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System Audit Office

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May 23, 2014

Randy Wallace
Associate Vice Chancellor, Controller & Chief Budget Officer
The University of Texas System Administration
201 West 7th Street, ASH 5th Floor
Austin, Texas 78701

Dear Mr. Wallace:

We have performed an audit of financial controls for the following departments at The University of Texas (UT) System Administration:

1. Board of Regents
2. Governmental Relations
3. Health Affairs
4. Historically Underutilized Business Development
5. Office of Strategic Initiatives
6. Systemwide Compliance and Information Security
7. Technology Commercialization

The detailed report is attached for your review.

We conducted our engagement in conformance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and with the assistance of UT Austin students to help them meet their course requirements.

We appreciate the assistance provided by your staff and the staff from the selected departments.

Sincerely,

J. Michael Peppers, CPA, CIA, CRMA, FACHE
Chief Audit Executive

cc: Francisco Cigarroa, M.D., Chancellor
Ms. Sandra Neidhart, Fiscal and Policy Analyst, Office of the Controller

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas
of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler

The University of Texas
Southwestern Medical Center

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Medical Branch at Galveston

The University of Texas
Health Science Center at Houston

The University of Texas
Health Science Center at San Antonio

The University of Texas
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The University of Texas
Health Science Center at Tyler

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The University of Texas System Audit Office

**Audit of Financial Controls at Selected University of Texas
System Administration Offices
FY 2014**



May 2014

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The University of Texas System Audit Office
Audit of Financial Controls at Selected UT System Administration Offices
Fiscal Year 2014

Audit Report
 May 2014

EXECUTIVE SUMMARY

UTS142.1, *Policy on the Annual Financial Report*, requires each financial reporting officer within The University of Texas (UT) System to “develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” According to UTS142.1, “the monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” In accordance with its monitoring plan, the UT System Office of the Controller (Controller’s Office) plans annual account reconciliation and segregation of duties inspections of UT System Administration offices. The Controller’s Office selects offices based on a risk assessment, and the UT System Audit Office (System Audit) performs audits of the selected offices on behalf of the Controller’s Office. The Offices of the Board of Regents, Governmental Relations, Health Affairs, Historically Underutilized Business Development, Strategic Initiatives, Systemwide Compliance and Information Security, and Technology Commercialization were selected for this audit.

The objectives of this audit were to determine whether account reconciliations are properly performed and reviewed; whether there is adequate segregation of duties for the reconciliation process; and whether those performing reconciliation duties have received training or whether additional training may be needed. The scope of this audit included account activity for the period September 1, 2013 through January 31, 2014. We conducted our audit in conformance with The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing* and with the assistance of UT Austin students to help them meet their internal audit course requirements.

As illustrated in the table to the right, we found that all seven offices completed their account reconciliations for the period audited and that duties over the reconciliation process were adequately segregated. However, three of the seven offices did not complete their reconciliations timely, i.e., within 60 days of the end of the month being reconciled. For two offices, not all staff involved in the reconciliation process had completed training prior to commencement of this audit. Untimely account reconciliations and lack of reconciliation training may increase the risk of errors or fraud going undetected or unidentified in a timely manner.

UT System Administration Office	Reconciliations Performed and Reviewed	Reconciliations Completed Timely (within 60 days)	Duties Adequately Separated	Appropriate Staff Completed Reconciliation Training
Board of Regents	✓	✓	✓	✓
Historically Underutilized Business	✓	✓	✓	✓
Strategic Initiatives	✓	✓	✓	✓
Systemwide Compliance and Information Security	✓	✓	✓	✓
Governmental Relations	✓	No	✓	✓
Health Affairs	✓	No	✓	✓
Technology Commercialization	✓	No	✓	No

Lastly, UT System Administration does not have documented criteria that set clear expectations for when reconciliations should be completed. Without a formally-defined standard, each office may define timeliness differently, which could lead to delays in account reconciliations. Delays in reconciling accounts of



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two months or longer after the end of the month being reconciled may also increase the risk of errors or fraud going undetected or unidentified in a timely manner.

CONCLUSION

For the majority of offices reviewed, financial controls over the reconciliation process are in place and functioning as intended. However, we noted opportunities for improvement with regard to timeliness of completing account reconciliations and training of the individuals involved in the reconciliation process. To address these observations, we have made recommendations to the respective offices to ensure that account reconciliations are completed timely and that all appropriate personnel complete reconciliation training. In addition, UT System Administration does not have any documented criteria that set clear expectations for when monthly account reconciliations should be completed. Consequently, we have recommended that the Controller's Office develop and document a clear expectation of when monthly account reconciliations should be completed and communicate this standard to the UT System Administration offices.

We appreciate the assistance provided during this engagement by staff from the selected UT System Administration offices and the Controller's Office, as well as the UT Austin students.

J. Michael Peppers, CPA, CIA, CRMA, FACHE
Chief Audit Executive

Eric J. Polonski, CPA, CIA
Assistant Director of Audits



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BACKGROUND

UTS142.1, *Policy on the Annual Financial Report*, requires each financial reporting officer within The University of Texas (UT) System to “develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” According to UTS142.1, “the monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” In accordance with its monitoring plan, the UT System Office of the Controller (Controller’s Office) plans annual account reconciliation and segregation of duties inspections of UT System Administration offices. The UT System Audit Office (System Audit) performs audits of the selected offices on behalf of the Controller’s Office. The Controller’s Office selects offices for review based on a risk assessment, which focuses on two primary factors: 1) the date of the last assurance activity; and 2) judgmental factors which may include lack of required training, multiple errors in past inspections, turnover, and input from System Audit. For this engagement, the Controller’s Office selected the following offices for review:

1. Board of Regents
2. Governmental Relations
3. Health Affairs
4. Historically Underutilized Business Development
5. Strategic Initiatives
6. Systemwide Compliance and Information Security
7. Technology Commercialization

AUDIT OBJECTIVES & SCOPE

The objectives of this audit were to determine whether:

- Account reconciliations are properly performed and reviewed;
- There are adequate segregation of financial duties; and
- Those performing reconciliation duties have received training or if additional training is needed.

This audit included activities in office accounts and operations for Fiscal Year (FY) 2014 beginning September 1, 2013 through January 31, 2014.

AUDIT METHODOLOGY

As part of the audit, we interviewed staff responsible for financial controls over the reconciliation process; reviewed 130 account reconciliations for a sample of months to determine whether they were performed appropriately and timely; tested a sample of transactions for appropriate documentation, approval, compliance, and recording; and verified training completion to determine whether that staff involved in the reconciliation process has received the appropriate training.

For testing purposes, we used 60 days of the end of the month being reconciled as the criterion for timeliness (i.e., the reconciliation process for an account should be completed within 60 days after the end of the month being reconciled).

Our audit was conducted in conformance with The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. In addition, we conducted this audit with the assistance of UT Austin students to help them meet their internal audit course requirements.



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AUDIT RESULTS

As illustrated in the table to the right, we found that all seven offices completed their account reconciliations for the period audited and that duties over the reconciliation process were adequately segregated. However, three of the seven offices did not complete their reconciliations timely, i.e., within 60 days of the end of the month being reconciled. For two offices, not all staff involved in the reconciliation process had completed training prior to commencement of this audit. Untimely account reconciliations and lack of training for those involved in the reconciliations process may increase the risk of errors or fraud going undetected or unidentified in a timely manner.

UT System Administration Office	Reconciliations Performed and Reviewed	Reconciliations Completed Timely (within 60 days)	Duties Adequately Segregated	Appropriate Staff Completed Reconciliation Training
Board of Regents (See <i>Appendix A</i>)	✓	✓	✓	✓
Historically Underutilized Business (See <i>Appendix A</i>)	✓	✓	✓	✓
Strategic Initiatives (See <i>Appendix A</i>)	✓	✓	✓	✓
Systemwide Compliance and Information Security (See <i>Appendix A</i>)	✓	✓	✓	✓
Governmental Relations (See <i>Appendix B</i>)	✓	No	✓	✓
Health Affairs (See <i>Appendix C</i>)	✓	No	✓	✓
Technology Commercialization (See <i>Appendix D</i>)	✓	No	✓	No

Recommendations to address our observations are detailed in the applicable appendices at the end of this report. Each office will receive a memorandum specific to that office. In addition to these office-specific recommendations, we identified the following opportunity for improvement for UT System Administration as a whole:

Timeliness Standard for Account Reconciliations

UT System Administration does not currently have a formal definition of “timeliness” with respect to performing account reconciliations. For this audit, we used a standard for timeliness that was agreed-upon with the Controller’s Office—within 60 days of the end of the month being reconciled. While the Controller’s Office provides training on performing account reconciliations in the form of an online module for most employees, or a one-page written summary for executives, the training does not explicitly define a standard timeframe for completing reconciliation of accounts. In addition, there is no UT System Administration internal (INT) policy that establishes a timeliness standard. Without a formally-defined standard, each office may define timeliness in a different way, which could lead to delays in reconciling their accounts. Delays in reconciling accounts of two months or longer after the end of the month being reconciled may increase the risk of errors or fraud going undetected or unidentified in a timely manner.

Recommendation: In light of UT System Administration’s transition to PeopleSoft in May 2014, the Controller’s Office should define a standard for timeliness with respect to completing account reconciliations and communicate this standard to the offices to ensure that accounts are reconciled and reviewed timely. This standard could be documented as part of the new draft reconciliation training and/or an INT policy.



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Management's Response: We will add a reference to the account reconciliation training materials that account reconciliations must be completed within 60 days of the end of the month being reconciled.

Anticipated Implementation Date: August 31, 2014



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Appendix A – Offices with no Recommendations

Office of the Board of Regents Audit Results

The Office of the Board of Regents is responsible for reconciling 11 accounts. We tested each account for performance of reconciliation, proper review, and approval. Two accounts did not have any activity for the months selected for review. For the remaining nine accounts, reconciliations were properly performed and reconciled within 60 days of the end of the month being reconciled. In addition, staff involved in the reconciliation process completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. We found, based on the procedures performed, that financial controls over the reconciliation process are in place and functioning as intended.

Office of Historically Underutilized Business (HUB) Development Audit Results

The Office of HUB Development is responsible for reconciling 13 accounts. We tested each account for performance of reconciliation, proper review, and approval. Two accounts did not have any activity for the months selected. For the remaining 11 accounts, reconciliations were properly performed and reconciled within 60 days of the end of the month being reconciled. In addition, staff involved in the reconciliation process completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. We found, based on the procedures performed, that financial controls over the reconciliation process are in place and functioning as intended.

Office of Strategic Initiatives Audit Results

The Office of Strategic Initiatives is responsible for reconciling 13 accounts. We tested each account for performance of reconciliation, proper review, and approval. Three accounts did not have any activity for the months selected for review. For the remaining ten accounts, reconciliations were properly performed and reconciled within 60 days of the end of the month being reconciled. In addition, staff involved in the reconciliation process completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. We found, based on the procedures performed, that financial controls are in place and functioning as intended.

Office of Systemwide Compliance and Information Security Audit Results

The Office of Systemwide Compliance and Information Security are responsible for reconciling 24 accounts. We tested each account for performance of reconciliation, proper review, and approval. Eight accounts did not have any activity for the months selected for review. All 16 accounts tested were reconciled within 60 days of the end of the month being reconciled and duties for the reconciliation process are adequately segregated. In addition, we vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. However, as of the time we conducted fieldwork, two individuals who took over responsibility for account reconciliations in January 2014 had not yet taken the reconciliation training provided by the Controller's Office. Prior to report issuance, one of these individuals completed the training on April 28, 2014, and the other on April 30, 2014. We found, based on the procedures performed, that financial controls are in place and functioning as intended.



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Appendix B

Office of Governmental Relations Audit Results

The Office of Governmental Relations completed their account reconciliations for the period reviewed. In addition, staff involved in the reconciliation process completed reconciliation training, and duties for the reconciliation process are adequately segregated. We also vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. However, the Office of Governmental Relations did not complete their account reconciliations timely.

Account Reconciliations Not Timely

The Office of Governmental Relations is responsible for reconciling eight accounts. We tested each account for performance of reconciliation, proper review, and approval. One account did not have any activity for the month selected. Though all accounts were reconciled and duties over the reconciliation process were adequately segregated, the seven active accounts tested were not reconciled within 60 days of the end of the month being reconciled. Untimely account reconciliations may increase the risk of errors or risk of fraud going undetected or unidentified in a timely manner.

Recommendation: The Office of Governmental Relations should ensure that account reconciliations are performed and reviewed in a timely manner.

Management's Response: The Office of Governmental Relations concurs with the audit results and conclusions that it failed to complete the reconciliation process within 60 days of the end of the month for the months tested. By the end of FY 2014 on August 31, process changes will be made by the accounts reconciliation processors to ensure that all current and future monthly reconciliations are concluded within this 60 day period.

Anticipated Implementation Date: August 31, 2014. Implementation of these new process changes will be dependent upon new reconciliation procedures related to the new PeopleSoft system, which OGR reconcilers are currently learning.



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Appendix C

Office of Health Affairs Audit Results

The Office of Health Affairs completed their account reconciliations for the period reviewed. In addition, staff involved in the reconciliation process completed reconciliation training, and duties for the reconciliation process are adequately segregated. We also vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. However, the Office of Health Affairs did not complete all of their account reconciliations timely.

Account Reconciliations Not Timely

The Office of Health Affairs is responsible for reconciling 42 accounts. We tested each account for performance of reconciliation, proper review, and approval. Seventeen accounts did not have any activity in the months selected for review. Though all accounts were reconciled and duties over the reconciliation process were adequately segregated, 4 of the 25 active accounts tested were not reconciled within 60 days of the end of the month being reconciled. Untimely account reconciliations may increase the risk of errors or risk of fraud going undetected or unidentified in a timely manner.

Recommendation: The Office of Health Affairs should ensure that account reconciliations are performed and reviewed in a timely manner.

Management's Response: After meeting with you and your team during the exit meeting, the Office of Health Affairs will ensure that the reconciliation of all of our accounts will be performed and reviewed in a timely manner.

Anticipated Implementation Date: This process is already implemented and all accounts are currently being reconciled on a monthly basis. However, dependent upon the new reconciliation procedures in PeopleSoft for our cost centers and accounts, and when the Office of the Controller provides instructions to Health Affairs, there might be a slight interruption in our implementation plan. As soon as Health Affairs is aware of the new reconciliation procedures in PeopleSoft and proper training is given, the Office of Health Affairs will ensure all accounts are reviewed and reconciled in a timely manner.



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Appendix D

Office of Technology Commercialization Audit Results

The Office of Technology Commercialization (OTC) completed their account reconciliations for the period reviewed, and duties over the reconciliation process were adequately segregated. In addition, we vouched a sample of transactions from the reconciled statements of accounts to supporting documentation without exception. However, OTC did not complete their reconciliations timely, and some individuals involved in the reconciliation process have not completed reconciliation training.

Account Reconciliations Not Timely

OTC is responsible for reconciling 19 accounts. We tested each account for performance of reconciliation, proper review, and approval. Eight accounts did not have any activity in the months selected for review. Although all accounts were reconciled and duties were adequately segregated, we found that the 11 active accounts were not reconciled within 60 days of the end of the month being reconciled. This was a result of organizational and personnel changes in the department. Untimely account reconciliations may increase the risk of errors or risk of fraud going undetected or unidentified in a timely manner.

Recommendation: OTC should ensure that account reconciliations are performed and reviewed in a timely manner.

Management's Response: Now that the office is fully staffed and office procedures have been put in place, account reconciliations will be completed in a timelier manner.

Anticipated Implementation Date: Immediately.

Reconciliation Training

The individual responsible for approving the account reconciliations has not yet taken the reconciliation training provided by the Controller's Office. The training may enhance OTC's awareness of its responsibilities and where to find the information or documentation needed to perform account reconciliations accurately and completely. Lack of training for those involved in the reconciliation process may also increase the risk of errors or risk of fraud going undetected or unidentified in a timely manner.

Recommendation: Personnel involved in the account reconciliation process should take the reconciliation training offered by the Controller's Office as soon as possible, if they have not done so.

Management's Response: The new Administrative Coordinator is registered to take the reconciliation training; however with the advent of PeopleSoft, account reconciliations and how they will be completed within the new system are unknown. Additionally, those persons who will be approving those account reconciliations will receive appropriate training.

Anticipated Implementation Date: As soon as feasible.