Office of Internal Audit

UT Southwestern Medical Center

Core Facilities Audit

Internal Audit Report 18:06

July 5, 2018

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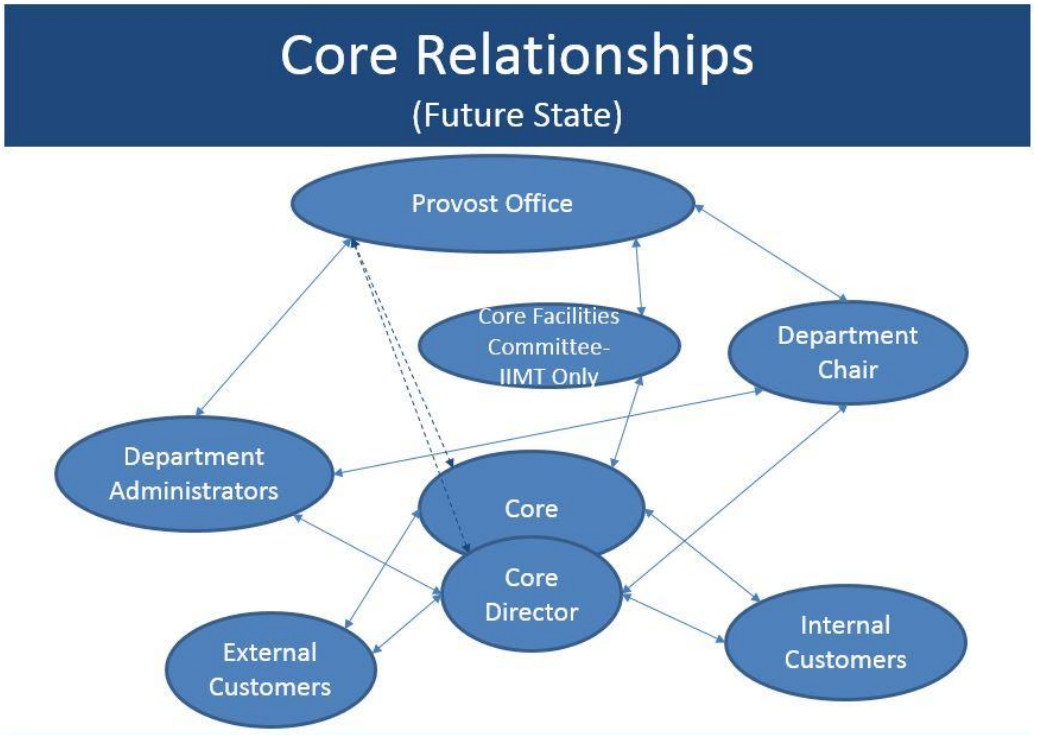
Background

Core Facilities ("Cores") are internal operating units, typically a Center or operating unit within an Academic or Basic Science department, dedicated to providing the latest services, equipment and expertise necessary to assist researchers in their work on a recurring basis. Cores have been essential functions for UT Southwestern Medical Center (UT Southwestern) researchers for over 25 years.

There are approximately 50 Cores with specialties to provide services to internal customers, external academic and commercial customers. Cores are either UT Southwestern Institute for Innovations in Medical Technology (IIMT) based or non-IIMT.

The diagram to the right identifies the future state of Core relationships. The Core Director, with oversight by the Department Administrator and the Provost Office, manages the day-to-day operations including billing, collecting, reconciling, managing capital equipment and ensuring compliance with Uniform Guidance regulatory requirements. Depending on the Core classification there may be variations in the reporting structure.



The Core develops a fee schedule and charges fees for providing supplies and services and they are determined in accordance with cost recovery regulatory requirements. PeopleSoft Financials is the system used to bill and collect from internal customers. For external customers, the Cores use a variety of accounts receivable systems such as iLabs, Excel, FileMaker Pro, and Topaz.

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The following word cloud describes the Core key functions. The cloud gives greater prominence to words that appear more frequently in the Core descriptions.

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Scope and Objectives

The Office of Internal Audit has completed its Core Facilities audit. This was a risk based audit and part of the Fiscal Year 2018 Audit Plan. Overall objectives for the audit included determining the adequacy and effectiveness of operational processes and internal controls to ensure effective and efficient achievement of objectives, compliance with key institutional policies and procedures, safeguarding of assets, accuracy of reporting and to determine appropriate controls are in place for:

- Capturing charges and costs for the selected service centers
- Billing and collecting from internal and external operations
- Accurate and complete documentation to support charges for services
- Compliance with regulatory requirements for cash on hand.

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

Conclusion

Overall, monitoring of compliance with federal requirements and key operational and financial metrics exists; however, opportunities exist to improve monitoring to ensure defined and clear assignment of roles and responsibility, reduce risks of errors and potential noncompliance with regulatory requirements. The Core Facilities policy, implemented in October 2017, needs updating to reflect current practices for oversight and definition of Core function roles and responsibilities. Specifically, the role of the department administrator should be clarified to include responsibility for monitoring financial and operational Core activities.

In addition, establishing and implementing requirements for documenting the setting of fee schedules and retention of records is necessary to strengthen regulatory compliance. Opportunities also exist for improving automated PeopleSoft reports to easily track and monitor cash on hand, capital equipment chargebacks, budget to actual for revenues and expenses, and accounts receivable balances.

During FY2017, the Provost Office in coordination with the Core Facilities Committee, the UT Southwestern Institute for Innovations in Medical Technology (IIMT) Advisory Committee, and Department Administrators began to set up the oversight and monitoring framework to:

- Aid in the consistency and transparency of the practices within the Cores
- Monitor compliance with federal requirements on cost principles
- Provide guidance regarding budget, revenue, and expenses monitoring.

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The following table provides a summary of the observations noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (2)	Medium (4)	Low (1)	Total (7)

- **#1 Enhance Monitoring and Oversight of Core Operations –** Oversight for Core activities can be improved to monitor financial, operational and regulatory compliance in order to identify and address issues in a timely manner.
- **#2 Formalize Fee Schedule Documentation & Approval** – Supporting documentation for fee calculations are not consistently maintained and approval of fee schedules are not formalized as required by the Uniform Guidance regulations increasing the risk of noncompliance with regulations.
- **#3 Improve the Capital Equipment Fee Process –** Memorandums of Understanding (MOU) have not been completed and depreciation expense is not being charged back to the Cores resulting in financial misstatement for grants utilizing the capital equipment.
- **#4 Improve Core Financial Reporting –** Automated monthly reporting is no longer available for review for Core activities due to a change in subledgers at the beginning of Fiscal Year 2018. In addition, the previous subledgers are still active and revenue and expenses are being posted resulting in incomplete financial results for each Core.
- **#5 Improve Segregation of Duties for Core Activities –** Adequate segregation of duties are not in place within some Cores. The Histopathology Core Manager has the responsibility to perform conflicting functions, including financial review and approval, billing, invoicing and charge entry for Core activities.
- **#6 Update AR Follow Up Procedures to Monitor Transactions and Ensure Timely Collection** – Monitoring of accounts receivable balances is not consistent, resulting in aged accounts receivable amounts that have not been collected. In addition, reconciliation of PeopleSoft to iLabs records is not performed resulting in financial discrepancy.

Management has plans to address the issues identified in the report and in some cases has already implemented corrective actions. These responses, along with additional details for the key improvement opportunities listed above are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

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

Sincerely,

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: High n **1. Enhance Monitoring and Oversight of Core Operations** Oversight for Core activities can be improved to monitor financial, operational and regulatory compliance in order to identify and address issues in a timely manner. Lack of clarity in executive oversight and monitoring of Core activities increases the risk of non-compliance with federal regulations and can contribute to ineffective financial management. - The Core Facilities Committee reviews scientific service and quality for IIMT Core operations only and oversight is not in place for the non-IIMT Cores. - There is inconsistent monitoring of Core fund balances, including reviews based on annual budget amounts, instead of actual financial results, which increases the risk of regulatory noncompliance. Currently, some of the Cores operate at over 60 days cash on hand balance. - RES-404 “Core Facilities Operating Procedure” policy indicates that financial monitoring is the responsibility of the Provost Office, however this monitoring has not been clearly defined and is monitored periodically.	1. Evaluate whether to expand the existing Core Facilities Committee or create new committee or sub-committees to have oversight for all Cores and not only IIMT Cores. Then define the role of the committee. 2. Establish Core reporting mechanism within the Provost Office to monitor financial activity, including monthly financial performance, cash on hand, capital equipment, AR monitoring and any others determined to be needed. 3. Define roles and responsibilities for the Office of Provost, Department Administrators and Core Directors regarding oversight and financial monitoring. Update policy to reflect current practices. 4. Improve communication methods for Core leaders to provide a repository of guidance and tools to the Cores for changes and updates.	**Management Action Plans:** 1. Based on feedback from leaders within the Provost Office and the Core Facilities Committee, the oversight structure, both for financial and operational results as well as scientific results, for all Cores will be defined. This could involve the use of sub-committees to provide coverage across all Cores. 2. With the PeopleSoft 9.2 upgrade, standard monthly reporting will be developed and utilized for monitoring cash on hand and capital equipment and accounts receivable if available. Focus will be on monitoring activities during the fiscal year and then making adjustment, as needed, during the next year’s budgeting process. 3. Standard operating procedures will be developed to define roles and responsibilities and monitoring procedures. SOPs referenced in #5 below will include definitions of key roles and responsibilities within Core operations. 4. Working with IR to set up an intranet page that would include the published policy, FAQ section, MOUs and a general information page. **Action Plan Owners:** 1. Vice President & Chief Operating Officer, Academic Affairs

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
- Core related roles and responsibilities for Department Administrators and Core Directors are not clearly defined to ensure key monthly reviews are performed, including financial review and approval, monitoring of expense allowability and AR monitoring. - An online repository of procedures, updates, changes and new developments is not available. Communications are primarily in person and via email and Core leaders must contact the Provost Office with questions as they arise.		2. Director of Operations and Analytics, Academic Affairs 3. Vice President & Chief Operating Officer, Academic Affairs 4. Director of Operations and Analytics, Academic Affairs **Target Completion Date:** 1. August 31, 2018 2. Phase 1: October 31, 2018 Phase 2: March 31, 2019 3. August 31, 2018 4. October 31, 2018

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium n **2. Formalize Fee Schedule Documentation & Approval** Opportunities exist for ensuring cores retain proper fee calculation supporting documentation, obtain approvals, review fee schedules a minimum of two years and post Core fee schedules publicly. Incomplete documentation of the fee calculation and untimely review and updates increases the risk of noncompliance with federal regulations. A review of three Core operations identified: · Cores do not maintain supporting documents to support methodology and calculation of fee schedules, including any collaborations that affect final billing for services. Fee schedules maybe provided to the Provost Office, but formal approval is not received. · The Genomics and Microarray Core provides internal fees to external customers as part of collaboration, but these collaboration arrangements are not consistently documented. In addition, the billing to customers does not match the fee schedule in place at the time of billing. This is the result of updated fee schedules not being used to charge fees on the customer invoices.	1. Coordinate with the Core Directors and Department Administrators to establish requirements for supporting documentation of the fee schedule methodology and formalize an approval process. 2. Evaluate the full fee schedule at least every two years as required by the Uniform Guidance regulation. 3. Develop SOPs to include publishing fee schedules. 4. Ensure fee schedules are publicly available to potential customers.	**Management Action Plans:** 1. In coordination with the Provost Office, Core leaders and Department Administrators will define fee methodology and ensure supporting documentation is maintained. This information will be included in the business plan. 2. During the annual business plan process, the proposed fee schedule will be reviewed and approved. 3. SOPs will include the responsibility for each Core to publish their fee schedules on the intranet. 4. The Synthetic Chemistry Core will update the intranet to include their fee schedule. **Action Plan Owners:** Director of Operations and Analytics, Academic Affairs Director of Finance, Academic Affairs **Target Completion Date:** 1. December 31, 2018 2. December 31, 2018

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
· The Histopathology Core has not evaluated their revenue and expenses to update their fee schedule since 2013. The Core receives subsidies for salaries and equipment. However, the subsidies are not documented as part of the fees evaluation. · Synthetic Chemistry utilizes a fee schedule for billing customers, but the fee schedule is not posted on the website.		3. October 31, 2018 4. Complete

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium n **3. Improve Capital Equipment Fee Process** Memorandums of Understanding (MOU) have not been completed and depreciation expense is not being charged back to the Cores, resulting in inaccurate grant financial reporting for those grants that are utilizing capital equipment. Incomplete charging of expenses related to capital equipment can result in inaccurate financial information and increases the risk of noncompliance with Uniform Guidance regulations. - In FY 2018, the Provost Office began purchasing capital equipment and depreciation expense was not charged back to the respective Cores even though the equipment had been put into service. - A Memorandum of Understanding (MOU) between the Provost Office and the department is supposed to be signed by the Core Director when the equipment is approved for purchase. Currently, the Provost Office has approved capital equipment, but MOUs have not been signed.	1. Ensure depreciation is calculated for the useful life of the equipment and charged to each Core subledger on a routine basis. 2. Execute MOUs for capital equipment purchases related to the Cores during the current fiscal year.	**Management Action Plans:** 1. Calculate depreciation based on useful life on a monthly basis and charge to each subledger. 2. MOUs will be prepared and provided to the applicable departments for review and approval. **Action Plan Owners:** 1. Director of Finance, Academic Affairs 2. Director of Operations and Analytics, Academic Affairs **Target Completion Date:** August 31, 2018

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium n **4. Improve Core Financial Reporting** Core financial transactions have been posted to previous subledgers that should no longer be used but are still active and have not been deactivated. This results in incomplete financial results for each Core. Without automated monthly financial reporting capabilities, there is an increased risk of incomplete financial results for monitoring. In addition, the automated monthly reporting that had previously been in place is no longer available and Department Administrators and Core Directors review core financial activity manually.	1. Coordinate with Core Directors and Department Administrators to automate monthly financial reporting to include key elements of the Core monthly financial review. 2. Deactivate the old subledgers to ensure no activity is performed.	**Management Action Plans:** 1. The Provost Office, Core Directors and Department Administrators will develop the standard monthly reporting that covers key financial review areas. 2. All old subledgers (the 20's) will be identified with activity in Fiscal Year 2018 and sent to Accounting to transfer balances and deactivate subledgers. **Action Plan Owners:** 1. Director of Operations and Analytics, Academic Affairs 2. Director of Finance, Academic Affairs **Target Completion Date:** 1. November 30, 2018 2. August 31, 2018

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium n **5. Improve Segregation of Duties for Core Activities** Adequate segregation of duties is not in place for key functions within the Histopathology Core. The Histopathology Core Manager has the responsibility to perform conflicting functions including financial review and approval, billing, invoicing and charge entry for Core activities. Conflicting roles increases the risk of inaccurate or unauthorized transactions. Proper segregation of duties emphasizes the assignment of the following responsibilities to different people: - physical control of assets - authorization - record keeping - reconciliation	1. Ensure proper segregation of duties are in place within the Histopathology Core. At a minimum, the reconciliation of records should be reviewed and approved by someone independent of the performance of these activities. 2. Define the key roles and responsibilities within Core operations to ensure segregation of duties conflicts are not in place within other core facilities.	**Management Action Plans:** 1. Revision of billing process to segregate responsibilities across multiple areas in client PI labs, multiple areas within the Core and multiple areas in Accounting per HPCRevisedBillingProcessFlow.xlsx. 2. SOPs referenced in #1 above will include definitions of key roles and responsibilities within Core operations. **Action Plan Owners:** Manager, Core Lab, Histopathology, Internal Medicine **Target Completion Date:** 1. Implementation commencing 6/13/2018, with first iteration of revised billing process being complete through reconciliation and financial review by 7/31/2018. *2.* October 31, 2018

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium n **6. Update AR Follow Up Procedures to Monitor Transactions and Ensure Timely Collection** Accounts receivable (AR) follow up procedures are inconsistent resulting in aged accounts receivable amounts that have not been collected. In addition, a reconciliation of accounts receivables in PeopleSoft to iLabs records is not performed so missing transactions are not identified in a timely manner. Inconsistent follow up procedures and not reconciling AR balances result in loss of funds and financial misstatement. Specifically, the Genomics and Microarray Core accounts receivable includes billing balances totaling $350K dating back to January 2017. The accounts receivable activities are maintained in iLabs, a subsidiary application, and transactions interface into PeopleSoft. This interface did not accurately record all payments received into iLabs. Core leadership reviews customer balances one at a time, but a periodic review of all AR is not performed. A little less than half of the current Cores use iLabs and the total amount of AR indicated for over 60 days for the Cores using iLabs is about $570K dating back to 2016.	1. Define procedures to reconcile iLabs accounts receivables and PeopleSoft accounts receivables to ensure accurate presentation of financials. 2. Implement periodic review of accounts receivable to enhance collection efforts from customers. 3. Coordinate with Information Resources to identify the root cause of transactions not interfacing correctly from PeopleSoft to iLabs and update interface to correct errors.	**Management Action Plans:** 1. The Provost Office, Core Directors and Department Administrators will jointly develop the standard monthly reconciliation process. Genomics and Microarray Core will pull the AR data from iLabs and has requested from IR a PeopleSoft query to pull the same AR data. When the PeopleSoft Query is available, the reconciliation will be performed. 2. SOPs will be developed to define AR review procedures and include department administrators as responsible party for monitoring accounts receivable collection activities. Genomics and Microarray Core Department Administrator will run the two reports monthly and reconcile. The Core Manager for collection efforts will address discrepancies and any system discrepancies between the reports will be resolved by ServiceNow ticket. 3. The Core directors that utilize iLabs will coordinate with Information Resources to evaluate the root cause of the interface errors. Information Resources will update the interface to correct the identified errors. **Action Plan Owners:** 1. Director of Finance, Academic Affairs Department Administrator, Immunology

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		2. Director of Operations and Analytics, Academic Affairs Department Administrator, Immunology 3. Assistant Vice President, Academic Information Systems Director of Finance, Academic Affairs **Target Completion Date:** 1. December 1, 2018 2. December 1, 2018 3. October 31, 2018

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low n **7. Enhance Timely Billing to Customers** Histopathology is not billing internal and external customers monthly. Inconsistent billing and sending remittances with the wrong information may cause loss of revenue and potential noncompliance with grant funding. - Histopathology currently bills internal and external customers quarterly. The billing to external customers is inconsistent whereas sometimes the charge will be on the invoice and not on the billing support or it will be on the billing support but not invoiced. Revenue from external customers is minimal. - Remittance advice for external customers is addressed to Histopathology Core Manager instead of UT Southwestern resulting in a segregation of duties conflict.	1. Implement procedures to ensure monthly billing or as services are provided for all customers. 2. Ensure appropriate and accurate external billing based on services provided. 3. Update remittance advice to be sent to UT Southwestern lockbox at: UT Southwestern Medical Center PO BOX 845477 Dallas, TX 75284-5477	**Management Action Plans:** 1. Revision of billing process to enact monthly billing, inclusive of invoicing, receivables, reconciliation, and financial review every 28-31 days per HPCRevisedBillingProcessFlow.xlsx 2. Revision of billing process to include order accession numbers and invoice amounts on billing support and external invoices per HPCRevisedBillingProcessFlow.xlsx and ExternalInvoiceTemplate.doc 3. Revision of ExternalInvoiceTemplate.doc to reflect lockbox address/target subledger. **Action Plan Owners:** Manager, Core Lab, Histopathology, Internal Medicine & Department Administrator **Target Completion Date:** 1. July 31, 2018 2. July 31, 2018 3. Completed

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:

	Degree of Risk and Priority of Action	
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.	**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 the 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 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.