

UT Southwestern
Medical Center

**Change in Management Audit -
Department of Internal Medicine**

Internal Audit Report 20:11

January 4, 2021

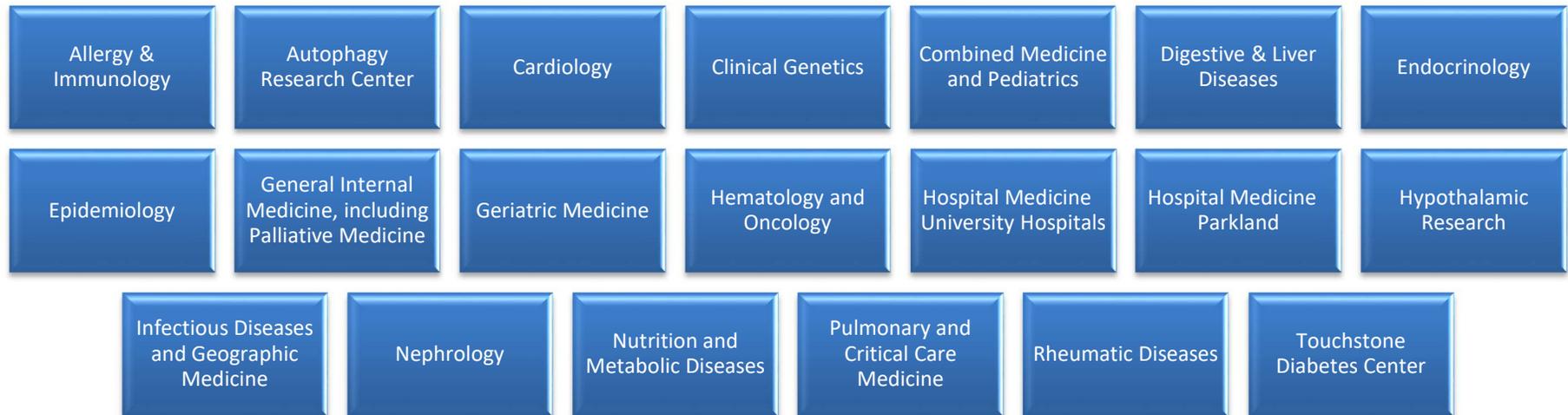
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Executive Summary

Background

The UT Southwestern Medical Center (Medical Center) Department of Internal Medicine (Internal Medicine) includes clinical, research and teaching functions that incorporate high standards of patient-centered care and advances in medical technology. Internal Medicine contains twenty distinctive Divisions and six Clinics offering a spectrum of medical specialties.



During fiscal year (FY) 2020, the department had 700 faculty members, 621 primary faculty, 76 from other departments who hold secondary appointments. Annual revenues were approximately \$260 million in FY2020.

A new Department Chair joined the Medical Center in FY2020 and has overall responsibility for the oversight and administration of the department with the assistance of the Department Administrator, Vice Chairs, Division Chairs and Center Directors. Internal Medicine seeks to educate medical students, residents and postdoctoral fellows in accordance with the highest professional standards, including preparing clinicians to practice patient-centered, high value, cost conscious medicine of the highest standard and answering fundamental questions in the mechanisms, prevention and treatment of disease in the basic sciences and in health care delivery.

Executive Summary

The Internal Medicine Finance Office, reporting to the Department Chair, performs department level financial monitoring and has overall responsibility to ensure appropriate and compliant transactions are posted and financial reconciliations are performed for each division. The Finance Office coordinates with the Provost Office and the Medical Center's Accounting and Fiscal Services department for annual budget preparation and monthly financial analysis requirements.

Scope and Objectives

The Office of Internal Audit has completed its Change in Management – Department of Internal Medicine Audit. This was a risk based audit and part of the fiscal year (FY) 2020 Audit Plan. The audit scope was fiscal year 2020 and focused on assessing the adequacy and effectiveness of processes, oversight and monitoring controls to ensure:

- Effective key department administrative processes and controls are in place and operating as designed
- Adequate financial controls are in place to ensure safeguarding of assets and accurate financial records

Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, substantive testing and data analytics. 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

There is an opportunity for the Department of Internal Medicine to improve overall monitoring controls to ensure the divisions are consistently performing effective financial analysis to identify and resolve financial accounting discrepancies and ensure accurate financial reporting. Given the number of divisions, which may have challenges in keeping financially trained resources, financial monitoring procedures may be more effective by centralizing key financial operations such as budget planning, performing financial analysis and processing necessary transactions to ensure accurate monthly financial reporting. In moving to a more centralized model, clarification of roles and responsibilities between department and division finance teams and improved monitoring and accountability controls will help to ensure proper accounting and analysis practices are followed.

Executive Summary

Included in the table below is a summary of the observations along with 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 or High rated issues identified in the audit. Observations risk-ranked as Medium are listed below.

Priority (0)	High (0)	Medium (2)	Low (0)	Total (2)
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- **#1 Enhance Department Financial Planning, Review and Monitoring Procedures** – Department or division monthly financial review and analysis procedures were not consistently performed to ensure transactions are adequately supported or financial transaction variances or discrepancies are identified and resolved in a timely manner.
- **#2 Improve Financial Transaction Monitoring** – The department financial teams are not consistently leveraging available system monitoring reports to identify and resolve key operational or financial exceptions, including asset custodian changes and outstanding stale dated encumbrances, which could increase the potential for financial misstatements, write offs or the inability to locate assets.

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

Sincerely,

Valla F. Wilson, Vice President for Office of Internal Audit and Chief Audit Executive

Audit Team:

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Executive Summary

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Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>1. Enhance Department Financial Planning, Review and Monitoring Procedures</p> <p>Monthly financial reviews and analysis are not consistently performed across the divisions due in part to lack of detailed instructions and monitoring of the divisions to ensure effective analysis is performed to identify and resolve errors or misstatements. Inconsistent review and analysis procedures could result in delays in identifying financial variances ensuring necessary adjustments are made in a timely manner.</p> <p>A review of the financial analysis performed at the department level and in selected divisions identified the following exceptions:</p> <ul style="list-style-type: none"> Division management responsible for monitoring financial performance did not have detailed support for key line items such as FY20 budgeted revenues for Medical Group and Clinical Operations. <p>Supporting documentation was not available to explain variances in the FY20 budgeted revenue to actual recorded revenue.</p>	<ol style="list-style-type: none"> 1. Improve reporting and analysis instructions for Divisions to aid in developing annual budgets and establish monthly financial analysis expectations. 2. Evaluate the feasibility of implementing a centralized financial review and analysis structure to ensure consistency in monthly budget to actual review and analysis as well as standardization of instructions provided to division administrators during annual budget preparation. <ol style="list-style-type: none"> a. Include in this structure defined roles and responsibilities for department and division leadership. b. Define routine communication to divisional leadership on financial activities and budget preparation and analysis. c. Include confirmation of budget acceptance and financial analysis for the explanation of unfavorable variances with specific corrective plan steps. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Recently, the Department Finance team was reorganized and an Assistant Director of Finance role was created and filled. We are focusing on updating the current Division reporting options to identify division needs and ensure consistency and transparency. Ongoing monitoring of compliance with the updated instructions is included to confirm division personnel are completing expected procedures each month. 2. During the FY22 budget process, we will evaluate a centralized financial review and analysis structure, including resources and roles and responsibilities. Based on the approved plan, a communication plan and detailed procedures will be developed, including division leadership confirmation of budget to actual analysis and specific corrective action plans. <p><u>Action Plan Owners:</u></p> <p>Assistant Director of Finance, Department of Internal Medicine</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> The annual budget planning instructions are not well defined, specifically, expense accounts with prior variance to budget were unchanged in the current year budget and current year budgets were not established for accounts that had prior year expenses (e.g. drugs and medical supplies). The process used to allocate facility expenses to the clinics varies by clinic type and is not well defined. 		<p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> Completed and ongoing – updating Division reporting, communication and confirmation of monthly financial results June 30, 2021 – Define centralized structure July 31, 2021 – Finalize communication plan September 30, 2021 – Implement centralized structure for FY2022

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>2. Improve Financial Transaction Monitoring</p> <p>Opportunities exist for Department administrative team to enhance controls by consistently leveraging available system monitoring reports to identify and resolve financial record exceptions.</p> <p>A review of financial transaction monitoring procedures in selected divisions identified the following discrepancies:</p> <ul style="list-style-type: none"> Asset custodian records were not routinely reviewed and updated. 52 portable assets (cameras, laptops, iPads, etc.) were assigned to Division employees who were no longer employed at the institution and assets were assigned to department and division employees who were no longer employed at the institution. Voucher expenditures remained encumbered for dated purchase orders without a matching receipt for goods or services resulting in excessive expenses. Business travel expenditures did not have completed authorizations or included outdated approved authorizations without an expense report to confirm the travel took place and expenses were submitted. 	<ol style="list-style-type: none"> Update the Department Asset Management records to reflect current asset custodians and conduct routine monitoring to ensure asset custodians are keeping records current. Report any lost/stolen/missing assets to the Medical Center's Police as applicable and in accordance with Policy FSS-152 Acquisition, Management, and Disposal of UT Southwestern Property. Collaborate with Accounting and Fiscal Services to update monthly financial review procedures to reference the key EDW monitoring reports made available through the ORBIT portal to all Internal Medicine Division Administration to resolve and close any outstanding transactions. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> We are updating the Department Asset Management records to reflect the current assigned custodian and have reported missing assets for two older laptops purchased in 2005 and 2007 that could not be located and had not been previously removed from active inventory. In addition, we designated a primary point of contact to monitor asset management records. We also updated department asset management procedures to include routine review of assigned asset custodians to identify updates required. Department administration will monitor quarterly to ensure this process is occurring as intended. We are updating monthly financial review procedures to include available EDW reporting to identify exceptions for review and analysis. Accounting and Fiscal Services is in the process of introducing a Department Dashboard to be announced campus wide in December. The workflow for these transactions will be implemented in phases starting in January 2021. <p><u>Action Plan Owners:</u></p> <p>Clinical Department Administrator, Department of Internal Medicine</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Lack of financial transaction monitoring could increase the risk of inaccurate financial reporting and undetected loss of assets.</p>		<p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. Completed - Updated asset custodian procedures and performed division personnel training March 31, 2021 - Asset custodian updates will be completed. Ongoing monitoring of assigned asset custodians will be performed quarterly by department administration. 2. January 31, 2021

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 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.