



Office of Internal Audit

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January 9, 2017

Dr. Richard Benson, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Financial Statement Certifications as part of our fiscal year 2017 Audit Plan, and the report is attached for your review.

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*.

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 balance sheet 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

Distribution List

<i>UT Dallas Responsible Parties</i>	<i>UT Dallas Institutional Audit Committee</i>	<i>State of Texas Agencies</i>
Dr. Kim Laird, Associate VP and Controller	Dr. Hobson Wildenthal, Executive VP	UT System Audit Office
Dr. Reda Bernoussi, Associate Controller	Dr. Inga Musselman, Interim Provost	Legislative Budget Office
Mr. Greg Argueta, Director of Accounting & Financial Reporting	Dr. Calvin Jamison, VP for Administration	Governor's Office
Ms. Jennifer Mayes, Financial Compliance Manager	Mr. Terry Pankratz, VP for Budget and Finance	State Auditor's Office
	Mr. Brian Dourty, Interim VP and Chief Information Officer	Sunset Advisory Commission
	Mr. Rafael Martin, Interim VP for Research	
	Dr. George Fair, VP for Diversity and Community Engagement; Compliance Officer	
	Dr. Gene Fitch, VP for Student Affairs	
	Mr. Timothy Shaw, University Attorney	

Executive Summary

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 2016.

Conclusion:

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.

The following is a summary of the audit recommendations by risk level.

Recommendation	Risk Level	Estimated Completion Date
(1) Improve Processes over Balance Sheet Reconciliations (<i>prior audit recommendation</i>)	Medium	March 31, 2017

Responsible Vice President:

Mr. Terry Pankratz, Vice President for Budget and Finance

Responsible Parties:

- Dr. Kim Laird, Associate Vice President and Controller
- Mr. Greg Argueta, Director of Accounting & Financial Reporting

Staff Assigned to Audit:

Project Leader: Dominique DiAndrea, CIA, Senior Auditor
 Student Intern: Michael Wu

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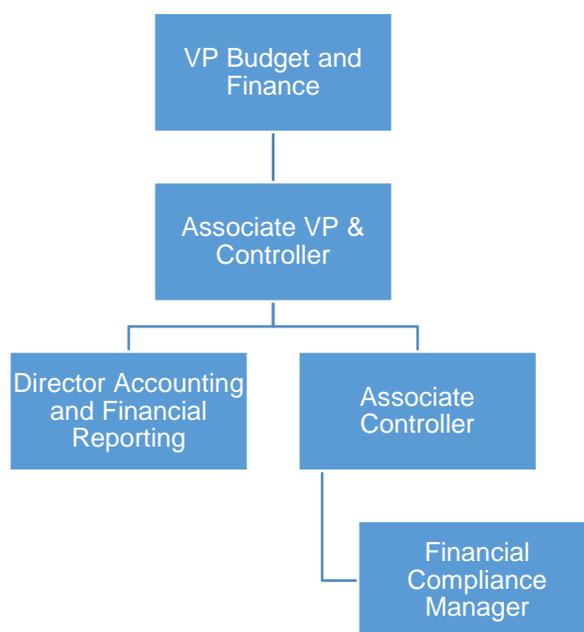
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Background

UTS 142.1, *Policy on the Annual Financial Report*¹, 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.

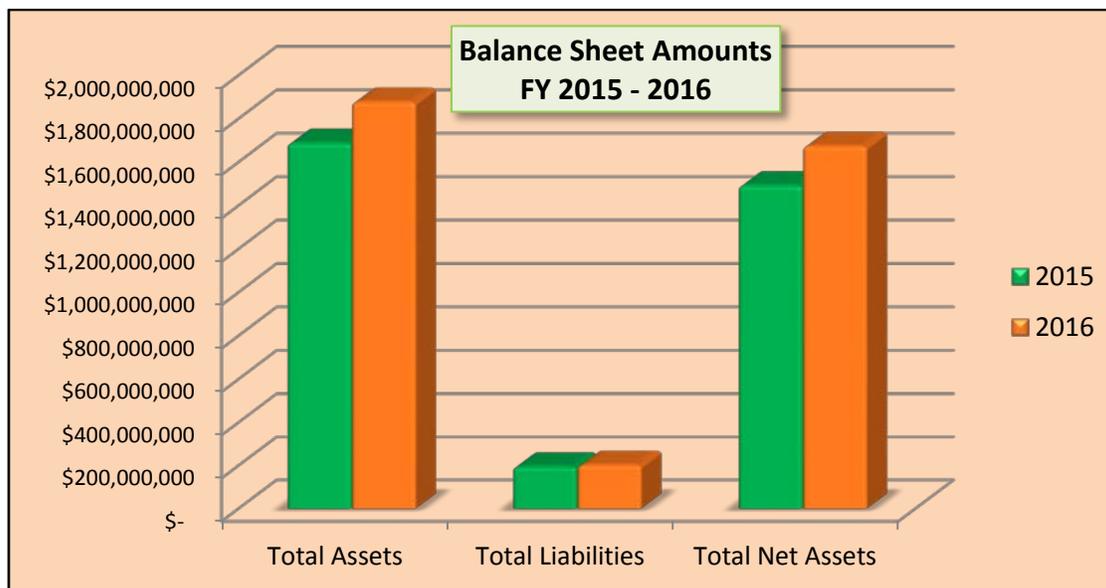
At UT Dallas, financial reporting falls under the responsibility of the Vice President (VP) for Budget and Finance. The Director of Accounting and Financial Reporting is responsible for the financial statement reporting and balance sheet reconciliations, and the Financial Compliance Manager is responsible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

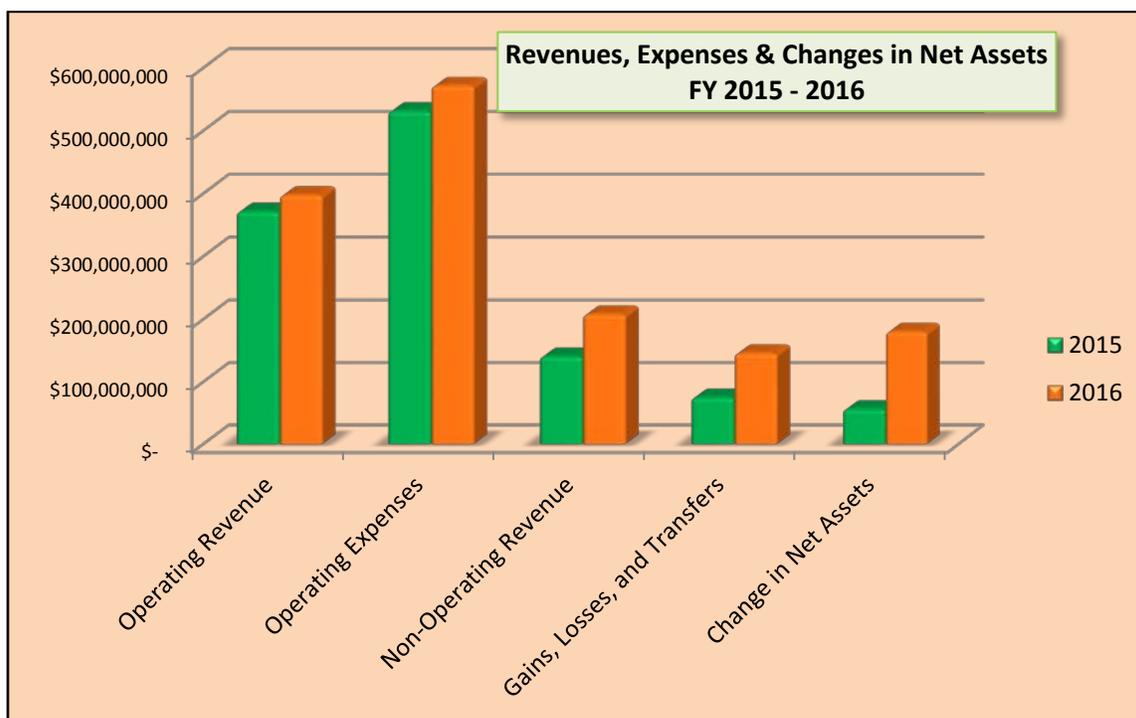


¹ <http://www.utsystem.edu/board-of-regents/policy-library/policies/uts1421-policy-annual-financial-report>

Cost center reconciliations of operating accounts 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. During FY16, 14 inspections were performed on university departments as part of the monitoring process for reconciliations and segregation of duties. For balance sheet 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, balance sheet account managers, deans, and division heads by the Financial Compliance Manager.

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 Position) 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 FY 2016 and our fieldwork concluded on December 7, 2016. To satisfy our objectives, we performed the following:

- Gained an understanding of the UT Dallas processes for cost center operating and balance sheet account 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, balance sheet 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.

Conclusion

Based on the audit work performed, we conclude 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; however, implementation of the recommendation detailed in attached report will help strengthen balance sheet account reconciliations.

We appreciate the courtesy and cooperation received from the management and staff in the various areas within the Office of Budget and Finance as part of this audit.

Audit Results and Management’s Responses

Strengths and Controls Noted during the Audit

The 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.

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.” We have **no UT System Priority Findings** resulting from this audit.

Observations, Recommendations, and Management’s Responses

Although the above controls are in place, opportunities exist to improve the current controls around Financial Statement Certifications by implementing the recommendation outlined below.

Risk Level	Observation	Risk/Effect	Recommendation	Management’s Action Plan
Medium	<p>(1) Improve Processes over Balance Sheet Reconciliations <i>(prior audit recommendation)</i> As asset and liability 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. The following were noted during our review of Balance Sheet reconciliations:</p>	Increased risk of inaccurate financial reporting	<p>Procedures are currently in process to develop balance sheet account reconciliations. Procedures should also be implemented to monitor year-over-year reconciling items.</p>	<p>The automated balance sheet reconciliation application is currently in use for the first quarter of fiscal year 2017. A new procedure was also developed and provided to all reconcilers and approvers of balance sheet accounts. The reconciliation application is currently designed to track historical reconciling items to facilitate the Accounting and</p>

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	<ul style="list-style-type: none"> <li data-bbox="296 313 856 824">• In the previous audit, we recommended that monitoring processes in Accounting and Financial Reporting be improved to ensure that balance sheet account reconciliations be completed in a timely manner, and that monitoring be performed to ensure that the reconciliation statements are accurately reported by the reconcilers. The Office of Accounting and Financial Reporting implemented an automated reconciliation schedule in PeopleSoft during the first quarter of FY17; however, results were not available to review. Also, the Office is in the process of implementing specific monitoring procedures for balance sheet accounts; however, these were also unavailable at the time of the review. <li data-bbox="296 849 856 1042">• We found 10 balance sheet letters of representation where items were still being reconciled. Several of these were noted to have had significant, historical unreconciled balances, as well. These were not considered material to the overall financial statements. 			<p data-bbox="1570 313 1965 367">Financial Reporting department's review of reconciliation work.</p> <p data-bbox="1570 399 1877 456">Estimated Date of Implementation: 3/31/17</p> <p data-bbox="1570 492 1955 610">Person Responsible for Implementation: Greg Argueta, Director of Accounting and Financial Reporting.</p>

Appendix 1: Priority Findings and Risk Matrix

Definition of Risks

Risk Level	Definition
Priority	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>
High	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.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.

Appendix 2: Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1610, *Financial Statement Certifications*, dated January 5, 2016.

Recommendation	Implemented?
<p><u>Improve Processes over Balance Sheet Reconciliations</u> 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.</p>	<p>Monitoring and timeliness is in process – see recommendation above. The Bursar's Office has successfully reconciled the Perkins loan account.</p>