

February 4, 2016

To: Michael Tramonte
Senior Vice President
Finance and Business

Report on Benefits Proportionality By Fund Audit #16-121

We have completed our audit of Benefits Proportionality by Fund for UTHealth as required by Rider 8, page III-39, of the General Appropriations Act (84th Legislature, Conference Committee Report). The rider requires that the audit examine appropriation years (AY) 2012 through 2014. However, an internal audit of the proportionality of higher education benefits for AY 2013 was conducted during fiscal year 2015 at the request of the Governor. Therefore, the scope of this year’s audit included only AY 2012 and 2014. Results for all three appropriation years are included in Attachment 1, and our report on AY 2013 is included as Attachment 2.

Based on audit procedures performed, *Benefits Proportionality by Fund Reports* (APS 011) for appropriation years 2012 through 2014, as submitted to the State Comptroller, the total reimbursement due for each year is as follows:

Appropriation Year	Excess Reimbursement	Benefits Paid
2012	278,690	35,013,314
2013	170,461	37,987,812
2014	145,806	43,637,135
Total	594,957	116,638,261

The process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in Article IX, Section 6.08, of the General Appropriations Act. All errors identified during the audit are described in Attachment 1.

Our audit procedures were consistent with the methodology prescribed by the State Auditor’s Office to comply with Rider 8, and included a review of source information obtained from the internal accounting system and the State’s Uniform Statewide Accounting System (USAS), review of the benefits proportionality reporting process, validation of the accuracy of information and proportional funding calculations reported to the State Comptroller on the APS 011 reports, and testing to verify eligibility of employee benefits paid with appropriated funds. Sample size for testing was determined following guidance on internal control testing for compliance from the American Institute for Certified Public Accountants (AICPA).

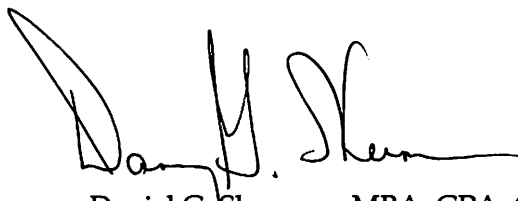
In addition, we relied upon work conducted in previous audits by our office, our external audit firm, and the Texas State Auditor's Office to gain assurance about the reliability of data in the internal accounting system and USAS. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

For AY 2012, we noted Tobacco Funds were not excluded from revenue on the APS011. Benefits paid from these funds are not subject to proportionality; however, these benefits were included in the total expense reported. We also found Nursing Shortage benefits were not excluded from the actual benefits paid from general revenue funds, which negatively impacts the amount reimbursed. The net effect of these two factors was an over reimbursement of \$278,690.

For AY 2014, actual benefits paid as reported on UTHealth ledgers for TRS is \$5,627,723; however, the amount reported on the APS 011 for TRS was \$5,478,128 which led to an over reimbursement from TRS of \$149,594. A process to ensure exclusion of benefit expenses paid from Tobacco Funds was initiated for the AY 2014 APS 011. However, we found the amount of tobacco funds excluded was overstated. We also found Nursing Shortage benefits were not excluded from the actual benefits paid from general revenue funds. The net effect was an over reimbursement of \$145,806.

From last year's audit of AY 2013, we reported \$273,853 was over reimbursed based on tobacco funds exclusion calculated by the department. This amount has already been refunded to the state; however, while performing AY 2014 audit work, we identified the tobacco fund exclusion was overstated. We also found Nursing Shortage benefits were not excluded from the actual benefits paid from general revenue funds. The net effect is an additional \$170,461 that was over reimbursed.

We would like to thank the Office of Finance and Business Services who assisted us during our review.



Daniel G. Sherman, MBA, CPA, CIA
Assistant Vice President

cc: Dr. Giuseppe Colasurdo, M.D. President -UTHealth
Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, UT
System

Auditor Assigned: Diarra Boye, Auditor

Issue Date: February 9, 2016

	Appropriation Year	Benefit Type	Financing Source	Error Description	Error Amount	Refund Status	Document Number and Effective Date
Subtotal	2012	OASI	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	149,728.17	In Process	
	2012	GIP	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	(522,593.08)	No refund due	
	2012	TRS	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	85,971.01	In Process	
	2012	ORP	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	42,990.63	In Process	
Subtotal	2012				\$ (243,903.27)	In Process	
Subtotal	2013	OASI	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion + Error of FY13 Refund	174,844.36	In Process	
	2013	GIP	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion + Error of FY13 Refund	(76,287.14)	No refund due	
	2013	TRS	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion + Error of FY13 Refund	12,939.38	In Process	
	2013	ORP	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion + Error of FY13 Refund	(17,322.29)	In Process	
Subtotal	2013				\$ 94,174.31	In Process	
Subtotal	2014	OASI	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	111,436.88	In Process	
	2014	GIP	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	(1,482,807.79)	No refund due	
	2014	TRS	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion+ TRS over reimbursement error	103,003.12	In Process	
	2014	ORP	GR Fund # 0001	Error on Tobacco funds and Nursing Shortage exclusion	(68,634.33)	In Process	
Subtotal	2014				\$ (1,337,002.12)	In Process	
Total	2012-2014				\$ (1,486,731.08)	In Process	
Total to reimburse to the State (Cash Basis with GIP excluded)					594,956.93		



November 11, 2014

To: Michael Tramonte
Senior Vice President
UTHealth

Re: Report on Benefits Proportionality By Fund Audit #15-301

We have completed our audit of Benefits Proportionality by Fund for UTHealth, as requested by Governor Rick Perry. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for appropriation year (AY) 2013, as submitted to the State Comptroller on November 19, 2013, was materially accurate. Minor errors were noted regarding inclusion of non-reimbursable benefit costs. The process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in Article IX, Section 6.08, of the General Appropriations Act.

The scope of our audit included benefits funding proportionality reporting for AY 2013. Risk of material error in reporting accuracy for years prior to AY 2013 was assessed based on audit results and determined to be low, thus additional testing of prior appropriation years was not performed.

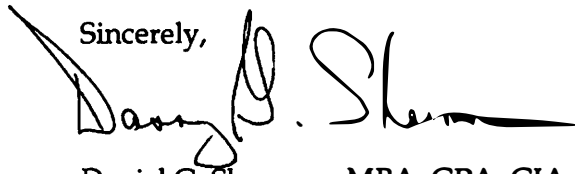
Our audit methodology included a review of source information obtained from the UTHealth internal accounting system and the State's Uniform Statewide Accounting System (USAS). We relied upon work conducted in previous audits by our office, our external audit firm, and the Texas State Auditor's Office to gain assurance about the reliability of data in our internal accounting system and USAS. Based on that work, we determined that the information in these systems was sufficiently reliable for the purposes of this audit. In addition, we reviewed the benefits proportionality reporting process with relevant staff, validated the accuracy of information and proportional funding calculations reported to the State Comptroller on the *Benefits Proportionality by Fund Report* (APS 011), and tested to verify eligibility of employee benefits paid with appropriated funds.

We noted Tobacco Funds were neither included in nor excluded from revenue on the APS 011. Benefits paid from these funds are not subject to proportionality; however, these benefits were included in the total expense subject to proportionality leading to an over-reimbursement of \$273,853 for AY 2013. A process to ensure exclusion of benefit expenses paid from Tobacco Funds has been initiated for the AY 2014 APS 011.

We also noted that the distribution of expenses across funding sources is impacted by additional pay items. This impact is modified by the processing method. We suggest that Finance and Business Services implement a uniform method of processing additional pay items.

We would like to thank the Office of Finance and Business Services who assisted us during our review.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel G. Sherman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Daniel G. Sherman, MBA, CPA, CIA
Assistant Vice President

cc: Dr. Giuseppe Colasurdo, M.D. President - UTHealth
J. Michael Peppers, Chief Audit Executive, UT System
Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, UT System

Audit Manager: Sherri Heckendorn, Sr. IT Audit Manager
Auditor Assigned: Diarra Boye, Staff Auditor

Issue Date: November 12, 2014