

UT SOUTHWESTERN
MEDICAL CENTER

Daniel K. Podolsky, M.D.
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Presidential Chair in Academic Administration

Professor of Internal Medicine
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December 20, 2012

Kenneth Shine, M.D.
Executive Vice Chancellor for Health Affairs
The University of Texas System
601 Colorado Street
Austin, TX 78701

Enclosed for your information is a copy of the University of Texas Southwestern Medical Center Internal Audit Report - 12:24 Recharge Centers.

I concur with the auditors' recommendations. Two recommendations are in process.

Sincerely,

Daniel K. Podolsky, M.D.

Enclosure

cc: Arnim E. Dontes
J. Michael Peppers
Eva Narten

The University of Texas Southwestern Medical Center

**Internal Audit Report 12:24
Recharge Centers**



December 20, 2012

Office of Internal Audit
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**University of Texas Southwestern Medical Center
Internal Audit Report 12:24
Recharge Centers
FY 2012**

**AUDIT REPORT
DECEMBER 20, 2012**

Daniel K. Podolsky, M.D., President
The University of Texas Southwestern Medical Center
5323 Harry Hines Boulevard, MC 9002
Dallas, Texas 75390-9002

Dear Dr. Podolsky:

The University of Texas Southwestern Medical Center (Medical Center) Office of Internal Audit has completed its Recharge Centers audit as detailed below.

Executive Summary

Our audit examined the Medical Center's management of recharge center activities during the period of September 2011 to October 2012. The importance of compliance with the Office of Management and Budget (OMB) Circular A-21 regulations on recharge center functions resulted in this being a risk based operational audit on the 2012 audit plan.

In order to achieve our objectives, we reviewed the controls over the management of all recharge centers, reviewed monitoring procedures that ensure compliance with OMB A-21, gained an understanding of various centers' rate structures, reviewed documentation on file and analyzed procedures for adequacy. Our audit found that the Medical Center has not established adequate controls for assurance that recharge centers are operated in a consistent manner that complies with OMB A-21. We recommended the following actions be taken to ensure the Medical Center's compliance with OMB A-21: 1) To ensure compliance with federal requirements and consistent operation of recharge center activities, we recommend the creation and implementation of a Medical Center policy on recharge centers and development of standard operating procedures, 2) Because of the risk of non-compliance with OMB A-21 and the number of recharge centers at the Medical Center, we recommend the establishment of a central oversight function to monitor recharge center operations and ensure compliance with federal requirements.

Background

The Medical Center recharge centers function as in-house enterprises and are used to finance, account for and operate upon the provision of goods and services to individual users or other operating units. These centers operate as nonprofit businesses, funding operations through fees from users. The costs incurred for providing goods and services are charged to users, including federally sponsored agreements, based on established

billing rates and actual services provided. Costs of activities from recharge centers are separate from and not to be included in the general indirect cost rate of an institution.

The OMB A-21 requires billing rates to be based on actual costs and designed to recover the aggregate cost of a good or service over a long-term period. Billing rates should be reviewed periodically for consistency with the long-term plan, and adjusted if necessary. The Medical Center designates all recharge center sub-ledger accounts within the PeopleSoft system with a "20" pre-fix. We were supplied a listing of 96 recharge center sub-ledger accounts within the PeopleSoft system, from the Office of Post Award Administration, with a total amount of fiscal year 2011 expenses of \$8,063,085 and cost recovery revenues of \$8,457,025. This listing represented all Recharge Centers for the Medical Center.

The Medical Center also receives State appropriations to help support research activities. These funds are allocated to the Medical Center Core Labs (these labs include Protein Chemistry, Metabolic Phenotype, Synthetic Chemistry, Cellular Imaging, Comp-Bio Informatics, Transgenic, Crystallography, Live Cell Imaging, Flow Cytometry, Microarray, Mouse Breeding and Genomic Services). The funds are used to provide supplements for salary, maintenance, equipment and supply costs which in turn help to reduce charges for services. During fiscal year 2011 UT Southwestern received \$9,000,000 in state appropriated monies for research. The Medical Center Dean's Office is responsible for the allocation of these funds and monitoring their use. The Dean's Office has established a set of procedures requiring each Core Lab to submit annual budget and rate justification documentation which is reviewed by a committee of peers for adequacy and compliance with OMB A-21. The Dean's Office has also set procedures for the Core Labs when it comes to the establishment of rates for external customers.

Audit Objective

The objective of this audit is to provide reasonable assurance that Medical Center has established adequate operating controls for recharge center management that will ensure compliance with federal requirements.

Scope and Methodology

Our audit examined the Medical Center's management of recharge center activities during the period of September 2011 to October 2012. The importance of compliance with OMB A-21 regulations on recharge center functions resulted in this being a risk based operational audit. Our examination was conducted according to guidelines set forth by The University of Texas System Policy UTS129 "Internal Audit Activities", the Regents' Rules and Regulations and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

In order to achieve the objective of this audit, the following procedures were conducted:

- Reviewed policies and procedures over the management of all recharge centers.
- Interviewed Medical Center management to gain a better understanding of monitoring procedures performed.

- Analyzed a selected sample of recharge centers actual procedures to determine compliance with federal requirements.
- Reviewed the adequacy of processes in the development of the sampled recharge centers rate calculations.
- Determined if rates were consistently charged at the same amount to all internal customers.
- Reviewed costs for the sampled recharge centers to ensure centers they were allowable for their inclusion into rate calculations.
- For the selected sample of recharge centers, determined the purpose of surplus funds and gained an understanding of the role they played in rate calculations.
- Gained an understanding of how state appropriated funds were distributed to recharge centers and how monitoring of the use of these funds was conducted.

Audit Results/Recommendations

We selected a sample of six recharge centers to conduct our testing procedures, our sample included one core lab. The sample was selected by comparing the past three fiscal years and looking at those centers with the highest balance forward amounts. The following audit observations and two recommendations detailed below are based on the results of those procedures.

1. Recharge Centers Central Oversight

With the exception of the Medical Center's Core Labs, we found that the management of the sampled recharge centers was inconsistent and that compliance with the OMB requirements varied from center to center. We found that roles and responsibilities for monitoring of recharge centers and the performance of daily operations of recharge centers span a large number of individuals across the Medical Center at multiple levels. Without an established area for support or guidance these centers have been allowed to operate without adequate oversight. The following issues were noted in our review:

- OMB A-21 Section J-47 requires a biannual review and adjustment of rates based on expected revenues and expenditures. While it was verbally communicated to us that this procedure was performed at each recharge center sampled, documentation of this review was not provided from five of the six centers sampled for review.
- OMB A-21 also requires that surplus and deficit amounts be taken into consideration for rate adjustments. Each center sampled had surplus funds which grew over a three year period. When questioned on the purpose of the surplus funds the majority of center management stated they were for future expenditures. These expenditures included supply purchases, machine maintenance costs, salary expense reserves and other various expenses. While these expenses can be justifiable we were not supplied documentation supporting these expected costs.
- We were unable to obtain documentation on the approval of the establishment of these recharge centers.

Recommendation:

Vice President for Research Administration in collaboration with the Vice President of Financial Affairs and the Vice Provost should collaborate towards the establishment of a central oversight function to monitor the Medical Center's recharge centers. This function should be responsible for:

- Implementing established Medical Center policies and procedures for the operation of recharge centers.
- Monitoring each center's compliance with established policies and procedures and also with OMB A-21 requirements.
- Providing support to each center through review of rate calculations, expenditures and revenues.
- Ensuring adequate documentation is maintained to support recharge center activities.
- Clearly delineating the roles and responsibilities at all levels of individuals across the Medical Center who have any responsibility area related to recharge centers. This would encompass roles and responsibilities for monitoring of recharge center activities and the performance of daily recharge operations.

Management Response

The Vice President for Research Administration in collaboration with the Vice President of Finance and the Vice Provost and Dean of Basic Research will prepare a policy and associated procedures to provide for compliance with OMB A-21 requirements and to ensure appropriate controls and processes are in place to address the issues identified.

Implementation Status:

In Process

Implementation Date:

Draft to the Policy Executive
Committee by December 31, 2012

Responsible Personnel:

Vice President for Research Administration

2. Recharge Centers Policies and Procedures

The Medical Center has not created policies or procedures for the assurance that recharge centers will be established and maintained in a consistent manner that is also compliant with the OMB A-21 requirements. Adequate guidance from policies and procedures helps to ensure consistent operation of recharge centers and mitigates the risk of non-compliance with the federal regulations established in OMB A-21. Reimbursement of expenditures, associated with recharge center services, from federal and non-federal grant funds may be unallowable if the recharge center operations are not in compliance with OMB A-21 requirements.

Recommendation:

Vice President for Research Administration in collaboration with the Vice President of Financial Affairs and the Vice Provost should collaborate towards the following efforts:

Properly define the purpose and focus of recharge centers, and specifically identify those activities that differentiate a recharge center from other services provided by the Medical Center (such as auxiliary services, physical plant activities or university sponsored operations).

- Develop and implement procedures for the documented establishment of recharge centers. These procedures should set the initial guidelines on how a proposed recharge center is expected to operate.
- Develop and implement policies and procedures for the operation of recharge centers that consistent with OMB A-21.
- Develop and implement policies and procedures for the operation of external business for recharge centers.
- Develop and implement procedures for the annual approval of rate structures and expenditure justifications of recharge centers.

Management Response

The Vice President for Research Administration in collaboration with the Vice President of Finance and the Vice Provost and Dean of Basic Research will prepare a plan for implementing the policy and associated procedures identified in Recommendation 1. The plan will include timelines for implementation, the roles and responsibilities associated with the office(s) and/or individual(s) designated with oversight, and address any resource needs.

Implementation Status:

In Process

Implementation Date:

Plan prepared by December 31, 2012

Responsible Personnel:

Vice President for Research Administration

Conclusion

Our audit found that the Medical Center has not established adequate controls for assurance that recharge centers are operated in a consistent manner that complies with OMB A-21. In order to begin the process of constructing an adequate control system the Internal Audit Office recommends that the Vice President of Research Administration develop policies and procedures that will help guide recharge centers to compliance with OMB A-21 requirements. The Vice President of Research Administration should also develop a central oversight function to provide support to recharge centers and monitor adherence to the developed policies and procedures.

We appreciate the courtesy and cooperation of the Research Administration Office and all recharge centers selected for review.

Andrea Claire, JD, MBA, CIA	- Manager of Internal Audit
Aaron Munoz, CIA, CGAP, MPA	- Senior Auditor
Sabrina Skeldon, JD, CIA	- Senior Auditor

425 Audit Hours Expended

Sincerely,

Eva Narten, CPA, CIA, CISA
Assistant Internal Audit Director

Cc: Arnim E. Dontes, MBA, Executive Vice President for Business Affairs
Michael Serber, CPA, Vice President for Financial Affairs
Angela Wishon, JD, Vice President for Research Administration
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Pricewaterhouse Coopers LLP by Debbie McKibben, Internal Audit Services