

**The University of Texas Health Science Center at Houston (UTHealth)
Internal Audit Annual Report for 2017**

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

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

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 2017

Audit Number	FY 2017 Audit Plan Audit/Project	Description	Status	Report Date
	<i>Financial Audits</i>	<i>Description</i>	Complete	
17-101	Financial Statements FY 2016 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
17-102	Financial Statements FY 2017 Assurance Work	Interim work for FY2017 financial statement audit	Complete	Report issued by D&T at UT System level
17-103	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
17-115	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	In Progress	
	<i>Operational Audits</i>			
17-109	Physician Billing & Collections	Review effectiveness and efficiency of processes recently taken back from billing vendor	Cancelled	
17-108	Executive Travel and Entertainment	Review of official function, and travel and entertainment expenses	Complete	Report Submitted
17-105	Presidential Travel and Entertainment	Audit performed by the System Audit Office as required by Regents Rule 20205. Hours are to provide	Complete	Report Issued at UT System level

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		coordination and assistance		
17-113	Infection Prevention Control	Process review of efficiency and effectiveness	Complete	Report Submitted
17-114	Family Medical Leave Act	Review for compliance with federal and state guidelines	Complete	Report Submitted
17-117	Core Labs	Operational review of efficiency and effectiveness	In Progress	
	<i>Carryforward Audits</i>			
16-109	HIPAA	Review operational controls, performed as integrated audit	Complete	Report Submitted
16-113	Faculty Hiring	Review faculty hiring process and controls in place to ensure compliance with Federal and State regulations	Complete	Report Submitted
16-117	Information Technology Asset Management System (ITAMS)	Review control process over IT assets	Complete	Report Submitted
16-119	Conflict of Interest	Review COI and management plan process for compliance with HOOP 20	Complete	Report Submitted
16-403	External QA Follow-up	EQA required every three years	Complete	Report Submitted
16-122	Faculty Compensation	Review of the faculty compensation process including equity and compliance with Regents Rule 20204 and UTS 144	Complete	Report Submitted
	<i>Compliance Audits</i>			
17-107	Texas Higher Education Coordinating Board Residency Program	Provide opinion on revenue and expenditure reporting on annual financial report	Not Yet Due	
17-110	Medical School Practice Plan (MSRDP)	Assess compliance with MSRDP process or bylaws. Will be performed based on risk	Complete	
17-111	Dental School Practice Plan (DSRDP)	DSRDP audit to assess efficiency and effectiveness of operations of biopsy services	Complete	
17-112	Records Retention	Review of the process to comply with State and UT System guidelines	Complete	Report Submitted
17-116	Rooney Rule	Review to determine compliance with UT System Requirements	Complete	Report Submitted
17-118	SoD General Practice	Review operations at the University Dental Center	Complete	Report Submitted
17-119	Willed Body Program	Review control process over the receiving, storing, using and transporting of cadavers & anatomical specimens and their disposal	Complete	Report Submitted

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	<i>Carryforward Audits</i>			
16-111	Dental School Practice Plan (DSRDP)	Review efficiency and effectiveness of operations of biopsy services	Complete	Report Submitted
	Information Technology Audits			
17-201	HITECH Act/Omnibus Rule	Compliance review of changes to the applicable federal guidelines	Complete	Report Submitted
17-202	Texas Administrative Code 202	Review new requirements effective Feb 2017	Complete	Report Submitted
17-203	New Innovations	Post-Implementation review and operational assessment	In Progress	
17-204	Hemophilia - Integrated	Review of the billing and collections process as well as system controls	In Progress	
17-205	Security Information & Event Management (Splunk)	Functionality and usage as a monitoring tool	Cancelled	
17-206	Sunrise Clinical Manager E.H.R.	Application audit	In Progress	
17-207	Digital Loss Prevention (Digital Guardian)	Post-Implementation review and operational assessment	In Progress	
17-208	Clinical Data Usage	Review of data access and operational assessment	In Progress	
17-209	Phishing Attack Preparedness	Training	Complete	Report Submitted
17-210	Learning Management System (Canvas)	Review of Add-On applications, shared authentication, and application controls	Complete	Report Submitted
17-211	Patient Privacy System (Fair Warning)	Application audit to include notification process/requirements and false positives	In Progress	
	<i>Carryforward IT Audits</i>			
16-204	Change Management		Complete	Report Submitted
	Follow-up Audits			
16-104	Follow-up on Open Recommendations		Complete	Report Submitted

The Physician Billing and Collection audit #17-209 was included in the FY2017 audit plan as a result of risks identified when the accounts revenue process was brought in-house from our

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outsourced third-party biller. However, since the time the risk assessment was performed, UTHealth has hired a new vice-president and Chief Revenue Cycle Officer as well engaged Conrad Consulting. Because the processes involved are currently under review, the audit has been cancelled and we will be re-evaluating the risk as part of the FY 2018 risk assessment cycle.

The 500 budgeted hours from this audit will be allocated to the Willed Body Program (300 hours), which is required by Texas Administrative Code (TAC) Title 25, Part 4, Chapter 485, and Rule 485.1. This Rule states that an audit of each member institution's Willed Body Program must be audited at an interval of five years to coincide with the Boards inspection. The State Anatomical Board inspection is to occur in May of 2017. The estimated time required to complete this audit is 300 hours. The remaining hours will be allocated to the carryover audit Faculty Compensation (200 hours).

The Security information and Event Management System (Splunk) audit #17-205 was included in the FY2017 audit plan as a result of risks identified around unencrypted data stolen by hackers or employees; however, the majority of risks around Splunk will be adequately addressed from the following audits also on the FY2017 Audit Plan:

- 17-207 Digital Loss Prevention (Digital Guardian)
- 17-208 Clinical Data Usage
- 17-211 Patient Privacy System (Fair Warning)

As a result, the 400 budgeted hours from this audit were allocated to Data Analytics #17-416 (200 Hrs), Digital Guardian (100 Hrs), and Fair Warning (100 Hrs). The increase in Data Analytics will allow us to accommodate requests by the institution to further develop scripts to monitor operational performance. The increase of 100 hours to both Digital Guardian #17-207 and Fair Warning #17-211 will allow us to increase our scope and breadth of procedures to ensure the risks identified are properly controlled.

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

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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.”* 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
17-414	Report Submitted	Infusion Center	Review of operational processes of the Infusion Center for efficiency and effectiveness of the practice	Results communicated to the department.
17-415	Report Submitted	Lunch Punch	Review of UTHealth’s handling of non-exempt employee lunch breaks	Results communicated to the department.
17-500	Complete	UCSC Cash	Review internal controls surrounding cash and cash handling procedures	Results communicated to the department.
17-501	Report Submitted	SAO Davis	Review of time reporting activities at UT Davis Clinic	Results communicated to SAO
17-502	Complete	IMM Grant Review	Review of expenditures and effort reporting applied towards grant	Results communicated to the department.

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IV. External Quality Assurance Review (Peer Review)



Candor. Insight. Results.

June 28, 2017

Mr. Daniel Sherman, Chief Audit Executive
The University of Texas Health Sciences Center at Houston

In May 2017, The University of Texas Health Sciences Center at Houston (UT Health) Auditing & Advisory Services (A&AS 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 A&AS engaged an independent review team consisting of three internal audit professionals with extensive higher education and healthcare experience to perform an independent validation of A&AS' 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 A&AS, we agree with A&AS' 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 A&AS' 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, The University of Texas System Administration and UT Health 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 System Administration and UT Health.

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

Very truly yours,

Baker Tilly Virchow Krause, LLP



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V. Internal Audit Plan for Fiscal Year 2018

FY 2018 Audit Plan	Budgeted	
Audit/Project	Hours	Description
<i>Risk Based Audits</i>		
Security Policy Workflow Agreements	400	Review of Exceptions to Security Policy - example exception to limit PHI records on Medical Devices
Citrix	500	Citrix servers extend remote desktop sessions and applications. Allows remote access to GEGB, Allscripts etc.
Telemedicine	500	Allows remote access to diagnose and treat patients.
Office 365	450	Subscription based plan that includes access to Office applications plus other productivity services that are enabled over the internet (cloud services)
Google Apps for Education	500	Core services for education that includes file sharing services through the cloud
System Access Reviews	400	To review system access processes based upon risk
Timeshares	450	Real Estate arrangements where vendor offices provide office space and technology for physician use (includes VPN to our E.H.R and GEGB)
SunNet (CLI Contract)	450	System used by CLI. Growing use and costs
Practice Partner (SON)	500	School of Nursing E.H.R.
MSRDP	300	Review compliance with MSRDP process or bylaws. Will be performed based on assessed risk
DSRDP	300	Review to assess efficiency and effectiveness of operations of the pediatric dentistry HMC
Emergency Preparedness Plan	400	Access adequacy of processes and policies developed to respond to emergency events. Required every three years by HB 1831
Americans with Disabilities Act (ADA)	300	Review of processes on an institution wide basis, including accommodation process
Subrecipient Monitoring	400	Review adequacy and effectiveness of research compliance efforts
MACRA	400	Review of preparedness for Medicare Access and CHIP reauthorization Act requirements which go into effect January 2019

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Purchasing	300	Review of purchasing process including purchase coding and use of blanket purchase orders
Carryforward	1,000	
Risk Based Audits Subtotal	7,550	
<i>Required Audits (Externally and Internally)</i>		
Financial Statements FY 2017	100	Controls and transaction testing, analytical review, and other procedures assigned as part of the financial assurance audit
Financial Statements FY 2018	200	Interim work for FY 2018 financial statement audit
Assist State Auditor's Office and other external auditors	150	Provide assistance to the State Auditor's Office and other external audit functions
THECB	50	Provide an opinion on revenue and expenditure reporting of program funds
JAMP	60	Provide opinion on revenue and expenditure reporting on annual financial reports (biannual).
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	100	Review of official function. And travel and entertainment expenditures
Required Audits Subtotal	710	
<i>Consulting Projects</i>		
Consulting	600	Hours allocated for the performance of consulting projects requested by management. Potential projects could include a review of user access and rights within the patient billing system GECB, IT system conversions or upgrades, election to change how researchers record effort as allowed by the Uniform Guidance
Consulting Subtotal	600	
<i>Investigations</i>		
Investigations	300	These hours are allocated to perform work related to potential thefts or assist other risk mitigating functions with compliance investigations
Investigations Subtotal	300	
<i>Follow-up</i>		
Follow-up on Open Recommendations	500	Hours designated to perform periodic follow-up of the status of outstanding recommendations

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Follow-up Subtotal	500	
General Reserve		Hours allocated to allow flexibility to add audits as additional risks are identified or to address rapidly changing areas.
Emerging Risk	700	
Reserve Subtotal	700	
Development		
Internal Audit Committee	500	
UT System Requests	150	
Institutional Committees	200	
FY 2019 Audit Plan	274	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
External Quality Assessment	100	Hours our allocated to develop and implement any corrective measures required by the EQA performed in FY 2017
Internal Staff Meetings	250	
Continuing Professional Education	540	
TeamMate Implementation	250	
Data Analytics	250	Review of UTHealth generated reports and A&AS reports as part of the ongoing risk assessment process
Process Improvement	200	Periodic review of audit review processes by management and staff
Development Subtotal	2,754	
Total Hours	13,114	

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High Risks Not Included in FY 2018 Audit Plan	Explanation/Mitigation	Internal Audit Action
Core Lab cost, use and management	Covered under audit #17-117	Fieldwork for audit #17-117 Core Labs is in the final stages of fieldwork.
Noncompliance with requirements of Title IX	Responsibility for Title IX is currently in transition and under review.	Risk will be re-evaluated and possibly considered as a replacement audit for FY 2018.
Inadequate controls over serving alcohol at university functions	Responsibility for Title IX is currently in transition and under review.	Responsibility for Title IX, which has potential implication on this risk, is under currently under review. Consider as replacement audit.
Reductions in State funding	Monitor Developments	Risk will be re-evaluated and will continue to monitor developments.
Periodic unavailability of the course management system (Canvas)	Risk covered under #17-210 LMS Canvas.	Report Submitted
Visitor management and access controls	Covered under audit #16-116	Report Submitted
Potential lack of unified risk oversight which may lead to inconsistent application of rules	Monitor Developments	Risk will be re-evaluated and will continue to monitor developments.
Heavy reliance on profits from the Practice Plan which may affect UTH's educational mission	Monitor Developments	Risk will be re-evaluated and will continue to monitor developments.
Because of the 503 status of the Practice Plan, there could be a perceived conflict of interest between University leaders' responsibility to the University and their oversight of the Practice Plan	Monitor Developments	Risk will be re-evaluated and will continue to monitor developments.
Reporting of faculty conflict of interests and outside activities	Covered in audit #16-119 Conflict of Interest	Report Submitted
Are we accurately capturing clinical trial billing	Covered in #15-121 Clinical Trials Billing	Report Submitted
Conflict of Interest	Covered by #16-119 Conflict of Interest audit	Results scheduled to be reported to Audit Committee during FY17

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Are we following NAIP guidelines when creating and following these programs?	Monitor Developments	Monitor developments and consider as replacement audit.
Faculty Hiring - do we have a process to ensure we complete hiring under the rules?	Monitor Developments	UTHealth has Recently added AVP for Faculty Affairs and Development.
There is an absence of a centralized database (contract management system) to maintain contracts, making it difficult to ensure all contract terms are maintained and adhered creating risk to the institution	Monitor Developments	UTHealth has recently added Co-CLO's. A contract management system is under discussion.
Concern regarding how roles and user access is provided and maintained in GECB is a concern	Monitor Developments	Consider a consulting project during the upcoming fiscal year
Do we have a process to review and monitor the potential for student burnout?	Monitor Developments	Consider a consulting project during the upcoming fiscal year
Physical security is not adequate	Covered under audit #16-211 Physical Access	Report Submitted
Federal Programs may be eliminated due to Affordable Care Act	Monitor Developments	Monitor developments and consider as consulting project
New EHR - who owns the patient data?	Consideration as part of contract with future E.H.R. partner.	New E.H.R. selection is currently under review
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

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.

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VI. External Audit Services Procured in Fiscal Year 2017

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
Review to determine UTHealth's Center on Aging level of contract compliance	City of Houston Health Department

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 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.