

February 24, 2016

Weldon Gage
Senior Vice President and Chief Financial Officer
1515 Holcombe Blvd.
Unit 1495
Houston, TX 77030

Dear Mr. Gage,

We have completed our audit of Benefits Proportionality by Fund for The University of Texas MD Anderson Cancer Center, as required by Rider 8, page III-39, of the General Appropriations Act (84th Legislature, Conference Committee Report). The rider requires that the audit examine appropriation years (AY) 2012 through 2014. An internal audit of the proportionality of higher education benefits for AY 2013 was conducted during fiscal year 2015 at the request of the Governor. In addition, the Texas State Auditor's Office has performed a review of AY 2014. Therefore, the scope of this year's audit included only AY 2012. Results for AY 2012 and AY 2013 are included in Appendix 1, and our report on AY 2013 is included as Appendix 2.

Based on audit procedures performed, *Benefits Proportionality by Fund Reports (APS 011)* for appropriation years 2012 and 2013, as submitted to the State Comptroller, were materially accurate. Also, the process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in Article IX, Section 6.08, of the General Appropriations Act. However, immaterial adjustments are required, as discussed in the Observation below. All errors identified during the audit are described in Appendix 1.

Methodology

Our audit procedures were consistent with the methodology prescribed by the State Auditor's Office to comply with Rider 8, and included the following:

- A review of source information obtained from the internal accounting system and the State's Uniform Statewide Accounting System (USAS)
- A review of the benefits proportionality reporting process
- Validation of the accuracy of information and proportional funding calculations reported to the State Comptroller on the APS 011 reports
- Testing to verify eligibility of employee benefits paid with appropriated funds

The sample size for testing was determined following guidance on internal controls testing for compliance from the American Institute for Certified Public Accountants (AICPA). We relied upon work conducted in previous audits by our office, our external audit firm, and the Texas State Auditor's Office to gain assurance about the reliability of data in the internal accounting system and USAS. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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Observation 1:

APS011 Calculation Error**RANKING: Low**

An error in the APS 011 calculation resulted in an overstatement of .004% in the benefits proportionality percentage, representing a net overpayment to MD Anderson of \$121,171. Optional Retirement Program (ORP) expense was overstated by \$2.08 million due to ORP expenses not being reported at the 6% limit set forth in the State Appropriations Act.

Recommendation

Management should work with appropriate individuals to ensure that the net overpayment is appropriately addressed.

Management's Action Plan

Responsible Executive: Weldon Gage

Owner: Christy Harrison

Observers: Sue Threlkeld

Due Date: May 31, 2016

We agree with the observations provided in this report. Management will follow up with the appropriate individuals to address any net overpayment.

Number of Priority Findings to be monitored by UT System: None

A Priority Finding is defined as "an issue identified by internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole."

The courtesy and cooperation extended by the Division of Finance was sincerely appreciated.

Sherri Magnus

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer

cc: Dr. Ronald DePinho, President, MD Anderson Cancer Center
Michael Keneker, Associate Vice President and Controller, MD Anderson Cancer Center
Hugh Ferguson, Executive Director, MD Anderson Cancer Center
Christy Harrison, Executive Director and Assistant Controller, MD Anderson Cancer Center
Sue Threlkeld, Director, MD Anderson Cancer Center
Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer, UT System
J. Michael Peppers, Chief Audit Executive, UT System

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**Appendix 1
Results for AY 2012 and AY 2013**

| | Appropriation Year | Benefit Type | Financing Source | Error Description | Error Amount | Refund Status | Texas State Comptroller Document Number and Effective Date |
|-----------------|---------------------------|---------------------|-------------------------|---|----------------------|----------------------|---|
| Subtotal | 2012 | OASI | GR Fund # 0001 | ORP expense was overstated. | 3,057.84 | | |
| | 2012 | TRS | GR Fund # 0001 | ORP expense was overstated. | 2,195.88 | | |
| | 2012 | ORP | GR Fund # 0001 | ORP expense was overstated. | 115,917.35 | | |
| | 2012 | | | | \$ 121,171.07 | In Process | |
| Subtotal | 2013 | OASI | GR Fund # 0001 | Local revenue was understated and ORP expense was overstated. | 8,028.58 | | |
| | 2013 | TRS | GR Fund # 0001 | Local revenue was understated and ORP expense was overstated. | 6,159.75 | | |
| | 2013 | ORP | GR Fund # 0001 | Local revenue was understated and ORP expense was overstated. | 120,347.89 | | |
| | 2013 | | | | \$ 134,536.22 | Complete | A2015006 12/22/2014 |
| Total | 2012-2013 | | | | \$ 255,707.29 | | |

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Appendix 2

AY 2013 Internal Audit Report

November 25, 2014

Michael Keneker
Associate Vice President and Controller
1515 Holcombe Blvd.
Unit 1694
Houston, TX 77030

Dear Mr. Keneker,

We have completed our audit of Benefits Proportionality by Fund for MD Anderson Cancer Center as requested by Governor Rick Perry. Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for appropriation year (AY) 2013, as submitted to the State Comptroller on November 6, 2013, was materially accurate; however, immaterial adjustments are required. The process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in Article IX, Section 6.08, of the General Appropriations Act.

The scope of our audit included benefits funding proportionality reporting for AY 2013. Risk of material error in reporting accuracy for years prior to AY 2013 was assessed based on audit results and determined to be low, thus additional testing of prior appropriation years was not performed.

Our audit methodology included review of source information obtained from the MD Anderson Cancer Center's internal accounting system and the State's Uniform Statewide Accounting System (USAS). We relied upon work conducted in previous audits by our office, our external audit firm, and the Texas State Auditor's Office to gain assurance about the reliability of data in our internal accounting system and USAS. Based on that work, we determined that the information in these systems was sufficiently reliable for the purposes of this audit. In addition, we reviewed the benefits proportionality reporting process with relevant staff, validated the accuracy of information and proportional funding calculations reported to the State Comptroller on the *Benefits Proportionality by Fund Report* (APS 011), and tested to verify eligibility of employee benefits paid with appropriated funds. Sample size for testing was determined following guidance on internal control testing for compliance from the American Institute for Certified Public Accountants (AICPA). The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Two errors in the APS 011 calculation resulted in an overstatement of .01% in the benefits proportionality percentage, representing a net overpayment to MD Anderson of \$134,536. The following errors contributed to this misstatement:

- Local revenue was understated by \$3.58 million due to the following:
 - Hospital revenue was understated by \$3.67 million due to the usage of a draft version of the Annual Financial Report rather than the final version.

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- The Texas Public Education Grant amount of \$89,134 was not deducted from the net resident and non-resident statutory tuition.
- Optional Retirement Program (ORP) expense was overstated by \$2.39 million due to ORP expenses not being reported at the 6% limit set forth in the State Appropriations Act.

In addition, the following reporting errors were identified within the APS 011 that do not impact overall proportionality calculations:

- An error in retiree insurance calculation formula resulted in overstating estimated state paid and understating MDACC paid by \$2,959.
- Patient Income was classified in error under Appropriated Receipts rather than Other Education and General Income.

Recommendation

Management should work with appropriate individuals to ensure that the net overpayment is appropriately addressed. In addition, management should develop formal procedures for preparation of the APS 011. Detailed instructions and explanations should be documented for each component of the calculation.

Management's Action Plan

Responsible EVP: Leon Leach

Owner: Christy Harrison

Observers: Chris McKee and Hugh Ferguson

Due Date: May 31, 2015

We agree with the observations provided in this report. Management will follow up with the appropriate individuals to address any net overpayment.

Detailed standard operating procedures will be developed and implemented to ensure that the APS 011 is accurate and the final report is reviewed and validated prior to submission. Additionally, all parties contributing information to the final report will receive training and education on the process.

Sincerely,

Sherri Magnus

Sherri Magnus

Vice President and Chief Audit Officer

cc: Dr. Ronald DePinho, President, MD Anderson Cancer Center
 Leon Leach, Executive Vice President, Business Affairs, MD Anderson Cancer Center
 Chris McKee, Vice President, Business Operations, MD Anderson Cancer Center
 Hugh Ferguson, Executive Director, MD Anderson Cancer Center
 Christy Harrison, Executive Director and Assistant Controller, MD Anderson Cancer Center
 Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer, UT System
 J. Michael Peppers, Chief Audit Executive, UT System

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