

**The University of Texas Southwestern Medical Center**

**Internal Audit Report 13:08  
University Hospitals CFO Change in Management**



**July 31, 2013**

Office of Internal Audit  
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**AUDIT REPORT  
July 31, 2013**

Daniel K. Podolsky, M.D., President  
The University of Texas Southwestern Medical Center  
5323 Harry Hines Boulevard, MC 9002  
Dallas, Texas 75390-9002

Dear Dr. Podolsky:

The University of Texas Southwestern Medical Center (Medical Center) Office of Internal Audit has completed its 13:08 University Hospitals CFO Change in Management Audit. The audit covered the period of May 1, 2012 to May 31, 2013.

**Executive Summary**

A change in management audit is utilized to help incoming management assess the current operations of the department they are becoming responsible for in their new role. Recommendations are made to assist management in promoting an environment that is compliant with Medical Center and UT System policies and procedures. Based on the procedures performed to evaluate 1) operating procedures (inclusive of business continuity plan); 2) training; 3) staff performance assessments; 4) PeopleSoft access; 5) confidential information procedures; 6) safeguarding of assets; and 7) expenditure segregation of duties, we found the control environment that the University Hospitals Chief Financial Officer (University Hospitals CFO) is taking responsibility for is well developed and generally complies with Medical Center and UT System policies and procedures.

As a result of this audit, the following observations and recommendations are made to help the new University Hospitals CFO enhance current operations:

Expense Approval

1. The University Hospital CFO has the majority of her reimbursement requests approved in PeopleSoft by the Chief Operating Officer for the University Hospitals (University Hospital COO). This represents a peer level approval for the CFO. Given how current policy is written, this practice is similar to what has been seen in other travel and entertainment expense reviews. The Medical Center is currently in the process of revising policy and updating PeopleSoft workflows to address the necessity of an upward approval with these types of expenses. The University Hospitals CFO is aware of the need for upward approval of her reimbursable expenditures. The CFO is currently in the process of implementing quarterly reviews for the University Hospitals Chief Executive Officer and her own reimbursable expenditures by the Executive Vice President for Business Affairs. We commend the University Hospitals CFO on her proactive approach for addressing this issue and recommend continuance of the activities until fully implemented and until the leveraging of PeopleSoft technology can be utilized to perform this function.

## Safeguarding of Departmental Assets/Accurate Inventory Records

2. The University Hospital CFO recognized the need to assign Hospital property to specific departments and individuals. Previously, University Hospital inventory was regularly placed under the responsibility of either St. Paul Hospital or Zale/Lipshy Hospital with no designation for specific department responsible for the daily use of the item. UT Southwestern policy states that department heads and center directors are ultimately responsible for the property assigned to them. As a result, the Medical Center Inventory Control Manager and the University Hospitals CFO are currently working together to assign appropriate responsibility for the University Hospital's inventory items. We have recommended that the University Hospitals CFO continue her collaborative efforts with Inventory Control toward assigning University Hospital inventory to specific departments and clinics responsible for these items.

Management has reviewed and agrees with the recommendations made. We appreciate the courtesy and cooperation of the University Hospitals' CFO Office in assisting us with our audit.

### **Detailed Results**

Individual results and recommendations are discussed below:

#### 1. Expense Approval

We reviewed the University Hospitals CFO's travel and entertainment expenses reimbursements and found that the majority had obtained peer level approval from the University Hospital COO. Upward approval is an enhanced control and is supported by "best practice and caution guidance" provided by the UT System Executive Vice Chancellor for Health Affairs in October of 2009. Subordinate and peer level approvals are similar to what has been seen in other expense reviews and is attributed to how current policy is written. The Assistant Vice President of Accounting (AVP of Accounting) is actively addressing the issue with current policy to help enhance the control environment of the entire Medical Center. The AVP of Accounting is also working with Administrative Systems to create workflows that will systematically require upward approval. The University Hospitals CFO is aware of this best practice procedure and is proactively addressing the issue by preparing to construct quarterly reports on the reimbursable expenditures for the University Hospital CEO and herself to be and approved by the Executive Vice President for Business Affairs.

#### Recommendation

After discussion with the AVP for Accounting, it was brought to our attention that the Office for Administrative Systems has a substantial number of items that are to be addressed within the PeopleSoft system. Several of these items have a higher priority to the Medical Center than constructing a workflow for systematically ensuring upward approvals are obtained systematically. Therefore, we recommend that the University Hospitals CFO continue in the development of her quarterly reporting activities to the Medical Centers Executive Vice President for Business Affairs until the leveraging of PeopleSoft technology can be utilized to perform this function.

#### Management Response

The first report will be completed by the end of August. This will include travel and reimbursement expenses for the CEO, CFO, COO, CNO and CMO. The EVP for Business Affairs will review these reports.

Implementation Status: Process defined, first report in process  
Target Implementation Date: August 31, 2013

Responsible Party:  
University Hospitals CFO

## 2. Safeguarding of Departmental Assets/Accurate Inventory Records

UT Southwestern is required by state law to promote careful stewardship of its resources and to ensure its property is tracked and secured in a manner most likely to prevent theft, loss, damage, or misuse. Further, it is UT Southwestern policy (UTSW Policy FSS-151) that department heads and center directors are ultimately responsible for exercising reasonable care to safeguard all UT Southwestern property that is purchased by or assigned to their departments or centers. The University Hospital CFO recognized that the Hospitals' state property has not been assigned to specific departments or individuals. We verified this with Inventory Control and found that all University Hospitals' inventory is stated as either being the responsibility of St. Paul Hospital or Zale/Lipshy Hospital. The Medical Center Inventory Control Manager and the University Hospitals CFO are currently working together to assign appropriate responsibility for the University Hospital's inventory items to specific departments.

### Recommendation

We recommend that the University Hospitals CFO continue her collaborative efforts with Inventory Control until fully implemented.

### Management Response

The reconciliation is ongoing and proper identification of equipment by cost center is in progress. This is targeted to be completed by September 1, 2013. This will be an ongoing process and further procedures are being developed and implemented to insure that equipment is properly inventoried and assigned.

Implementation Status: In-process  
Target Implementation Date: September 1, 2013

Responsible Party:  
University Hospitals CFO

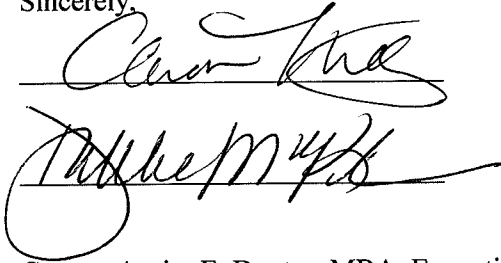
### **Conclusion**

We identified throughout our audit that the University Hospitals CFO had proactively taken initiative to continuously enhance her office's control environment to further promote compliance with UT System and Medical Center policies and procedures. Recommendations for 1) proceeding with development of quarterly reports on reimbursable expenditures to the Executive Vice President for Business Affairs for approval; and 2) continuing efforts with Inventory Control to update the entire University Hospitals' inventory listing to include responsible department have been made to better enhance the control environment. The University Hospitals CFO has concurred with our recommendations and is already in process of implementing corrective actions.

Aaron Munoz, CPA, CIA, CGAP  
Scot St. Martin, CIA, CGAP, CRMA  
Debbie McKibben

- Senior Internal Auditor  
- Internal Audit Manager  
- PwC Internal Audit Services

Sincerely,



Two handwritten signatures are present. The first signature is in cursive and appears to be 'Aaron Munoz'. The second signature is also in cursive and appears to be 'Debbie McKibben'. Both signatures are written over horizontal lines.



A handwritten signature in cursive, appearing to be 'Scot St. Martin', written over a horizontal line.

Cc: Arnim E. Dontes, MBA, Executive Vice President for Business Affairs  
Bruce Meyer, MD, Executive Vice President for Health System Affairs  
Michael Serber, MBA, Vice President for Financial Affairs  
Elizabeth Ward, University Hospital Chief Financial Officer

## Appendix

### Background

The University Hospital CFO is responsible for providing accounting services and financial support to the University Hospitals (St. Paul and Zale Lipshy). These services are supported by the following divisions under the University Hospital CFO's authority:

- Hospital Accounting
- Reimbursement Office
- Hospital Materials Management
- Hospital Cash Management
- Home Health
- Hospital Budget
- Hospital Revenue Cycle Office
- Health Information Management
- Hospital Decision Support

### Audit Objectives

Given a change in management, standard procedures were performed to evaluate 1) operating procedures; 2) training; 3) staff performance assessments; 4) PeopleSoft access; 5) confidential information procedures; 6) safeguarding of assets; and 7) expenditure segregation of duties to ensure key responsibilities are understood. The nature of the review is consultative.

### Scope and Methodology

Our audit covered University Hospital CFO Office departmental operations during the period of May 1, 2012 through May 31, 2013. The inherent risks of transition associated with a change in management resulted in this area being on the 2013 audit plan. Our examination was conducted according to guidelines set forth by the University of Texas Systems Administration Policy UTS129 "Internal Audit Activities", the Regents' Rules and Regulations, and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Procedures conducted to satisfy the audit objective included the following:

- Reviewed the University Hospitals CFO mission statement, goals, objectives, organizational chart, risk assessment and business continuity plan for consistency.
- Reviewed the University Hospitals CFO operating manual specific to their daily operations.
- Determined if staff had completed their required trainings.
- Determined if employee performance evaluations had been completed in accordance with Medical Center requirements.
- Reviewed employee access levels within the PeopleSoft applications and ensured access levels were consistent with job responsibilities.
- Reviewed confidential information security procedures.
- Performed walkthroughs of expenditure procedures to ensure adequate segregation of duties.
- Reviewed University Hospitals CFO office procedures for safeguarding of Medical Center assets.
- Reviewed the CFO transition process and reporting procedures.

Fieldwork was substantially completed by July 31, 2013.