UT Southwestern
Medical Center

Accounting & Fiscal Services – Fiscal Reporting Audit

Internal Audit Report 19:07

March 28, 2019

Executive Summary

Background

The University of Texas Southwestern (UT Southwestern) Medical Center Accounting & Fiscal Services (A&FS) Department includes the Fiscal Reports & Accounting Operations division (Fiscal Reports). This division is responsible for preparing institutional financial reports in accordance with requirements from the Governmental Accounting Standards Board, Texas Comptroller of Public Accounts' annual financial reporting, The University of Texas System (UT System) Policy, and requirements as designated by other external agencies. The Fiscal Reports division reports to the Assistant Vice President of Accounting & Fiscal Services. Fiscal Reports coordinates with UT Southwestern key business functions, centers and departments to prepare monthly and quarterly financial reports (MFRs) for executive management review that encompass the operations of all institution missions, including University Hospitals, Medical Group, Research, and other functions. UT System consolidates these periodic reports into system financial reports. Fiscal Reports is also responsible for preparing the UT Southwestern year-end annual financial reports (AFRs) and supporting schedules that are audited by an external auditor. Institutional AFRs are combined to become the consolidated UT System AFR.

The division, made up of four sections, is led by the Director of Fiscal Reports and Accounting Operations. Two sections, 1) Fiscal Reports (six staff members) and 2) Accounting Operations (nine staff members), work together on financial activities such as reports, surveys and reconciliations. Fiscal Reports uses PeopleSoft (PS) Financials to produce financial information, perform fluctuation analysis and required adjustments, and perform period-end data extraction to compile official financial reports.

In September 2018, UT Southwestern completed Project Reboot, a business transformation and conversion upgrade from PS 9.1 to PS 9.2. This project included overhauling the financial chart of accounts and reengineering key business functions to reduce errors and simplify key functions, such as payroll, accounts payable, asset management, project costing, and procurement.

The graphic to the right depicts Fiscal Reports coordination of key business functions to prepare key reports.
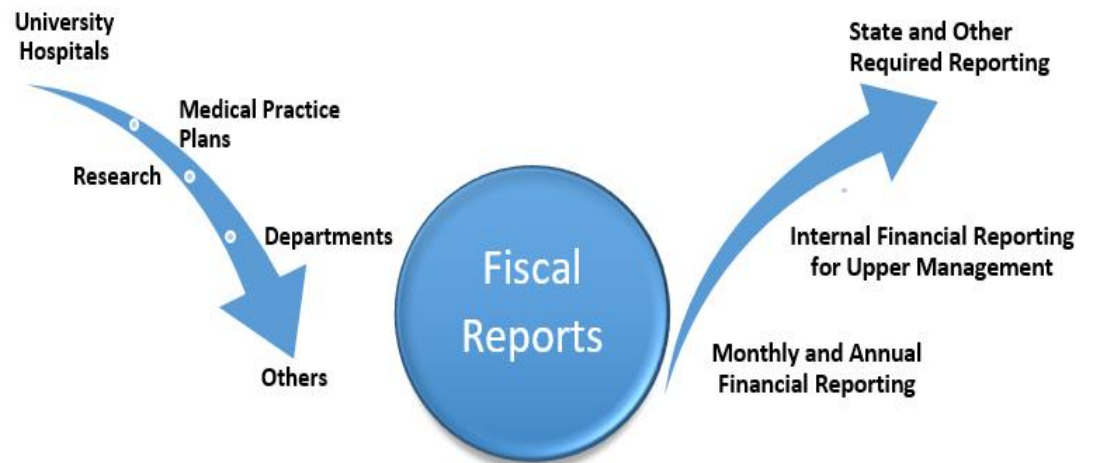
Executive Summary

Scope and Objectives

The Office of Internal Audit has completed its Accounting & Fiscal Services - Fiscal Reporting audit. This was a risk based audit and part of the fiscal year 2019 Audit Plan. Audit procedures included interviews with stakeholders; reviews of policies, procedures, and other relevant documents; data analytics; and substantive testing. The audit scope included FY2018 Fiscal Reports function activities. The audit objectives were to assess the effectiveness and efficiency of operational processes, internal controls and applications used for fiscal reporting to ensure achievement of objectives, compliance with key regulations and institutional policies and procedures, safeguarding of assets, and accuracy of reporting.

Specifically, the objectives assessed the key controls in place for:
- Procedures for closing processes,
- Use of system tools,
- Tracking and monitoring procedures and the reporting process,
- Reconciliations and other balancing procedures to ensure accurate transactions,
- Data integrity and accuracy and completeness of reports,
- Appropriate accounting system controls for:
  - Access and user controls
  - Approval workflows
  - Segregation of duties

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, Fiscal Reports complies with the UT System requirement to provide monthly financial reporting within twenty days after calendar month-end. Opportunities exist to improve the accounts reconciliation process by researching and timely resolving stale dated reconciled items to ensure the accuracy and completeness of financial reporting. Also, improving the reporting process through monthly data automation, financial information compilation and time reduction for compiling financials, which would provide time for the Fiscal Reports team to perform additional data analytics. Finally, implementing cell and file protection, version control tracking and limited access to the monthly financial analysis and reporting consolidated spreadsheet where PeopleSoft financial data is exported is needed to safeguard and monitor the completeness of financial data used for institutional reporting.

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Management is in the early stages of evaluating options to improve near real-time processing. Management fully supports developing systems to automate the fiscal reporting period-end process. This project, previously proposed by Fiscal Reports, has been on hold due to prioritization of other institution-wide information technology projects such as the upgrade to PS 9.2 and implementation of the Electronic Data Warehouse (EDW). Now that both of these projects have been completed, A&FS plans are to move forward with their project request.

Included in the table below is a summary of the observations, 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 (0)	Medium (2)	Low (2)	Total (4)

A summary of key improvement opportunities risk-ranked are listed below.

1. **Improve Ledger Account Reconciliation Monitoring** – Completed account reconciliations contain stale dated reconciling items that have not yet been resolved. Inappropriate transactions may go undetected when reconciling items are not timely resolved.

2. **Restrict Access to the Key Financial Consolidated Spreadsheet** - Financial data exported from PeopleSoft into an Excel workbook for financial review and analysis is maintained on the departmental shared drive. Cells are not protected and the workbook is protected once finalized to prevent unauthorized or inadvertent updates. Unrestricted access to financial spreadsheets allows the potential for modifications and increases risks for inaccurate reporting but does not impact the underlying financial data or system.

3. **Improve Data Processing and Analytics Cycle Time** – Fiscal Reports staff month end close activities are focused on extracting and compiling financial information, and making required adjustments in PeopleSoft Financials. Manual processes cause time delays that affect the ability to perform effective detailed data analytics, increasing the risk of financial misstatement.

4. **Develop an Inventory of Period-End Required and Recurring Adjusting Journal Entries** – Standard Operating Procedures (SOPs) for month-end and year-end tasks include details of period-end required and recurring adjusting journal entries. However, a consolidated log with all required and recurring adjusting journal entries for all tasks is not used to ensure review by managers to confirm all required closing entries, increasing the risk of financial misstatement.

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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 in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

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

Sincerely,

Valla F. Wilson, Associate Vice President for Internal Audit, Chief Audit Executive, Interim Chief Compliance & HIPAA Privacy Officer

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John Warner, M.D., MBA, Executive Vice President Health System Affairs & Chief Executive Officer, University Hospitals

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🔔 1. **Improve Ledger Account Reconciliation Monitoring** Completed account reconciliations include several reconciling items that have been unresolved for more than 90 days and were not escalated to senior management. Inappropriate or unsupported transactions may be undetected when reconciling items are not resolved timely and it is increases the risk of financial reporting inaccuracy. Stale dated items were found in the Accounts Payable (AP) Employee Medical Premium Sharing account with $991K total net reconciling debit entries representing excess monthly remittance to UT System and amounts to be collected from covered employees. This is primarily due to outstanding and unresolved requests from other departments.	1. Update financial reconciliation procedures to include timely reporting and escalation of outstanding stale dated reconciling items. 2. Monitor timely clearing of reconciling items, including communications with source departments for follow-up, escalation and ongoing quality assurance.	**Management Action Plans:** 1. A&FS staff must reconcile the accounts monthly and escalate any variances. A&FS will update SOPs and provide re-training for staff on required timing for escalating variances. 2. To improve compliance, we are improving documentation of these required procedures. A&FS will partner with HR to ensure that they address their procedures and processes to ensure items do not exceed the 90-day deadline. **Action Plan Owners:** Assistant Vice President, Accounting & Fiscal Services Assistant Vice President, Compensation, Employee Benefits & HRIS Director, Employee Benefits, Retirement, & Wellness Programs Director, Fiscal Reports & Accounting Operations

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		Target Completion Dates: 1. Completed 2. Review accounting transactions – April 30, 2019 Prepare process flow documentation – May 31, 2019 Resolve reconciling items over 90 days old – June 30, 2019

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🔵 **2. Restrict Access to the Key Financial Consolidation Spreadsheet** Financial data exported from PeopleSoft into an Excel workbook for financial review and analysis is available to all users and key calculation cells are not protected to prevent overwriting. The workbook is not protected to prevent inappropriate or unintentional modifications to the data. The Excel workbook is maintained on the departmental shared drive and contains financial data, pivot tables, and formula driven schedules used for comparability analysis, pre/post-closing validation steps and required institutional/system reporting formats. Inadequate safeguarding of financial data could result in unauthorized changes and vital financial data used for reporting purposes could be inadvertently updated or removed (though the underlying actual financial data would not be impacted). Version control and password protection procedures limit access to critical files and data, and reduce the risk of unauthorized modifications.	1. Implement cell protection for key calculations, file password protection and version control requirements. 2. Limit access to data based on user roles and responsibilities. Explore other tools and resources to reduce reliance on Excel files for key financial functions.	**Management Action Plans:** 1. Fiscal Reports will create a SharePoint site to house final compilation files, which will have changes tracked by user. 2. Access to the final official version will be restricted and key users will only be granted read access. 3. The plan to purchase a new software product to automate period-end reporting is in the early stages as management is exploring multiple options and vendors. **Action Plan Owners:** Assistant Vice President, Accounting & Fiscal Services Director, Fiscal Reports & Accounting Operations **Target Completion Dates:** 1. April 30, 2019 2. April 30, 2019 3. September 30, 2019

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low **3. Improve Data Processing and Analytics Cycle Time** Fiscal Reports analysts manually process adjustments and corrections each day and confirm financial statement presentation once the manual compilation of data has been completed. Lack of real time reporting capabilities increases the risk of inaccurate reporting. PeopleSoft (PS) reporting is inefficient due to repeated manual compilation of financial information requiring manual tracking of journal entries during the month end close process. This process continues during the financial close process to confirm completeness until final month end close. Further, repeated manual processing steps increases the likelihood of a material error and not meeting closing deadlines. Additionally, month end close activities are focused on extracting and compiling financial information, posting required adjustments and performing high-level analysis of results with limited time allocated to performing detailed data analysis. Risk of financial misstatement is increased when limited financial analysis is performed.	1. Evaluate system tools and resources to support real time reporting of financial information. 2. Develop a timeline to support real time reporting of financial information. 3. Update monthly close standard operating procedures to support real time processing and reporting.	**Management Action Plans:** 1. We began system research in January 2019 to determine what options exist and will partner with Information Resources towards the issuing of an Request For Proposal (RFP). 2. Once potential solutions are vetted and requirements are identified, we will initiate the required steps to implement the solution. 3. We will rewrite Standard Operating Procedures (SOPs) to incorporate the new tools as they become available. **Action Plan Owners:** Assistant Vice President, Accounting & Fiscal Services Director, Fiscal Reports & Accounting Operations **Target Completion Dates:** 1. June 30, 2019 2. August 31, 2019 3. September 30, 2019

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low 🌳 4. **Develop an Inventory of Period-End Required and Recurring Adjusting Journal Entries** Standard Operating Procedures (SOPs) for month-end and year-end tasks include details of period-end required and recurring adjusting journal entries. However, a consolidated log with all required and recurring adjusting journal entries for all tasks is not used to ensure review by managers to confirm all required closing entries. Insufficient accounting for period-end adjustments increases the risk of untimely or missed processing which could cause material financial misstatements impacting financial reporting results. A reminder log, tickler file or similar tool can be used to track expected adjusting entries by type, initiating department or functional area reducing the need for manual identification of required monthly entries. Management has commenced the process to develop a consolidated listing of standard MFR (Monthly Financial Report)/AFR (Annual Financial Report) adjusting journal entries.	1. The log should include routine and recurring adjustment journal entries with the source department/function, justification, contact name and source of required supporting documentation. In addition, the log should include all entries from each individual SOP task. 2. Develop a standard inventory of MFR and AFR adjustment journal entries that includes requesting department instructions, eligible dollar threshold, required supporting documentation and source department contact. The inventory should also include key adjustment categories such as expense accruals, budget and purchase order encumbrances, capital and major construction projects, travel expenses and others as deemed necessary.	**Management Action Plans:** 1. As documented by our annual audits, no material misstatements have occurred; however, management agrees and since January 2019 we are in progress of developing a monthly checklist to reduce risk and improve efficiency. 2. The checklist will include recurring transactions frequency (monthly, quarterly, & annually), assigned individuals, business day due, and a comments section. The checklist will include all entries that the SOPs already include within the individual tasks. **Action Plan Owners:** Assistant Vice President, Accounting & Fiscal Services Director, Fiscal Reports & Accounting Operations **Target Completion Dates:** May 31, 2019

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 audit. 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 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.