




MEMORANDUM

TO: Lawrence Sowers, PhD
Director, MD/PhD Combined Degree Program

FROM: Kimberly K. Hagara, CPA, CIA, CISA 
Associate Vice President, Audit Services

DATE: October 9, 2012

SUBJECT: MD/PhD Combined Degree Program Change of Management Audit
Audit Control Number 2013-016

Attached is the final audit report regarding the MD/PhD Combined Degree Program Change of Management Audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: Significant (S), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachments

c: Steven A. Lieberman, MD
Danny O. Jacobs, MD
Cameron W. Slocum



The University of Texas Medical Branch
Audit Services

Audit Report

MD/PhD Combined Degree Program Change of Management Audit
Audit Control Number 2013-016

October 2012

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150

MD/PhD Combined Degree Program Change of Management Audit
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Background

The University of Texas Medical Branch (UTMB Health) MD/PhD Combined Degree Program (Program) is designed to educate well-trained clinician-scientists who are equally at home at the patient's bedside and the research lab. Such individuals will be uniquely prepared to advance biomedical science and translate research advances into improvements in clinical care.

The program offers three specialty tracks - Clinical Sciences and Medical Humanities, Biomedical Sciences, and Biomedical Engineering. During the first two years of medical school, students accepted into the MD/PhD program complete research-related coursework in addition to the medical school curriculum. The next three years of the program focuses solely on research activities which culminate in the student's dissertation and receipt of a PhD degree. Students return to medical school to complete their clinical rotations, after which they receive their MD degree. Twenty-nine students are currently enrolled in the program.

In mid-July 2012, the Chairman of the Department of Pharmacology and Toxicology began serving as the MD/PhD Program Director. The Director requested a change of management audit amid concerns regarding the appropriateness of several prior expenditures.

Audit Objectives

The objectives of this audit are to:

- Determine whether financial internal controls are adequate and effective to ensure compliance with applicable Program and UTMB Health policies and procedures.
- Determine if the supervision and monitoring of personnel, processes, and controls are in place and functioning as intended.

Scope of Work and Methodology

The scope of work includes a review of current operations, analysis and limited testing of fiscal year (FY) 2012 and FY 2013 transactions related to accounts receivable, accounts payable, and asset management.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors.

Audit Results

Organizational Structure

With the appointment of the new Director, the Pharmacology and Toxicology Administrative Manager assumed responsibility for the administrative activities of the Program, including supervision of two full-time staff. Additionally, the Office of Academic Affairs provides financial analyst support, assisting with the monthly reconciliation of departmental accounts. The current structure appears sufficient and appropriate for the size and scope of the Program.

Recommendation 2013-016-01-P:

The Director should continue evaluating the Program's organizational structure and staffing to ensure it is sufficient to adequately manage and monitor the Program.

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Management's Response: Management will continue to monitor the staffing and structure for necessary changes or updates

Implementation Date: Ongoing

Segregation of Duties

The foundation behind segregation of duties requires at least two people review a transaction. No one person should have the ability to initiate, approve, record, review and physically control a transaction. Prior to the new Director's appointment, the MD/PhD department's Administrative Associate initiated expenditure transactions and the department's Coordinator II approved the transactions. With the recent resignation of the Administrative Associate, this process was changed whereby the Coordinator II initiates expenditure transactions and the Department of Pharmacology and Toxicology Administrative Manager approves the transactions. Audit Services reviewed a random sample of 65 discretionary expenditure transactions noting no segregation of duties issues.

Monthly Account Reconciliations

UTMB Health's *Financial Controls, Monthly Review and Reconciliation Policy* states department management should ensure financial activity is reconciled on a regular basis. Additionally, expenditures should be managed in conformity with the budget for an activity and deviations should be clearly explained.

Audit Services interviews with the Office of Academic Affairs Financial Analyst II and review of monthly account reconciliations performed since September 2011 indicate reconciliations are in compliance with Accounting's *Financial Controls, Monthly Review and Reconciliation Policy*.

Expenditure Testing

UTMB Health's Institutional Handbook of Operating Procedures (IHOP) Policy 4.4.2 *Official Function Expenditures* provides guidance and documentation requirements for reimbursement or payment of official function expenditures. Audit Services review of a random sample of 60 non-payroll expenditures indicated 57 expenditures did not contain all required support documentation and one item was incorrectly coded as lease equipment.

Additionally, Audit Services reviewed the appropriateness of the questionable expenditures identified by new program leadership which were incurred by a former employee. Audit Services concurred with program leadership and notified the appropriate investigative offices within UTMB Health. The recent changes to the expenditure approval process appear to have sufficiently strengthened internal controls to reduce the risk of inappropriate expenditures.

Recommendation 2013-016-02-R:

The MD/PhD Program Director should ensure all expenditures contain appropriate and complete supporting documentation.

Management's Response: All expenditures will have the appropriate supporting documentation and justification included with them for payment. Documentation and

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justification will be such that the expenditure can be identified as to the activity that they supported.

Implementation Date: Immediately and ongoing

Audit Services noted no unusual transactions during its review of payroll expenditures.

Tuition and Fees

The Program pays participants' tuition and fees through an allocation from the Dean, School of Medicine. Audit Services review of the allocation methodology and subsequent calculations for FY 2012 indicate both appear adequate and accurate. Additionally, with the assistance of the Business Operations Financial Analyst II, Audit Services tied the resulting tuition and fee expenditures to documentation in the Campus Solutions student information system with no exceptions.

Asset Management

Audit Services review of the PeopleSoft Asset Management module indicated the department's identified Asset Custodian is incorrect. Additionally, during our testing of departmental asset inventory, the Coordinator II was unable to locate a desktop computer which is believed to have been previously surplused. The Coordinator II subsequently had the asset listed on the department's Unaccounted for Assets Listing in PeopleSoft.

Other Observations

Audit Services noted the Program's website contains remarks from the previous Director and inaccurate staffing information.

Recommendation 2013-016-03-P:

The Program Director should ensure the Program website is appropriately updated to reflect current information and references.

Management's Response: The Director is in the process of having the website updated to reflect the change in management and staff. The changes will include a new program dedicated email box.

Implementation Date: No later than November 1, 2012

Conclusion

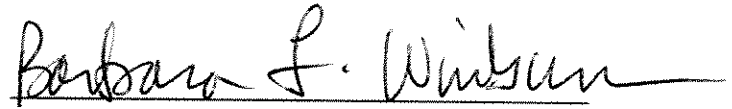
Audit Services conducted a change in management audit of the MD/PhD Combined Degree Program. Recent departmental supervisory changes appear to have strengthened financial internal controls to ensure compliance with applicable Program and UTMB Health policies and procedures. Opportunities exist to assess the current organizational structure, ensure expenditures are supported by appropriate and complete documentation, and update the Program's website.

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We greatly appreciate the assistance provided by the MD/PhD Combined Degree Program, the Office of Academic Affairs, Business Operations, and the Department of Pharmacology and Toxicology staff and hope that the information presented in our report is beneficial.



Kimberly K. Hagara, CPA, CIA, CISA
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Barbara L. Winburn, RHIA, CIA, CRMA
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