Office of Institutional Compliance & Audit Services

UT Southwestern Medical Center

Change in Management Audit – Clinical Laboratory Services

Internal Audit Report 23:04

October 20, 2023

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Background

The UT Southwestern Medical Center (Medical Center) Clinical Laboratory Services (CLS) offers patient and physician-oriented services including laboratory testing, consultation, specimen processing, and phlebotomy services. CLS is dedicated to accurate diagnoses, fast turn-around times, and state of the art methodologies. CLS contains 22 distinctive laboratory specialties such as Core Lab, Microbiology, Transfusion Medicine, and Anatomic Pathology. During fiscal year (FY) 2023, the department had 66 faculty members and 392 staff members. As of June 2023, year-to-date revenues were approximately $112 million.

A new Assistant Vice President (AVP) joined the Medical Center in FY 2022 and is responsible for the oversight and administration of CLS with the assistance of the Operations Directors, Operations Finance Assistant Director, and Lab Managers. Both AVP of CLS and the Operations Finance Assistant Director report directly to Associate Vice President and Chief Operations Officer of the University Hospital.

The Operations Finance Assistant Director oversees finances for CLS, Imaging Services, and Support Services. The Operations Finance team performs department level budgeting, financial monitoring, billing, and financial analysis. The Operations Finance team works closely with the centralized University Hospital Finance (UHF) team for annual budget preparation, account reconciliation, and financial reporting requirements. See Appendix B for the flowchart of the budgeting process that involved multiple teams.

Scope and Objectives

The Office of Institutional Compliance & Audit Services (Internal Audit) has completed its Change in Management Audit - Clinical Laboratory Services. This was a risk-based audit and part of the FY 2023 Audit Plan. CLS was selected as a result of a Risk Assessment for all departments at UTSW. The Risk Assessment includes an analysis of key financial and leadership/employee data, as well as prior audit and investigation results.

The audit scope period included activities of CLS from 9/1/2022 to 6/30/2023. The review included an evaluation of key department administrative and financial reporting processes and control activities. As CLS has multiple divisions/labs, Internal Audit performed a risk assessment and selected Core Lab, Microbiology, and Transfusion Medicine. Controls around clinical billings and collections, charge capture, and capital asset management were not included in the scope of this review. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, substantive testing, and data analytics.

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Fieldwork was initiated, performed, and completed during August and September 2023 and consisted of the following primary objective:

- Assess the adequacy and effectiveness of key department administrative processes and control activities to ensure accurate financial records and safeguarding of assets.

Conclusion and Improvement Opportunities

Overall, Internal Audit identified opportunities for improvement to increase the consistency of the current departmental budgeting and the expenditure management processes to ensure greater transparency, accountability, and accurate financial reporting. Opportunities also exist to enhance monitoring for keys and prevent unauthorized access to assets and equipment in the CLS space.

Executive Summary

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

Priority (0)	High (0)	Medium (2)	Low (1)	Total (3)

Key observations are listed below.

- **Strengthen Departmental Budgeting Process** – The annual budgeting process was not consistently performed to include a comprehensive review and incorporate inputs from Clinical Lab Services (CLS) Operations leaders. This increases the risk of inaccurate financial reporting and delays in the identification of errors and misstatements.

- **Improve Expenditure Management Procedures** – Opportunities exist for CLS leadership to document the expenditure management process to ensure greater accountability and consistency in financial transactions.

- **Enhance Monitoring for Keys** – Controls need to be improved to ensure keys to the CLS space are not assigned to terminated employees. Testing identified 16 active CLS keys assigned to terminated employees. This increases the risk of unauthorized access to assets and equipment in the department space.

Management has plans to address the issues identified in the report and in some cases has already implemented corrective actions. Action Plan Owners are designated individuals responsible for implementing the issue resolution. Action Plan Executives are individuals responsible for overseeing or managing the issue resolution. Executive Sponsors are Senior Leadership members who are responsible for ensuring the identified issue is resolved. These responses, along with additional details for the key improvement opportunities identified above are listed in the Observations and Action Plans Matrix (Matrix) section of this report. See Appendix B for the Stakeholder List and the Audit Team.

Observations and Action Plans Matrix

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Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 1. **Strengthen Departmental Budgeting Process** The annual budgeting process was not consistently performed to include a comprehensive review and to incorporate inputs from Clinical Lab Services (CLS) Operations leaders. This was due to the transition in finance leadership positions and the lack of departmental instructions for the process. This increases the risk of inaccurate financial reporting and delays in the identification of errors and misstatements. A review of variance analysis as of June 2023 identified multiple variances between actual versus budgeted revenue and expenditure line items: • The total operating expense year-to-date (YTD) for Core Lab - CUH exceeds the budget by 20% ($2M) with variances in M&O, Supplies, and Purchased Services. • The operating expense YTD for Microbiology exceeds the budget by 29% ($1.3M) with variances in Salaries and Supplies. • The budget did not reflect the updated rate per unit, FTE changes, updated benefit rate to UT System, and other operations considerations. • Monthly departmental variance analysis does not have an established threshold for investigating variance and documenting explanations. Inputs provided by CLS leaders for the budget may not be approved by the Hospital Finance team and senior leadership based on high-level operations considerations. See Appendix B for the flowchart of the budgeting process.	The CLS Operations and Finance Leadership should: 1. Create a Standard Operating Procedure (SOP) for the budgeting process to provide clear instructions and define roles and responsibilities to ensure consistency and avoid missing steps in the process. Include any relevant guidance from Hospital Finance as reference. 2. Incorporate and document inputs from CLS Operations leaders and lab managers while reviewing the budget for any future annual budgets. 3. Create a SOP for departmental variance analysis process and establish a threshold for investigating variances and documenting explanations, at least $10K or 5% up/down compared to prior month or budget.	**Management Action Plans:** 1&3. The Operations Finance team will work on documenting SOPs for the budgeting process and the departmental variance analysis. 2. Incorporate and document inputs from CLS Operations leaders and lab managers for the FY 2024 budget. Continue this process for future annual budgets. **Target Completion Dates:** 1&3. December 31, 2023 2. Complete and Ongoing **Action Plan Owner(s):** Laura Silva, Assistant Director Operations Finance, Hospital Administration Genelle Brinkley, Director Clinical Labs, Laboratory Services Administration Dennis Davis, Director Business Development Operations Clinical Lab Services **Action Plan Executive(s):** Jessica Rivera, Assistant Vice President Clinical Lab Services, Hospital Administration **Executive Sponsor(s):** Chris Rubio, Associate Vice President and Chief Operations Officer, Hospital Administration

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 **2. Improve Expenditure Management Procedures** Opportunities exist for CLS leadership to document the expenditure management process to ensure greater transparency, accountability, and consistency in financial transactions. CLS currently does not have established written Standard Operating Procedures (SOPs) or process workflows for expenditure request, approval, and monitoring processes. Established SOPs can provide clear directions and decrease the risk of inconsistent and inappropriate expenditure purchases.	The CLS Operations and Finance Leadership should create SOP(s) to document the expenditure request, approval, and monitoring processes. The SOPs should include references to institutional policies and guidelines from centralized administration groups such as Hospital Finance, Budget & Resource Planning, and Supply Chain Management.	**Management Action Plans:** The Operations Finance team will collaborate with CLS Operations management to develop an SOP for the expense management process. **Target Completion Dates:** January 31, 2024 **Action Plan Owner(s):** Laura Silva, Assistant Director Operations Finance, Hospital Administration Genelle Brinkley, Director Clinical Labs, Laboratory Services Administration Dennis Davis, Director Business Development Operations Clinical Lab Services **Action Plan Executive(s):** Jessica Rivera, Assistant Vice President Clinical Lab Services, Hospital Administration **Executive Sponsor(s):** Chris Rubio, Associate Vice President and Chief Operations Officer, Hospital Administration

Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low 🟢 3. **Enhance Monitoring for Keys** Controls need to be improved to ensure keys to the CLS space are not assigned to terminated employees. Per the Orbit Hci057 Facilities Keys report, 16 (10%) out of 158 active CLS keys were assigned to terminated employees. This increases the risk of unauthorized access to assets and equipment in the department space. Root causes include missing keys, incomplete key retrieval when employees leave, and inadequate monitoring. Without cross-referencing the Facilities Keys report, supervisors may not be able to retrieve all keys from staff leaving the organization.	The CLS Operations Leadership should: 1. Obtain access to Orbit Hci057 Facilities Keys report and review the current report to ensure accurate assignment of keys to CLS areas. Report any key loss/replacement requests to Hospital Facilities Administration. 2. Train supervisors to review the Orbit Hci057 Facilities Keys report to confirm the retrieval of all keys when staff leave or transfer out of CLS. 3. Implement a monitoring control and perform an annual review of keys to ensure that no active keys are assigned to terminated/transferred employees.	**Management Action Plans:** 1. Obtained access to Orbit Hci057 Facilities Keys report and review the report to ensure accuracy. 2. Train supervisors to review the Keys report when their staff leave or transfer out of CLS. 3. Perform an annual review of keys to ensure that no active keys are assigned to terminated/transferred employees. **Target Completion Dates:** 1. December 31, 2023 2. January 31, 2024 3. February 29, 2024 **Action Plan Owner(s):** Genelle Brinkley, Director Clinical Labs, Laboratory Services Administration Dennis Davis, Director Business Development Operations Clinical Lab Services **Action Plan Executive(s):** Jessica Rivera, Assistant Vice President Clinical Lab Services, Hospital Administration **Executive Sponsor(s):** Chris Rubio, Associate Vice President and Chief Operations Officer, Hospital Administration

Appendix A – Risk Classifications and Definitions

Each observation has been assigned a risk rating according to the perceived degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management. The following chart is intended to provide information with respect to the applicable definitions, color coded depictions, and terms utilized as part of our risk ranking process:

Degree of Risk and Priority of Action	
Priority	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.
High	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 concern and reduce risks to the organization.
Medium	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.
Low	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 concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings. 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 – Stakeholder List & Audit Team

UTSouthwestern Medical Center

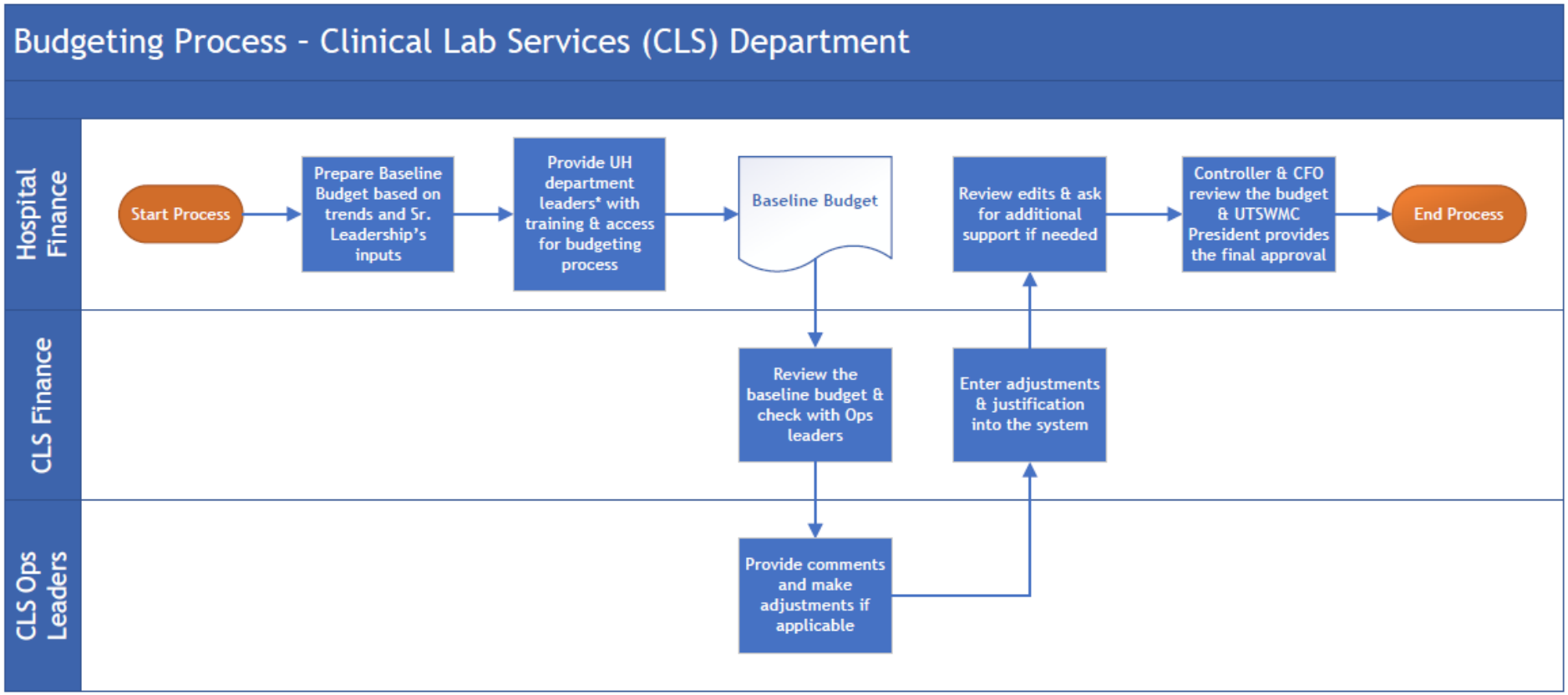
Stakeholder List

- Genelle Brinkley, Director Clinical Labs, Laboratory Services Administration
- Holly Crawford, Executive Vice President, Business Affairs
- Charles Cobb, Associate Vice President, Supply Chain Management
- Dennis Davis, Director Business Development Operations Clinical Lab Services
- Joy Kilpatrick, Budget Manager, Financial Services, Hospital Administration
- Sharon Leary, Assistant Vice President, Accounting and Fiscal Services
- Martin Marshall, Assistant Vice President, Support Services, Hospital Administration
- Kevin McGuire, Controller, Financial Services, Hospital Administration
- Mark Meyer, Health System Chief Financial Officer, Hospital Administration
- Yinette Phan, Assistant Controller, Financial Services, Hospital Administration
- Jessica Rivera, Assistant Vice President Clinical Lab Services, Hospital Administration
- Chris Rubio, Associate Vice President and Chief Operations Officer, Hospital Administration
- Michael Serber, Vice President Finance and Institutional CFO, Business Affairs
- Laura Silva, Assistant Director Operations Finance, Hospital Administration
- Mary Lou Walker, Manager Supply Chain – Lab, Hospital Administration
- Brittany White, Accounting Manager, Financial Services, Hospital Administration
- Jason Wright, Assistant Director, Value Analysis, Hospital Administration

Audit Team

- Natalie Ramello, J.D., Vice President of Compliance and Chief Compliance Officer / Interim Audit Executive
- Abby Jackson, Assistant Vice President, Compliance & Audit Operations
- Philippa Krauss, Senior Project Manager, Audit
- Mia Dinh, Project Manager, Audit

Appendix C - CLS Budgeting Process Flowchart



Function Contacts:
Hospital Finance: Budget Manager and Controller
CLS Finance: Assistant Director Ops Finance and Finance Managers
CLS Operations Leaders: AVP, Director of Clinical Labs, and Labs managers
UH department leaders*: Hospital Executives, Directors and Managers

System utilized: Workday Adaptive Planning