



OFFICE OF AUDITS & CONSULTING SERVICES

Benefits Proportionality by Fund AY 2012 and AY 2014

Report No. 16-02

March 7, 2016

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
2102 Treasure Hills Blvd., Suite 3.115
Harlingen, TX 78550

Dear Dr. Bailey,

We have completed our audit of Benefits Proportionality by Fund for The University of Texas—Pan American (UTPA), 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 former 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 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. 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 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*.

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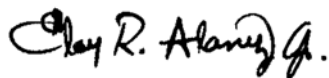
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Results

Retiree insurance has historically been expensed entirely from the Educational and General (E&G) fund and allocated proportionally between available appropriated funds and institutional funds within E&G funds. In March 2014, the UT System Controller's Office advised all institutions to review the benefits proportionality by fund calculation. The UTPA Office of the Comptroller identified an immaterial error in the retiree group insurance calculation for the AY 2012 and 2013 APS 011 report. UTPA did not utilize a methodology change enacted by the State in which the benefits proportionality concept also applies to retiree group insurance even though this benefit is no longer tied to an employee's salary. The retiree costs should be allocated equitably between the general revenue, other appropriated funding sources and institutional funds. The amount that UTPA was appropriated for group insurance was limited by the State and did not fully fund the proportional need for group insurance. Therefore, although there were immaterial errors, there was no effect on the amount UTPA received from the State. UTPA revised the APS 011 report for AY 2013 and the corresponding journals in USAS in January 2015. The retiree insurance for AY 2014 was correctly allocated between general revenue, other appropriated funding sources and institutional funds. However, we noted a portion of police overtime was incorrectly allocated to Fund 1 payroll. This immaterial error had no effect on the amount UTPA received from the State. Since UTPA is no longer in existence due to the creation of The University of Texas Rio Grande Valley, UTPA was unable to submit revised AY 2012 and AY 2014 APS 011 reports to the State.

We appreciate the courtesy and cooperation received from management and staff during our audit.

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Executive

cc: Audit Committee

Martin Baylor, Executive Vice President for Finance & Administration

J. Michael Peppers, Chief Audit Executive, UT System

Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer, UT System

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**Attachment 1
 Schedule of Errors**

Ap	propriation Year	Benefit Type	Financing Source	Error Description	Error Amount	Refund Status	Document Number and Effective Date
2	012	GIP	GR Fund #001	Retiree Insurance	\$ (41,223.99)		
Subtotal	2012			\$	(41,223.99)	No refund due	N/A
2	013	OASI	GR Fund #001	Retiree Insurance	\$ 8, 302.08		
2	013	GIP	GR Fund #001	Retiree Insurance	\$ (44,941.61)		
2	013	TRS	GR Fund #001	Retiree Insurance	\$ 3, 431.17		
2	013	ORP	GR Fund #001	Retiree Insurance	\$ 3, 324.52		
Subtotal	2013			\$	(29,883.84)	No refund due	N/A
2	014	GIP	GR Fund #001	Police Overtime	\$ (3,220.19)		
Subtotal	2014			\$	(3,220.19)	No refund due	N/A
Total	2012-2014			\$	(74,328.02)		

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Attachment 2
Benefits Proportionality by Fund Audit Report – Appropriation Year 2013

OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS - PAN AMERICAN

1201 West University Drive • Edinburg, Texas 78539-2999 • Office (956) 665-2110

December 5, 2014

Dr. Havidán Rodríguez, Interim President
The University of Texas-Pan American
1201 W. University Drive
Edinburg, TX 78539

Dear Dr. Rodríguez,

We have completed our audit of Benefits Proportionality by Fund for the University of Texas—Pan American, 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 State Comptroller on October 30, 2013, was materially accurate and no reimbursement is due to the State. The process currently 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 the University of Texas—Pan American’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

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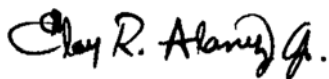
staff, validated the accuracy of information and proportional funding calculations reported to the State Comptroller on the *Benefits Proportionality by Fund Report* (APS 011), and tested to verify eligibility of employee benefits paid with appropriated funds. Sample size for testing was determined following guidance on internal control testing for compliance from the American Institute for Certified Public Accountants (AICPA). 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*.

Results

Retiree insurance has historically been expensed entirely from the Educational and General (E&G) fund and allocated proportionally between available appropriated funds and institutional funds within E&G funds. In March 2014, the UT System Controller's Office advised all institutions to review the benefits proportionality by fund calculation. The UTPA Office of the Comptroller identified an immaterial error in the retiree group insurance calculation for the AY 2013 APS 011 report. UTPA did not utilize a methodology change enacted by the State in which the benefits proportionality concept also applies to retiree group insurance even though this benefit is no longer tied to an employee's salary. The retiree costs should be allocated equitably between the general revenue, other appropriated funding sources and institutional funds. The amount that UTPA was appropriated for group insurance was limited by the State and did not fully fund the proportional need for group insurance. Therefore, although there was an immaterial error, there was no effect on the amount UTPA received from the State. UTPA will revise the APS 011 report for AY 2013 and the corresponding journals in USAS in January 2015. The retiree insurance for AY 2014 was correctly allocated between general revenue, other appropriated funding sources and institutional funds.

We appreciate the courtesy and cooperation received from management and staff during our audit.

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Executive

cc: Audit Committee

Martin Baylor, Vice President for Business Affairs

J. Michael Peppers, Chief Audit Executive, UT System

Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer, UT System

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