



*Office of Internal Audit*

February 25, 2016

Dr. Kirk A. Calhoun, M.D.  
UT Health Northeast  
11937 U. S. Hwy 271  
Tyler, TX 75708

Dear Dr. Calhoun:

We have completed our Audit of Benefits Paid Proportional by Fund for UT Health Northeast as required by Rider 8, page III-39, of the General Appropriation Act (84<sup>th</sup> 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, were materially accurate. However, we identified one minor calculation error for AY 2014 that requires reimbursement to the General Revenue Fund in the amount of \$64.68. As further described below in Issue Number 1, UT Health Northeast owes reimbursements to General Revenue – Appropriation Fund #0001 in the amount of \$31.81 for OASI, \$25.37 for TRS, and \$7.50 for ORP, due to an inadvertent overstatement of \$1,905.00 for the TPEG exclusion amount from General Revenue – Designated Fund #0011 on the APS 011 report. 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 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 of 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

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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*.

**Issue Number 1:**

The Texas Public Education Grant (TPEG) exclusion amount from the General Revenue-Dedicated (GR-D) financing source for AY 2014 was inadvertently reported on the APS 011 filing as \$8,235 instead of the correct amount of \$6,330. This circumstance was unique to the AY 2014 APS 011 report. For AY 2013, UT Health Northeast correctly reported the TPEG exclusion amount. For AY 2012, UT Health Northeast did not receive any tuition funds requiring a TPEG set-aside.

The error resulted when the Director of Accounting Services, who prepared the AY 2014 APS 011 report, unintentionally used the sum of the designated fund set-aside transactions instead of the TPEG set-aside transactions when preparing the report. The totals for these two sets of transactions were side-by-side in a workbook the Director developed to support the annual APS 011 filings. The Director inadvertently referenced the column for designated fund set-aside rather than TPEG set-aside when performing the benefits proportionality calculations and populating the AY 2014 APS 011 report. The effect is that UT Health Northeast understated the required adjustment amount owed to General Revenue – Appropriation Fund # 0001 for the four benefit types combined (OASI, GIP, TRS, and ORP) by \$150.16.

**Issue Ranking:** Low

**Recommendation:**

The Director of Accounting Services should:

- Process adjustments through the USAS system, to the benefit of the General Revenue – Appropriation Fund # 0001, for \$31.81 for OASI, \$25.37 for TRS, and \$7.50 for ORP. (No refund is due for the \$85.48 adjustment associated with GIP since this benefit type is underfunded and UT Health Northeast has not been able to draw down the \$85.48 amount in the first place.)
- Prepare a revised AY 2014 APS 011 report that reflects the updated adjustment amounts of \$31.81 for OASI, \$85.48 for GIP, \$25.37 for TRS, and \$7.50 for ORP to the benefit of General Revenue – Appropriation Fund # 0001, with offsetting amounts to the Other Appropriated Fund category as outlined in APS 011 reporting guidelines.
- Review the AY 2015 APS 011 report filed in November 2015 to determine whether a similar inadvertent error was made, and make adjustments and revise the reporting as necessary.
- Implement a secondary review process for key formulas and calculations performed in the workbook that supports the annual APS 011 report filings.

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**Management's Response:**

- Adjustments were processed on D7854100-TRS, D7854097-OASI and D7854099-ORP.
- Revised AY 2014 APS 011 was prepared, approved and will be filed with the State Comptroller, SAO and LBB.
- AY 2015 APS 011 was reviewed and TPEG was confirmed to be correct.
- The Associate Vice President, Controller will review key formulas and calculations beginning in AY 2016. An e-mail confirming his approval will be kept on file with the worksheet and other related documents.

**Implementation Dates:**

- February 24, 2016.
- February 26, 2016.
- Reviewed February 23, 2016.
- November 2016, APS 011 for AY 2016.

We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,



Kris I. Kavasch  
Associate Vice President, Chief Audit Executive

CC: Mr. Vernon Moore, Senior Vice President, Chief Business and Financial Officer - [vernon.moore@uthct.edu](mailto:vernon.moore@uthct.edu)  
Mr. Joseph Woelkers, Executive Vice President, Institutional Operations & Chief of Staff - [joseph.woelkers@uthct.edu](mailto:joseph.woelkers@uthct.edu)  
Ms. Annie Roten, Director of Accounting Services - [annie.roten@uthct.edu](mailto:annie.roten@uthct.edu)  
Mr. Bob Armstrong, Associate Vice Present, Controller – [bob.armstrong@uthct.edu](mailto:bob.armstrong@uthct.edu)  
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**ATTACHMENT 1: SCHEDULE OF ERRORS**

<b>Benefit Type</b>	<b>Financing Source</b>	<b>Error Description</b>	<b>Error Amount</b>	<b>Refund Status</b>	<b>Document Number and Effective Date</b>
All	N/A	No Errors Identified	-		
			\$ -	N/A	N/A
All	N/A	No Errors Identified	-		
			\$ -	N/A	N/A
OASI	GR-Ded Fund # 0011	Overstated TPEG Exclusion Amount	31.81	Complete	D7854097-OASI
GIP	GR-Ded Fund # 0011	Overstated TPEG Exclusion Amount	85.48	No refund due	N/A
TRS	GR-Ded Fund # 0011	Overstated TPEG Exclusion Amount	25.37	Complete	D7854100-TRS
ORP	GR-Ded Fund # 0011	Overstated TPEG Exclusion Amount	7.50	Complete	D7854099-ORP
			<b>\$ 150.16</b>		
			<b>\$ 150.16</b>		

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**ATTACHMENT 2: AY 2013 AUDIT REPORT**



*Office of Internal Audit*

November 19, 2014

Dr. Kirk A. Calhoun, M.D.  
UT Health Northeast  
11937 U. S. Hwy 271  
Tyler, TX 75708

Dear Dr. Calhoun:

We have completed our Audit of Benefits Paid Proportional by Fund for UT Health Northeast as requested by Governor Rick Perry. Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for appropriation year (AY) 2013, as submitted to the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office on November 12, 2013, is materially accurate and no reimbursement is due. 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 review of source information obtained from UT Health Northeast's 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. Sample size for testing was determined following guidance on internal control testing for compliance from the American Institute for Certified Public Accountants (AICPA).

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This 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*.

During the engagement we communicated to management an opportunity to improve presentation of Section I of the APS 011 report so that it more closely aligns with expectations published in the Texas Comptroller of Public Accounts Fiscal Policy & Procedure (FPP) A.010, *Benefits Proportional by Fund*. This issue does not have any impact on the accuracy of calculated proportional benefits, which have been correctly reported on the AY 2013 APS 011. Specifically, FPP A.010 requires that funds with salary restrictions be separately listed in Column 3, and the basis for these exclusions be documented in the space at the bottom of Section I. The institution had two exclusion amounts that were not reported separately in Column 3, but were instead combined (netted) with the total financing sources amounts in Column 2. However, in both instances the resulting amounts reported in Column 4, Benefits Subject to Proportionality, are accurate.

We conveyed this opportunity to management in an exit conference, and re-capped the communication in writing. Management was already aware of the issue for one of the two exclusions and had planned to implement the suggested presentation change for the AY 2014 APS 011 report. Management concurs with the suggested presentation change for the second exclusion and will also make this change for the AY 2014 APS 011 report.

We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,



Kris I. Kavasch  
Executive Director of Internal Audit

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