

March 7, 2016

Mr. Mark McGurk
Vice President of Business Affairs
University of Texas of the Permian Basin
4901 E. University Boulevard
Odessa, Texas 79762

Dear Mr. McGurk:

We have completed our audit of Benefits Proportionality by Fund for the University of Texas of the Permian Basin (UT Permian Basin), 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, we found the following: for AY 2012, State funds we undercharged by \$464,173.21; for AY 2013, State funds were overcharged by \$3,528.59; and for AY 2014, State funds were undercharged by \$4,253.00.

We did find that 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. All errors identified during the audit are summarized in Attachment 1 and are more fully explained below.

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*.

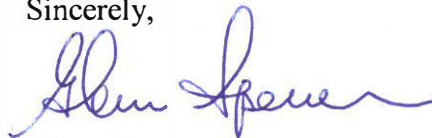
In AY 2012, we noted that actual TRS retirement contributions paid from State appropriations in GR Fund 0001 were overstated by \$453,994.40 and TRS retirement contributions paid from non-State appropriations (Fund 0251) were understated by \$115,836.86. We also noted that non-State financing sources in GR-Dedicated Fund 0251 were overstated by \$1,928,985. The cumulative effect of these errors resulted in State appropriations being undercharged by \$464,173.21. This figure represents an error rate of 13.4% out of the State's total share of \$3,466,393.80.

In our audit of AY 2013, which was conducted in the prior year (see Attachment 2), we noted that the amount of non-State financing sources in GR-Dedicated Fund 0251 were understated by \$44,854.53. This error resulted in State appropriations being overcharged by \$3,528.59. This represented an error rate of 0.09% out of the State's total share of \$3,704,129.91.

For AY 2014, we noted that actual group insurance benefits paid from non-State appropriations in Fund 0251 were understated by \$173,944.45. This resulted in State appropriations being undercharged by \$4,253.00. This represents an error rate of 0.1% of the State's total share of \$4,101,277.45.

We wish to express our appreciation to management and staff of UT Permian Basin and UT System Controller's Office for the courtesy and cooperation extended to us during this audit.

Sincerely,



Glenn Spencer
Director of Internal Audit

cc: Dr. W. David Watts, President, University of Texas of the Permian Basin
J. Michael Peppers, Chief Audit Executive, UT System
Randy Wallace, Associate Vice Chancellor–Controller, UT System

ATTACHMENT 1
Error Schedule 2012-2014
UT Permian Basin

	Appropriation Year	Benefit Type	Financing Source	Error Description	Error Amount	Refund Status	Document Number and Effective Date
	2012	OASI	GR Fund # 0001	Revised allocation % based on misstatement in TRS contributions paid and in non-state financing sources for Fund 0251	(72,948.40)		
	2012	GIP	GR Fund # 0001	Revised allocation % based on misstatement in TRS contributions paid and in non-state financing sources for Fund 0251	(137,410.44)		
	2012	TRS	GR Fund # 0001	Revised allocation % based on misstatement in TRS contributions paid and in non-state financing sources for Fund 0251	(227,518.79)		
	2012	ORP	GR Fund # 0001	Revised allocation % based on misstatement in TRS contributions paid and in non-state financing sources for Fund 0251	(26,295.58)		
Subtotal	2012				\$ (464,173.21)	No reimbursement due to State	
	2013	OASI	GR Fund #0001	Revised allocation % based on misstatement in non-state financing sources for Fund 0251	\$ 2,079.47		
	2013	TRS	GR Fund #0001	Revised allocation % based on misstatement in non-state financing sources for Fund 0251	\$ 909.85		
	2013	ORP	GR Fund #0001	Revised allocation % based on misstatement in non-state financing sources for Fund 0251	539.27		
Subtotal	2013				\$ 3,528.59	Complete	A7420107, 01/27/2015

	Appropriation Year	Benefit Type	Financing Source	Error Description	Error Amount	Refund Status	Document Number and Effective Date
	2014	OASI	GR Fund #0001	Revised allocation % based on misstatement in group insurance expenditures for Fund 0251	\$ (2,366.18)		
	2014	TRS	GR Fund #0001	Revised allocation % based on misstatement in group insurance expenditures for Fund 0251	(1,174.68)		
	2014	ORP	GR Fund #0001	Revised allocation % based on misstatement in group insurance expenditures for Fund 0251	(712.14)		
Subtotal	2014				\$ (4,253.00)	No reimbursement due to State	
Total	2012-2014				\$ (464,897.62)		



Office of Internal Audit

December 2, 2014

Dr. William Watts
Interim Vice President of Business Affairs
University of Texas of the Permian Basin
4901 E. University Boulevard
Odessa, Texas 79762-0001

Dear Dr. Watts,

We have completed our audit of Benefits Proportionality by Fund for the University of Texas of the Permian Basin (UT Permian Basin), as requested by Governor Rick Perry. Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for fiscal year (FY) 2013, as submitted to the State Comptroller on April 29, 2014, was materially accurate. 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. We did note one minor finding as detailed later in this report.

The scope of our audit included benefits funding proportionality reporting for FY 2013. Risk of material error in reporting accuracy for years prior to FY 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 UT Permian Basin internal accounting system, the State's Uniform Statewide Accounting System (USAS), and the University of Texas System (UT System) Controller's Office. 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), as prepared by the UT System Controller's Office, 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*.

During the course of our audit we noted one minor finding involving the amount of miscellaneous income used in determining the total estimated other E & G (Education and General Activity) Income (Fund #251), which resulted in an over-calculation of the State's share of proportional benefits by \$3,528.59. This figure represents an error rate of 0.0952% out of the total State's share of \$3,704,129.91.

We wish to express our appreciation to management and staff of UT Permian Basin and UT System Controller's Office for the courtesy and cooperation extended to us during this audit.

Sincerely,



Glenn Spencer
Director of Internal Audit

cc: Dr. W. David Watts, President, University of Texas of the Permian Basin
J. Michael Peppers, Chief Audit Executive, UT System
Randy Wallace, Associate Vice Chancellor–Controller, UT System