



THE UNIVERSITY OF TEXAS AT DALLAS

800 West Campbell Rd., SPN 32, RICHARDSON, TX 75080 (972) 883-4876

November 25, 2014

Dr. Daniel, President
Ms. Lisa Choate, Chair of the Internal Audit Committee,

Internal Audit is required by UTS 142.1, *Policy on the Annual Audit Report*, Section 6, to perform an annual internal audit of the monitoring plan for financial statement certifications and validate the assertions on segregation of duties and account reconciliations. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Generally, we found that UT Dallas has a risk assessment and monitoring plan in place to properly monitor financial statement certifications and ensure an appropriate segregation of duties and account reconciliation process.

Also, Internal Audit worked under the direction of the Deloitte auditors on the Fiscal Year 2014 financial statement audit as part of our Fiscal Year 2015 audit plan. Deloitte will issue a separate report regarding the results of their work; however, we found some issues that are not considered reportable by Deloitte but that we felt should be communicated to management to strengthen the financial reporting process.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

A handwritten signature in blue ink that reads 'Toni Stephens'.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:

Randy Rikel, Associate Vice President and Controller

Members of the UT Dallas Audit and Compliance Committee:

External Members:

Mr. Bill Keffler
Mr. Ed Montgomery
Ms. Cynthia Trochu
Dr. Hobson Wildenthal, Executive Vice President and Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
Dr. Bruce Gnade, Vice President for Research
Dr. Darrelene Rachavong, Vice President for Student Affairs
Mr. Timothy Shaw, University Attorney

The University of Texas System:

Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
Alan Marks, Assistant Vice Chancellor of Academic Affairs and Athletics Counsel
Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

State of Texas Agencies:

Legislative Budget Board
Governor's Office
State Auditor's Office
Sunset Advisory Commission

Executive Summary

Annual Financial Report, Report No. 1506

Audit Objective and Scope: Internal Audit is required by UTS 142.1, Policy on the Annual Audit Report, Section 6, to perform an annual internal audit of the monitoring plan for financial statement certifications and validate the assertions on segregation of duties and account reconciliations. Also, Internal Audit worked under the direction of the Deloitte auditors on the Fiscal Year 2014 financial statement audit as part of our Fiscal Year 2015 audit plan.

Audit Results: The audit resulted in no recommendations considered significant to University operations; however, we offer the following recommendations to strengthen the financial reporting process.

<i>Recommendation</i>	<i>Estimated Implementation Date</i>
(1) Improve Accounting over Gains and Losses of Capital Assets	April 30, 2015
(2) Improve Controls over the Receipt of Purchases	December 15, 2014

Conclusion: Generally, we found that UT Dallas has a risk assessment and monitoring plan in place to properly monitor financial statement certifications and ensure an appropriate segregation of duties and account reconciliation process. Deloitte will issue a separate report regarding the results of their work; however, we found some issues that are not considered reportable by Deloitte but that we felt should be communicated to management to strengthen the financial reporting process.

Responsible Vice President: Mr. Terry Pankratz, Vice President for Budget and Finance	Responsible Party: Mr. Randy Rikel, Associate Vice President and Controller
---	---

Staff Assigned to Audit:
 Toni Stephens, Institutional CAE, CPA, CIA, CRMA; Ashley Mathew, Staff Auditor

Table of Contents

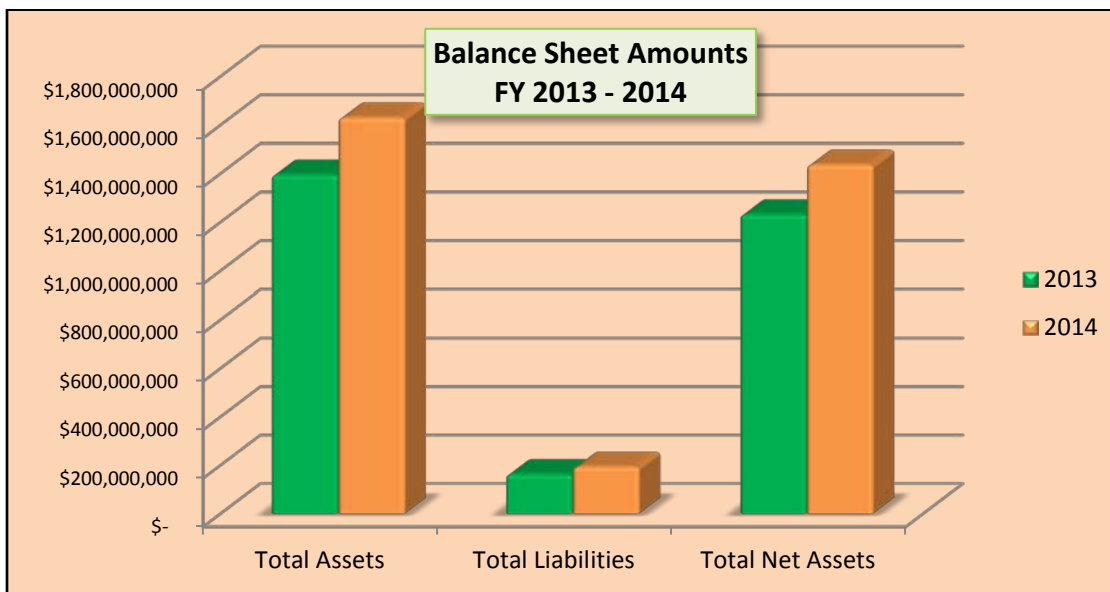
Background	4
Audit Objective	6
Scope and Methodology.....	6
Audit Results and Management’s Responses.....	7
Audit Recommendations	
(1) <i>Improve Accounting over Gains and Losses of Capital Assets</i>	7
(2) <i>Improve Controls over the Receipt of Purchases</i>	8
Status of Prior Audit Recommendations.....	9
Conclusion	9

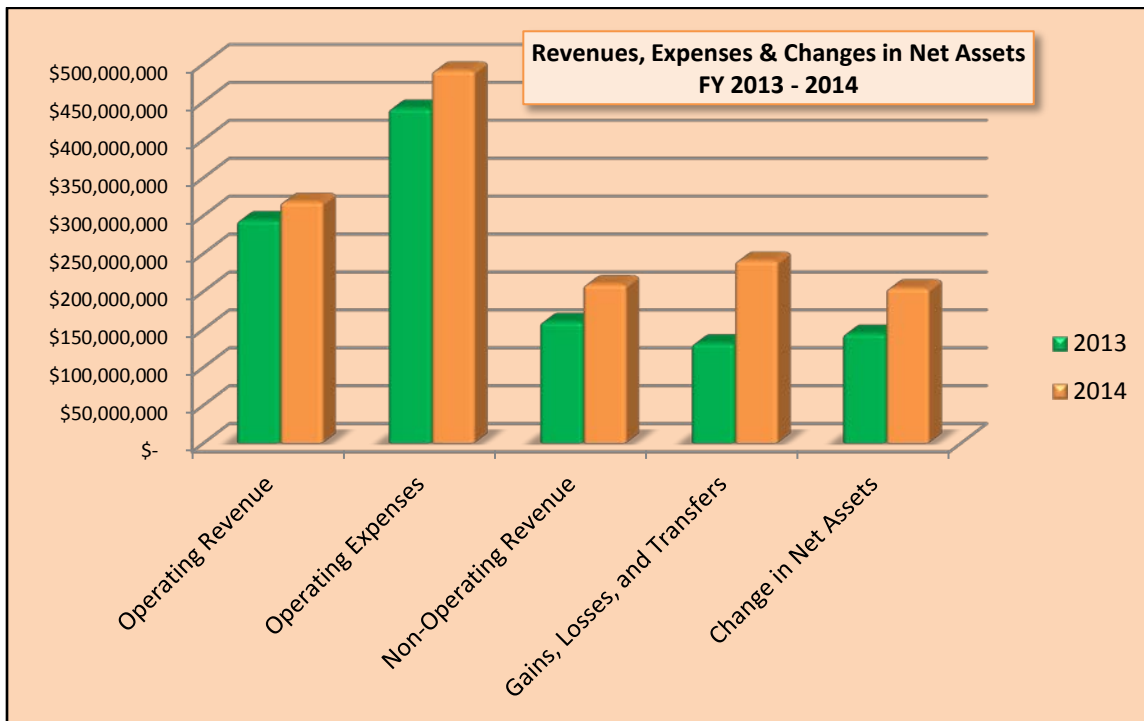
Background

The UT System is composed of nine academic and six health-related institutions of higher education as well as UT System Administration. Annual Financial Reports (AFRs) and related footnote information are prepared by the financial reporting officers at each UT institution and UT System Administration in accordance with accounting and financial reporting requirements promulgated by UT System policy and the Texas Comptroller of Public Accounts to be included in the UT System Consolidated AFR. The Office of the Controller at UT System Administration consolidates AFRs from all UT institutions and UT System Administration and prepares footnotes and other related disclosures so that the UT System Consolidated AFR is prepared in accordance with generally accepted accounting principles. The information included in The University of Texas at Dallas (UT Dallas) AFR and related footnote information is the responsibility of UT Dallas management.

The UT System Board of Regents approved the hiring of Deloitte to conduct an independent audit of the Consolidated AFR of the UT System. Deloitte is responsible for auditing the Consolidated AFR, which includes the balance sheet as of August 31, 2014 and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. As part of the external financial audit, internal audit assisted Deloitte under their direction in the performance of financial audit procedures. Deloitte will prepare a separate audit report detailing the results of their audit.

Summarized UT Dallas AFR Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flow information is listed below.





Cash Flows	2014	2013
Net Cash Provided (Used) by Operating Activities	(\$ 99,935,810)	(\$ 82,435,770)
Net Cash Provided (Used) by Noncapital Financial Activities	\$172,079,891	\$155,497,478
Net Cash Provided (Used) by Capital and Related Financing Activities	(\$ 26,372,851)	(\$ 28,843,133)
Net Cash Provided (Used) by Investing Activities	(\$ 34,664,650)	(\$ 29,812,350)
Net Increase (Decrease) in Cash	\$ 11,106,580	\$ 14,406,224
Cash & Cash Equivalents at Beginning of Year	\$ 92,540,275	\$ 78,134,051
Cash & Cash Equivalents at End of Year	\$103,646,855	\$ 92,540,275

UTS 142.1, *Policy on the Annual Financial Report*¹, provides for “financial reporting requirements and duties related to those responsible for financial reporting, the approval of accounting records and responsibilities for establishing internal controls to ensure that funds are expended and recorded appropriately, and procedures for obtaining services by an external audit firm.” The policy designates a Financial Reporting Officer who is responsible for the integrity of the financial statements. These responsibilities include assuring efficient and effective internal controls over the preparation of the financial statements, identifying sources of the financial data, and evaluating material impacts of the sources of financial data.

¹ <http://www.utsystem.edu/bor/procedures/policy/policies/uts142.html>

In addition, the Financial Reporting Officer establishes controls over the annual closing of the accounting records, including the correct timing to ensure inclusion of material financial data, the validity of the adjusting entries, and the reconciliation of sub-accounts into the general ledger.

UTS 142.1 also states that each university must have a monitoring plan for account reconciliation and segregation of duties. The Risk Management Plan, (RMP), tested annually by Internal Audit, is risk-based and updated annually. The Financial Reporting Officer has certified that the financial accounts are presented fairly with no misrepresentations and abides by the Financial Code of Ethics.

Audit Objective

Internal Audit is required by UTS 142.1, Policy on the Annual Audit Report, Section 6, to perform an annual internal audit of the monitoring plan for financial statement certifications and validate the assertions on segregation of duties and account reconciliations. Also, Internal Audit worked under the direction of the Deloitte auditors on the Fiscal Year 2014 financial statement audit as part of our Fiscal Year 2015 audit plan.

Scope and Methodology

The scope of this audit was fiscal year 2014, and our fieldwork concluded on November 12, 2014. To satisfy our objectives, we performed the following:

- Reviewed the Risk Management Plan.
- Reviewed the certification process (letters of representation) for compliance with UTS 142.1.
- Verified that both cost center (subledger) and balance sheet (general ledger) reconciliations were performed in a timely manner, were approved by someone other than the reconciler for appropriate separation of duties, and agreed and/or reconciled to the financial system.
- Conducted the financial statement audit work under the direction and guidance of Deloitte.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management's Responses

We found that UT Dallas has a risk management plan in place to properly monitor financial statement certifications and ensure an appropriate segregation of duties and account reconciliation process. Deloitte will issue a separate report regarding the results of their work.

A priority finding is defined by the UT System Audit Office as "an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. We have **no priority findings** resulting from this audit; however, the following recommendations will help enhance the financial reporting process.

Audit Recommendations

(1) Improve Accounting over Gains and Losses of Capital Assets

According to the Texas State Comptroller², a gain or loss must be calculated and reported when cash is exchanged and the amount paid does not equal the net book value of the disposed asset. Approximately \$45,000 was recorded in revenues from the sale of assets on the annual financial report for the year ended August 31, 2014; however, no gains or losses were calculated from these sales.

When assets are sold at UT Dallas, proceeds from the sale are deposited to a cost center for general university use and recorded as revenue from surplus sales. The sale of disposed assets is handled by Inventory and Logistics. The proceeds and documentation from the sale are received by Inventory and Logistics and directly deposited with the Bursar's Office. There is no gain or loss calculation performed or recorded in the capital assets module of the accounting system corresponding to a specific disposed asset as prescribed by the Comptroller.

Recommendation: Accounting should obtain documentation related to sales of disposed fixed assets and perform a gain or loss calculation. This data should be entered into the Asset Management Module within the PeopleSoft financial accounting system.

Management's Response: *Management agrees with the recommendations and will work with both Fixed Asset Accounting and Inventories & Logistics to utilize the functionality within the PeopleSoft Asset Management Module to record the gain/loss on sale of capital assets. Controlled Assets are sold by lot process and do not have a requirement of gain/loss as they were fully expensed at purchase.*

² https://fm.x.cpa.state.tx.us/fmx/pubs/spaprocc/ch1/1_1.php

Estimated Date of Implementation: *April 30, 2015*

Person Responsible for Implementation: *Randy Rikel, Associate Vice President and Controller*

(2) **Improve Controls over the Receipt of Purchases**

Ensuring appropriate separation of duties between the requisition, payment, and receipt of goods is a good control to minimize risks of both errors and fraudulent purchases. Ideally, a three way match control should be in place that ensures goods be ordered at the department level, approved by the department head or cost center manager, paid by Accounts Payable (AP) in Procurement Management, and received by Central Receiving or someone in the department who did not requisition the goods.

If evidence of receipt does not exist, AP will verify with either the department or Central Receiving to ensure the receipt of goods when the invoice due date is near. Also, for large capital assets, vendors often require installment payments prior to the receipt of the asset. In order to process both of these types of payments, AP will override the three way match in PeopleSoft.

Four AP staff members have authority to override this three way match control within PeopleSoft. Though PeopleSoft does note which purchase orders were matched through an override, there is no report generated of three way match overrides for review. AP relies on the cost center reconciliation process performed at the departmental level to catch items that may have been paid but not yet received; however, this is performed after payment is made.

Recommendation: A periodic review of AP overrides should be performed by someone other than those employees with access to override.

Management's Response: *Management agrees with the recommendation from Internal Audit. A query will be created and monthly reviews of AP overrides of three way matches will be conducted by AVP Procurement and/or independent compliance person.*

Estimated Date of Implementation: *December 15, 2014*

Person Responsible for Implementation: *Pete Bond, Assistant VP for Procurement Management*

Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1409, Annual Financial Report, dated February 12, 2014.

Recommendation	Implemented?
(1) Review Liabilities for Compensable Absences	Yes
(2) Review Depreciation Schedules for Acquired Assets	Yes
(3) Enhance Process to Record In-Service Dates for Capital Assets	Yes
(4) Enhance Validation Process for Items Received	Yes

Conclusion

Generally, we found that UT Dallas has a risk assessment and monitoring plan in place to properly monitor financial statement certifications and ensure an appropriate segregation of duties and account reconciliation process. Deloitte will issue a separate report regarding the results of their work; however, we found some issues that are not considered reportable by Deloitte but that we felt should be communicated to management to strengthen the financial reporting process.

We appreciate the courtesy and cooperation received from the management and staff of the Office of Budget and Finance during this audit.