operating Procedures (IHOP).
- Texas Government Code Section 321.022, Coordination of Investigations: UT System has implemented UTS Policy 118, Section 24, which outlines the reporting requirements of Texas Government Code § 321.022. This policy is applicable to all UT System institutions, including UT Health Science Center at Tyler. The policy states that if funds received from the State are lost, misappropriated, misused, or other unlawful conduct has occurred in relation to the entity, the Chief Administrative Officer shall report the reason and basis for the alleged fraud to the State Auditor as required by Texas Government Code § 321.022. The UT Health Science Center at Tyler President is knowledgeable about the policy requirements and his reporting responsibilities to the State Auditor.

Exhibit A: External Quality Assessment Review Executive Summary



Candor. Insight. Results.

September 21, 2017

Mr. Stephen Ford, Associate Vice President and Chief Audit Executive
The University of Texas Health Northeast

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

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

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

This information has been prepared pursuant to a client relationship exclusively with, and solely for the use and benefit of, UT Health Northeast and The University of Texas System Administration and is subject to the terms and conditions of our related contract. Baker Tilly disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than The University of Texas Health Northeast and The University of Texas System Administration.

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

Very truly yours,

Baker Tilly Vinchow Krause, LLP



Exhibit B: FY 2018 Audits – Summary of Issues and Current Status

Texas Government Code, Section 2102.015 requires state agencies and institutions of higher education to post to the institution’s website:

- A “detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report.”
- A “summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.”

Report No.	Report Date	Name of Report	High-level Audit Objective(s)	Observations/Findings and Recommendations	Status/Actions ¹
16-15	3/16/2017	Review for Compliance with Texas Administration Code (TAC) § 202 Security Control Standards	To determine compliance with information security control standards promulgated by the Texas Department of Information Resources in the Security Control Standards Catalog as required by TAC 202 rule § 202.76 (c).	The institution generally complies with TAC § 202.76 (c), state and federal guidelines, and UT System and UT Health Science Center at Tyler (UTHSCT) policies and produces relative to Information Technology security. However, recommendations were made for improving processes and documentation standards in the areas of Access Controls and Configuration Management.	Fully Implemented
17-02	11/10/2017	Medicare Bad Debts (Patient Revenue) Audit	To review UTHSCT’s Medicare Bad Debt policies to determine if the policies are consistent with Medicare regulations and guidelines, and to determine if the institution’s policies and procedures are adequate to ensure that UTHSCT receives all payments due for Medicare Bad Debts.	Processes in place at UTHSCT for identifying and claiming unpaid coinsurance and deductibles in the annual Medicare cost report for Medicare beneficiaries are appropriate to ensure adherence with Medicare regulations and guidelines, and procedures are appropriate for ensuring that UTHSCT receives all payments due for Medicare Bad Debts. However, recommendations were made for improving policies and procedures relating to the 120 Day Rule, institutional policy, supporting documentation and timely return of accounts.	Fully Implemented

Exhibit B: FY 2018 Audits – Summary of Issues and Current Status

Report No.	Report Date	Name of Report	High-level Audit Objective(s)	Observations/Findings and Recommendations	Status/Actions ¹
17-03	7/05/2017	Sponsored Programs Audit (Grants & contracts Financial Management Audit)	To perform an assessment of the key activities and processes utilized in the financial management of grants and contracts.	The Office of Sponsored Program’s management and staff are knowledgeable about federal, state and program specific requirements for the various sponsor funding received by UTHSCT and has substantially implemented processes and controls to provide reasonable assurance that each sponsor’s requirements are met, as required. While reviewing processes, controls, and documentation we identified some opportunities for improvement as detailed within the specific processes discussed below.	Fully Implemented
18-02	2/01/2018	Employee Licensure Audit (Non-Physician Employees)	To conduct an audit of the UTHSCT controls and processes in place to ensure employee licenses required in non-physician employee job descriptions were obtained, current and active for each employee.	The controls and processes in place at UTHSCT are appropriate for ensuring employee licenses required in non-physician employee job descriptions are obtained, current and active for each employee. However, recommendations were made for improving policies and procedures relating to late primary source verifications, licensure tracking, supporting documentation, and profile management tracking.	Fully Implemented

Exhibit B: FY 2018 Audits – Summary of Issues and Current Status

Report No.	Report Date	Name of Report	High-level Audit Objective(s)	Observations/Findings and Recommendations	Status/Actions ¹
18-03	7/24/2018	Controlled Substance Contracts Audit	To evaluate the Institution's processes for managing controlled substance contracts.	A number of areas were identified where the controlled substance agreement controls and processes in place at UTHSCT could be strengthened relating to institutional policy, standard controlled substance agreements and tracking.	Incomplete/On-going

¹ Definitions of implementation status are as follows:

- I. Fully Implemented: Successful development and use of a process, system, or policy to implement a prior recommendation.
- II. Substantially Implemented: Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.
- III. Incomplete/On-going: On-going development of a process, system, or policy to address a prior recommendation.
- IV. Not Implemented: Lack of a formal process, system, or policy to address a prior recommendation.