

# **UT Southwestern** Medical Center

**The University of Texas Southwestern Medical Center**

**Southwestern Health Resources Financial Review  
Internal Audit Report 16:50**

**November 29, 2016**

# Table of Contents

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I. Executive Summary	3
• Background/Scope and Objectives	3
• Conclusion	4
II. Appendices	5
• Appendix A – Risk Classifications and Definitions	5

## **Executive Summary**

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### **Background**

The University of Texas Southwestern Medical Center (UT Southwestern) and Texas Health Resources (THR) entered into an affiliation agreement as of April 1, 2016, to strategically align certain aspects of their respective organizations called Southwestern Health Resources (SWHR). Within the SWHR affiliation, there are multiple joint operating companies. As a part of this affiliation, University Hospitals, includes Clements University Hospital and Zale Lipshy, (UH) and Texas Health Dallas (THD) entered into an agreement to form a Joint Operating Company (SWHR JOC) within the Hospital Network.

Prior to the start of the Hospital JOC agreement a valuation of hospitals from both entities was performed to determine the joint venture allocation percentage for each entity. Each month, both parties are required to submit financial reports to Southwestern Health Resources for preparation of a network settlement and a due to/due from is calculated for each entity. At the end of each fiscal year, the due to/due from is payable from one party to the other within 90 days of the year end.

### **Scope and Objectives**

The Office of Internal Audit has completed the SWHR Hospital JOC review. This is part of the fiscal year 2016 Audit Plan and financial reviews are also included in the FY17 plan. The Office of Internal Audit (“OIA”) in coordination with the Financial Compliance (“FC”) team at Texas Health Resources (THR) determined common financial audit review procedures to be performed for SWHR JOC FY 2016 Commencement Date, Stub Period and August 31, 2016 financial and network settlement processes and transactions.

The audit scope period included activities from April 1, 2016 to August 31, 2016. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation and testing of selected transactions. OIA and FC reviewers also met after the end of the fiscal year to perform a review of the other parties work papers, which included testing documentation and transaction supporting documentation. The two parties also discussed and identified observations.

The primary objectives of the SWHR JOC review included the following:

- Assessment of methodology to prepare the monthly network settlement calculation
- Validation of amounts reported in the network settlement to supporting documentation
- Evaluation of compliance with key contract provisions related to the network settlement

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

## Executive Summary

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### Conclusion

Overall, the SWHR Hospital JOC management team has implemented procedures to comply with the provisions of the Master Affiliation Agreement. Documentation of processes for each party to the JOC and for SWHR Finance during the preparation of the monthly network settlement calculation can be improved to ensure consistent procedures are followed and appropriate review and approval occurs prior to final submission to SWHR.

We would like to take the opportunity to thank the departments and individuals included in this review for the courtesies extended to us and for their cooperation during our review.

Sincerely,



Valla Wilson, Associate Vice President for Internal Audit, Chief Audit Executive

### **Audit Team:**

Melinda Lokey, Director of Internal Audit  
Angeliki Marko, Senior Internal Auditor

cc: Arnim Dontes, Executive Vice President for Business Affairs, UTSW  
Michael Serber, Vice President for Financial Affairs, UTSW  
Beth Ward, CFO, University Hospitals  
John Warner, M.D., Vice President and Chief Executive Officer for Health System Affairs, UTSW

## Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<b>Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.</b>	Degree of Risk and Priority of Action	
	<b>Priority</b>	An issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	<b>High</b>	A finding identified by internal audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	<b>Medium</b>	A finding identified by internal audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action is needed by management in order to address the noted concern and reduce risk to a more desirable level.
	<b>Low</b>	A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions.

It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.