EXECUTIVE SUMMARY

The objective of this review was to evaluate the internal controls over key administrative functions within the Department of Dermatology. The scope included activities and transactions that occurred in Fiscal Year 2014.

Audit Results:
Based on our assessment, we noted the following:

• Account deficits total over $1 million.
• Formal reconciliations of restricted accounts are not performed, as required by policy.
• Potential conflicts of interest are not always disclosed, as required by Institutional Policy.
• Portable computing devices are not consistently encrypted in order to protect important information and limit exposure to the Institution.
• Proper monitoring of Material Transfer Agreements is not performed to ensure the Institution is protected from intellectual property and publication disputes.

Control processes are in place for leave management, including extramural leave. For charge capture, research invoicing, asset management, and system access, we identified opportunities for management to enhance current controls. Refer to Observations #6, 7, 8 and 9 for additional details over these areas.

Management Summary Response:
Management agrees with the observations and recommendations and has developed actions plans to be implemented on or before May 2015. Based on this audit, management will evaluate the need for additional resources in order to meet the guidelines and requirements set out in Institutional Policy and Procedures.

Appendix A outlines the methodology for this project.

The courtesy and cooperation extended by the Department of Dermatology was sincerely appreciated.

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
January 16, 2015
Observation 1:  
**Deficit Accounts**

Management has a fiscal responsibility to monitor departmental accounts to help prevent deficit balances. As of August 2014, the department’s free balance report showed seven accounts in deficit, totaling in excess of $1.1 million.

Two of the seven projects were not cleared within the 120 day timeframe outlined in the Financial Closeout of Sponsored Projects Policy, ADM1110. Management is aware of all deficits and is actively working to clear them.

**Recommendation:**
Management should improve fiscal oversight by monitoring and adjusting spending, if necessary, to avoid project deficits. Management should also continue their efforts to address the outstanding deficits.

**Management’s Action Plan:**
Responsible EVP: Thomas Buchholz, M.D.  
Owner: William Evans  
Observer: Wenonah Ecung, Ph.D.  
Due Date: March 31, 2015

Management will put in place processes that will ensure appropriate fiscal oversight is completed through monitoring and reconciliation. Of the 7 projects reviewed, 3 of the deficits have been cleared (D, E, and F). Three projects have had invoices submitted that will clear the deficit (B, C, G). The deficit in project A will be an ongoing issue due to the requirements of the contract. This contract requires that study drugs are purchased by MDACC and then reimbursed after the drugs have been distributed to the study patients. Currently we have 2 patients on the study which requires us to purchase $48,000 per month of the study drug. This agreement has been in effect for 4 years. Management will ensure timely billing for the study drugs involved.

**Observation 2:**  
**Reconciliation of Restricted Accounts**

MD Anderson Institutional Policy, ADM1100 (Fund Transaction Reviews), requires a reconciliation of all restricted accounts to ensure the completeness, accuracy and timeliness of accounting records. While management monitors transactions posted to restricted accounts for unusual activity, a formal reconciliation is not performed. Without regular reconciliations, account balances could be misrepresented, resulting in a deficit. In addition, potential errors or fraud may occur and not be detected in a timely manner. Refer to Observation #1 for deficits on restricted accounts.
Recommendation:
Management should perform reconciliations for all restricted accounts and ensure that all reconciling items are properly addressed.

Management’s Action Plan:
Responsible EVP: Thomas Buchholz, M.D.
Owner: William Evans
Observer: Wenonah Ecung, Ph.D.
Due Date: March 31, 2015

Management will implement a formal reconciliation process to ensure account balances are accurate. The new e-Research system currently being rolled out will be a key step in developing this process.

Observation 3:
Conflict of Interest Disclosure
The Research Conflict of Interest Policy, ACA0001, requires host-paid travel, consulting, advisory board participation with pharmaceutical companies, and honorariums to be disclosed in the Research Conflict of Interest database. Testing identified one faculty member with three relationships, which were not disclosed. In addition, the Conflict of Interest Committee rejected one disclosure that was not resolved prior to participation in the conference. Disclosure of conflicts and compliance with committee decisions assists in ensuring full transparency and reduces the risk that actual or potential conflicts of interest will not be discovered and managed. Conflicts of Interest that are not disclosed may jeopardize the objectivity and integrity of research.

Recommendation:
Management should ensure that all faculty are aware of their responsibilities related to the disclosure of potential and/or actual conflicts of interest, as well as, the disclosure of omissions identified during this review.

Management’s Action Plan:
Responsible EVP: Thomas Buchholz, M.D.
Owner: Ronald Rapini, M.D.
Observer: Wenonah Ecung, Ph.D.
Due Date: January 31, 2015

Management will follow-up with all faculty to reiterate the Research Conflict of Interest policy. The Department Chair will delegate follow-up to the Department Administrator by forwarding notifications the Chair receives for appropriate follow-up/action.

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Observation 4: 

**Computer Encryption**

The Information Security Office Policy for the Use and Protection of Information Resources, ADM0335, requires encryption of portable computing devices. Unencrypted assets pose significant information security exposure to the Institution. As of August 26, 2014, we identified seven unencrypted computers. Once brought to management’s attention, this number had been reduced to two, one of which is pending encryption exception approval. Encryption has been an ongoing process for the Institution and is facilitated at the Division level.

**Recommendation:**
Management should continue to coordinate with the Division to ensure that all computing assets are properly encrypted and follow-up on any outstanding encryption exception requests.

**Management’s Action Plan:**
- Responsible EVP: Thomas Buchholz, M.D.
- Owner: William Evans
- Observer: Wenonah Ecung, Ph.D.
- Due Date: December 31, 2014

*Management will work with the Division of Internal Medicine’s IT staff to ensure all computing devices are encrypted before being distributed to faculty and staff. All of the devices identified during the audit have been encrypted with the exception of the 2 items pending exception approval. Department will monitor this process to ensure compliance.*

Observation 5: 

**Monitoring of Material Transfer Agreements (MTAs)**

The Department of Dermatology is not consistently monitoring Material Transfer Agreements to ensure compliance with Institutional Policy ACA1193. A review of TractManager (Institutions’ contract database application) revealed that the department has 12 MTAs that they were unaware of. Once brought to their attention, the department immediately facilitated meetings with the PI and Legal Services to resolve expired agreements, agreement amendments and agreements needing closure due to faculty termination. Proper monitoring of MTA agreements ensures the institution is protected from intellectual property and publication disputes.

**Recommendation:**
The department should monitor Material Transfer Agreements to ensure all materials transferred have a current agreement in place. Those identified during the audit are in the process of being reviewed and resolved.

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Management's Action Plan:
Responsible EVP: Thomas Buchholz, M.D.
Owner: William Evans
Observer: Wenonah Ecung, Ph.D.
Due Date: January 31, 2015

Management will put systems in place to ensure all Material Transfer agreements are reviewed annually for continued appropriateness.

Observation 6: **Charge Capture Reconciliation (Professional Charges)**
The Department is responsible for ensuring charges are captured and exported for all services provided. Our review revealed approximately 355 arrived appointments that did not have a corresponding charge for fiscal year 2014, hereby resulting in potential lost charges. Although the department’s designated reconciler is reviewing MedAptus for uncharged visits, this review is not occurring within 48 hours of the patient’s service date as required by the Charge Submission and Reconciliation Policy, ADM0403. Timely reconciliation of charges ensures that all patients seen in a given day have been charged accordingly.

Recommendation:
Management should improve control processes to ensure charges are captured for all arrived appointments and exported timely. In addition, the department should review the potential exceptions identified during the audit to ensure all services rendered were appropriately billed to the patient.

Management's Action Plan:
Responsible EVP: Thomas Buchholz, M.D.
Owner: William Evans
Observer: Wenonah Ecung, Ph.D.
Due Date: May 30, 2015

Management will ensure that all arrived appointments are resolved per policy. Of the 355 cases identified during the audit, the majority were Inpatient Consults automatically assigned by the system to the “No Provider Assigned” category. The vast majority of these consults were billed by the faculty at the time they saw the patient. The department will develop a system to resolve these cases per policy. Of the 355 identified, 294 have been cleared with 61 still requiring investigation.
Observation 7: **Clinical Research Invoicing**

Our review revealed that the department is not consistently invoicing the sponsor in a timely manner for drugs dispensed as part of a clinical trial. For example, we noticed one invoice with drugs dispensed starting November 2013 but not invoiced until July 2014. Another invoice, for the same project, dated September 2014 was for drugs administered from January to June 2014. Delays in invoicing may result in the institution covering research costs which otherwise would have been reimbursed.

**Recommendation:**
Management should improve control processes to ensure that sponsors are invoiced in a timely manner for research costs incurred.

**Management’s Action Plan:**
Responsible EVP: Thomas Buchholz, M.D.
Owner: William Evans
Observer: Wenonah Ecung, Ph.D.
Due Date: March 31, 2015

*Management will develop systems to ensure research billings are processed in a timely manner. The e-Research system currently being rolled out should assist greatly with these processes.*

Observation 8: **Asset Management**

According to the State Property Guidelines and Institutional policy, the institution is accountable for ensuring that all state property is properly accounted for and appropriately safeguarded. As part of this review, we noted five assets requiring a location change to match the assigned users and two remote computers with an expired/incomplete Offsite Authorization form. When brought to their attention the department acted immediately to clear all exceptions related to location changes. Safeguarding of assets minimizes the opportunity for loss and theft.

**Recommendation:**
Management should ensure that all assets are appropriately accounted for and safeguarded. These measures should include reporting any missing assets, ensuring the location matches the assigned user, and ensuring offsite documentation is obtained for all remote equipment.

**Management’s Action Plan:**
Responsible EVP: Thomas Buchholz, M.D.
Owner: William Evans
Observer: Wenonah Ecung, Ph.D.
Due Date: December 1, 2014

*Management will ensure that all asset locations are update during each asset inventory. Additionally, Off-site Authorization forms will be reviewed annually to assure they are current and still necessary. Those identified during the audit have been resolved.*

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Observation 9: 

**System Access**

Departments are responsible for ensuring that user access to Information Resources is appropriately granted based on employees’ roles and responsibilities. These procedures are necessary for implementing and maintaining appropriate user access and segregation of duties within the system. We identified the following:

- CARE access for two employees was not necessary based upon their current roles and responsibilities; instead access was based on previous positions held in another department.
- Ten terminated/retired employees had active access to CARE or MedAptus.

**Recommendation:**

Management should ensure user access is granted appropriately and removed timely in accordance with institutional policy. In addition, management should correct the access rights for users with inappropriate access identified during this review.

**Management’s Action Plan:**

Responsible EVP: Thomas Buchholz, M.D.
Owner: William Evans
Observer: Wenonah Ecung, Ph.D.
Due Date: January 31, 2015

*Management will develop processes that ensure system access for all transferring employees is reviewed for appropriateness. Management will also verify that access for terminated employees is deleted in a timely manner.*

Observation 10: 

**Procurement Card (ProCard) Purchases**

The Institution’s Procurement Card (Procard) User Guide states that the cardholder is responsible for the security of the ProCard, and only the employee to which the card was issued is authorized to make purchases. During this review, management disclosed that, in the absence of the cardholder, others in the department have access to the card and have been known to use the procard to make emergency purchases. Additionally, we noted that transactions processed through PayPal were not being submitted for prior approval as required by institutional guidelines. While all purchases reviewed appeared to be for business-related purposes, noncompliance with the ProCard guidelines may result in the revocation of the cardholder’s ProCard privileges.

**Recommendation:**

The department should comply with Institutional Procurement Card Guidelines to ensure the card is adequately safeguarded, purchases are restricted to the cardholder, and prior approval is obtained for PayPal transactions.
Management’s Action Plan:  
Responsible EVP: Thomas Buchholz, M.D.  
Owner: William Evans  
Observer: Wenonah Ecung, Ph.D.  
Due Date: January 31, 2015

Management will ensure current Procard user is the sole user of the card and that transactions are reviewed and approved as required by the user Guide. A second Procard will be requested for another employee so emergency use can be handled properly when the primary Procard user is not available.

Observation 11:  
**Kronos Sign-off**

According to Institutional policy, all timecards in Kronos must be signed off each Tuesday by 11:59pm, unless otherwise instructed by Human Resources. We noted that time reports are not consistently approved and signed off on by the required deadline. Without timely sign off of all departmental timecards, time may not be appropriately recorded.

Recommendation:  
The department should ensure that all timecards are approved and signed off in accordance with institutional policy.

Management’s Action Plan:  
Responsible EVP: Thomas Buchholz, M.D.  
Owner: William Evans  
Observer: Wenonah Ecung, Ph.D.  
Due Date: December 1, 2014

Management will ensure all time cards are signed off in accordance with institutional policy. A back-up approver has been assigned and granted access to Kronos.
Appendix A

Strategic Area: Operational
Risk Type: Operational, Financial, Compliance

Objective, Scope and Methodology:
The objective of this review was to provide a general assessment of the internal controls over key administrative functions. Testing periods varied based upon the area or process reviewed; however, all selected transactions occurred between September 2013 and August 2014.

We performed the following procedures:

- Interviewed key personnel responsible for the administrative processes within the department.
- Reviewed departmental policies and procedures.
- Reviewed the results of the physical inventory performed by Asset Management.
- Tested Procurement Card transactions, record keeping, and reconciliations.
- Examined documentary evidence to determine if timekeeping and leave management activities are performed within the Institutional guidelines.
- Reviewed Statistical Sampling for approval of monthly expenditures.
- Observed professional charge capture controls for reasonableness.
- Examined CARE, MedAptus, IDX and PeopleSoft User Access for terminated employees and appropriate level of access.
- Reviewed clinical trials invoicing for timeliness.

Our internal audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Number of Priority Findings to be monitored by UT System: None

A Priority Finding is defined as "an issue identified by internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole."

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