UT Southwestern
Medical Center

**The University of Texas Southwestern Medical Center
University Hospitals Accounting Operations Audit**

Internal Audit Report 16:04

March 21, 2016

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Background

The University of Texas Southwestern Medical Center (UT Southwestern) University Hospitals (Hospital) Accounting Operations team is responsible for the delivery of accurate and timely financial statements for the two hospitals, hospital based clinics and home health operations. This responsibility also includes providing accounting services and ongoing financial support. The team consists of 20 employees: Controller; Assistant Controller; three managers; six full time equivalents (FTEs) focused on Accounts Payable; and the remaining staff of accountants and analysts. The Decision Support team, which also reports to the Hospital's Chief Financial Officer, includes five FTE's responsible for the Hospital's management reporting and analysis system.

Appendix B provides a summary of journal entry activities during calendar 2015. Sixty-seven percent (67%) of journal entries posted were related to standard general ledger processing and 32% were related to budget and overhead allocation adjustments.

Objectives and Scope

This audit was risk based and scheduled as a part of our Fiscal Year 2016 Audit Plan. The audit focused primarily on the month end financial closing, fixed assets accounting procedures, balance sheet reconciliations, and PeopleSoft system access. The Accounts Payable accounting processes were previously reviewed as part of the Accounts Payable audit. The audit scope covered January 2015 through December 2015. Audit procedures included: interviews with the accounting team members and walkthroughs of the month end closing and capital projects processes; review of policies and procedures and other documentation; analysis and testing of journal entries, financial statements and fixed assets records.

The primary objectives of the audit were to assess the adequacy and effectiveness of controls over Hospital accounting processes, including PeopleSoft system controls. Specifically, to provide reasonable assurance:

- Key financial processes, including journal entry processing, monthly closing procedures and financial reporting, and balance sheet reconciliation procedures include effective controls for accuracy and completeness.
- Capital assets are recorded and properly classified.
- Key decision support tool interface controls are working as intended.
- Hospital accounting system access is appropriate related to:
    - User access and segregation of duties
    - Approval work flow processing
    - Assignment of department approvers

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

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Conclusion

Overall, the Hospital accounting processes are well-managed and comply with UT Southwestern policies and procedures, however there are opportunities to strengthen controls and increase efficiencies in the process to reduce the risk of errors. Balance sheet accounts are not consistently performed and reviewed on a monthly basis and reconciling items are not cleared in a timely manner. In addition, the process to move fixed assets from construction in process (CIP) to the fixed asset register is inefficient, causing errors and an understatement of depreciation expense. These observations and recommendations are detailed in the next section of the report.

Specific strengths identified during the audit include:

- Hospital accounting staff makes dedicated efforts to ensure journal entries and financial statements are appropriate, accurate and complete during month end closing.
- The Decision Support team conscientiously works each month to provide timely and thorough data for hospital leaders.

The table below summarizes the observations and the respective disposition of these observations within the UT Southwestern internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

There were no priority issues identified in the audit. Key improvement opportunities risk-ranked as high and medium are summarized below.

Priority (0)	High (2)	Medium (3)	Low (2)	Total (7)

- **Improve Completeness and Timeliness of Balance Sheet Reconcilations and Reviews** – Account reconciliations were not consistently or timely prepared, and stale dated reconciling items were identified but not corrected.

- **Establish Oversight for Fixed Assets Processing –** There were assets remaining in Construction in Process (CIP) account classification for an extended period of time after being placed into service resulting in an understatement of depreciation expense.

- **Improve Efficiency and Effectiveness of the Month End Close Process -** The month end close process relies heavily on manual data analysis to identify the root cause of variances identified during the process.

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- **Restrict Critical Spreadsheets System Access -** Change management for critical spreadsheets is not effectively controlled to ensure changes are not made once final approval is obtained.

- **Improve Configuration and Testing for the Epic General Ledger (GL) Interface** – The Epic GL interface file and associated testing data is not comprehensively configured to prevent errors in account classification.

Management has implemented or is in the process of implementing corrective action plans. Management responses are presented in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

We would like to thank the Hospital Accounting, the Office of Accounting and the Asset Management teams for their assistance and cooperation during this review.

Sincerely,

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: High 🟡 1. **Improve Timeliness of Balance Sheet Account Reconciliations and Reviews** The balance sheet reconciliation processes are inconsistent. A review of the December 2015 balance sheet accounts identified: • An account titled 580180 "Remodel Bldg WIP" totaling $57,279 was included in the fund balance section of the Balance Sheet, beginning in October, and was not reconciled as part of the monthly account reconciliations. • Outstanding items longer than 90 days were included in the accounts. Some included notes indicating follow up, however, others did not. • The balance sheet reconciliations were not consistently prepared for all accounts. In addition, some reconciliations were prepared but were not signed and dated by the preparer and reviewer. Some accounts from September and October month end were performed in January. • Reconciliation support was not provided for some accounts. Inconsistencies in reconciliation of balance sheet accounts increases the possibility for errors being undetected and outstanding items not being resolved timely.	1. Identify appropriate resolution for account 580180 "Remodel Bldg WIP" 2. Resolve and clear stale dated reconciling items. 3. Develop standardized procedures and requirements for account reconciliations to ensure reconciliations are properly supported and reviewed and approved in a timely manner.	**Management Action Plans:** 1. Resolve 580180 account. 2. Resolution of stale dated reconciling items will be completed. 3. Standardized procedures for preparing and reviewing and approving account reconciliations will be developed. **Action Plan Owners:** Associate Vice President and CFO, University Hospitals Controller, University Hospitals **Target Completion Dates:** 1. April 30, 2016 2. April 30, 2016 3. May 31, 2016

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: High 🟡 **2. Establish Oversight for Fixed Asset Processing** Review of fixed assets records as of December, 2015 identified assets that were not properly classified or controlled as follows: • Fixed assets were not properly classified – There were 54 assets totaling $6.5M classified as Construction in Process (CIP) with placed in service dates from Fiscal Year 2014 through Fiscal Year 2015. Assets in service remaining classified as CIP for an extended length of time results in an understatement of depreciation expense. • Fixed assets are not properly tagged upon receipt – The fixed asset register listed 14 assets, purchased from September, 2014 through December, 2014, which did not have tag numbers in PeopleSoft. During the course of the review, the assets were properly tagged and recorded. Timelines for tagging of assets did not appear to be in place. Delays in tagging of assets can increase the risk of loss of assets. The following issues were identified as impacting this process: • There are five groups responsible for a portion of the CIP process (individual departments, Hospital Accounting, University Accounting, Asset Management and Facilities	1. Implement a plan to transfer the CIP balances for assets placed in service to Fixed Assets. 2. Establish oversight of the fixed assets process for both real property and personal property to ensure overall accountability and timely movement of assets from CIP to the fixed asset account classification. 3. Develop reporting and communication with department leaders to report on status of CIP items placed into service. 4. Define timeliness standard for tagging of assets as they are received.	**Management Action Plans:** 1. Obtain updates from department leaders and move assets from CIP to the Fixed Asset ledger. 2. – 3. Coordinate oversight efforts with Materials Management, University Accounting and Hospital Accounting. A manual tracking process will be implemented first within the Hospital and a reporting process developed to make sure everyone knows which items have been properly moved from CIP to Fixed Assets within the system at each month end that. A department realignment is planned to streamline coordination and information handoffs. Automated monthly reporting will be developed to provide department leaders with current status of assets and reminders to notify Accounting when an asset has been placed into service. 4. Timeliness standard will be included in overall oversight and process revamp described above. **Action Plan Owners:** Associate Vice President and CFO, University Hospitals Assistant Vice President, Accounting & Fiscal Services Assistant Vice President, Office of Materials Management

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Management). No one group has accountability for the overall process. Each plays a role in moving the asset through the process, which increases the length of time required to move an asset from initial receiving to the final step of moving into the fixed asset register. • Manual handoffs were required throughout the process, increasing the risk of errors and time required to complete the overall process. For example, departments are responsible for notifying Asset Management when an asset has been placed into service and is ready to move out of CIP and into the Fixed Asset Register. If there are delays in notification, the asset remains in CIP. • Automated reporting is not in place for the Facilities Management team to report on status of CIP items placed into service so that timely updates can be made. Rather, manual updates via email or phone are provided when prompted.		**Target Completion Dates:** 1. April 30, 2016 2. May 15, 2016 3. August 31, 2016

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 3. **Improve Efficiency and Effectiveness of the Month End Close Process** The month end close process relies heavily on manual data analysis and there is a need for interfaces and system generated reports with drill down capabilities. Month end close process opportunities include: • Variance analysis is assigned and performed by several different Accounting team members, who typically provide only the breakdown of the total variance dollars and not the underlying root cause. Reporting errors could result and not be detected in a timely manner. The underlying reason for the variance is not explained, extending the variance analysis process. • Interfaces are needed from key supporting systems to PeopleSoft to reduce the number of manual journal entries required each month. For example, the monthly FTE statistics could be interfaced directly from HCM to the PeopleSoft general ledger module. • System generated reports with drill down capabilities are not available from Epic and PeopleSoft to make analysis of month end results more efficient and effective. Manual data extractions are required with summarization and standardization of date	1. Reinforce training for the Accountants to identify the drivers and underlying causes of variance within the monthly financials. 2. Assess the different types of journal entries and their source to determine if manual journal entries can be converted to system generated entries. 3. Evaluate cost/benefit of software tools that would increase the effectiveness and efficiency of the month end process. 4. Develop system generated drill down reports to aid in the analysis of month end results. The use of Hyperion could also assist with this process. 5. Develop written procedures for the month end closing process to define and standardize the process and provide training to the members of the team.	**Management Action Plans:** 1. Ongoing training will be reinforced immediately with all Accounting Analysts, with specific attention to those new in their position. 2. Other software systems will be reviewed and we will weigh the cost benefits of the options and its interface with Peoplesoft, Epic and Epsi 3. As part of the April and May 2016 close process, management will evaluate the cost benefit of purchasing external software to aid in variance analysis or enhancing existing PeopleSoft capabilities. 4. Evaluate the potential or feasibility of using the Enterprise Datawarehouse (EDW) once it is in production and contains the needed information to evaluate activity real time during the close period. Generate automated financial queries in the EDW to facilitate reporting and variance analysis. 5. Written procedures for the month end close process will be developed or expanded and made available to the Hospital Accounting team. **Action Plan Owners:** Associate Vice President and CFO, University Hospitals

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
before analysis can be performed. • Standardized written procedures are not in place for the Accounting month end closing process. Manual month end close procedures and resulting analysis increases the possibility for errors and could delay the timely closing of month end financials. Also, without written standardized procedures, employees may not have a clear understanding of their responsibilities or continuity of the closing procedures may not be maintained, resulting in unidentified errors.		Controller, University Hospitals Associate Vice President, Academic and Administrative Systems **Target Completion Dates:** 1. April 30, 2016 2. June 30, 2016 3. June 30, 2016 4. July 31, 2016
Risk Rating: Medium 🟡 **4. Restrict System Access to Critical Spreadsheets** Change management for critical spreadsheets is not effectively controlled. Specifically the Trend Report and Monthly Financials, as well as large files with sensitive data used to post journal entries, are not segregated to ensure all preparers cannot modify critical financial data once it has been approved. Unrestricted access to financial spreadsheets allows for modifications and increases risks for inaccurate reporting.	Create read only folders to hold the Trend Report, Monthly Financials and large data files with sensitive data, once approved. Access to these folders can also be limited as deemed necessary.	**Management Action Plans:** IR will coordinate with the Accounting team to create read only folders to hold sensitive reports and large data files. Access to the folders will be restricted to appropriate personnel. **Action Plan Owners:** Director of Revenue Cycle and Business Systems Controller, University Hospitals **Target Completion Dates:** April 30, 2016

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 **5. Improve Configuration and Testing for the Epic General Ledger (GL) Interface** The Epic GL interface file and associated testing data is not comprehensively configured to prevent errors in account classification. The Epic GL interface file rules are currently configured with adequate specifications for the inpatient account class, but outpatient account class is not specified in all of the outpatient rules. This led to a $21 million incorrect classification of inpatient revenue. In addition, testing data was not adequate to detect this error when changes were last made to the GL interface file.	1. Modify configuration of rules in the GL interface file to specify the account class (inpatient/outpatient) in each GL charge rule. 2. Enhance testing procedures with a population of test data that includes all possible conditions to test the rules established in the GL Interface file. Erroneous data should also be included to test error routines.	**Management Action Plans:** 1. The IR team is currently working to build and review the hierarchy rules in the GL interface. 2. Testing procedures will be enhanced to ensure results better mirror actual results. **Action Plan Owners:** Director of Revenue Cycle and Business Systems Controller, University Hospitals **Target Completion Dates:** 1. May 31, 2016 2. May 31, 2016

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low ● **6. Improve Segregation of Duties for Journal Entries** There is not a system control to prevent the initiation and approval of journal entries by the same person. Review of all journal entries (JEs) posted within the period identified seven JEs which were reviewed and approved by the same person, which is in noncompliance with FIM352 Separation of Duties policy. According to management, this occurred in an effort to assist members of the team with the uploading process for journal entries.	Develop a system control to separate the user uploading the journal entry from the approver of the same entry.	**Management Action Plans:** PeopleSoft roles will be reviewed to ensure there is appropriate separation between the user who uploads a journal entry and the user who approves a journal entry. **Action Plan Owners:** Director of Technical Services, Office of Administrative Systems Controller, University Hospitals **Target Completion Dates:** May 31, 2016

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low 🟢 **7. Improve Reconciliation of Monthly Financial Data Used for Analysis** A review of the December 2015 Balance Sheet and Trend Report and comparison to the general ledger trial balance noted the Trend Report contained formula errors in the statistics portion of the report, which resulted in a misstatement of the variance and resulting analysis. Specifically, total completed surgical cases compared to budget were 10.95% higher than budgeted, however the trend analysis indicated the variance was 18%. Financial statements and statistics reporting could be misstated if manually prepared analysis is incorrect.	Develop procedures to ensure variance calculations are accurate before submitting to management.	**Management Action Plans:** The Hospital Accounting team will work with IR Reporting to identify and correct the incorrect variance formulas in the Trend Report statistics. **Action Plan Owners:** Controller, University Hospitals **Target Completion Dates:** May 30, 2016

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:

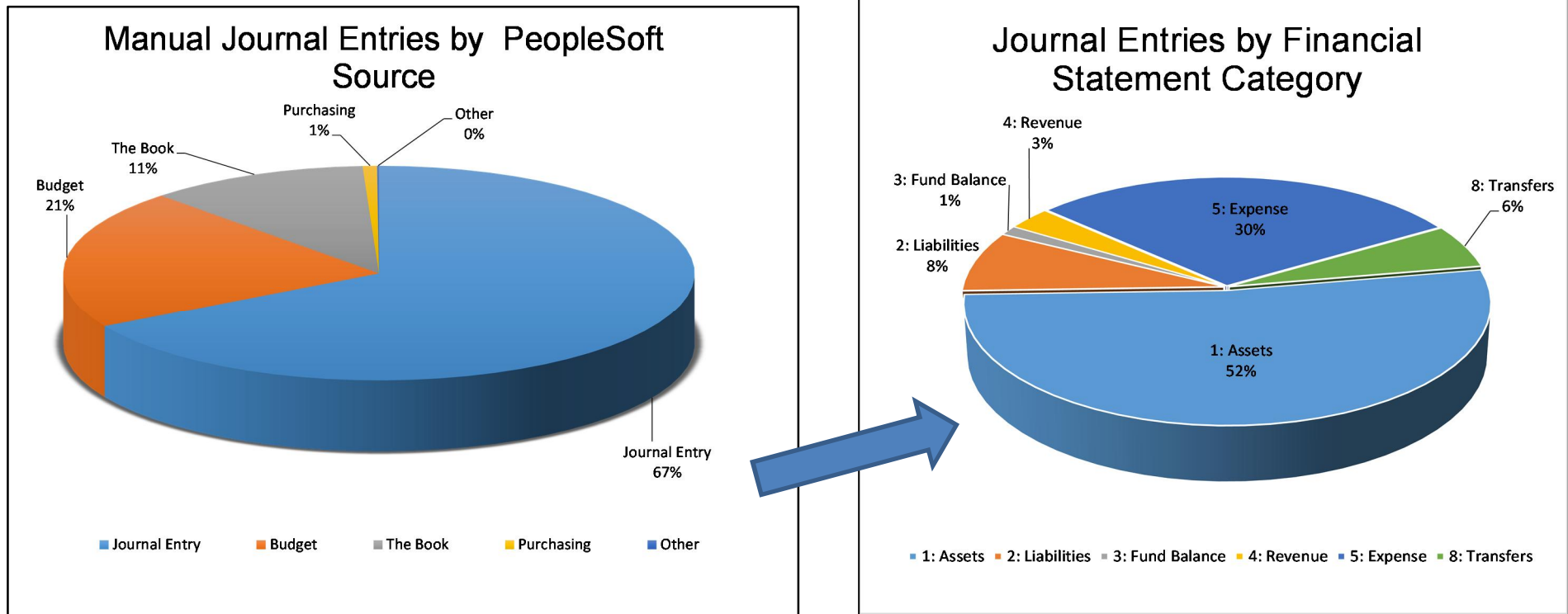| **Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.**	**Degree of Risk and Priority of Action**	
	Priority	An issue identified by internal audit that, if not addressed immediately, has 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.
	High	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.
	Medium	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.
	Low	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 preceding 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.

Appendix B – Key Statistics

The following charts provide a summary of the manual journal entry activity during calendar year 2015. Totals related to system interface entries are not included.

The first chart displays the source of all manual journal entries during the period. The second chart expands on the details associated with the Journal Entry category in the first chart and displays the financial statement categories associated with the journal entry.

Manual Journal Entries by PeopleSoft Source

Purchasing 1%
Other 0%
The Book 11%
Budget 21%
Journal Entry 67%

■ Journal Entry ■ Budget ■ The Book ■ Purchasing ■ Other

Journal Entries by Financial Statement Category

4: Revenue 3%
3: Fund Balance 1%
2: Liabilities 8%
5: Expense 30%
8: Transfers 6%
1: Assets 52%

■ 1: Assets ■ 2: Liabilities ■ 3: Fund Balance ■ 4: Revenue ■ 5: Expense ■ 8: Transfers

Highlights include:
67% of total manual journal entries are related primarily to adjustments to hospital assets (52%), liabilities (8%) and expense categories (30%).
21% are related to budget adjustments
11% are related to "The Book" i.e. overhead expense allocations