

UT Southwestern

Medical Center

Hospital Asset Management Lifecycle Review Internal Audit Report 22:04

September 28, 2022

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Executive Summary

Background

The UT Southwestern Medical Center (Medical Center) is required by state law to promote careful stewardship of its resources and to ensure Medical Center assets are tracked and secured to prevent theft, loss, damage, or misuse. Tangible capital assets (valued at \$5,000 or greater), computer software (valued at \$100,000 or greater) and specific controlled assets (e.g., computers, cameras) must be tracked in accordance with the State of Texas Comptroller guidelines (*please refer to Appendix B for a listing of qualified controlled assets*). Each Medical Center department is responsible for managing and tracking assets and must have a designated asset custodian to manage and assign physical custody of individual controlled assets consistent with good stewardship of State property in compliance with UT Southwestern institutional policies (*FSS-151 Accountability and Responsibility for Property, FSS-152 Acquisition, Management and Disposal of Property*), Asset Management Standard Operating Procedures, UT System guidelines and state regulations.

Asset management lifecycle key functions and responsibilities are described below.

- The Medical Center Asset Management team (AM) reporting to the Associate Vice President of Supply Chain Management (SCM) functions as the designated institutional property manager and has responsibility for the overall monitoring of the Medical Center's capital and controlled assets in accordance with policies and regulations. AM is responsible for implementing and communicating good inventory practices to foster compliance, accountability, and adequate protection of Medical Center property.
- The Asset Accounting team (Accounting), reporting to the Assistant Vice President of Accounting and Fiscal Services is responsible for setting up capital and controlled asset records, creating asset profiles to update the library of asset records approving project IDs and Chart of Accounts in the Asset Management Module of the PeopleSoft software. Accounting is also responsible for processing capital depreciation expense and net book value (NBV) transactions for financial reporting purposes.
- The Medical Equipment Quality Planning team (MEQ), reporting to the Assistant Vice President of Clinical Design and Planning, develops biomedical equipment requirements for approval as well as coordinates capital equipment acquisition and deployment of assets to the designated locations.
- Information Resources-Academic and Administrative Information Resources (IR-AAIR) provides departments with system support. IR – Client Services also maintains an Inventory database to track and manage hospital IT related controlled assets.
- Departments are responsible for designating Asset custodians who have responsibility for maintaining asset inventory including updating asset locations, transfer of assets and asset disposal.

The PeopleSoft Asset Management Module (PSFT) functions as the source of truth for all capital and controlled asset transactions for identification and inventory, monitoring, and financial reporting. Hospital Capital Planning and Operations management uses ATTAINIA and NUVOLO software for biomedical equipment planning and management.

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Scope and Objectives

The Office of Internal Audit Services has completed its Hospital Asset Management Life Cycle Review. This is a risk-based audit and part of the fiscal year 2022 Audit Plan. The audit scope included capital project transactions including Hospital capital major movable equipment, computer software, and controlled assets recorded in fiscal year 2022 through March. This review did not include the Land and Buildings, Art and Books, or Construction in Progress asset categories. The overall audit objective was to evaluate processes and controls that ensure achievement of objectives, compliance with key regulations and institutional policies and procedures, safeguarding of assets, and accuracy of reporting. Specific objectives include the following:

Hospital Asset Management:

- Assets are properly received, tagged, and put into service
- Asset information is communicated accurately and timely to Accounting
- Adequate management oversight, monitoring processes and controls are designed and operate effectively

Hospital Asset Accounting:

- Assets are entered and updated accurately (e.g., Net Book Value, depreciation), timely, and classified appropriately
- Accounting records are reported completely, accurately, and timely
- Oversight, monitoring processes, and controls are designed and operate effectively

Audit procedures included interviews and process walk-through with stakeholders, review of policies and procedures and other documentation, data analytics and substantive testing of selected records. We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the Government Auditing Standards.

Conclusion

UT Southwestern has institutional policies in place to delineate responsibilities for asset management; however, improvements are needed for better coordination between Asset Management, Hospital Administration, and hospital departments for receiving, deployment of assets and recording of asset information. Controls need to be strengthened for ensuring assets are tagged and asset information is recorded accurately and completely. The decentralized nature of asset ordering and receiving as well as a lack of accountability for ensuring asset administrators are maintaining up-to-date asset records increases the risk of inaccurate reporting and/or loss of assets. Additionally, opportunities exist to improve the accuracy of hospital capital and controlled asset reporting to include consistency of data across multiple systems for location tracking and custodian assignment.

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The Asset Management team recently implemented the CETANI bar-coded asset tagging and real-time location system (RTLS) to enable radio frequency identification scanning and real-time tracking (RFID) of hospital assets. Additionally, Management of Hospital Support Services and Real Estate functions have recently obtained UT System Board of Regents (BOR) approval to lease additional warehouse spaces dedicated to Hospital equipment operations so that there was more space for centralized control of capital assets.

Management action plan details are presented in the Observation and Action Plans Matrix of the Report.

Included in the table below is a summary of the observations along with the respective disposition of these observations within the UT Southwestern internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (1)	Medium (4)	Low (1)	Total (6)
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Key observations are presented below.

1. **Improve Controls to Ensure Accurate Hospital Capital and Controlled Asset Reporting** - Opportunities exist to improve processes and controls to ensure assets are tagged timely, accurately, and recording of asset tag information of capital and controlled asset records is complete.
2. **Improve Hospital Capital Asset and Controlled Asset Location Update Process to Ensure Accurate and Complete Asset Location** - There are in-service hospital asset management capital and controlled asset records with missing locations or reported at temporary off-site storage locations.
3. **Improve Monitoring of Asset Information for Accuracy and Consistency across Multiple Data Sources** - Asset data information is not consistent between PSFT AM Module and other systems to adequately track and update asset information.
4. **Improve Oversight and Accountability over Controlled Asset Custodian Assignment and Data Cleanup** - Opportunities exist for timely updates of asset custodian records by the designated asset administrators to adequately reflect changes in custodians' employment status or assignment.
5. **Improve the Setup and Asset Tracking for Major Capital Improvement and Construction Projects to Ensure Data Accuracy** - The current Asset Accounting asset records setup and tracking process needs improvement to properly account for major capital improvement projects (CIP) and construction projects and to align with institutional major asset requirements.
6. **Improve PSFT Data Field Logic, System Functionality, and Monitoring Controls** - The current system programming does not preclude asset depreciation beyond their life cost resulting in negative netbook value, depreciation of non-capital assets, same life cost and remaining life for assets being depreciated, which increases exposure to incorrect depreciation recognition and reporting.

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

Sincerely,

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Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: High ●</p> <p>1. <u>Improve Controls to Ensure Accurate Hospital Capital and Controlled Asset Reporting</u></p> <p>Opportunities exist to improve processes and controls to ensure assets are tagged timely and accurately, and there is complete recording of asset tag information of capital and controlled asset records. There are missing asset tag numbers in the PeopleSoft (PSFT) hospital asset management database for hospital major movable equipment, computer software, and controlled asset records.</p> <p>Missing asset tags are due to purchased assets deployed directly to areas and put in service before the asset management teams can tag the assets or due to trade-in and replacement of assets under warranty being shipped directly to departments, bypassing the normal receiving and tagging process, resulting in asset records not being updated and the new equipment not being tagged. Another root cause is due to multiple assets which were classified as one single asset tag record rather than separate individual assets due to multiple purchase orders (POs) that were consolidated and processed by Asset Accounting as one single record.</p> <p>Data analysis identified the following:</p> <ul style="list-style-type: none"> 958 capital asset records with a total net book value (NBV) of \$38.2M and 1,647 controlled assets were missing asset tag information. 86% of referenced capital assets without tags did not 	<ol style="list-style-type: none"> Complete physical verification of all in-service hospital capital equipment and controlled assets records listed in the PSFT databases without a tag. <ol style="list-style-type: none"> Assign asset tag number and update the information in PSFT accordingly. Prioritize assets purchased since the new process was implemented in FY22 and then proceed with updating older assets purchased before September 2021. Implement a periodic coordination protocol between Asset Management, MEQ, IR Client Services, Hospital Support Services, and Asset Accounting to review newly added assets and resolve any issues (i.e., missing asset tag numbers, missing locations, temporary storage locations, etc.). Introduce a quality assurance (QA) process and consider having responsible hospital departments formally confirm their capital and controlled asset physical inventory results as part of the quarterly or annual operational results certification. Conduct department training on the availability and application of current resources such as ORBIT FDi004 and FDi029 reports to assist with continuous monitoring of assets. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> Hospital Administration Support Services and MEQ will coordinate with Asset Management to implement a process to resolve hospital capital medical equipment records without tags. Asset Management and IR Client Services will review, reconcile, and correct any non-medical capital and controlled assets without asset tags that are under our responsibility. This process will ensure all hospital capital and controlled assets required tagging will have such ID tag upon deployment at the departments for use or upon assigning to the responsible custodians. Asset Management and MEQ will coordinate biweekly meetings among relevant groups to review the Orbit Reports FDi004 and FDi029 for newly added hospital assets. Hospital Administration Support Services and MEQ will implement strategic processes including QA for all medical equipment to deliver at our new warehouse. This will ensure proper onboarding and distribution. <ul style="list-style-type: none"> Receipt Tagging Validation/Configuration Logistics

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>have their temporary storage location updated to permanent deployed location. 96% of controlled assets without tags pertained to microcomputers and desktop towers. Further review of a judgmentally selected sample identified the following:</p> <ul style="list-style-type: none"> ○ 51% of the above capital and controlled asset records without tag numbers were put in service in FY22. A new process was implemented at the beginning of FY22 whereby the MEQ team helps tag assets before deployment to patient care areas. However, collaboration between the MEQ and AM teams does not always result in the timely identification or tagging of all newly purchased assets. ○ 49% of capital and controlled assets without tags were put in service before FY22. In those cases, assets were deployed directly to patient care areas before being tagged, creating delays in locating the assets and backlog of untagged assets. <p>Without asset tags, there is an increased risk of inability to track assets once they are put in service, loss of assets, and inaccurate asset reporting.</p>	<ol style="list-style-type: none"> 5. Consider adding a purchase order (PO#) data field of individual assets in the ORBIT reports to assist end-users with improved monitoring. 6. Provide refresher training to Asset Accounting staff regarding the appropriate setup of equipment and software records according to PO lines in PSFT. Consider providing additional guidance in the Standard Operating Procedures (SOPs). 	<p>Asset Management will also provide departmental reports with instructions for completion to assist hospital departmental asset administrators with confirming personal property assigned to their custodial departments.</p> <ol style="list-style-type: none"> 4. Asset Management will coordinate with Hospital Support Services, MEQ and Hospital Finance will require Hospital Asset Administrators to participate in training and to perform departmental asset administrator functions. Asset Administrator training module exists in the PeopleSoft Training Library. Asset Management will provide additional in-person training as needed. 5. IR Academic Administration Data Services will add a PO field in the ORBIT reports to enable more effective tracking and monitoring. 6. Asset Accounting will provide refresher training to staff regarding the appropriate setup of asset records according to PO lines in PSFT. Asset Accounting will also provide additional guidance in the Standard Operating Procedures (SOPs). <p><u>Action Plan Owners:</u></p> <p>1,2,3. Director, Materials Management, SCM Assistant Vice President, Hospital Administration Support Services</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<p>Director, Medical Equipment Planning Director, IR Client Services</p> <p>4. Director, Materials Management, SCM Assistant Vice President, Hospital Administration Support Services Director, Medical Equipment Planning Controller, Financial Services – Finance</p> <p>5. Director, IR Academic Administration Data Services</p> <p>6. Director, Accounting Compliance & Assets Administration</p> <p><u>Target Completion Dates:</u></p> <p>1. Focused meetings and collaboration by Asset Management, MEQ and IR – Client Services will accomplish action plan by March 31, 2023</p> <p>2. Periodic coordination protocol - January 31, 2023</p> <p>3. QA process – January 31, 2023</p> <p>4. Hospital Department users training - December 31, 2022</p> <p>5. Add PO Field to Reports - January 31, 2023</p> <p>6. Refresher training & SOP - December 31, 2022</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>2. <u>Improve Hospital Capital and Controlled Asset Location Update Process to Ensure Accurate and Complete Asset Location</u></p> <p>There are asset records in the PSFT hospital asset management database with missing locations or reported at a temporary off-site location as opposed to a permanent location. The Location input field is not a required field when setting up a new asset record.</p> <p>The current process whereby MEQ team communicates assets' deployment locations to AM team to update location in PSFT is a manual hand-off through a SharePoint site increasing the risk of untimely and inaccurate updates. In addition, the location information the MEQ team provides is not consistent with the location mapping format in PSFT. Missing location information increases the risk of tagging delays or missing assets and inability to properly track assets.</p> <p>Data analysis indicated 50 in-service capital asset records and 817 controlled asset records did not have their physical location. Additionally, 2,112 in-service capital records reported an off-site storage location (MMB or ARM warehouse).</p> <p>In addition, the hospital location information that MEQ team provides is not consistent with the location mapping format in PSFT. These increase the risk of inaccurate or incomplete equipment location.</p>	<ol style="list-style-type: none"> 1. Complete physical verification of all in-service hospital capital equipment records and controlled assets listed as missing locations or listed at one of the off-site storage locations. 2. Consider making the Location field a required field for asset records with in-service status. Alternatively, identify business processes that will require others to capture the location information in PSFT. 3. Consider updating the Location field in NUVOLO to correspond with the location field in PSFT, potentially referencing ARCHIBUS locations. 4. Make updates to capital assets' key fields such as tag number and locations in PSFT after updates are made in NUVOLO. 5. Consider the feasibility of creating system interfaces to reduce risk of discrepancy in data across multiple systems. 6. Reiterate the responsibility and accountability of Department Asset Administrators to make timely updates of asset locations. 	<p><u>Management Action Plans</u></p> <ol style="list-style-type: none"> 1. Asset Management is currently receiving updates from MEQ and Hospital Administration of newly received assets placed in the various hospital locations. The updates include tag assignments, serial number updates and location descriptions which must be mapped to ARCHIBUS locations. <ul style="list-style-type: none"> Hospital Administration will provide access to the Hospital's RTLS Active RFID system reports and data to responsible process owners in order to physically verify all in-service equipment records and controlled assets listed as without a location or kept at an off-site storage location. The above will contribute to improve monitoring. IR Client Services will update hospital asset records with missing or temporary location that are under our responsibility. 2. MEQ and IR PSFT teams will collaborate to explore the feasibility of making Location a required field for setting up asset records with in-service status. <ul style="list-style-type: none"> Action plan steps will include the following if further system customization is deemed not achievable: <ul style="list-style-type: none"> • Administer additional training to department asset managers to make

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<p>sure they fill out and update the asset location and custodian information.</p> <ul style="list-style-type: none"> • Business process owners (MEQ and IR-Client Services) will coordinate with Asset Management to record and update the asset (ARCHIBUS) location in PSFT when the asset is put into service. • MEQ and IR-Client Services will incorporate the use of ORBIT reports FDi004 and FDi029 into the monitoring process. <p>3,4. Asset Management Administration updates the PeopleSoft Asset Management module with a critical dependency on receipt of asset reportable events and asset record attribute updates from MEQ and IR - Client Services. Manual updates among systems are ongoing. Location updates between NUVOLO and ARCHIBUS will require a longer timeframe.</p> <p>5. MEQ will engage the relevant vendor immediately to determine the feasibility of a system integration. We will also explore other options such as batch uploading to improve the process.</p> <p>IR Client Services will identify all in-service hospital assets under our responsibility with missing locations and</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<p>begin work to update the location in Client Services inventory database and PSFT.</p> <p>6. Hospital Administration will reiterate asset management responsibility to Department Leaders and Asset Custodian/Administrators.</p> <p><u>Action Plan Owners:</u></p> <p>1,2. Director, Materials Management SCM Director, Medical Equipment Planning Director, IR Client Services Director, PSFT Financials and Supply Chain, Information Resources</p> <p>3,4. Director, Materials Management, SCM Director, Medical Equipment Planning</p> <p>5. Director, Materials Management, SCM Director, Medical Equipment Planning Director, IR Client Services Director, PSFT Financials and Supply Chain, Information Resources</p> <p>6. Controller, Financial Services - Finance</p> <p><u>Target Completion Dates:</u></p> <p>1. Complete physical verification of assets with missing location or temporary location - March 31, 2023</p> <p>Obtain access to Hospital's RTLS Active RFID system reports and data to improve monitoring – December 31, 2022</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<ol style="list-style-type: none"> 2. Required Location field or other options - November 30, 2022. 3. Matching the Location field in NUVOLO with PSFT, and potentially referencing ARCHIBUS locations - August 31, 2023 4. Update PSFT records after NUVOLO – December 31, 2022 5. Feasibility of systems interface or other options – December 31, 2022 Update location in Client Services – December 31, 2022 6. Reiterate Department Asset Administrators responsibility – November 30, 2022
<p>Risk Rating: Medium ●</p> <p><u>3. Improve Monitoring of Asset Information for Accuracy and Consistency Across Multiple Data Sources</u></p> <p>Asset data information is not consistent between the PSFT Asset Management (AM) Module and other systems to adequately track and update asset information. The current manual verification process is time consuming, prone to data entry errors, and does not ensure accurate and complete management of assets. Varying systems tracking the same equipment asset data that may not be consistent with asset data in PSFT include the following:</p>	<ol style="list-style-type: none"> 1. Form a process team of key department users, AM, IR-PSFT, EDW, MEQ, CUH Hospital Administration Support Services, and IR Client Services members to determine the most effective and efficient process to improve asset management reporting accuracy across all systems, including determining primary fields / key fields / common identifiers (e.g., serial number, PO #, tag #) that should be in all systems. 2. Consider adding an identifier in PSFT to distinguish biomedical assets from non- 	<p><u>Management Action Plans:</u></p> <p>1,2,3. Asset Management will work with the other teams to form this workgroup of key department process owners to implement the most efficient and effective process to improve asset management monitoring and reporting across all systems and reinforce roles and responsibilities. The team will also leverage the current RFID project plan to improve asset management and tracking. 2,3. These will be incorporated into the work plan of the process team.</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> MEQ maintains a separate biomedical equipment database (NUVOLO) for tracking and performing corrective and preventive maintenance for both capital and non-capital assets. Information Resources (IR) - Client Services (CS) maintains their inventory database that is used for tracking their capital and controlled assets. The CS Inventory database contains computer equipment and related asset records such as printers, scanners, and other devices using the network. <p>The AM, MEQ, and IR-Client Services teams do not use available system reports (i.e., Orbit Reports FDi004 and FDi029) to monitor capital and controlled assets that are missing key fields (e.g., missing tags, missing locations, off-site storage locations) in PSFT. This impacts the effective monitoring and accounting for hospital assets.</p>	<p>biomedical assets to enable reconciliation between NUVOLO and PSFT.</p> <ol style="list-style-type: none"> Consider adding an identifier in NUVOLO using existing information such as equipment life cost to distinguish capital assets from non-capital assets to enable reconciliation between PSFT and NUVOLO. Make updates to PSFT for capital and controlled assets' key fields such as tag number, locations, and custodian assignment after they make updates in the CS Inventory database. Introduce proper identifiers for capital and controlled assets, and non-capital and non-controlled assets to enable accurate reconciliation between the CS Inventory database and PSFT. Consider utilizing available system reports (i.e., ORBIT Reports FDi004 and FDi029) to monitor assets with missing key fields such as missing locations or off-site storage locations. 	<ol style="list-style-type: none"> IR Client Services will implement a plan to make updates between PSFT and CS inventory databases. This is dependent on outcome on system integration or batch upload process as part of Action Plan. We will reiterate the purpose and use of these system monitoring reports to all end-users. We will leverage public queries: UTAM_LOCATION_FLOOR, UTAM_FAIN_CAPITAL_ASSETS and UTAM_FAIN_NON_CAPITAL_ASSETS <p><u>Action Plan Owners:</u></p> <ol style="list-style-type: none"> Associate Vice President of SCM Director, Materials Management SCM Director, PSFT Financials and Supply Chain, Information Resources Director, IR – Client Services Director, Medical Equipment Planning Controller, Financial Services – Finance 3. Director, Materials Management, SCM, Director, Medical Equipment Planning 4,5. Director, IR Client Services 6. Director, Materials Management SCM, Director, Medical Equipment Planning <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> Feasibility study and detailed work plan - December 31, 2022

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<ol style="list-style-type: none"> 2. Biomedical asset Identifier in PSFT - March 31, 2023 3. Capital asset Identifier in NUVOLO - January 31, 2023 4. PSFT & Client Services updating - January 31, 2023 5. PSFT & Client Services reconciliation - February 28, 2023 6. ORBIT Reports & Queries - November 30, 2022
<p>Risk Rating: Medium ●</p> <p>4. <u>Improve Oversight and Accountability over Controlled Asset Custodian Assignment and Data Cleanup</u></p> <p>Designated Hospital Department Asset Administrators do not consistently update asset custodian information timely to reflect changes in custodians' employment status or assignment (employees' status change to inactive, transferred, or terminated). In addition, Asset Management does not have a process to monitor or validate departments' assertions regarding proper protocols for maintaining asset records. This increases the untimely detection of missing assets and loss of property, or risk of non-compliance with state requirements.</p> <p>Hospital data analysis indicated the following:</p> <ul style="list-style-type: none"> ● 154 controlled asset records in PSFT have incorrect or inactive custodians. 	<ol style="list-style-type: none"> 1. Provide training for Hospital Departmental Asset Administrators to ensure custodian assignments are updated on a timely basis. 2. Implement system notifications to notify department management of impending termination of assigned asset custodians, periodic reports of inactive asset custodians, and escalation process to ensure compliance. This should be designed, piloted, and rolled out system wide. 3. Require Hospital Asset Administrators to leverage ORBIT Report FDi029 to perform periodic accounting of controlled assets and assignments, update asset records in PSFT, certify results to Asset Management, and promptly communicate 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Hospital Leadership and Hospital Finance to require hospital asset administrators to complete Asset Administrator training and perform departmental asset administrator tasks. 2. Asset Management is working with the IR Enterprise Data Services team to implement system notifications including impending termination of assigned asset custodians and escalation processes to ensure compliance. 3. Asset Management will reiterate with Hospital Asset Administrators responsibilities for the use of ORBIT Report FDi029 to periodically account for controlled assets and assignments, and to certify results to Asset Management.

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> 5,944 controlled asset records do not have custodian information, as assets are in open spaces and shared between multiple users (e.g., nursing stations) are not assigned a custodian. 93% of the above controlled assets were in service after PS upgrade and conversion to 9.2 in 2019. 	<p>any missing assets to Asset Management for required State reporting.</p> <ol style="list-style-type: none"> Implement a QA program to proactively monitor for compliance, potentially leveraging a survey of custodians, and perform periodic audits. Explore solutions to monitor unassigned controlled assets that have multiple users to mitigate the risk of missing and lost assets. Consider leveraging MEDIGATE. Reiterate compliance requirements with overarching Institutional Policy FSS-151. 	<ol style="list-style-type: none"> Asset Management will implement a QA program to proactively monitor for compliance. This will be incorporated into Action Plan 3.1 for considering other systems. Hospital Administration will reiterate requirements for compliance with Policy FSS-151 to all Hospital Departments. <p><u>Action Plan Owners:</u></p> <ol style="list-style-type: none"> Director, Materials Management, SCM Director, IR Enterprise Data Services Controller, Financial Services – Finance Controller, Financial Services – Finance Director, IR Client Services Controller, Financial Services – Finance <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> Hospital Asset Administrator Training - December 31, 2022 This action plan will be completed in three key milestones: <ol style="list-style-type: none"> AM will provide the final business decisions on email contents and frequency to IR EDW team – October 31, 2022 Soft launch of the system notifications to a small group of selected departments – December 15, 2022

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<p>c. Full implementation of system notifications for all departments January 31, 2023</p> <p>3. Leverage ORBIT Reports - December 31, 2022</p> <p>4. QA program - January 31, 2023</p> <p>5. Monitoring tools – January 31, 2023</p> <p>6. Policy compliance - November 30, 2022</p>
<p>Risk Rating: Medium ●</p> <p>5. <u>Improve the Setup and Asset Tracking for Major Capital Improvement and Construction Projects to Ensure Data Accuracy</u></p> <p>The current hospital capital asset records setup and tracking process needs improvement to properly account for major capital improvement projects (CIP) and to align with institutional major asset requirements. Capital Project IDs are not always entered in PSFT, and asset record depreciation dates are not always accurate.</p> <p>Data analysis identified:</p> <ul style="list-style-type: none"> • 245 movable capital hospital asset records with individual life cost > \$50K were missing their Project ID number in PSFT due to this input field not being setup as a required field. Also, assigned Project IDs were not captured in PSFT before system upgrade in FY19. • The Clements University Hospital (CUH) Tower III capital construction project listing contains 440 moveable capital equipment 	<ol style="list-style-type: none"> 1. Conduct a review of hospital capital asset records > \$50K in PSFT to update records with missing Project IDs. 2. Consider implementing a system preventive control that requires input of the Project ID field for the Capital hospital assets > \$50K. Alternatively, implement a detection control to flag records with missing project IDs to improve compliance monitoring. 3. Obtain input from external independent sources to determine the appropriate process for recognizing and recording depreciation of capital assets of major construction projects. 4. Consider a separate process for setting up and managing major capital improvement project assets based on pre-determined criteria (e.g., go-live date) to ensure consistency with accounting standards for certain assets. 	<p><u>Management Action Plans</u></p> <ol style="list-style-type: none"> 1. Hospital Finance Administration will conduct a review and update records with missing Project ID and monitor hospital capital asset records > \$5K in PSFT to ensure records are complete. 2. Asset Accounting and IR PSFT Financials & SCM will assess the potential for required input of Project ID or introducing other monitoring reports as part of Management Action Plan 3.1. 3. Asset Accounting will consult with independent sources to determine the appropriate accounting process for capital construction project assets. 4,5. The appropriate accounting treatment and adjustments will be made, and SOPs will be updated based on the option selected.

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>records with life costs of \$29.6M and depreciation start dates from three to fifteen months before the project start date.</p> <p>Asset Accounting currently sets up and activates an asset record in PSFT when there is a clean three-way match between the purchase order, supplier invoice, and verified receipt. According to best practices guidelines, asset depreciation begins when it is put in service for administering patient care.</p> <p>Missing capital asset IDs could potentially impact adherence to the capital planning policy. Capital equipment records setup and depreciation before a major project's opening date could result in reporting inaccuracy.</p>	<p>5. Record any material depreciation adjustments and document the applicable process in an SOP.</p>	<p><u>Action Plan Owners:</u></p> <ol style="list-style-type: none"> 1. Controller, Financial Services – Finance 2. Assistant Vice President, Accounting & Fiscal Services Director, Accounting Compliance & Assets Controller, Finance, University Hospitals Director, PSFT Financials and Supply Chain, Information Resources 3,4,5. Assistant Vice President, Accounting & Fiscal Services Director, Accounting Compliance & Assets <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. Update missing Project IDs (verify if combo edit can be defined for capital assets) - December 31, 2022 2. Preventive control re \$50K threshold requiring Project IDs - February 28, 2023 3. Consulting/Surveying re options for major CIPs & Constructions - January 31, 2023 4,5. Accounting treatment based on option chosen and updating SOP - January 31, 2023 <p>Deprecation adjustments – January 31, 2023</p>

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Low ●</p> <p>6. <u>Improve PSFT Data Field Logic, System Functionality, and Monitoring Controls</u></p> <p>Opportunities exist for improved data field logic, system functionality within the PSFT Financials and Asset Accounting modules. The following data field programming logic increases the risk of inefficient processing or untimely detection of errors:</p> <ul style="list-style-type: none"> • PFST Asset Management programming does not preclude asset depreciation beyond its life cost value resulting in instances of negative net book value (NBV). • Nine asset records with life cost < \$5K were identified as being depreciated rather than expensed, increasing the risk of inaccurate reporting of asset records. Per sample review, root causes include incorrect allocation of trade-in credits. • 3,086 in-service asset records have inaccurate Remaining Life values that were not properly adjusted according to dates they were put in service. Remaining Life values do not affect system depreciation computation. • 61 asset records have useful lives which differ from the current PSFT depreciation table. Per sample review, root causes include manual adjustments due to trade-ins and manual updates made to prior depreciation schedules. 	<ol style="list-style-type: none"> 1. Evaluate and make enhancements to improve data quality and system functionality. Consider programming changes or creating a report of impending NBV errors. 2. Correct the asset records < \$5K that are being depreciated rather than expensed and review on a regular basis for any exceptions. 3. Coordinate with IR PSFT team to implement a system control to prevent depreciation of assets < \$5K. 4. Consider a system control to detect when life, remaining life, and depreciation schedules deviate from expected operations and route to appropriate individuals for resolution. 5. Retain support for historical depreciation schedules. 6. Create a SOP for processing manual adjustments for useful lives including supporting requirements and resolution of depreciation schedule updates to explain system logic changes. Consider reviewing useful lives assigned to newly added assets on a regular basis. 	<p><u>Management Action Plans</u></p> <ol style="list-style-type: none"> 1. As programming changes are determined not feasible by the software vendor Asset Accounting will use an existing query AM_NEG_DEPR_NBV_LT_SALVAGE to monitor NBV errors. 2. We will correct asset records < \$5K and perform quarterly reviews of the ORBIT Report FDi004 to improve timely resolution of exceptions. 3,4. Asset Accounting will assess the potential for introducing a system preventive control or introduce additional monitoring reports. Decision will be made on the most cost-effective control to be implemented. 5. Asset Accounting will retain depreciation schedules in compliance with state retention guidelines. 6. Due to system errors caused by manual adjustments, we will make adjustments to assets previously placed in-service based on the following: <ol style="list-style-type: none"> a. A determination is made that the useful life will be significantly different than what was originally assigned; or b. An upgrade or improvement is done that extends the life of the asset.

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
		<p>We will evaluate the need and options to review the useful lives of new assets and create an SOP for manual adjustments.</p> <p><u>Action Plan Owners:</u></p> <ol style="list-style-type: none"> 1. Director, PSFT Financials and Supply Chain, Information Resources Director, Accounting Compliance & Assets 2 - 6. Director, Accounting Compliance & Assets <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. Implemented and ongoing (<i>Monitor using existing query AM_NEG_DEPR_NBV_LT_SALVAGE</i>) - Completed 2. Non-capital depreciation correction - December 31, 2022 3. Preventive PSFT system control (ongoing system testing by IR PSFT) - February 28, 2023 4. Additional PSFT detection controls - February 28, 2023 5. Adjustment support retention - December 31, 2022 6. Manual adjustments SOP - December 31, 2022

Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<p>Risk Definition- The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.</p>	<p>Degree of Risk and Priority of Action</p>	
	<p>Priority</p>	<p>An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.</p>
	<p>High</p>	<p>A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concerns and reduce risks to the organization.</p>
	<p>Medium</p>	<p>A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.</p>
	<p>Low</p>	<p>A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concerns and reduce risks to the organization.</p>

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the above pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

Appendix B – Controlled Assets Definitions and Class Codes

Controlled assets are assets of the state identified by the Comptroller’s office that must be secured and tracked in the State Property Accounting (SPA) system. A controlled asset’s value is below the capitalization threshold and is not depreciated or reported on the balance sheet.

Controlled Class Codes

Controlled assets are property classes that the Comptroller requires agencies to report to the SPA system. The list below includes the items the Comptroller requires agencies to report to SPA. Your agency should have an internal review to make sure you know who has these items and where they are at all times. Controlled items should not be reported in the Capital Assets section of your annual financial report (AFR), unless they meet the capitalization threshold.

If a single unit’s acquisition cost is \$5,000 or greater, that item should be reported to SPA as a capitalized item. Only capitalized items are included in the Capital Assets portion of your AFR.

Controlled (at any cost)

Class Code	Property Item
106	HAND GUNS
107	RIFLES & SHOTGUNS

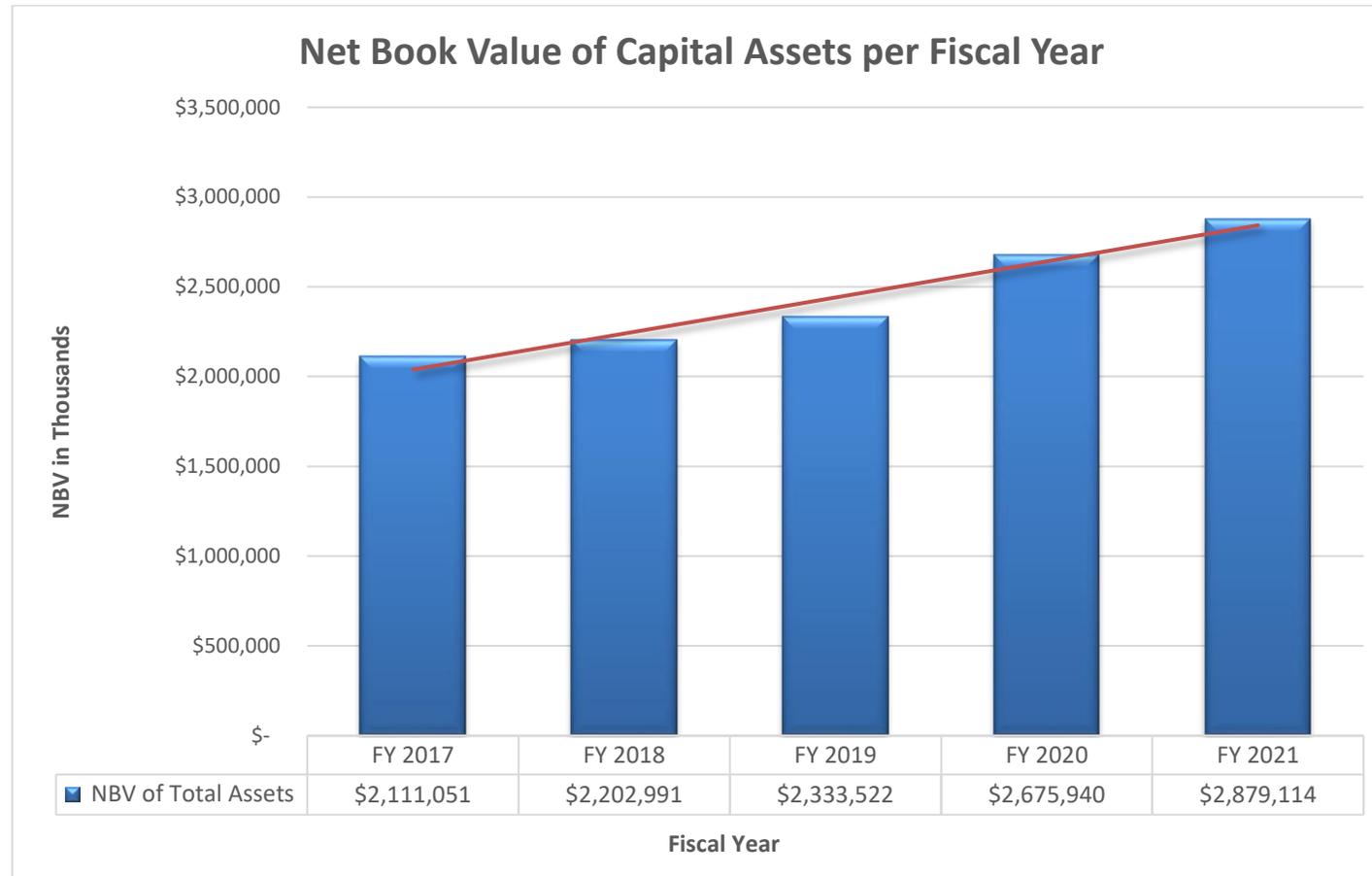
Controlled (\$500.00 to \$4,999.99)

Class Code	Property Item
129	SOUND SYSTEMS AND OTHER AUDIO EQUIPMENT
130	CAMERA – PORTABLE – DIGITAL, SLR
131	TVs, VIDEO PLAYERS/RECORDERS
204	COMPUTER, DESKTOP
218	DATA PROJECTORS
219	SMARTPHONES, TABLETS & OTHER HAND HELD DEVICES
284	LAPTOP COMPUTERS
735	UNMANNED AERIAL VEHICLE (UAV) DRONES

Source: [Controlled Assets- Reporting Requirements for Annual Financial Reports \(texas.gov\)](https://www.texas.gov/controlled-assets-reporting-requirements) or <https://fmx.cpa.texas.gov/>

Appendix C – NBV Supplemental Information

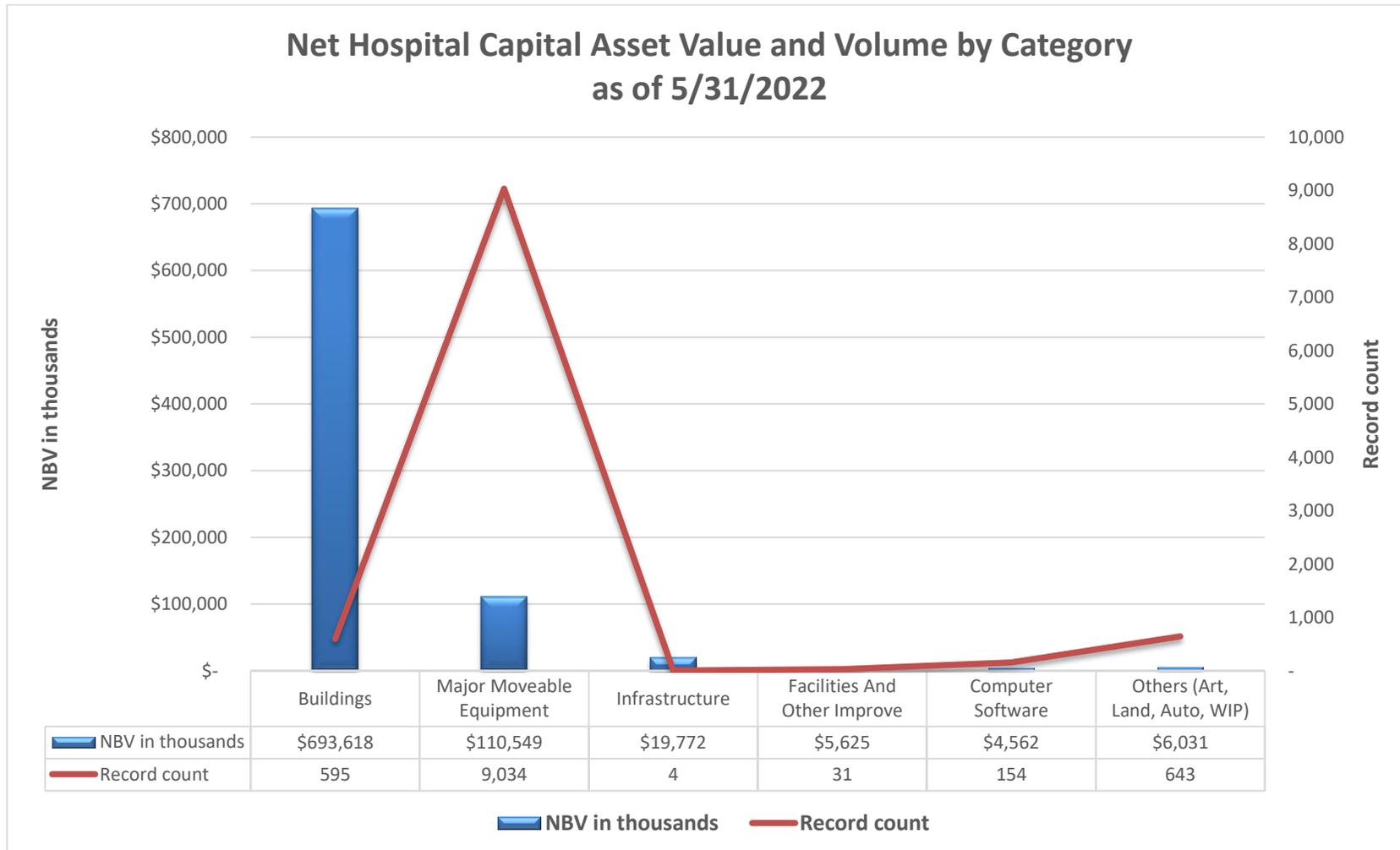
The following graph #1 shows the net book value of capital assets of UT Southwestern Medical Center per FY and the 36% growth of net capital assets over the prior five fiscal years. Note that this review covers Hospital major movable equipment, computer software, and controlled assets.



Data source: UTSW's annual financial reports from FY17 to FY21 ([Required Documents: Legal - UT Southwestern, Dallas, TX](#))

Appendix C – NBV Supplemental Information

The following graph #2 shows the net book value and volume of hospital capital assets by primary asset category as of May 31, 2022.



Data source: Orbit FDi004 PSFT Asset Management Report for Health System Affairs as of 5/31/2022.