

UT Southwestern Medical Center

Asset Management Audit

Internal Audit Report 20:02

July 1, 2020

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Executive Summary

Background

The UT Southwestern Medical Center (Medical Center) Asset Management team, reporting to the Associate Vice President of Supply Chain Management, oversees the deployment, inventory and tracking of the Medical Center's capital assets and controlled assets (both defined below) as mandated by the State of Texas Comptroller's Office and in accordance with Medical Center policies and regulatory requirements. The Asset Management team provides standard processes and training for Medical Center asset custodians to ensure compliance with state law, good inventory control practices, and accountability requirements to protect and track Medical Center property. Each Medical Center department designates an asset custodian who is responsible for overseeing the accuracy of tracking of location and assigned employee for each asset.

The Asset Management team consists of one Manager, one Supervisor and twelve staff positions and coordinates closely with the Asset Accounting team, reporting to the Assistant Vice President of Accounting and Fiscal Services, to ensure assets are properly recorded and monthly and year-end financial reporting is accurate. The PeopleSoft 9.2 Asset Management Module is used to track capital assets and controlled assets for the Medical Center.

Capital Assets are defined by Medical Center policy as property acquired through purchase, transfer, donation, or loan that has a value equal to or greater than \$5,000 and is reported in the Medical Center's annual financial report. Art and artifacts of historical significance with a cost value of equal to or greater than \$5,000 (as demonstrated through appraisals or historical documentation) are also capitalized. Art and artifacts with a cost value less than \$5,000 may be entered into the Asset Management System as controlled assets and tracked accordingly.

Controlled Assets are defined by the State Comptroller's Office and Medical Center policy as items with cost value of less than the capitalization threshold of \$5,000, are required to be tracked while not part the Medical Center's annual financial report. Controlled Assets include handguns, rifles, and shotguns at any value. Computers and laptops, audio and video equipment, cameras, and other handheld devices are also Controlled Assets.

Overarching policy and procedure guidance includes UT Southwestern Policies "*FSS-151 Accountability and Responsibility for Property*", "*FSS-152 Acquisition, Management and Disposal of Property, Asset Management Standard Operating Procedures*" and University of Texas System Regents Rules and Regulations. These are designed to comply with requirements outlined in the Texas State Government Code Sections 403.2715-278 for University Systems and Institutions of Higher Education.

Executive Summary

Illustration #1 “Net Book Value of Total Assets by Fiscal Year” provides a chart displaying the 16% growth of net assets over the prior four years.

Net Book Value of Total Assets by Fiscal Year

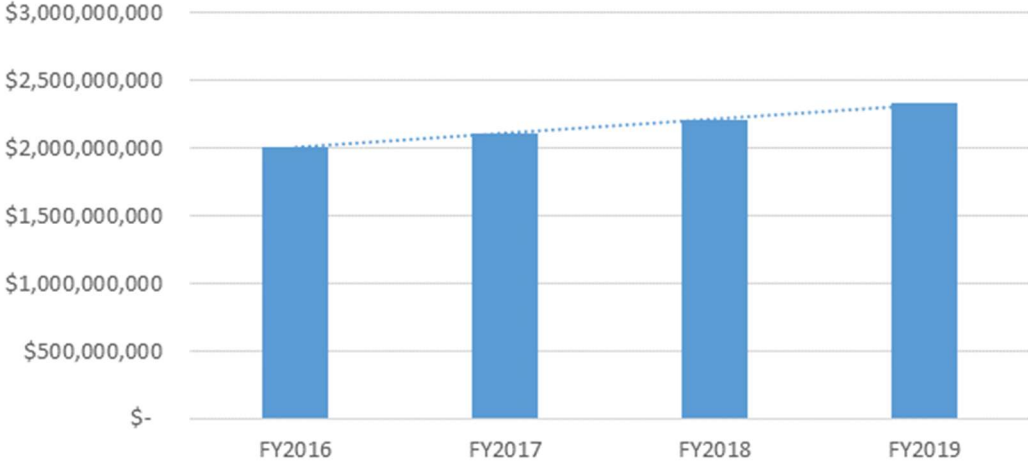
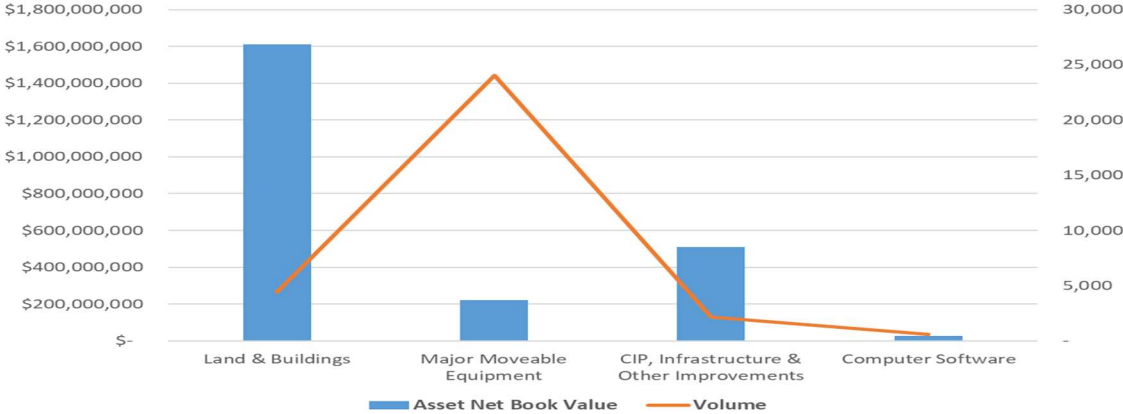


Illustration #2 “Net Asset Value and Volume by Asset Category” provides a snapshot as of March 2020 of net asset value and volume of assets by primary asset category. The Major Movable equipment category includes a high volume of assets that are tracked by Medical Center asset custodians.

Net Asset Value and Volume by Asset Category as of March 2020



Executive Summary

Scope and Objectives

The Office of Internal Audit has completed its Asset Management Audit. This is a risk based audit and part of the fiscal year 2020 Audit Plan. The audit scope included transactions recorded in fiscal year 2020 through February 2020 and selected subsequent asset purchases. The overall audit objective is 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. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, data analytics and substantive testing of selected records. This review did not include review of the Land and Buildings, Art and Books or Construction in Progress categories.

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

Conclusion

Opportunities exist to improve monitoring controls and accountability to ensure asset records are accurate and updated timely. Asset Management's implementation of a new radio frequency identification (RFID) inventory tracking program and improved departmental reporting will aid department asset custodians in maintaining accurate asset location and assigned employee records to reduce the risk of missing assets. Additionally, improving processes and controls will ensure that newly acquired asset tagging is completed in a timely manner. Finally, correcting asset value errors and misclassification errors by purchasers will ensure assets are accurately reflected in financial statements.

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

Priority (0)	High (0)	Medium (4)	Low (0)	Total (4)
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The key improvement opportunities are summarized below.

- 1. **Implement Monitoring Controls to Improve Timeliness of Department Asset Custodian Updates** - Departmental asset custodians do not consistently update asset records in a timely manner to reflect changes in location and custodian, increasing the risk of delays in asset tracking, identification of missing assets and non-compliance with state regulations and policies.

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- 2. **Improve Asset Management Tagging Process and Controls** - Processes and controls need improvement to ensure all assets are tagged upon receipt and before being placed into service. Delays in tagging increase the risk of missing property and financial loss.
- 3. **Correct Errors in Asset Value Balances and Errors in Assigned Useful Lives** – There are assets with incorrect values in the PeopleSoft (PS) asset database, including assets with a negative net book value and inconsistent application of useful lives when viewed by asset category. Correction of the asset value errors are in process. . Delays in correcting asset balances and assigned useful lives can increase the risk of inaccurate financial reporting.
- 4. **Provide Refresher Training to Departmental Purchasers to Ensure Proper Asset Classification** – Asset categorization code selection errors (expense code instead of an asset code) made by department purchasers resulted in asset misclassification, overstating expenses and resulting in inaccurate financial statement reporting.

Management has plans to address the issues identified in the report and, in some cases, has already implemented corrective actions. These responses, along with additional details for the key improvement opportunities listed above are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

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

Sincerely,

Valla Wilson, Vice President for Internal Audit and Chief Audit Executive

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Executive Summary

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>1. Implement Monitoring Controls to Improve Timeliness of Department Asset Custodian Updates</p> <p>Updates to asset records, including asset location and change in asset custodians, are not administered timely increasing the risk of missing assets and inaccurate reporting going undetected.</p> <ul style="list-style-type: none"> Departmental asset administrators do not update asset custodian records in a timely manner to reflect changes in physical location or custodian assignment for controlled assets. When employees terminate, transfer or when an asset change is needed, Asset Management relies on the department administrator to have proper processes and controls in place to maintain accurate asset records. <p>The State Comptroller's Office requires public agencies and institutions of higher education to capture and track organizational deployed controlled assets. Agencies are expected to have internal controls in place to ensure correct assigned custodian and location at all times.</p>	<ol style="list-style-type: none"> Implement an updated inventory-tracking program and determine a risk based sampling approach and monitoring procedures to hold asset custodians accountable for managing assets. Provide training to department asset custodians on responsibilities for performing an asset physical inventories and certifying results. Develop system reporting to flag department asset custodians when an employee terminates or changes departments so timely custodian updates can be processed. Update the Asset Management SOP to reflect PeopleSoft 9.2 instruction updates. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> An updated inventory-tracking program, using RFID technology is in process, which will help department asset custodians efficiently identify the location of their departmental assets. As a part of the rollout of the new inventory-tracking program, training will be provided to department asset custodians. Coordinate with EDW team to develop reporting for departments' asset custodians to flag assets for review when an employee terminates or changes departments. Updating the Asset Management SOP with updated PS 9.2 instructions. <p><u>Action Plan Owners:</u></p> <p>1. – 4. Associate Vice President, Supply Chain Management</p> <p>3. Associate Vice President, Supply Chain Management</p> <p>Associate Vice President & Chief Data Officer</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>While an attestation process is in place for custodians to attest they have controls in place to maintain the accuracy of recorded assets, monitoring controls are not sufficient for validating the department assertions.</p> <ul style="list-style-type: none"> In addition, each department Asset Administrator relies on guidance provided by the Asset Management team to ensure standard procedures and uniform reporting steps are followed as they perform their duties. The Standard Operating Procedures (SOP) refer to PeopleSoft 9.1 instructions and have not been updated for PeopleSoft 9.2 instructions. 		<p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> December 31, 2020 November 30, 2020 August 31, 2020 July 31, 2020

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>2. Improve Asset Management Tagging Process and Controls</p> <p>Processes and controls need improvement to ensure all assets are tagged upon receipt and before being placed into service. Delays in tagging increase the risk of missing property and financial loss.</p> <p>Since assets are shipped directly to departments and placed into use or are deployed directly to patient care areas and put in service before tagged, there is a risk of delayed tagging if there are delays in the assets being received in the system or asset records not set up timely.</p> <ul style="list-style-type: none"> • In February 2020, there were 93 major movable equipment items (in service greater than 30 days) without an asset tag. <ul style="list-style-type: none"> ○ 69 tag numbers were entered after the report was generated ○ 24 assets were not yet tagged and were in service for greater than 30 days. 20 of these assets (83%) were assigned to University Hospitals. <p>The goal of Asset Management is to assign asset tags within 30 days of deployment.</p>	<ol style="list-style-type: none"> 1. Develop plan to place asset tags on the assets that are currently in service without an asset tag. 2. Update notification process with University Hospitals to ensure once assets are received they are tagged before placed into service. 3. Communicate and hold the departments accountable for not receiving assets timely in the system. 4. Update asset tagging and asset records for the 2018 asset trade-in to properly track the assets. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. We have already completed tagging of most of the reported items. We have located the remaining items and we are coordinating with department leadership to tag them, as they are available in patient care areas. 2. The Asset Management team is coordinating with University Hospitals Supply Chain to improve the notification process and ensure asset tagging occurs upon delivery and before the asset is placed into service. 3. We will provide departmental reporting of assets that are not tagged within 30 days due to untimely receipt. 4. 4.a. Asset Accounting will remove the trade in assets and add the new assets to the asset register. 4.b. Asset Management in coordination with CUH Supply Chain will tag the new assets.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> Hospital surgical monitors were not tagged due to an equipment upgrade trade in that was incorrectly processed in the system. A 2018 purchase order to upgrade and exchange 61 hospital surgical monitors was not designated as a trade-in, and as a result, the asset records were not updated and the new equipment was not tagged. In early 2020, system enhancements were made that improved the trade-in identification process to correct these types of issues. 		<p><u>Action Plan Owners:</u></p> <p>Director, Materials Management Operations, Supply Chain Management</p> <p>Manager, Asset Management, Supply Chain Management</p> <p>Accounting Manager, Accounting and Fiscal Services</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> August 31, 2020 July 31, 2020 July 31, 2020 a.-b. July 31, 2020

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>3. Correct Errors in Asset Value Balances and Errors in Assigned Useful Lives</p> <p>There are assets with incorrect values in the PeopleSoft (PS) asset database. Although the errors were identified at the beginning of the fiscal year, currently, there remains 127 in-service assets with negative net book amounts totaling (\$947,000) or .04% of total net assets. When identified asset balance errors are not resolved in a timely manner it increases the risk of inaccurate financial reporting.</p> <p>The asset value balance errors are due to:</p> <ul style="list-style-type: none"> - PeopleSoft 9.2 conversion issues where prior depreciation was incorrectly loaded into the new database, and - Asset value adjustments posted to assets reduced the value below the net asset value. <p>Negative net book value assets have in-service dates from 2003 to 2015 and only a few had a negative net book value that existed prior to the PeopleSoft 9.2 conversion.</p> <p>The Asset Accounting and Information Resources teams have been working to identify the root cause of the negative net book value issue and are communicating with the software vendor to determine a resolution.</p>	<ol style="list-style-type: none"> 1. Asset Accounting should correct the negative net book value amounts. 2. Collaborate with Information Resources to determine an effective system solution to prevent this from occurring going forward. 3. Evaluate and correct the asset database records for assets with different recorded useful life periods as appropriate. 4. Update Asset Accounting monthly monitoring controls to identify asset balance and useful life errors and resolve in a timely manner including: <ul style="list-style-type: none"> - Review and confirmation of appropriate net book value for active assets, and - Application of standard asset lives as defined by the Medical Center. 	<p><u>Management Action Plans:</u></p> <p>The Asset Accounting team is reviewing the detailed support to assess impact on financial reporting, required corrective steps and period end adjustments.</p> <ol style="list-style-type: none"> 1. We are developing project plan to correct the negative net book value assets and confirm the root cause of the negative net book value. 2. We are collaborating with Information Resources to identify system enhancements to flag negative net book value adjustments as they are posted or flagged in monthly reporting for review and correction. 3. We are reviewing asset database records and identifying and correcting asset lives for those that have different useful life periods for assets that have not been fully depreciated and have a material impact on the financial statements. Some assets in the same asset category have purposefully been assigned a shorter or longer life based on parameters specific to those assets when placed in service. The Asset Accounting monthly monitoring activities include review of assigned asset lives for newly added assets each month to identify these errors going forward.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Additionally, some similar assets in the database contained differing asset lives resulting in errors for depreciation expense charged each month and errors in the asset net book value. Assets of a similar nature can have different useful lives based on specific expected lifespan of a particular asset. The Asset Accounting team recently implemented updated monitoring to review and confirm asset lives for new assets to identify these errors each month; however, previous assets that may have differing lives are not included in the review. For example, two similar vehicles purchased in 2017 had similar costs but two different asset lives. One vehicle had a 5-year life and the other vehicle had a 7-year life. Documentation is not available to support the application of varying asset lives.</p>		<p>4. The monthly monitoring controls performed by Asset Accounting include identification of assets with negative net book value, using the Net Book Value report. On a quarterly basis, Asset Accounting will review asset lives that are inconsistent with the standard useful life by asset category. Updates are made based on these reviews.</p> <p><u>Action Plan Owners:</u></p> <p>Assistant Vice President, Accounting and Fiscal Services Assistant Vice President, Administrative Systems</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. August 31, 2020 2. October 31, 2020 3. August 31, 2020 4. Completed

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>4. Provide Refresher Training to Departmental Purchasers to Ensure Proper Asset Classification</p> <p>Departmental administrators with purchasing responsibilities create asset categorization errors when the wrong code (expense instead of an asset code) is selected. Misclassifying acquired assets as expense overstates expenses, and can lead to inaccurate financial statement presentation.</p> <p>Sample testing of 20 minor equipment expenditures identified two asset items with a value of \$5,000 or greater that were incorrectly processed and recorded as expense rather than as a capitalized asset due to incorrect selection of expense code at time of requisition. These requisitions were approved and processed with the incorrect expense code.</p>	<ol style="list-style-type: none"> 1. Update Accounting team monitoring procedures to include periodic review of expenses greater than \$5,000 to identify misclassified assets. 2. Update Supply Chain review procedures to identify misclassified assets prior to final requisition approval. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. In early 2020, the Accounting team developed updated monitoring procedures to include running a monthly query of expenses to identify expense items that should be capitalized. This updated process would have identified these expense items for capitalization. <p>We will update the SOP so that as exceptions are identified, we will contact the department to let them know that the error occurred and to provide them a link to the training resources as a reminder of the process to accurately select the asset code.</p> <p>1a. Updating the requisition approval process to route selected expenses greater than \$5K to the Asset Accounting team for review prior to final approval of the requisition before a purchase order is executed. As exceptions are identified, we will contact the department to let them know that the error occurred and to provide them a link to the training resources as a reminder of the process to accurately select the asset code.</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		<p>2. As errors in requisition codes are identified, either Supply Chain team members or Asset Accounting team members will notify the department requisitioner to let them know that an update to the requisition is needed. The requisitioner will also be directed to review the Supply Chain training for reinforcement of this requirement.</p> <p>In addition, the Supply Chain intranet site includes a link to key Supply Chain training for reference as requisitions are being completed.</p> <p><u>Action Plan Owners:</u></p> <p>Accounting Manager, Accounting and Fiscal Services Director, Purchasing, Supply Chain Management</p> <p><u>Target Completion Dates:</u></p> <p>July 31, 2020</p>

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:

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.	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 presented on the subsequent 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.