

University of Texas Medical Branch at Galveston

Audit Services

Annual Report for Fiscal Year 1999



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The University of Texas Medical Branch at Galveston

Department of Audit Services

Fiscal Year 1999 Audit Plan



*Approved by the Institutional Audit Committee
on August 18, 1998*



METHODOLOGY

In accordance with the Texas Internal Auditing Act (Article 6252-5d, Tex. Rev. Civ. Stat. Ann.), UT System Business Procedure Memorandum No. 18, and The Institute of Internal Auditors' (IIA) Standard 520 - Planning, we have prepared a formal audit plan for fiscal year 1998 and evaluated the impact on a long-range plan for the five fiscal years 1998 through 2002. This audit plan allows the Director of Audit Services to carry out his responsibilities as outlined in the Audit Services Charter and in accordance with IIA standards.

To prepare the audit plan, we developed a risk methodology using *A Framework for Evaluating Internal Audit Risk* as published by the IIA. We also considered The University of Texas System Internal Controls Action Plan and the 1998 Action Plan to Ensure Institutional Compliance. These Plans require the following relating to the activities of Audit Services:

- ☞ Departmental audits on at most a three to five year rotation plan.
- ☞ Consideration of a departmental audit whenever a change in management occurs.
- ☞ Annual audits of key operating and financial information.
- ☞ Administration of a departmental control self-assessment project.
- ☞ Offering internal controls training courses on a periodic basis.
- ☞ Annual audits of the effectiveness of the institution's medical billing and institutional compliance functions.

Our overall objective was to identify those specific areas at The University of Texas Medical Branch at Galveston (UTMB) that are considered to be the most critical, and to develop an audit plan which ensures that those activities with the greatest risk that financial, compliance, and/or operational objectives may not be met are audited more frequently. We performed the following:



STEP I: IDENTIFICATION OF THE AUDIT UNIVERSE

The audit universe is a subjective assessment of what are felt to be the auditable areas of the University. To determine the audit universe, we reviewed the general ledger, prior audit plans, the annual financial report, the budget, and the UTMB phone book.

We view the audit universe from two perspectives: on a departmental basis; and on the basis of the nine high level functional business processes ("FBPs") which have been identified as characteristic of UTMB's operations.

Generally, risk assessment is performed at the departmental level, with the results then being cross-referenced to a matrix which identifies each of the FBPs carried out in the departments. While this information provides Audit Services with a process-oriented view of the institution, the resulting matrix is not presented in this document.

In the departmental view, the universe for 1998-99 is assumed to consist of all departments which had expenditures in the prior year and had funded positions as of March 1, 1998.

STEP II: RISK ASSESSMENT

The risk assessment process employed this year was highly interactive. We conducted one-on-one interviews to discuss risk factors with the following:

Each member of the Audit Committee - which includes UTMB's Chief Executive Officer; Chief Medical Officer, Chief Academic Officer, Chief Business Officer, the Hospital's Chief Financial Officer, the Associate Vice President for Academic Administration, the Associate VP of Financial Affairs of the MD Anderson Cancer Center, an audit partner from the firm of Coopers & Lybrand L.L.P., and a senior audit manager from the firm of Price Waterhouse L.L.P..

Numerous high ranking personnel in the Hospital, including the Chief Operating Officer and several Executive Directors.

Directors of the Legal Services Department and Police Department, as well as directors in the following Support Services areas: budget; accounting; payroll; human resources; research administrative services; and cost reimbursement.



As a result of those interviews, and in consideration of our professional judgment, we developed a risk assessment methodology which encompasses the following factors:

RISK FACTORS

- ① **FINANCIAL RISK** - Based on expenditure levels for the eleven months ended July 31, 1998, factors are assigned based on a stratification of the data utilizing ACL (Audit Command Language) software. Factors range from 1 (lowest) to 5 (highest). Cross-functional departments which have purview over transactions (e.g. fiscal services, budget, research services) are evaluated based on the level of expenditures reviewed as well as their own departmental expenditure level.

In the final risk model, financial risk is considered to comprise 35% of overall risk.

- ② **INHERENT RISK** - Inherent risk factors considered and rated were as follows:

Management capability (50%) - An assessment of the design and past performance of the internal control structure as well as the ability of departmental management to meet their operational, financial and compliance goals. Independent assessments were obtained from 1) the Vice Presidents of Clinical Affairs, Academic Affairs and Business Affairs; 2) directors of budget; accounting; research administration; and cost reimbursement; and 3) Audit Services. These three views were averaged to obtain an overall risk rating by department using 1 as lowest risk and 5 as highest risk. Areas for which no specific input was received were assigned a neutral rating of 3.

Sensitivity (30%) - A subjective assessment of the political and or public interest in the activity carried out by the department as well as evaluation of the likelihood that errors or irregularities would cause public ire. This assessment was performed by senior management of Audit Services, drawing heavily upon the discussions we had with members of the Audit Committee. 1 is the lowest rating, 5 is the highest.

Location (20%) - Departments which administer financially or strategically significant operations which are based outside UTMB's central campus limits in Galveston received a rating of 5. All other departments received a rating of 3.

In the final risk model, inherent risk is considered to comprise 35% of overall risk.

- ③ **FUNCTIONAL RISK** - Inherent risk factors considered and rated were as follows:



Externally Regulated Funds - (33.3% where applicable) - Departments were assigned risk factors from 1 (lowest) to 5 (highest) based upon prior year (first 11 months') general ledger expenditures for sponsored research; clinical trials; and other private gifts and grants. Each of these three factors resulted in a risk rating derived from a stratification using ACL software. An average of the three risk factor ratings obtained was used.

Turnover - (33%) - Based on an ACL stratification of data from the human resource management system which compared personnel separations during the 1997-98 fiscal year to the average number of funded positions during the year, ratings from 1 (lowest) to 5 (highest) were obtained.

Expenditure Profile - (33%) - Four measures were developed from general ledger data for the eleven months ending July 31, 1998, as follows: the number of G/L accounts maintained by the department; the number of accounts per average FTE within the department; the \$\$ expended in such "sensitive" object code accounts as out-of-state travel, consultant services, business entertainment, employee celebration, prizes and awards, hospitality, and others; and sensitive expenditures as a % of total expenditures.

Each of these four measures resulted in a risk rating from 1 (lowest) to 5 (highest) based on a data stratification using ACL software. The four ratings were then averaged to obtain a composite expenditure profile risk rating.

An overall functional risk rating was developed for each department considering the three categories outlined above to the extent they are applicable to each department. For example, the overall rating for a department which receives externally-regulated funding considers all three factors listed above. The overall functional risk rating for departments having no externally-regulated funding was based on the two other categories alone (i.e. turnover and expenditure profile).

In the final risk model, functional risk is considered to comprise 30% of overall risk.

The finalized risk matrix is presented in the RISK MATRIX section of this document.

STEP III: ONE - YEAR AUDIT PLAN



A proposed one year audit plan was developed which considers: the results of the risk assessment process; requirements of the System Internal Control Action Plan; the 1998 Action Plan to Ensure Institutional Compliance; and senior management's views as expressed in Audit Committee meetings as well as private interviews.

The annual audit plan assumes that 1,375 project hours will be utilized for each professional staff position (12 positions – of which one new medical auditor position is scheduled to be available at mid-fiscal-year - reduced by an assumed 4.0 FTE vacancy rate, for a net total of 8 positions); and that an aggregate of approximately 3,000 project hours will be expended from among the three audit managers and the department director. As noted above, the total of 14,000 project hours for fiscal year 1998-99 is net of expected vacancies. Vacancies are projected higher than in the prior year budget, but at a level below the 4.56 FTE vacancy rate experienced in FY 1997-98. Higher than desirable vacancy rates appear to be a current fact of life in view of the tight employment market in the Houston area.

A proposed allocation of audit time utilizing the scope of work categories outlined in the IIA Standards was presented to the Audit Committee at its May 19, 1998 meeting. Based on input from that meeting, a final detailed listing of proposed projects was presented for consideration and approval at the August 18, 1998 Audit Committee meeting.

The approved listing of projects resulting from that meeting is presented in the ONE YEAR AUDIT PLAN section of this document.

STEP IV: FIVE - YEAR AUDIT PLAN

In light of the resignation of the Director of Audit Services, which is effective October 16, 1998, no formal five year plan was presented for the Committee's consideration at its August 1998 meeting.

The Committee continues to monitor long-term audit coverage by determining that the rotational (and change of management) departmental audit program is appropriate in light of the annual risk assessment process.



APPROVAL OF THE AUDIT PLAN

As discussed above, the 1998-99 detail project listing was approved by the UTMB Audit Committee at its August 18, 1998 meeting after a discussion which included comments in support of the plan by the Director of the UT System Audit Office, as well as a representative from the UT System Office of the Executive Vice Chancellor for Health Affairs.

The System Audit Office is summarizing the approved audit project detail for UTMB, as well as all of the UT System components for consideration by the System Business Affairs and Audit Committee ("BAAC") at its meeting scheduled for October, 1998. A copy of this plan summary document is being provided to the BAAC to assist them in their consideration of the UTMB Audit Plan.

UTMB Audit Services
Approved FY99 Audit Plan
as of 8/18/98

Project Notes (next pg)	Financial -	Estimated Hours	% of Time
1	Annual Financial Report (AFR) Line Items	600	
2	Hospital Supply Cost	750	
2	Laboratory Charge Capture/Billing	750	
3	MSRDP AFR Schedule	400	
4	OB/GYN Clinics	550	
5	Fixed Asset System	400	
	subtotal	3,450	24.6%

-----Projected Scope of Work-----
R C S E A
(See note below *)

P		s	s	s
P	s	s	s	
P	s	s	s	
P		s	s	s
P	s	s	s	
P	s	P		

Compliance -

6	Institutional Compliance Design	200	
6	Institutional Compliance Effectiveness Monitoring	350	
6	Medical Billing Compliance Design	200	
6	Medical Billing Compliance Effectiveness Monitoring	350	
7	Time Capture - ETC, Effort Reporting, Overtime, etc.	500	
7	Record Retention (manual and electronic)	350	
	subtotal	1,950	13.9%

	P		s	s
	P		s	s
	P		s	s
	P		s	s
s	P		s	s
	P	s	s	s

Information Systems -

8	Year 2K Preparedness	700	
9	Web Servers	350	
9	AS400	275	
9	Clinical Web Application	200	
9	LDRPS (Living Disaster Recovery Planning System)	200	
9	Control Self Assessments	200	
9	Email/ & Domain Name Servers	175	
9	Technology Refresh Program	75	
	subtotal	2,175	15.5%

s		P	s	s
P	s	s	s	s
P	s	s	s	s
P	s	s	s	s
s	s	P	s	s
s	P	s	s	s
P	s	s	s	s
		P	s	s

Required Audits/Processes -

10	Prior Issue Follow-up	175	
11	Control Design Task Forces	175	
3	Review MSRDP Reorganization	150	
12	Family Practice Residency Program	90	
12	Institutional Cost Savings	60	
	Carry Forward 1998 Audit Plan	1,075	
13	Change in Management	1,400	
13	Departmental Audits	1,800	
	subtotal	4,925	35.2%

	P		s	s
s	P		s	s

s	P	s	P	s
s	P	s	P	s

Management Requests -

14	Requested audits/reviews	1,500	10.7%
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Total 14,000 100.0%

*** IIA Scope of work Categories:**

R	Reliability and integrity of information.
C	Compliance with policies, plans, procedures, laws and regulations.
S	Safeguarding of assets.
E	Economical and efficient use of resources.
A	Accomplishment of established objectives and goals.

Key to audit objectives:

P = Primary audit objective.

s = secondary audit objective.

UTMB Audit Services FY99 Audit Plan

Notes to Approved Plan

- 1 AFR Line Items – we will schedule work in revenue, payroll, and other expenditures for completion in a timely manner during the first quarter of fiscal 1999 to allow us to give assurance as to the fair presentation of the AFR prior to its release to Austin. We intend to utilize the work performed by the State Auditor's Office in its FY'97 accreditation audit to help streamline our process for FY'98.
- 2 Hospital Supply Cost and Laboratory Charge Capture/Billing – these two major patient related systems were selected based upon risk assessment discussions with executive management, other UTMB managers, and outside Audit Committee members.
- 3 MSRDP AFR Schedule and Reorganization – these audits are required by MSRDP bylaws and the June 16 memo from Dr. Mullins, respectively. Work on the AFR (Schedule D-6) will be performed to give assurance on fair presentation prior to release to Austin.
- 4 OB/GYN Clinics – Dr. Mullins' memo of June 16, 1998 calls for an audit of satellite clinics. In view of major work on charge capture in FY'97 and Family Practice in FY'98, we believe the OB/GYN Clinics are the proper place to meet this FY'99 requirement.
- 5 Fixed Asset System - the long-running institutionally significant finding on tracking of assets, and continual problems noted in departmental and change of management audits, lead us to schedule this project to review the implementation of the new software subledger module.
- 6 Compliance Design and Effectiveness Audits – meet the requirements of the Action Plan to Assure Compliance. The design audits will be conducted during the first fiscal quarter (to meet the Action Plan). Effectiveness audits will be performed in later quarters and will focus on progress made in compliance areas assessed to have high risk (examples could come from the following: professional billing, medical billing, research, environmental, human resources, etc.). This risk assessment process is currently underway in both compliance functions.
- 7 Time Capture and Record Retention – these two compliance process audits were selected based upon risk assessment discussions with executive management, other UTMB managers, and outside Audit Committee members.
- 8 Year 2k Problem – our efforts in this area will continue. We will work closely with institutional project management to assure that the value of our time is optimized.

UTMB Audit Services FY99 Audit Plan

Notes to Approved Plan, continued

- 9 Other IS Projects – our IS audit plan was developed after an extensive interaction and risk assessment process conducted jointly with IS leadership. A brief description of each environment in which a project is proposed follows:
- Web Servers – there are 50-60 servers on campus which represent UTMB's presence on the Internet. These servers have not previously been audited, are growing in number, and represent a venue in which employees create web sites, and otherwise represent the University in this increasingly visible venue.
 - AS400 – the computer system used by TDCJ to administer much of its activity. Administration of this mainframe is handled by TDCJ personnel and falls outside of the scope of the UTMB Information Systems group.
 - Clinical Web Application – a new and growing INTRANet application which is currently used to distribute results of patient radiology and lab tests to professionals needing this information. This application is also projected to be a future INTERNet site to share such information with professionals offsite as well as to be the environment for creating, maintaining and sharing on-line patient records.
 - LDRPS – we will follow-up on implementation of this system which resulted from a major consulting study performed in FY98.
 - Control Self Assessments – we will begin to introduce this methodology both to selected IS leadership group processes and to certain departments which administer their own significant servers.
 - E-mail and Domain Name Servers – general controls reviews of the servers which administer e-mail operations both on campus and externally.
 - Technology Refresh Program – continued support for the vendor selection process which is currently underway.
- 10 Prior Issue Follow-up – as required by professional auditing standards
- 11 Control Design Task Forces – we will continue to serve on significant pre-implementation teams as appropriate. Estimated time is based on historical data.
- 12 Family Practice Residency & Institutional Cost Savings – annual processes which require assurance from the internal audit function as required by the Higher Ed. Coordinating Board and the UT Board of Regents, respectively.

UTMB Audit Services FY99 Audit Plan

Notes to Approved Plan, continued

- 13 Departmental and Change in Management Audits - required by UT Internal Control Action Plans of 1994 and 1996.

These audits will continue to be the cornerstone of efforts to reach all financially significant departments at least every 5 years. We project performing 20-25 such audits in FY99.

Change in Management audits will be considered whenever there is a change in department head and/or (for academic departments) department administrator. The decision as to whether to perform the audit – and the appropriate scope – will be determined on a case-by-case basis utilizing the campus-wide risk assessment and input from executive management, other audit committee members, and department chairs.

As in prior years, this risk assessment process will be completed in the first quarter of FY99, following which we will bring a proposal to the Committee for departmental audits (comprising about half of the total commitment of 20-25 projects noted above) based on the risk assessment and in consideration of where such audits have been performed in FYs 97 and 98.

We will offer a facilitated control self-assessment approach – based on a revised methodology that we are currently developing – as an optional method for administering departmental audits during FY99. That is to say, department management may elect either a “traditional” audit, or a self-assessment process.

- 14 Management Requests – volume is historically difficult to project, but this approximates the average of FYs 97 and 98.

**Quality Assurance Review
For
Department of Audit Services**

The University of Texas - Medical Branch at Galveston

Performed by:

Glen C. Mueller, Director of Audit Services
UCSF-Stanford Health Care

Robert F. Rubel Jr., Associate Director of Internal Audit
University of Texas- Southwestern Medical Center at Dallas

Craig B. Robertson, Audit Manager
University of Texas - System Audit Office

December 2, 1997



UCSF STANFORD
HEALTH CARE

December 2, 1997

Mr. E. J. Pederson
Executive Vice President
The University of Texas Medical Branch at Galveston

Subject: Report of Quality Assurance Review for Internal Audit Department

Dear Mr. Pederson:

At your request, we have conducted a quality assurance review of the work of your internal audit department. We reviewed for compliance with The Institute of Internal Auditors' *Standard for the Professional Practice of Internal Auditing* and based our review on the Association of College and University Auditor's *Quality Assurance Review Handbook*.

The review was performed by persons independent of your internal audit department and covered audit work performed during the period of August 1, 1996 through October 31, 1997. The scope of the review was restricted to reviewing selected documents, conducting a survey, reviewing the work papers of a sample of audit projects and interviewing key personnel.

Based on the scope of our review, we determined that, overall, the work of the internal audit department did comply with IIA *Standards* during the period under review. Additional information is provided in the attached report. We have included in the report several recommendations we believe will further enhance the efficiency and effectiveness of your internal audit function.

We appreciate the cooperation and assistance provided to us throughout the course of our review. All individuals interviewed offered candid and constructive comments. Please let us know if you would like us to review with you further details pertaining to any of the information in the attached report.

Sincerely,

Glen C. Mueller, C. P. A.
Peer Review Team Leader

INTRODUCTION

The *Standards for the Professional Practice of Internal Auditing (Standards)*, issued by The Institute of Internal Auditors (IIA), require internal audit departments to develop and maintain a quality assurance program to ensure the quality and credibility of their work. According to the IIA, a comprehensive quality assurance program includes the following elements:

- Ongoing supervision of internal audits.
- Periodic internal reviews of the work of the internal audit department.
- Periodic external or peer reviews of the work of the internal audit department.

This report presents the results of a peer review covering internal audit department activities for the period August 1, 1996 through October 31, 1997. The review was performed by Glen C. Mueller, Director of Audit Services - UCSF-Stanford Health Care, Robert F. Rubel Jr., Associate Director of Internal Audit - University of Texas Southwestern Medical Center at Dallas, Craig B. Robertson, Audit Manager - University of Texas System Audit Office.

OBJECTIVES

The primary objective of this review was to determine whether the internal audit department was in compliance with the *Standards* established by the IIA. A secondary objective was to foster the sharing of experiences, ideas, and approaches with managers of other internal audit departments, in order to provide additional recommendations for improving the internal audit function.

SCOPE

The scope of our review was limited by the allotted time of the external reviewers. We allocated 8 hours of advance preparation, two full days on site, and 4 hours of post review report preparation and finalization. The scope of our review included, but was not limited to the following:

- Reviewing the general information and requested background documents received from the Audit Services Department.
- Administering a survey to 47 department managers from departments or functions that were audited during the period under review.
- Interviewing selected senior management officials, members of the Audit Committee, and all members of Audit Services staff.
- Selecting and examining the work papers of three representative audit projects (Charge Capture and Billing, Environmental Health and Safety Systems, and RACF Security) completed during the period under review.

CONFERENCES

We held conferences and meetings with the Director of Audit Services and other officials throughout the course of our review. As a group, we jointly shared our experiences, approaches, and other insights to be considered in further improving the work of the internal audit function and related processes at the University of Texas Medical Branch at Galveston.

CONCLUSIONS

Our overall evaluation of the UTMB Department of Audit Services is that it complied with the IIA *Standards* for the period under review. This overall evaluation was derived from our review and separate evaluations of each of the five general and 25 specific standards that comprise the IIA *Standards*, and was limited to the scope of our review.

OBSERVATIONS AND RECOMMENDATIONS

Following are the observations of the review team as they relate to the five general IIA *Standards: Independence, Professional Proficiency, Scope of Work, Performance of Audit Work, and Management of the Internal Auditing Department*. For each standard, the review team identified the conditions observed and, where appropriate, made recommendations for enhancing the efficiency and effectiveness of the internal audit function.

1. **INDEPENDENCE** – *Internal Auditors should be independent of the activities they audit.*

Observations: UTMB Audit Services has complied with the IAA *Standards* by reporting to the Office of the President at UTMB through the Executive Vice President. Independence of the audit function is also enhanced through regular meetings with the President and with the audit committee. Adding external members to the audit committee has increased independence and objectivity of the internal audit process. In addition, the audit department's charter, freedom from operating duties, and conflicts of interest statements enhance the independence of the department.

Recommendation: None

Observations: The current information and metrics provided to the Audit Committee and senior management should be improved to enable more efficient and effective oversight by these parties as the volume of audit reports, recommendations, and related issues increases with the evolving productive capacity of this recently revitalized audit function.

Recommendation #1: Audit Services should consider the following items to strengthen overall communications: (a) providing an annual summary follow-up report of all prior audit recommendations and their status to senior management and the Audit Committee; (b) summarizing all recommendations for the year by category of IIA Scope of Work; and (c) redesigning the standard audit report format with increased focus on communications to senior management.

Audit Services' Response: With the arrival of a new President, and resulting changes in the makeup of the Audit Committee, we have begun a process to assure that reporting formats and the focus of Committee meetings optimize the manner in which executive management's time is utilized in providing oversight to the internal audit process. We will present proposals covering each of the areas outlined in the recommendation and will work to accommodate the needs of our Committee in this regard. We anticipate finalizing these discussions at our Committee meeting scheduled for March 1998.

2. **PROFESSIONAL PROFICIENCY** – *Internal Audits should be performed with proficiency and due professional care.*

Observations: The professional proficiency of the director and internal audit staff is appropriate for the work being performed. There is a good mix of Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, and Certified Fraud Examiner designations among the members of the Audit Services Department. There also appears to be sufficient progress towards additional certifications by members of the department. The department is committed to the enhancement of proficiency in their continuing education, compliance with IIA *Code of Ethics*, and current developments in the fields of auditing, including Information Systems auditing.

As UTMB's business and clinical operations processes continue to become more computerized, it is important that the internal auditing skills include increased use of automated data extraction and analytical tools by all members of the department. Further automation of the internal audit activities will add to the efficiency and effectiveness of internal audit projects.

Recommendation #2: Consider adding the requirement for specific automated tools and techniques to Audit Services' job descriptions to help assure all internal auditors are aware of and maintain relevant skills to meet UTMB's evolving technology environment.

Audit Services' Response: We agree with the importance of assuring that internal auditors acquire and maintain a skill set which keeps up with changes brought about by technology. We anticipate that there will be changes made in all of our professional job descriptions during the current fiscal year, whether through a proposed "broad-banding" initiative on campus, or through a self-initiated process. During that change process we will incorporate automated tools and techniques expectations. Thus, we anticipate that this recommendation will be implemented prior to the close of the fiscal year on August 31, 1998.

Observations: Audit Services management and staff should be more visible with middle management and clinical department administrators. Increased ongoing interaction facilitates the risk assessment process, provides the opportunity for non-audit related communications on internal control issues and solutions, and increases opportunities to learn about what is changing out in the departments.

Recommendation #3: Audit Services should develop a more proactive strategy for ensuring increased ongoing contact with key departmental administrators. Better understanding of Audit Services Charter, mission, and approach by department administrators will facilitate their asking for assistance and open up lines of ongoing communication, which will make the ongoing risk assessment process more effective.

Audit Services' Response: We agree with this recommendation. On several fronts we have already undertaken initiatives which will help us to implement it. These approaches include: having the audit managers develop detailed strategies for enhancing contacts and developing relationships within the Clinical Services, Academic Affairs and Support Services arenas; implementing a plan to invite key administrators to make presentations at Audit Services' staff meetings; and the implementation of a more focused strategy whereby the Director will increase his contact with key management personnel, especially in the clinical and academic areas. While precise progress in assessing the effectiveness of implementing such a recommendation is difficult to measure, we believe that the effects of these strategies will be visible to Audit Committee members by March 31, 1998. We will also include a review of this process in the annual Audit Committee self-assessment questionnaire, which evaluates both the Committee's and Audit Services' performance in achieving the mission objectives outlined in our Charter.

3. **SCOPE OF WORK** – *The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization’s system of internal control and the quality of performance in carrying out assigned responsibilities.*

Observations: An audit risk assessment process, including discussions with senior management, is used to prepare the annual and five-year audit plan. This planning process defines the audit universe, considers materiality factors, reliance on controls, changes, etc. These plans are reviewed and approved by the Office of the President and UTMB’s audit committee. The UTMB annual audit plan is also submitted to the UT System for presentation to the Board of Regents and progress of the audit plan is periodically reviewed by the UTMB audit committee meeting. Audits are performed in the following categories specified by the IIA Standards:

- 1) Reliability and integrity of information (Standard 310);
- 2) Compliance with policies, plans, procedures, laws, and regulations (Standard 320);
- 3) Safeguarding of assets (Standard 330);
- 4) Economical and efficient use of resources (Standard 340); and
- 5) Accomplishment of established objectives and goals for operations or programs (Standard 350).

Recommendation #4: Audit Service’s audit risk assessment process would be improved by adding an additional risk / weighting factor which considers the total dollar value of transactions reviewed or approved by each unit in the audit universe.

Audit Services’ Response: We agree with this recommendation and will implement the use of such a factor as part of the Fiscal 1999 risk assessment process.

4. **PERFORMANCE OF AUDIT WORK** – *Audit work should include planning the audit, examining and evaluating information, communicating results, and following up.*

Observations: We reviewed the working papers of three audits that were completed during the period under review. Our review included examination of the working papers and other applicable documentation and discussions with internal audit staff who worked on the audits. In our opinion, all files included sufficient documentation for planning, setting objectives and scope of work, organizing and documenting evidence, filing reports, obtaining responses, determining corrective action, and following up on the recommendations. The audit report recommendations made appeared to be relevant and useful.

Recommendation #5: There should be increased participation by the Director in the individual audit projects' entrance and exit conferences as these are activities where the Director's perspective and knowledge of the overall control environment can expedite and improve the effectiveness of these important audit activities.

Recommendation #6: The proportion of audit manager to staff direct audit hours per audit project should be increased to include a greater amount of audit manager hours designated to the performance of audit field work. Increasing audit managers' direct audit hours per engagement should provide the benefits of decreasing the total hours needed per project and reducing the elapsed time between audit start and audit report issuance.

Audit Services' Response: Audit Services agrees with these recommendations and has already taken several steps to implement them. These include increased presence of the Director during entrance and exit processes and a planned increase of between 20 to 25% in the annual project-chargeable audit hours expectation for each of the managers.

5. **MANAGEMENT OF THE INTERNAL AUDIT DEPARTMENT** – *The Director of Internal Auditing should properly manage the internal audit department.*

Observations: Proper procedures for management of the internal audit department are evidenced by the formal written charter, risk based audit planning process, annual and five year plans, budgets, status reports, time schedules, performance evaluations, supervisory review and quality assurance programs. The department seems to work effectively as a team to improve and enhance operations at UTMB. The director has noticeably increased the level of professionalism over the past two years and brings significant accounting and auditing experience to the department.

IIA Standard #530, on written policies and procedures to guide the audit staff, has not yet been adequately complied with. While Audit Services has numerous written policies and procedures, these are not a complete set and also need to be compiled into a comprehensive and indexed manual.

Recommendation #7: Audit Services should complete a policies and procedures manual and familiarize all staff with its contents.

Audit Services' Response: We agree with this recommendation. An updated policies and procedures manual is well underway and will be completed prior to February 28, 1998. It is our intention that this manual will be available to all staff by that date, and, as appropriate, portions of the manual will be available to outside users when the Department's web site, which is currently under construction, is completed.

ACKNOWLEDGEMENTS

The team conducting this quality assurance review wishes to thank all Audit Services and University of Texas Medical Branch at Galveston personnel for their cooperation and assistance throughout the course of this review.

**University of Texas Medical Branch at Galveston
Audit Services**

Fiscal Year 1999 Completed Audits

DESCRIPTION	Project Number	-----Projected Scope of Work-----				
		R	C	S	E	A
Data Reliability & Integrity				(See note *)		
Annual Financial Report	99-53	P		s	s	s
Pathology Charge Capture	99-55	P	s	s	s	
MSRDP Annual Financial Statement	99-56	P		s	s	s
Risk Based Compliance Areas						
Workplace Safety	98-17		P		s	s
Medicare Cost Report	98-11	s	P		s	s
Senior Officers' Travel	98-16	s	P			
MSRDP Reorganization	99-03		P			
Information Systems						
Data Network	98-25	P	s	s	s	s
Year 2000 Preparedness	99-71	s		P	s	s
Correctional Managed Care AS 400	99-73	P	s	s	s	s
Control Awareness & Monitoring						
Family Medicine	98-48	s	P	s	P	s
Correctional Managed Care	99-73	s	P	s	P	s
Animal Resources Center	99-26	s	P	s	P	s
Correct'l Managed Care/Texas Youth Comm	98-41	s	P	s	P	s
Internal Medicine	98-36	s	P	s	P	s
Pediatrics	98-35	s	P	s	P	s
Marine Biomedical Institute	98-39	s	P	s	P	s
Logistics/Biocom	98-40	s	P	s	P	s
Surgery	98-46	s	P	s	P	s
Preventive Medicine and Community Health	98-47	s	P	s	P	s
Psychological and Behavioral Sciences	98-49	s	P	s	P	s
Management Requests						
ARP/ATP Grants	99-81	P	s			s
Miscellaneous Projects and Audit Follow-up						
Institutional Cost Savings Initiatives	99-01	P	s			s
Family Practice Residency Program	99-02	P	s			s

IIA Scope of work Categories:

- R** Reliability and integrity of information.
- C** Compliance w/policies, plans, procedures, laws and regul
- S** Safeguarding of assets.
- E** Economical and efficient use of resources.
- A** Accomplishment of established objectives and goals.

Key to audit objectives:

- P = Primary audit objective.
- s = secondary audit objective.

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Issue	Management's Action Plan	Status
<p>Audit 98-25 Data Network We recommend that management develop a contingency plan that will address the risks associated with a data network outage.</p>	<p>A proposal is being prepared for presentation to UTMB senior management which will outline the options for disaster recovery for UTMB's mission critical information systems. This proposal will present alternatives which will impact the design of a disaster recovery plan for the data network.</p> <p>The data network contingency plan continues to be a part of the overall contingency planning process described above. It will not be a separate activity. IS has performed a risk analysis for mission critical platforms and applications. The data network was included in this analysis. There is an existing strategy from which we will create a formalized contingency plan. The details of the data network contingency plan will evolve as the options are selected and funded for the data systems contingency plan.</p>	<p>In Progress</p>

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<p>Audit 99-55 Pathology</p> <p>Pathology management should review the system access privileges currently afforded to Cerner system users to ensure that the level of access granted is consistent with their primary job responsibilities and the principle of separation of duties. Management should also ensure that approved security load forms are on file for all system users.</p> <p>Pathology management should review and where necessary revise its current security file maintenance procedures to ensure that the access rights of system users are deactivated when no longer required.</p> <p>The use of generic user IDs by residents and students reduces the level of accountability for individual users and increases the risk of unauthorized access and disclosure of confidential patient data. Pathology management should take action to deactivate the generic user IDs and should assign individual user IDs to all Cerner users.</p>	<ul style="list-style-type: none"> • During the implementation of Cerner user security levels were designed according to job duties. If a staff member's duties change, our process is to have their division request an activation and/or deactivation of functions using a system security load form. Laboratory Information Systems will work with divisions to complete a system review by the second quarter of FY 00, and will make the system access adjustments deemed necessary as a result of this review. • We have reviewed our security file maintenance procedures. Effective immediately, at least monthly, Information Services will receive an updated file of current Cerner users. This file will be used by Information Services to produce a report that identifies the current system users that are no longer employees. In addition, a request will be sent to Information Services by 9/10/99 to include in the report all system users that have transferred. • All generic users IDs were deactivated in August, 1999 	<p>In Progress</p>
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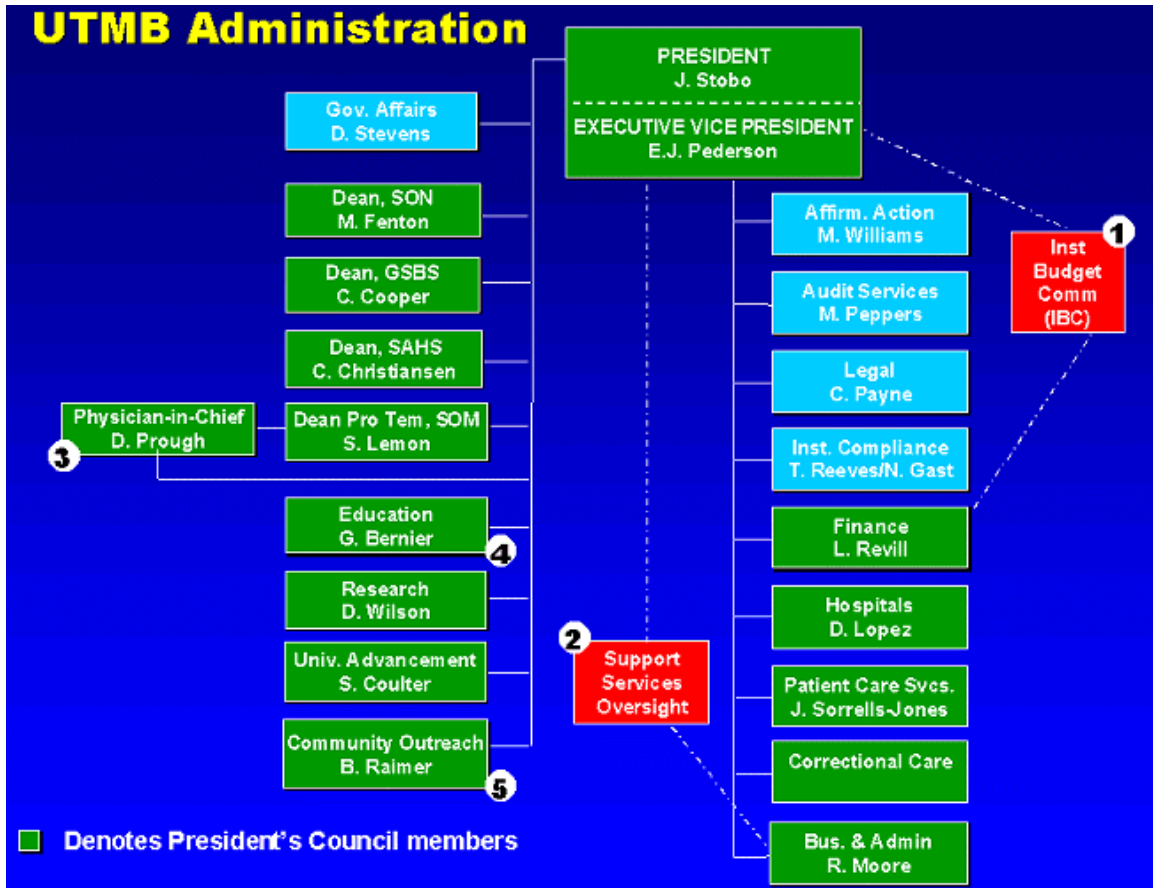
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<p>Audit 99-73 Correctional Managed Care CMC should initiate efforts to develop a comprehensive business continuity plan to include:</p> <ul style="list-style-type: none"> • A business impact analysis. • The identification of key manual and automated processes required to continue when a disaster is declared. • The specific arrangements to recover those key manual and automated processes identified. • The identification of an alternate processing site when a disaster is declared. • Periodic testing, where feasible and cost-effective, to help ensure the plan is operational. • A process to identify changes within the organization and to make updates to help ensure the disaster recovery plan remains current. 	<p>It is concurred that a comprehensive business continuity plan is needed and will be developed.</p>	<p>In Progress</p>
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<p>Audit 99-73 Correctional Managed Care The AS/400 for Managed Care Information Systems (MCIS) is located on the 9th floor of the U.S. National Bank building. There is no locked door that separates the computer room from the security administrator, programmer room, the department lunchroom, and copy machine. Furthermore, employees are allowed to pass freely through the security administrator room to get to the lunch or computer rooms. After business hours, the front door of the security administrator room is locked, but access to the computer room is still available through the lunchroom. The door through the computer room can only be locked on the lunch room side. Also, no log for visitors exists upon floor / office entrance.</p> <p>Additionally, no automated system is utilized to protect the computer room from fire. A hand-held fire extinguisher was installed at the time of review.</p> <p>The MCIS department should work with UTMB information systems personnel who are currently evaluating methods of providing protection to all critical UTMB processing platforms.</p>	<ul style="list-style-type: none"> • Employees are no longer allowed to use the programmer's office area as a hallway. • We have developed a plan to re-locate operations personnel, which will allow us to secure the computer room. As a result, only authorized personnel will be allowed access to the computer room. • We will review options to provide automated fire protection for the computer room. <p>We will follow-up with UTMB information systems personnel currently evaluating and implementing methods/processes to ensure protection of all critical UTMB processing platforms. We will be consistent with corporate guidelines.</p>	<p>In Process</p>
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University of Texas Medical Branch at Galveston Administration Organization Chart (eff. 8/99)



University of Texas Medical Branch at Galveston
Audit Services
Other Internal Audit Activities for Fiscal Year 1999

Members of Audit Services participated in the following areas:

Cost Saving Initiative – staff participated in this annual process through both informal and formal reviews of proposed new initiative ideas as well as the reported results of previously adopted ideas. Staff also participated in a process to provide standards for documentation both in proposing initiatives and in documenting their impact after implementation.

Consultation with the Information Security Officer – staff played an ongoing role in advising regarding the development of policies and procedures as well as providing input regarding the consistent application of those policies and serving in a consultative capacity when reported breaches of security occur.

Institutional Task Forces – staff played a proactive role of advising management in fostering best practices and positive control environment on formal task forces and in less formal ad hoc groups. Specific activities included the Institutional Compliance Committee and the Data Mart and Year 2000 Preparedness Task Forces.

External Audit Liaison – the office served as liaison for audits conducted by the State Auditor's Office, the Office of the Comptroller of Public Accounts, the UT System Audit Office, and the federal Department of Health and Human Services. The role of liaison has the objective of assuring that external auditors have appropriate access to information they need and that the audit process allows for an optimum level of efficiency and effectiveness. We also participate in reviewing all draft reports and attend entrance and exit conferences. Audit Services considers all external audit reports for implications related to the institutional risk assessment and work plan development process.