

October 31, 2012

Memorandum

To: Dwain Morris
Vice President and Chief Financial Officer

Michael Keneker
Associate Vice President and Controller

From: Sherri Magnus *Sherri Magnus*
Vice President and Chief Audit Officer, *ad interim*

Subject: Segregation of Duties and Account Reconciliation (*Revised*)
Audit Control Number 2013-104

We have completed our review of the institution's compliance with UT System Administrative Policy UTS142.1, Policy on the Annual Financial Report. The objective of this review was to validate management's assertions on Segregation of Duties (SOD) and Status of Company Center (SOCC) reconciliations. The scope included processes in place during FY 2012.

Background

Financial Controls continued to monitor Segregation of Duties and Status of Company Center reconciliations throughout FY 2012, submitting results quarterly to executive management. On August 21, 2012, attestation letters, i.e. sub certifications, were sent to 200 departments identified by an organizational code. The status of the sub certification process as reported by Financial Controls:

<u>Category</u>	<u>Count</u>	<u>Percentage of Total</u>
Clean Signed Attestation Letters	182	91%
Letters with Remediation Plans*	18	9%
TOTAL	200	

*NOTE: *Remediation plans indicate the department did not meet the minimum requirements of control.*

Methodology

The scope of our review included the institution's FY 2012 Monitoring Plan as documented. We also reviewed FY 2012 management attestations returned to Financial Controls without qualifications or remediation plan requests. We randomly selected 19 of the 182 attestations (10%) to validate management's assertions. Validation testing included:

- Interviews with key management personnel to determine the internal control processes related to department operations, attestation letter management and remediation plan follow up.
- Review of the departmental segregation of duties (SOD) for adherence to institutional guidelines.
- Review of selected status of company center (SOCC) reconciliations to ensure they were complete, timely, adequately supported, and approved.
- Review of Monitoring Plan sampling methodologies and documentation maintained in support of divisional monitoring requirements.
- Comparison of UTS policy requirements to MD Anderson policy and procedures.

Observations

Conformance with UTS 142.1 – Sub Certification Process

We noted the following during our review of the sub certification process:

- The UTS policy states that Appendix 2 contains minimum requirements for sub certification. The sample letter in the appendix details the accounts to be reconciled by management. MD Anderson developed its own sub certification letter, which details the organization code, but not the detailed list of accounts for which management is accepting responsibility. Financial systems available during FY 2012 did not allow for direct matching of accounts to organization codes, resulting in the potential for unrecognized gaps in coverage. For example, a department chair may attest to controls established for an organization code, not realizing that he/she is attesting to reconciling certain accounts (CBCs) for which he/she has no control. Management indicated that ResourceOne, the newly implemented enterprise resource planning system, will be able to provide greater transparency in FY 2013 regarding the accounts to which management is attesting.
- The UT sub certification letter requires departments to attest that controls are in place and balances are accurate through August 31st of the fiscal year. Based on the time required to reconcile, submit the sub certification letters, and validate the sub certifications, it is almost impossible for MD Anderson departmental management to attest to controls and balances through August 31st. Management agreed in discussions with Internal Audit that the MD Anderson attestation template should be reviewed with UT System to determine how to resolve these differences.
- One of the 19 departments in our sample of "clean" attestations altered the text of the FY 2012 standard attestation letter. The alteration had not been observed prior to our validation process. This instance was brought to the attention of Financial Controls who will work with senior management to determine if a remediation plan is warranted.

Conformance with UTS 142.1 Monitoring Plan

The monitoring plan appears to be functioning as documented in the Financial Controls guideline, Reconciliation and Segregation of Duties Monitoring Plan. UTS policy requires that MD Anderson submit the Monitoring Plan to the UT System Financial Officer each year as of February 28th. During FY 2012, the Plan was verbally presented to the UT System Chief Audit Officer but was not formally submitted. We also noted that the sampling methodology used to monitor non-material departments was not randomized. Process improvements in these areas will further the institution's alignment with the UT System policy.

Results

The results of our validations in 19 departments are summarized in **Appendix A**. Specific improvements were communicated to management in the various departments at the conclusion of fieldwork in their area.

With the original 18 departments who could not sign a clean attestation and the 4 departments who had significant deficiencies during our testing, the institution is aware of 22 departments, or 11%, who could not certify that adequate controls were in place during FY 2012. As a result, the institution is qualifying its certification to UT System for FY 2012. The qualifying language is as follows:

“While Management believes that the existing internal control structure is adequate to ensure accuracy of financial reporting, management has knowledge of control weaknesses not fully addressed including the lack of complete and consistent performance of account reconciliation activities. Significant progress has been made during the past fiscal year to increase compliance in account reconciliation activities by creating policies, enhancing reconciliation tools, and providing training to the institution.”

We would like to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by management and staff in the departments included in our review, as well as the assistance provided by Financial Controls.

cc: Randy Wallace, UT System, Associate Vice Chancellor, Controller and Chief Budget Officer
Mike Peppers, UT System, Chief Audit Executive, *ad interim*

**Appendix A
Attestation Validation Matrix**

✓	No Deficiency					
I	Insignificant Deficiency - not significant to overall reconciliation process					
S	Significant Deficiency - is significant to overall reconciliation process					
	Not Applicable/Not Observed					
Attestation Areas Validated	Segregation of Duties		SOCC Reconciliations			
Department	Initiation, recording, approval and reconciliation of financial transactions is segregated.	Mitigating Controls in place where complete segregation is not possible	Reconciliation of all Financial Transactions	Performed Timely	Adequate Evidence of Reconciliation	Reconciliation approved
Academic Technology Services	✓		✓	✓	✓	✓
CTRC Lab	✓		✓	✓	✓	✓
Employee Health Services	S - JDUF Not Segregated		✓	I	✓	✓
Experimental Therapeutics	✓		✓	✓	✓	✓
Financial Planning & Analysis	✓		✓	✓	✓	✓
GI Medical Oncology	✓		S	S	✓	S
Head and Neck	✓		✓	✓	✓	✓
Head/Neck Surg - Research	✓		✓	✓	✓	✓
HR Svc Center	✓		S	✓	✓	✓
Internal Medicine Center	✓		✓	✓	✓	✓
Legal Services	✓		✓	✓	✓	✓
Ombuds Office	✓		✓	✓	✓	✓
Pediatrics - Child & Adolescent Center	✓		✓	✓	✓	✓
Presidents Office	✓		✓	I	✓	✓
Psychiatry	✓		I	S	✓	✓
Special Med Education	✓		✓	I	✓	✓
Stem Cell Pheresis Ctr	✓		✓	✓	✓	✓
Stem Cell Transplantation	✓		✓	I	✓	✓
Treasury Services	✓		✓	✓	✓	✓