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**Office of Internal Audit**

800 W. Campbell Rd. SPN 32, Richardson, TX 75080  
Phone 972-883-4876 Fax 972-883-6846

January 5, 2016

Dr. Hobson Wildenthal, President *ad interim*  
Ms. Lisa Choate, Chair of the Institutional 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 monitoring plan in place to properly monitor financial statement certifications, the cost center account reconciliation process, and ensure an appropriate segregation of duties. No significant issues were found, but implementation of the recommendation detailed in attached report will help strengthen general ledger account reconciliations.

Management has reviewed the recommendation and has provided a response and an anticipated implementation date. 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.

Toni Stephens  
Institutional Chief Audit Executive

*UT Dallas Responsible Parties:*

Dr. Kim Laird, Associate Vice President and Controller  
Dr. Reda Bernoussi, Associate Controller  
Mr. Greg Argueta, Director of Accounting and Financial Reporting  
Ms. Jennifer Mayes, Financial Compliance Manager

*Members of the UT Dallas Institutional Audit Committee:*

External Members:

Mr. Bill Keffler  
Mr. Ed Montgomery  
Ms. Julie Knecht  
Dr. Inga Musselman, Acting Provost  
Dr. Calvin Jamison, Vice President for Administration  
Mr. Terry Pankratz, Vice President for Budget and Finance  
Mr. David Crain, Vice President and Chief Information Officer  
Dr. Bruce Gnade, Vice President for Research  
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer  
Dr. Gene Fitch, Vice President for Student Affairs  
Mr. Timothy Shaw, University Attorney

*The University of Texas System:*

System Audit Office

*State of Texas Agencies:*

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



## Executive Summary

### **Financial Statement Certifications, Report No. 1610**

**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. The scope of our audit was FY 2015.

<b>Recommendation</b>	<b>Priority</b>	<b>Estimated Implementation Date</b>
(1) Enhance Controls over Balance Sheet Account Reconciliations	Low	August 31, 2016
<b>Responsible Vice President:</b> Mr. Terry Pankratz, Vice President for Budget and Finance	<b>Responsible Parties</b> <ul style="list-style-type: none"> <li>• Dr. Kim Laird, Associate Vice President and Controller</li> <li>• Dr. Reda Bernoussi, Associate Controller</li> <li>• Mr. Greg Argueta, Director of Accounting and Financial Reporting</li> <li>• Ms. Jennifer Mayes, Financial Compliance Manager</li> </ul>	
<b>Staff Assigned to Audit:</b> <ul style="list-style-type: none"> <li>• Toni Stephens, CPA, CIA, CRMA, Project Leader</li> <li>• Ashley Mathew, Staff Auditor</li> </ul>		



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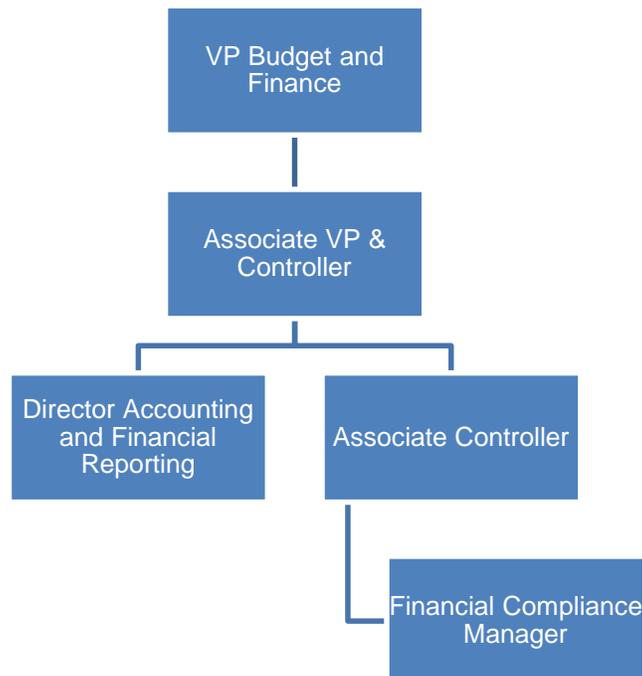
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## Background

UTS 142.1, *Policy on the Annual Financial Report*<sup>1</sup>, outlines financial reporting and internal control requirements for UT System institutions. The policy requires 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. In addition, the Financial Reporting Officer must establish 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.

At UT Dallas, financial reporting falls under the responsibility of the Vice President (VP) for Budget and Finance. The Director of Accounting and Financial Reporting is responsible for the financial statement reporting, and the Financial Compliance Manager is responsible for monitoring the financial statement certification and reconciliation processes.



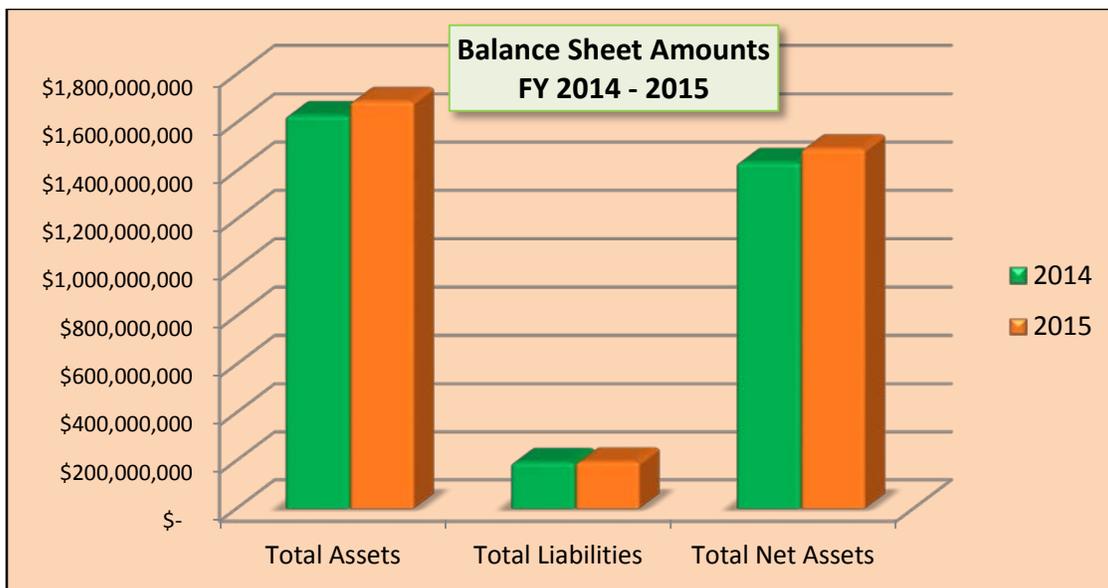
<sup>1</sup> <http://www.utsystem.edu/board-of-regents/policy-library/policies/uts1421-policy-annual-financial-report>

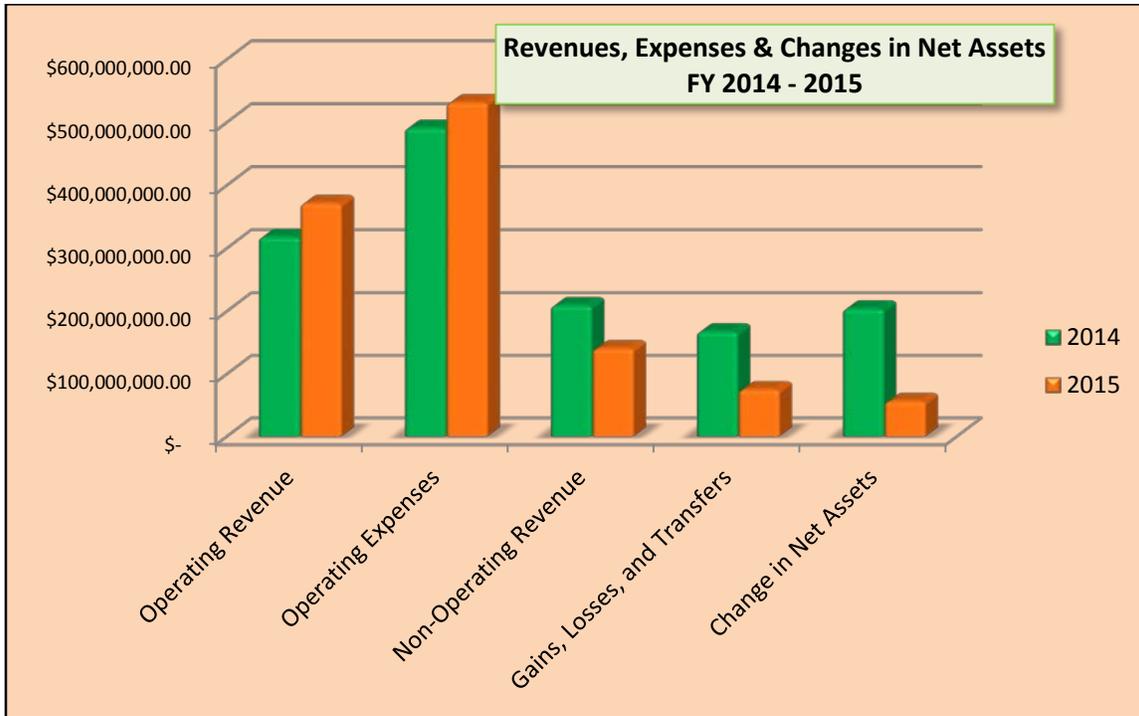


Cost center reconciliations are performed each month by responsible departmental personnel and approved by cost center managers to ensure the accuracy of financial reporting. An automated, online system is used for cost center reconciliations. As part of the monitoring plan, the Financial Compliance Manager monitors the status of the reconciliations to ensure they are completed in a timely manner. The Financial Compliance Manager also performs periodic risk-based inspections to review the reconciliation process and segregation of duties controls for departments. For general ledger accounts, the process is manual and monitored by Accounting and Financial Reporting on a quarterly basis.

At fiscal year-end, letters of representation are sent out to all cost center managers, general ledger account managers, deans, and division heads by the Financial Compliance Manager. During FY 15, UT Dallas enhanced the efficiency of the process by implementing an online system for letters of representation.

The reconciliations and letters of representation process and monitoring procedures performed help ensure the accuracy of the reported financial information. The summarized UT Dallas AFR Balance Sheet and Income Statement (Statement of Revenues, Expenses and Changes in Net Assets) are listed below.





## 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.

## Scope and Methodology

The scope of this audit was fiscal year 2015, and our fieldwork concluded on December 9, 2015. To satisfy our objectives, we performed the following:

- Gained an understanding of the UT Dallas processes for cost center and general ledger reconciliations, letters of representation, and monitoring for reconciliations and segregation of duties by reviewing applicable procedures, observing the processes, and interviewing responsible persons, including the Financial Compliance Manager.
- Reviewed and tested the processes for compliance with UTS 142.1.
- Verified that a monitoring plan was in place and being performed to ensure segregation of duties and reconciliations.



- Tested cost center reconciliations, general ledger reconciliations, and letters of representation to ensure they were performed in a timely manner and properly approved by responsible personnel.

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

### Controls

Our audit work indicated that the following controls currently exist:

- The new electronic letter of representation process enhances efficiencies by providing an automated system to distribute and monitor completion.
- A monitoring plan exists to ensure proper segregation of duties and cost center reconciliations to comply with UTS 142.1.
- The online cost center reconciliation process helps ensure an appropriate segregation of duties within the reconciliation process by separating the functions of reconciler and approver.

### Audit Recommendations

*Priority Findings – UT System:* A UT System 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.”<sup>2</sup> We have **no UT System Priority Findings** resulting from this audit.

#### (1) Improve Processes over Balance Sheet Reconciliations

**Risk Rating:** Low ★

General ledger (Balance Sheet) accounts, such as cash, fixed assets, receivables, payables, deferred revenues, etc., are reconciled by various personnel within the offices of Budget and Finance and Administration. The general ledger accountant in Accounting and Financial Reporting tracks the completion of balance sheet reconciliations in a spreadsheet and maintains the reconciliations for accounting, procurement, and auxiliary departments. The Treasury and the Bursar's Offices maintain their own reconciliations and notify the accountant when the reconciliations are completed. At year-end, the Financial Compliance Manager receives a copy of the reconciliation spreadsheet and uses it to distribute and track the letters of representation.

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<sup>2</sup> The Appendix defines the risk ratings for all internal audit recommendations.



We tested year-end balance sheet reconciliations and letters of representation and noted the following:

- Accounting and Financial Reporting does not review all general ledger reconciliations to ensure reconciliations are actually performed. The Treasury and Bursar's offices retain their reconciliations and email the general ledger accountant a list of completed reconciliations. The other departments send signed reconciliations to the accountant, but there is no review to ensure all balances were reconciled.
- The Perkins loan account, totaling \$914,275 at August 31, 2015, was listed as having been reconciled; however, upon further review the account has not had a complete year-end reconciliation for several years. The lack of reconciliations is due to problems associated with the third party billing servicer. The data cannot be accessed, and the balance therefore cannot be verified. In addition, the reconciliation issues were not documented on the letter of representation.
- Four of the 10 reconciliations we tested were not completed by September 30, 2015, as requested by Accounting and Financial Reporting.

As general ledger account balances reflect what is reported on the Balance Sheet in the financial statements, accurate and timely reconciliations are necessary to ensure that the Balance Sheet is materially accurate.

**Recommendation:** We recommend that monitoring processes in Accounting and Financial Reporting be improved to ensure that balance sheet account reconciliations are completed in a more timely manner. Monitoring should be performed to ensure that the reconciliation statements are accurately reported by the reconcilers. In addition, the Bursar's Office should continue to work with the third party provider to determine a reconciliation process for the Perkins loan account.

**Management's Response:** *The Offices of Accounting and Financial Reporting and Financial Management Services, along with the AVP Controller will work together with responsible account managers/owners to improve the balance sheet account reconciliation process, including implementing a more formal and intentional monitoring system. Our offices will reach out to departments to conduct training, share best practices, and provide accounting knowledge as needed to assist department personnel in completing balance sheet reconciliations accurately and timely. To the extent appropriate, this outreach will include facilitating access to detail transaction information from third-party providers.*

**Estimated Date of Implementation:** *Implementation of monitoring process: August 31, 2016. Improved balance sheet reconciliation process: ongoing with significant improvement by August 31, 2016.*

**Person Responsible for Implementation:** *Dr. Kim Laird, Associate VP & Controller, Dr. Reda Bernoussi, Associate Controller, and Mr. Greg Argueta, Director of Accounting and Financial Reporting*



## Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1506, *Annual Financial Report*, dated November 25, 2014.

Recommendation	Implemented?
(1) <i>Improve Accounting over Gains and Losses of Capital Assets</i>	No – to be implemented by 2/29/16
(2) <i>Improve Controls over the Receipt of Purchases</i>	Yes

## Conclusion

Based on the audit work performed, UT Dallas has a monitoring plan in place to properly monitor financial statement certifications (letters of representation), the cost center account reconciliation process, and ensure an appropriate segregation of duties. Implementation of the recommendation detailed in attached report will help strengthen general ledger account reconciliations.

We appreciate the courtesy and cooperation received from the management and staff in Financial Management Services during this audit.



## Appendix: Definition of Risks

### Definition of Risks

Risk Level	Definition
<b>Priority</b>	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“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.”</i>
<b>High</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.