

# Internal Audit Annual Report

**Fiscal Year 2001**

THE UNIVERSITY OF TEXAS  
MD ANDERSON  
CANCER CENTER  
*Making Cancer History™*

**THE UNIVERSITY OF TEXAS  
M. D. ANDERSON CANCER CENTER**

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**SECTION I - Internal Audit Plan for Fiscal Year 2001**

## SECTION I – Internal Audit Plan for Fiscal Year 2001

### Audit Work Schedules and Progress

To assist the UT System Audit Office in their responsibilities of coordinating the presentation of the components' audit work to the Regents' committees, the department attempts to prepare a quarterly work schedule. This schedule is based on the priorities such as management's requests, departmental workloads, investigation needs, and internal audit staff availability. It is subject to change without prior approval.

An annual report is prepared for System as well as status reports for each Audit Committee.

Fiscal Year 2001 Audit Plan			
Audit/Project	Budgeted Hours	% of Total	Description of Scope
<b>Key Financial and Operating Audits</b>			
PRS Annual Audit	500	2.78%	To determine the reliability and integrity of the financial information presented in the PRS annual report, its reconciliation with the Annual Financial Report (AFR), and compliance with GAAP per the Executive Vice Chancellor of Health Affairs' directives.
Fiscal Affairs	800	4.44%	To examine and evaluate the adequacy and effectiveness of the policies, procedures, and practices established in response to the FY 2000 consultant's report.
<b>Key Financial and Operating Information Subtotal</b>	<b>1300</b>	<b>7.22%</b>	
<b>Institutional Compliance</b>			
Compliance Program – Institutional Program	400	2.22%	To determine that the compliance program as designed can provide reasonable assurance that the compliance objectives will be met efficiently and economically and that it is functioning as intended.
Billing Compliance Design	200	1.11%	To determine that the compliance program as designed can provide reasonable assurance that the billing compliance objectives will be met efficiently and economically.
Billing Compliance Effectiveness	450	2.50%	To ascertain that the billing compliance program is functioning as intended.
Research Compliance Design	200	1.11%	To determine that the research compliance program as designed can provide reasonable assurance that the research compliance objectives will be met efficiently and economically.
<b>Other Compliance Related Audits</b>			
Information Security Analysis <sup>**</sup> (done by IT staff)	200	1.11%	To examine and evaluate that the processes established by the Information Security Officer are adequate to comply with the Tex. Administrative Code 210.13b requirements concerning risk analysis and that they are functioning as intended.
State ARP/ATP Grants	200	1.11%	To ascertain that the system established to insure compliance with the terms and conditions of these grants is adequate and effective.
<b>Institutional Compliance Subtotal</b>	<b>1650</b>	<b>9.17%</b>	

Fiscal Year 2001 Audit Plan			
Audit/Project	Budgeted Hours	% of Total	Description of Scope

**Information Technology Audits**

Quality Environment	250	1.39%	To determine the adequacy, effectiveness and compliance with policy of the current testing practices used in new system implementation and upgrades.
Physical Environment	200	1.11%	To ascertain the adequacy and effectiveness of current physical environment of non-central servers, hubs, and other network components.
Disaster Recovery / Business Continuity Plans	150	0.83%	To determine the adequacy, effectiveness and compliance with policy of the current disaster recovery/business continuity programs used for non-central servers or other computer networks.
Security	250	1.39%	To assess the adequacy of program design of the incident handling plans for internal and external system security breaches.
Policy Development	150	0.83%	To perform system development type activities for the HIPAA program
General Controls – Management Issues	200	1.11%	To review the adequacy and effectiveness of the system established to insure compliance with purchasing requirements.
Application Audit	400	2.22%	Lotus Notes, Email - security, access & maintenance of files.
Pre - Implementation	100	0.56%	Participate in the system development activities related to the implementation of a new accounts payable, fixed asset system.
IT Support to Audit Staff	1000	5.55%	To assist audit staff in obtaining needed data files, running complex ACL queries, and developing analytical routines established by the Director.
<b>Information Technology Subtotal</b>	<b>2700</b>	<b>15.00%</b>	

**Risk Based Audits**

Breast Center	600	3.33%	To review the system of capturing professional charges in the Disease Site Center to insure that it is adequate to accomplish its stated objectives, complies with institutional guidelines, and is functioning as intended.
Thoracic Center	900	5.00%	To review the system of capturing professional charges in the Disease Site Center to insure that it is adequate to accomplish its stated objectives, complies with institutional guidelines, and is functioning as intended.
Radiation Oncology Center	600	3.33%	To review the system of capturing professional charges in the Disease Site Center to insure that it is adequate to accomplish its stated objectives, complies with institutional guidelines, and is functioning as intended.
Surgery	800	4.44%	To review the system of capturing professional and technical charges in the operating room to insure that it is adequate to accomplishes its stated objectives, complies with institutional guidelines, and is functioning as intended.
Operations & Facilities	500	2.78%	To evaluate the adequacy and effectiveness of internal controls over safeguarding assets, accomplishing goals and objectives and operating in an economical and efficient manner in the processes controlling Internal Construction, Bio-Med Equipment, and BioHazardous Disposal.

<b>Fiscal Year 2001 Audit Plan</b>			
<b>Audit/Project</b>	<b>Budgeted Hours</b>	<b>% of Total</b>	<b>Description of Scope</b>
Business Affairs	500	2.78%	To evaluate the adequacy and effectiveness of internal controls over accomplishing established goals and objectives, and operating in an economical and efficient manner in the processes concerned with Procurement Cards, Grants and Contracts Accounting, and review of entertainment expenses.
Diagnostic Imaging	600	3.33%	To review the system of capturing professional and technical charges in diagnostic imaging to insure that it is adequate to accomplish its stated objectives, complies with institutional guidelines, and is functioning as intended.
Patient Business Services	450	2.50%	To evaluate the adequacy and effectiveness on internal controls over accomplishing established objectives and operating in an economical and effective manner in the process concerned with Verification and Authorization of insurance coverage.
Research Basic Science	250	1.39%	To evaluate the adequacy and effectiveness over the controls safeguarding the research animals and the security of the research animal involved databases.
Human Resources	500	2.78%	To evaluate the processes concerning job analysis, titling, and compensation to insure that they are adequate and effective in accomplishing their stated objectives and operating in an economic and efficient manner.
Property Control	400	2.22%	To evaluate the adequacy and effectiveness of internal controls over safeguarding, accomplishing established goals and objectives and operating in an economical and efficient manner concerned with the fixed assets of the institution.
<b>Risk Based Audits Subtotal</b>	<b>6100</b>	<b>33.89%</b>	
<b>Projects</b>			
Cost Savings	320	1.78%	Per UT System directives.
Follow-ups	600	3.33%	4 rounds of 150 hours each
Prior Year Audits	1035	5.75%	To complete prior year work for both audits & projects
Investigations	1200	6.67%	Reserved for ethics line complaints
Management Requests (Special Projects)	1000	5.55%	Reserved for management requests
Annual Internal Audit Report	80	0.44%	Annual Internal Audit report required by state law
Assistance to State Auditors	40	0.22%	Reserved to coordinate State Auditor Requests
Assistance to System Auditors	100	0.56%	Quarterly Reports, other assistance
Administrative Projects	1362	7.57%	Projects to increase the efficiency of the department
2000 Inventories – Goods for Resale	215	1.19%	To attest that the inventories were conducted properly.
2001 Inventories – Goods for Resale	100	0.56%	To determine that the system for taking inventories is designed such that there is reasonable assurance that the inventories will be fairly presented in all material respects.
<b>Projects Subtotal</b>	<b>6052</b>	<b>33.62%</b>	

Fiscal Year 2001 Audit Plan			
Audit/Project	Budgeted Hours	% of Total	Description of Scope
<b><i>Change in Mgmt. Departmental Audits</i></b>			
Unknown 1	100	0.56%	To review the status of internal financial controls and fixed assets upon change in division management.
Unknown 2	100	0.56%	To review the status of internal financial controls and fixed assets upon change in division management.
<b>Departmental Audits Subtotal</b>	<b>200</b>	<b>1.11%</b>	
<b>Total Audit and Project Hours</b>	<b>18002</b>	<b>100.00%</b>	

## **ADJUSTMENTS TO AUDIT PLAN FISCAL YEAR 2001**

### **Approved by Institutional Audit Committee, 5/17/01**

Audit 01-37, Fiscal Affairs. Delayed due to client request.

Audit 01-42, Information Security Analysis. Postponed.

Audit 01-85, Security. Postponed.

Audit 01-86, Policy development (HIPAA). Cancelled.

### **Approved by Institutional Audit Committee, 7/31/01**

Audit 01-51, Patient Business Services Insurance Verification & Authorization. Postponed.

**THE UNIVERSITY OF TEXAS  
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**SECTION II - External Quality Assurance Review**

**Quality Assurance Review  
For the  
Internal Audit Department**

**At**

**The University of Texas M. D. Anderson Cancer Center**

**Performed by:**

**Lee Annette Jones O'Brien, FHFMA, CPA  
Consultant**

**J. Michael Peppers, CPA, CIA  
Director of Audit Services  
University of Texas Medical Branch at Galveston**

**Robert Rubel, CIA, CISA, CPA  
Director of Internal Audit  
University of Texas Southwestern Medical Center at Dallas**

**April 28, 2000**

**LEE ANNETTE JONES O'BRIEN, FHFMA, CPA**

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April 28, 2000

John Mendelsohn, M. D.  
President  
The University of Texas M. D. Anderson Cancer Center  
1515 Holcombe Blvd.  
Houston, TX 77030

Subject: Report of Quality Assurance Review

Dear Dr. Mendelsohn:

At the request of Gary O'Neal, Internal Audit Director, we have conducted a quality assurance review of the work of the Internal Audit Department. We reviewed for compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*, and based our review on the Association of College and University Auditors' *Quality Assurance Review Handbook*.

The review was performed by persons who are independent of the Internal Audit Department and covered fiscal year 1999 audits reported to the Audit Committee from September 1, 1998 through January 2000, as well as current policies and procedures. 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 the IIA *Standards* during the period under review. All individuals interviewed offered candid and constructive comments. We will be pleased to review with you any of the information in the attached report at your convenience.

Sincerely,

Annette O'Brien  
Team Leader

Cc: Audit Committee Members  
Charles Chaffin, Director, UT System Audit Office  
Paul Henry, Office of the Executive Vice Chancellor for Health, UT System

## 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 reviews or peer reviews of the internal audit department.**

This report represents the results of a peer review conducted on fiscal year 1999 audits (September 1, 1998 through August 31, 1999) that were reported to the Audit Committee through January, 2000, as well as on current policies and procedures. The dates of fieldwork were March 27 through March 31, 2000.

The review was performed by:

**Lee Annette Jones O'Brien, FHFMA, CPA**, Consultant (former M. D. Anderson Internal Audit Department member, 1991-1995);

**J. Michael Peppers, CIA, CPA**, Director of Audit Services at the University of Texas Medical Branch at Galveston; and

**Robert Rubel, CIA, CISA, CPA**, Director of Internal Audit at the University of Texas Southwestern Medical Center at Dallas.

## 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 directors of other internal audit departments, in order to provide additional recommendations for improving the internal audit function.

## SCOPE

The scope was limited due to tight schedules and limited available time of the reviewers. The scope included:

Reviewing the general information and documents received from the Internal Audit Department.

Administering a survey to 45 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 the Internal Audit Department staff.

Selecting and examining the work papers of a representative sample of audit projects completed during the period under review.

## CONCLUSIONS

Our overall evaluation of the UT M. D. Anderson Internal Audit Department is that it did comply with the IIA *Standards* for the period under review. The overall evaluation was derived from separate evaluations for 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 and recommendations 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 conditions observed are identified. Recommendations or suggestions for changes have been made where there are opportunities to enhance the effectiveness of the Internal Audit function.

### **STANDARD 100--INDEPENDENCE—INTERNAL AUDITORS SHOULD BE INDEPENDENT OF THE ACTIVITIES THEY AUDIT.**

**Observations:** The Internal Audit Department (the Department) has a charter, signed by the President, that allows full and unrestricted access to all property, personnel and records. The Department reports functionally to the President and administratively to the Executive Vice President and Chief Financial Officer. The Director meets with these two individuals quarterly in joint meetings. The President communicated to the review team that he supports and has confidence in the Internal Audit Department and has an open-door policy with the Director.

#### **Audit Committee**

Because of scheduling conflicts, the President and some other senior executives are unable to regularly attend the bimonthly Audit Committee meetings. Accommodating the President's schedule is important because his active participation in the Committee demonstrates to the institution that Internal Audit is an essential function, which operates under his authority and has a scope of work that encompasses all of the institution's entities, systems, and activities. As a benchmark, certain "large" UT component Presidents serve as Audit Committee Chairs for their institutions, even though this particular arrangement is not a UT System or legal requirement.

Other scheduling challenges have occurred and there have been instances when it was difficult to reach a quorum. This could be due to the large number of Committee members, fifteen, excluding members from the UT System and Internal Audit personnel. As a benchmark, some

large UT components have very small Audit Committees, while others have large ones, similar to M. D. Anderson's.

Two recently released *Blue Ribbon Reports* (sponsored by the New York Stock Exchange and the National Association of Securities Dealers as well as the National Association of Corporate Directors) offer guidance and contain recommendations and best practices for Audit Committees that can be translated into the not-for-profit, governmental arena.

**Recommendation #1:** To enhance the independence of the Internal Audit Department, consideration should be given to:

- scheduling Audit Committee meetings so that the President's calendar is given first priority;
- reassessing the number, membership and structure of the Audit Committee; and, as a best practice,
- translating and adopting recent recommendations, as appropriate, from the above-mentioned *Blue Ribbon Reports*.

**Internal Audit Department's Response:** During the year under peer review, Audit Committee meetings were established based on a quorum. Currently, the President's calendar is given first priority. In addition, we are attempting to set the meeting dates for FY 2001 to assist Audit Committee members with their calendars.

I have reviewed the size of the Audit Committee with the President and Executive Vice President and Chief Financial Officer. It was our determination that the current Committee structure has served M. D. Anderson very well. However, I will review this issue with them at our next quarterly meeting.

We will obtain copies of the *Blue Ribbon Reports* and review the best practices recommendations with the Audit Committee members.

**STANDARD 200--PROFESSIONAL PROFICIENCY--INTERNAL AUDITS SHOULD BE PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE.**

**Observations:** The Department's fifteen budgeted auditor positions were fully staffed at the time of the quality assurance review. In the last several years, the Department's budgeted positions have been decreased by three auditor positions (seventeen percent). Staff members meet the professional experience and educational requirements for their position descriptions. The Department appears to have a generally positive environment.

Certification and training are strongly emphasized and supported by the Department. Sufficient funds are available for training and numerous educational classes are provided for the staff. In addition, individual auditors have formed a lunch study group in anticipation of sitting for the CIA exam.

Forty percent (six) of the Department staff members are certified. Five are CPAs and two others have passed two parts of the exam. The CPAs have also attained other certifications, such as Certified Internal Auditor (CIA) and Certified Information Systems Auditor. Another staff member has earned the Certified Management Accountant designation.

### **Staff Members' Experience Level**

The Director and the three Managers each have 13-19 years of internal or external audit experience. Four staff members have three to five years of relevant audit experience, while seven have one year or less experience. In addition, a total of nine auditors have been employed at M. D. Anderson for one year or less.

As noted, almost one half of the staff has one year or less relevant audit experience. This appears to be a function of the current employment market and rigidity in position classifications in the Department's organizational structure. Although the current staff is willing to gain more work experience, it may be difficult for the Department to complete its current audit plan due to the increased training and supervision needs of the staff.

**Recommendation #2:** In order to increase the depth of experience and technical expertise needed in the Department, build flexibility into the current budgeted position classifications, as well as into the Department's organization chart.

As attrition occurs, re-evaluate each vacant position for the possibility of upgrading it to a higher technical or managerial level, based on the resources needed to complete the annual audit plan. Consider other methods as well, such as combining vacant Auditor I or II positions, creating new positions, or co-sourcing, whichever may be deemed appropriate during the Department's budgeting process.

**Internal Audit Department's Response:** We agree with this recommendation and will explore our opportunities to upgrade position qualifications as vacancies occur. With reference to co-sourcing, senior management as a result of audits, has brought consultants to M. D. Anderson to improve operations in several areas.

### **Interdepartmental Relationships**

As is practiced in larger shops, much of the actual management of audits, from planning to reporting, is delegated to the Managers. However, our interviews indicated that many of the Audit Committee members and senior executives do not know or have interactions with the Internal Audit Managers or other staff members.

We noted that much of the Department's communications is done through formal memos and emails. While these are necessary and convenient, they should be supplemented with person-to-person exchanges, whenever possible.

The current state of Managers' and auditors' interdepartmental relationships may be contributing to situations in which auditees delay their response to the Department's information and meeting requests.

**Recommendation #3**—To improve interdepartmental relationships and thereby the effectiveness of audits, devise a communications plan which will provide auditors with opportunities to increase their personal interactions throughout the institution.

**Internal Audit Department's Response:** We certainly agree with this recommendation and is an area we have continually worked to improve. I will meet with the senior staff and develop a plan of action for improving our personal interactions with our audit clients.

**STANDARD 300—SCOPE OF WORK—*THE SCOPE OF THE INTERNAL AUDIT 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:** The Department performs audits that encompass: the reliability and integrity of information; compliance with policies, plans, procedures, laws and regulations; safeguarding of assets; and the economical and efficient use of resources. As is appropriate, senior management and, to some extent, UT System, provide general direction as to the scope of work and the activities to be audited.

### **Annual Risk Assessment**

Enterprise-wide risk assessments help to identify the audit universe and business risk to the institution, as well as assist in determining the optimal use of audit resources for annual and long range planning. A full scope risk assessment was performed for fiscal year 1997 and has been updated informally through interviews and other means since that time.

**Recommendation #4:** Perform and document an enterprise-wide risk assessment annually to produce risk-based annual and long range audit plans that will address the risks that are the most critical to the institution.

**Internal Audit Department Response:** During the Fall 1999, we acquired audit software that will assist in our development of an enterprise-wide risk assessment. This software will be utilized in developing the FY 2001 Audit Plan and the long range plan.

### **Long Range Planning and Audit Plan Amendments**

A long-range audit plan has not been completed by the Department; however, it tracks the frequency of areas and functions that have been audited, including mandatory audits.

Even though the Audit Committee approves the annual audit plan, there is no formal mechanism for submitting audit plan amendments to the Committee for approval.

**Recommendation #5:** In accordance with its Charter, the Department should prepare a risk-

based long range audit plan (three years recommended) for the Audit Committee's approval.

To further enhance the Department's administrative long range planning, consider updating the Department's FY 1993 Strategic Plan, which set goals, objectives and timelines for achieving those goals. The new Departmental plan should be aligned with the institution's strategic plan and should include administrative, training, future staffing needs, and other related issues for the projected period.

In addition, the Department should employ a mechanism to obtain approval from the Audit Committee for any changes or amendments to the annual and long-range audit plans.

**Internal Audit Department Response:** The software discussed in the response to Recommendation 4 will be utilized in developing a three year audit plan.

The Audit Department's FY 1993 Strategic Plan will be updated and aligned with the institution's strategic plan.

Audit Committee approval will be obtained and documented for changes to the annual and long-range audit plan.

**STANDARD 400—PERFORMANCE OF AUDIT WORK—AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS, AND FOLLOWING UP.**

**Observations:** The Department has formally, documented processes for all phases of the audit process and has developed a tool for administratively tracking audit resources and the status of individual audits. The policies and procedures are clear, concise and up-to-date. There is a formal process for tracking audit findings and recommendations and following up on their resolution.

### **Planning and Preliminary Risk Assessments**

It was the team's overall assessment that planning and preliminary risk assessment activities occurred during audits; however, in the work papers that were reviewed, these activities were not clearly documented.

**Recommendation #6—**For each audit, formally document the planning process and risk assessment activities, at an appropriate level, based on whether a project is considered to be an audit or a special project. Whenever possible and practical, obtain the auditee management's agreement with the final audit objectives.

**Internal Audit Department's Response:** We have in place the documentation requirements for the planning process and risk assessment activities. The managers will ensure that the documentation is appropriate as a part of their review of the workpapers.

The audit objectives are reviewed with the audit clients at the entrance conference. Changes are made based on the client's input. I will stress the need to better document the client's changes.

### **Reporting**

Based on our survey and interviews, there have, at times, been misunderstandings regarding the clarity and effectiveness of audit report recommendations.

**Recommendation #7**—To improve communications of audit results and recommendations, consider the following:

Have Internal Audit Managers issue signed copies of the Audit Findings and Recommendations sheets when they are first formulated. Formulate recommendations based on the auditor's judgement and the auditees' input and assistance.

Require opening and closing meetings with senior/executive management before issuing final reports, even if this means making special accommodations for executive leadership. Include the Departmental staff who performed, supervised and managed the audits, being sure that they have first resolved or clarified any open issues.

**Internal Audit Department's Response:** The purpose of the "Audit Findings and Recommendations" sheets is to obtain the client's input. I will require the signature of the manager and the client on the form. Client comments will be attached.

Senior/executive management are informed of all exits and may attend if their calendar permits. Implementation of the above recommendation should resolve any open issues. When the issues are not resolved, senior/executive management will be requested to attend the exit conference.

### **STANDARD 500—MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT—*THE DIRECTOR OF INTERNAL AUDITING SHOULD PROPERLY MANAGE THE INTERNAL AUDITING DEPARTMENT.***

**Observations:** The Director establishes audit work schedules, staffing plans and activity reports, consistent with the Department's charter. The Director provides written policies and procedures to guide the staff and develops the human resources through training and other means. The Director has established a Quality Assurance Plan, of which the current review is an integral part.

### **Quality Review Activities**

Some Internal Audit Departments have ongoing quality review activities in which senior

personnel review the work of other auditors. This ensures that a “new set of eyes” has reviewed the audit test work and report prior to final issuance. This is an excellent monitoring tool for management. It can be used on a 100% or sample basis.

**Recommendation #8**— In order to ensure the quality and completeness of audit work papers and reports, initiate a quality review program utilizing senior personnel who were not involved in the audits under review. After the program has been in place and satisfactory results have been achieved, consider performing such reviews on a sample basis. In addition, continue to improve the administrative review process initiated this past year by the Department.

**Internal Audit Response:** We agree with this recommendation and will implement a quality review program for workpapers and reports.

### **CONFERENCES**

We held conferences with the Internal Audit Director and other officials throughout the course of our review. As a group, we jointly shared experiences, approaches, and other insights to be considered in further improving the work of the Internal Audit Department.

### **ACKNOWLEDGEMENTS**

The team conducting this quality assurance review wishes to thank all Internal Audit and institutional personnel for their cooperation and assistance throughout the course of this review.

**THE UNIVERSITY OF TEXAS  
M. D. ANDERSON CANCER CENTER**

**SECTION III - List of Audits Completed Showing Scope,  
Observations/Findings, Recommendations, and Status**

**SECTION III – List of Audits Completed Showing Scope, Observations/Findings, Recommendations, and Status**

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>Audit Scope Categories</b> <ul style="list-style-type: none"> <li>• Financial (and other) Reporting</li> <li>• Effectiveness and Efficiency</li> <li>• Compliance with Laws and Regulations</li> </ul>	<b>Observations/Findings and Recommendations</b>	<b>Current Status</b> (with brief description if not yet implemented) <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Planned</li> <li>• In Progress</li> <li>• Factors Delay Implementation</li> <li>• Agency Does not Plan to Implement Recommendation</li> </ul>	<b>Fiscal Impact/ Other Impact</b>
00-15G	10/17/00	Kronos	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
00-39	01/10/01	PRS Trust Fund	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-40	10/17/00	Key Financial Indicators – Improvements Other Than Buildings	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-41	10/17/00	Key Financial Indicators – Construction in Progress	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-44	10/17/00	Other Sources (Revenue)	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-47	01/10/01	The Compliance Program	Effectiveness and Efficiency			

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>Audit Scope Categories</b> <ul style="list-style-type: none"> <li>• Financial (and other) Reporting</li> <li>• Effectiveness and Efficiency</li> <li>• Compliance with Laws and Regulations</li> </ul>	<b>Observations/Findings and Recommendations</b>	<b>Current Status</b> (with brief description if not yet implemented) <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Planned</li> <li>• In Progress</li> <li>• Factors Delay Implementation</li> <li>• Agency Does not Plan to Implement Recommendation</li> </ul>	<b>Fiscal Impact/ Other Impact</b>
		Program (Environmental Health & Safety)	Compliance with Laws and Regulations			
00-64	05/17/01	Research Programs	Effectiveness and Efficiency  Compliance with Laws and Regulations	We recommend that current informed consent forms be submitted to the Institutional Review Board as part of the continuing review process.	Implemented	Reduce the risk of non-compliance of not completing the informed consent process for human subject research protocols.
00-66	10/17/00	Operations and Facilities	Effectiveness and Efficiency  Compliance with Laws and Regulations			
00-67	10/17/00	Charge Capture – Child and Adolescent Center	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations	We recommend that the Child and Adolescent Center explore the possibility of entering charges directly into IDX similar to the function they already perform in entering hospital and clinic charges into SMS. If this is not possible, submit physician charges to PBS by forwarding copies of the source document. Further, that the Clinic perform a sample review of the IDX database to ensure that charges submitted are billed and billed accurately.	In Progress	Reduce the risk of capturing revenues and to ensure that patient charges are submitted and billed accurately.
				We recommend that the charge tickets be redesigned so that receipt of the co-payment can be recorded on the charge ticket and credited to the patient's	In Progress	To reduce the risk of not receiving co-payments and not recording and crediting the patient's account after

Report No.	Report Date	Name of Report	<b>Audit Scope Categories</b> <ul style="list-style-type: none"> <li>• Financial (and other) Reporting</li> <li>• Effectiveness and Efficiency</li> <li>• Compliance with Laws and Regulations</li> </ul>	<b>Observations/Findings and Recommendations</b>	<b>Current Status</b> (with brief description if not yet implemented) <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Planned</li> <li>• In Progress</li> <li>• Factors Delay Implementation</li> <li>• Agency Does not Plan to Implement Recommendation</li> </ul>	<b>Fiscal Impact/ Other Impact</b>
				account after entry of the charges.		entry of the charges.
00-68	5/17/01	Physicians Network	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-71	05/17/01	Business Center Initiative	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-72	01/10/01	Auxiliary Enterprises, Rotary House	Financial (and other) Reporting  Compliance with Laws and Regulations			
00-88	10/17/00	Application Audit – IDX	Financial (and other) Reporting  Effectiveness and Efficiency			
01-12A	01/10/01	Temporary Employees	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-12C	07/31/01	IS Procurement	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and			

Report No.	Report Date	Name of Report	<b>Audit Scope Categories</b> <ul style="list-style-type: none"> <li>• Financial (and other) Reporting</li> <li>• Effectiveness and Efficiency</li> <li>• Compliance with Laws and Regulations</li> </ul>	<b>Observations/Findings and Recommendations</b>	<b>Current Status</b> (with brief description if not yet implemented) <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Planned</li> <li>• In Progress</li> <li>• Factors Delay Implementation</li> <li>• Agency Does not Plan to Implement Recommendation</li> </ul>	<b>Fiscal Impact/ Other Impact</b>
			Regulations			
01-12E	07/31/01	Department's Charitable Contributions	Financial (and other) Reporting  Compliance with Laws and Regulations			
01-12F	07/31/01	Insurance Verification Backlog	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-12G	07/31/01	Commercial Credit Card	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-15F	07/31/01	Procurement Cards	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-15G	01/10/01	PBS Application	Financial (and other) Reporting  Effectiveness and Efficiency			

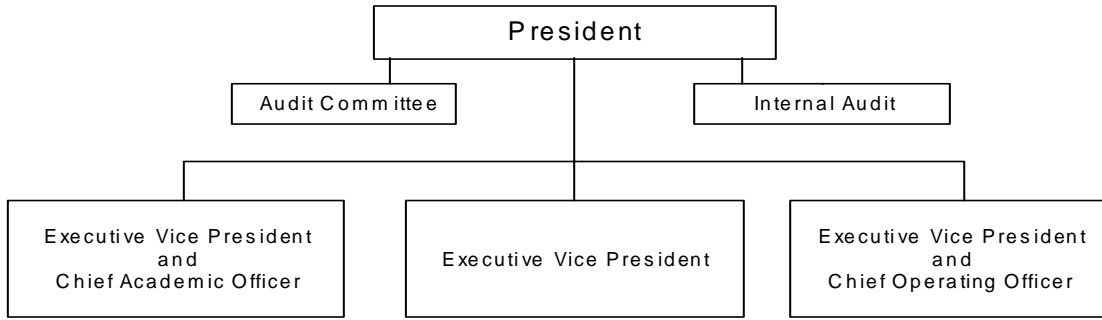
<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>Audit Scope Categories</b> <ul style="list-style-type: none"> <li>• Financial (and other) Reporting</li> <li>• Effectiveness and Efficiency</li> <li>• Compliance with Laws and Regulations</li> </ul>	<b>Observations/Findings and Recommendations</b>	<b>Current Status</b> (with brief description if not yet implemented) <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Planned</li> <li>• In Progress</li> <li>• Factors Delay Implementation</li> <li>• Agency Does not Plan to Implement Recommendation</li> </ul>	<b>Fiscal Impact/ Other Impact</b>
			Compliance with Laws and Regulations			
01-15H	05/17/01	Molecular Genetics Department	Financial (and other) Reporting  Compliance with Laws and Regulations			
01-36	05/17/01	PRS Trust Fund	Financial (and other) Reporting  Compliance with Laws and Regulations			
01-39	07/31/01	Billing Compliance Design	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-43	01/10/01	State ARP/ATP Grants	Financial (and other) Reporting  Compliance with Laws and Regulations			
01-64	07/31/01	Change of Command, Division of Pediatrics	Financial (and other) Reporting  Compliance with Laws and Regulations			
01-65	01/10/01	Key Financial Indicators – Year-end Inventories	Financial (and other) Reporting  Effectiveness and Efficiency			

Report No.	Report Date	Name of Report	<b>Audit Scope Categories</b> <ul style="list-style-type: none"> <li>• Financial (and other) Reporting</li> <li>• Effectiveness and Efficiency</li> <li>• Compliance with Laws and Regulations</li> </ul>	Observations/Findings and Recommendations	<b>Current Status</b> (with brief description if not yet implemented) <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Planned</li> <li>• In Progress</li> <li>• Factors Delay Implementation</li> <li>• Agency Does not Plan to Implement Recommendation</li> </ul>	Fiscal Impact/ Other Impact
			Compliance with Laws and Regulations			
01-67A	10/17/00	Follow Up Review, Round 1	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-67B	01/10/01	Follow Up Review, Round 2	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			
01-67C	05/17/01	Follow Up Review, Round 3	Financial (and other) Reporting  Effectiveness and Efficiency Compliance with Laws and Regulations			
01-67D	07/31/01	Follow Up Review, Round 4	Financial (and other) Reporting  Effectiveness and Efficiency  Compliance with Laws and Regulations			

**THE UNIVERSITY OF TEXAS  
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**SECTION IV - Organizational Chart**

**THE UNIVERSITY OF TEXAS  
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## **SECTION V - Report on Other Internal Audit Activities**

## SECTION VI – Report on Other Internal Audit Activities

Activity	Impact
Monitored Ethics Hot-Line for business abuse.	Identify various internal control weaknesses and business abuse throughout institution.
Continued revision of Internal Audit departmental manual.	Reinforced Standards and to assist in training new auditors.
WWIR investigation. – lawsuit still in progress.	Provided material to insurance company which lead to \$1.2 million reimbursement.
Investigations.	Audits which closed control weaknesses or reassured management as to communication problems.
Special Projects.	Helped management.

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**SECTION VI - Internal Audit Plan for Fiscal Year 2002**

APPENDIX A

FISCAL YEAR 2002 AUDIT PLAN			
AUDIT / PROJECT	BUDGETED HOURS	% of TOTAL	DESCRIPTION OF SCOPE
<b>KEY FINANCIAL AND OPERATING AUDITS</b>			
PRS - Annual Financial Audit	300		Annual financial audit according to BPM and EVCH's requirements
Consultant Implementation	1200		To examine and evaluate the adequacy and effectiveness of the policies, procedures and practices established in response to FY 2000 report on factors financial reports
<b>Key Financial and Operating Audits</b>			
<b>SUBTOTAL</b>	<b>1500</b>	<b>8%</b>	
<b>INSTITUTIONAL COMPLIANCE</b>			
<i>Examples:</i>			
ICC Plan – Effectiveness	300		Assess the effectiveness of the compliance program in raising awareness of compliance issues and in establishing monitoring mechanisms
Crime Investigation & Reporting	1300		As required
Contract Compliance – Procurement	250		Assess the monitoring of contract compliance
State ARP/ATP	200		Per contracting agency
CLIA	200		Compliance with CLIA provisions in non-central laboratories
Time and Effort Reporting and Training	250		Compliance with program – reconciliation of data
DIR Compliance - Risk Assessment * IT Audit	250		Compliance with agency requirements
<b>Institutional Compliance</b>			
<b>SUBTOTAL</b>	<b>2750</b>	<b>15%</b>	
<b>INFORMATION TECHNOLOGY AUDITS</b>			
Physical Environment Issues	150		Mainframe environment and plans for movement
Mainframe Operations	150		Segregation of duties in operations
DR/BCP	100		Interconnections of plans with BCP of institution

APPENDIX A

FISCAL YEAR 2002 AUDIT PLAN			
AUDIT / PROJECT	BUDGETED HOURS	% of TOTAL	DESCRIPTION OF SCOPE
Security	250		Incident handling policies and procedures
Communications	150		Issue of telecommunication charge basis and handling
Processes	400		Define organization and relationships, manage changes
Applications	500		SMS Financial System
Post-Implementation	700		Lawson, PeopleSoft, PACS
Pre-Implementation	306		GL, SingleSign-on, EMR's
Other	100		HIPAA
Audit Support	700		
Quality	200		Change Control (note part of this in the manage changes audit in processes)
<b>Information Technology Audits</b>			
<b>SUBTOTAL</b>	<b>3706</b>	<b>20%</b>	
<b>RISK BASED AUDITS</b>			
<i>Examples:</i>			
PBS - Insurance Verification	450		Verification and authorization process
PBS	300		AR Management and Write-off Processes
Charge Capture	500		Emergency Center
Charge Capture	650		Pharmacy Billing and Rebates
Charge Capture	550		Managed Care
Charge Capture	550		Ambulatory Treatment Center
Inventories - 2001	300		
Inventories -2002	100		
Operations and Nursing Practice	1000		Inpatient charge capture in conjunction with SMS application audit
Business Affairs	350		Gen. Accounting – support for JV's and IDT's

APPENDIX A

FISCAL YEAR 2002 AUDIT PLAN			
AUDIT / PROJECT	BUDGETED HOURS	% of TOTAL	DESCRIPTION OF SCOPE
Human Resources	297		Temporary Worker – credentials & use over long periods of time
<b>Risk Based Audits</b>			
<b>SUBTOTAL</b>	<b>5047</b>	<b>27%</b>	
<b>PROJECTS</b>			
<i>Examples:</i>			
Cost Savings	200		
Annual Internal Audit Report	40		
Carry-forward Audits from FY 2000 Audit Plan	1330		
Follow-up on Prior Audits	600		
Special Projects	2008		ACL project and others
Academic Affairs	300		Research Protocol Billing Follow Up
ISSC	200		Consultation on computer lease equipment tracking
Network Administration	156		
<b>Projects</b>			
<b>SUBTOTAL</b>	<b>4834</b>	<b>26%</b>	
<b>CONTROLS CONSULTING REVIEW</b>			
Review of Reconciliations and Control Consulting - 1 per month	480		Review of reconciliations and consult on controls
Change of Command	200		Two expected
<b>Departmental Audits</b>			
<b>SUBTOTAL</b>	<b>680</b>	<b>4%</b>	
<b>TOTAL AUDIT AND PROJECT HOURS</b>	<b>18517</b>	<b>100%</b>	

APPENDIX B - KEY FINANCIAL AND OPERATING INFORMATION

The audit universe for the key financial and operational information audits is derived from the Annual Financial Report. The purpose of these audits is to provide assurance that the information is presented fairly in all material aspects.

Per decision of audit committee, we do not have to have KFIA audits of the following areas which are blended into our financial report as long as there is an independent audit of them.

- 501(a) Cash Management
- 501(a) Revenues
- 501(a) Expenditures
- 501(a) Assets
- 501(a) Liabilities

After the audit universe is determined, each area is ranked against the other by use of the following criteria: Amount, Complexity, Estimates involved, Accounting Issues involved, and Time since last audit.

**Amount**

- 5> \$100,000,000
- 4> \$50,000,000
- 3> \$20,000,000
- 2> \$5,000,000
- 1< \$5,000,000

**Complexity**

This factor relates to number of interfaces, number of potential points of data entry. Value derived from experience with the General Ledger system.

**Estimates**

This factor indicates accounting estimates needed and the difficulty in assessing the value.

**Accounting Issues**

This factor represents GAAP, GAGAS , NACUBO, and the Comptroller definitional issues involved.

The factors are weighed accordingly:

Amount	Complexity	Estimates	Issues	Time
10.00	20.00	20.00	25.00	25.00

And a score is calculated.

**NOTE:**

An external Internal Control, Documentation and Procedural review of General Accounting conducted during the Third Quarter FY 2000. That review found numerous opportunities for improvement that would enhance the quality of the AFR. Consequently, we proposed that the bulk of financial and operating information audit work of FYE 2002 is to provide assurance that those opportunities are being pursued. Initial work done in FYE 2001 showed that implementation had been delayed due to concerns about the viability of the proposals in a state institution and in light of proposed implementations of GASB standards 33 through 35. We are currently preparing an analysis of the recommendations and their viability at the institution.

APPENDIX C - INSTITUTIONAL COMPLIANCE

The compliance universe is derived from the elements of the institutional compliance plan and currently known items that affect those elements:

The Compliance Universe

	Last Year	2002	Aspect	Notes
THE COMPLIANCE PROGRAM	2001	Yes	TE	M
General Employee Training	1999		TD	
HOSPITAL, CLINIC, PHYSICIAN BILLING	1999	Yes	TC, TD	
Physician Billing	2001		TC	
Medical Billing	1999		TC	
Physician Training	1999		TC	
GRANTS ACCOUNTING –Fed & State	1999		TD	
DOD-Program Announcements				
A133 Compliance Issues				
Dept. AGR- Special Programs				
NASA Research Grant				
DARPA Related				
LBB on Grants				
PHS Grant Policy Statements				
NSF Grant Policy Manual				
State ATP/ART Grants	2001	Yes		M
RESEARCH COMPLIANCE		Yes		
RC-IRB	2001			
RC-OPR-QA				
OASC3-INDIRECT COST REPORT	1999		TD	
OASC3 –Planned Confirmation	1999		TD	
Time & Effort Reporting		2002	TE	
MEDICARE COST REPORT	1999		TD	
Physician Time Allocation	1999		TD	
HUMAN RESOURCES				N
LABORATORY	1999		TD	
OIG – Model Laboratory	1999		TD	
CLIA		2002	TD	Extension to all applicable laboratories.
JCAHO Laboratory Standards				
CA Pathology				
AA Blood Banks				
AS Histocompatibility				
NAA Clinical Laboratory Science				
ENVIRONMENTAL HEALTH & SAFETY	2000			
INFO SYSTEMS				N
DIR Regs	2000*	Yes		M Consultation
HIPAA				
Information Systems Security Incident Handling				2002

	Last Year	2002	Aspect	Notes
<b>OTHER NON COMMITTEE ISSUES</b>				
Procurement (other)		Yes	TE	Contracts
Ethics Policy	1999		TD	X
Patient Professional Licensure & Certifications	2000*			X
Endowments	1998			X
Restricted Gifts				X
Confidentiality (HIM)				X
501(a) Compliance Program				X
Entertainment	2000			X
Insurance Contracts	2000			X
Other Agency Contracts				X
Travel	2000			X

**LEGEND:**

TD - test of design

TC- test of controls

\*included as part of operational/governance audits

X Not part of compliance program

m – mandated by external authority

N – coming onto ICC late FY2000.

## APPENDIX D - INFORMATION TECHNOLOGY

The framework of the IT audit plan has been to distribute audit's effort among the categories of general, management, application, and security concerns. Within each category the audits are cycled. Applications are risk ranked to determine which should be audited. The list of ongoing projects and proposed projects to be considered is reviewed in light of financial and operational concerns to select ones in which audit should participate in the System Development activities. In addition, surveys of impressions of the importance and effectiveness of IT processes as listed by CoBIT were conducted.

Please refer to the following tables regarding the IT Universe, IT Applications and IT Projects, and IT processes.

The following projects are not included in the formal plan but are recognized as items to be done if circumstances cause deviation from the formal plan:

AUDIT TYPE	HOURS	PROPOSED PRELIMINARY SCOPE
Communications	250	To assess the adequacy and effectiveness of controls over Data Communications processes.