

Memorandum

Date: February 19, 2016

To: Kathryn Funk-Baxter
Vice President for Business Affairs

From: J. Richard Dawson 
Institution Chief Audit Executive

Cc: Dr. Ricardo Romo
President, UTSA

J. Michael Peppers
Chief Audit Executive, UT System

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

Subject: Employee Benefits Proportionality Audit for years 2012 through 2014

We have completed our audit of Benefits Proportionality by Fund for The University of Texas at San Antonio (UTSA), 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 the AY 2013 audit report is included as Attachment 2.

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 *Benefits Proportionality by Fund Report* (APS 011), 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 the 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*.

Internal Audit's review and recalculations revealed that 2014 Group Insurance Premiums for Retirees, Gross Statutory Tuition, and Lab fees were understated resulting in a net E&G calculated Proportional Benefits of \$13,141 to be reimbursable to State agencies. All errors identified are described in detail in Attachment 1.

Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for AY 2012 and 2014, as submitted to the State Comptroller in November of the respective years were materially accurate with minor reimbursements due for 2014 to State agencies. The process in place to prepare the annual report was sufficient to ensure benefits funding proportionality was applied according to the guidelines established in Article IX, Section 6.08 of the General Appropriations Act.



J. Richard Dawson
Institution Chief Audit Executive

REPORT APPENDIX: SUMMARY OF ERRORS

	Appropriation Year	Benefit Type	Financing Source	Error Description	Error Amount	Refund Status	Document Number and Effective Date
	2012		N/A	N/A	-		
Subtotal	2012				\$ -	No refund due	
	2013	GIP	GR Fund 001	In March 2014, Financial Affairs identified an immaterial error in the retiree group insurance calculation for the APS 011 report. UTSA 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. UTSA has historically paid for the retiree group insurance for all retirees from the General Revenue Fund. The retiree costs should be borne equitably between general revenue, other appropriated funding sources and institutional funds. Retiree group insurance cost should be allocated based on an institution's current salaries and benefits calculation. In April 2014, UTSA revised the AY 2013 APS 011 report utilizing this new methodology and provided the report to UT System Controller's Office for review. The result of this recalculation was a decrease of the group insurance allocated to Fund 001 from \$12,791,525.04 to \$11,539,927.74 or a decrease of \$1,251,597.30. The amount that UTSA is appropriated for group insurance was limited by the State at \$10,608,730 and does not fully fund the proportional need for group insurance at UTSA. Therefore, there was no effect on the amount UTSA received from the state due to this error.	\$ -		
Subtotal	2013				\$ -	No refund due	
	2014	OASI	GR Fund 001	Due to PeopleSoft conversion, journal entries continued to be processed after Accounting pulled detailed journal reports to prepare the APS 11. Differences noted are the result of correcting entries posted between 10/24/14 and 10/31/14 for the 2013-2014 year. Additional differences in Group Insurance Premiums for Retirees were noted as a result of Audit's recalculation: -OASI's Fund 001 allocation changed from \$7,296,814.05 to \$7,294,474.67 resulting in \$2,339.38 owed to the State.	\$ 2,339.38	In Process	Overpayment by State owed back to State
	2014	GIP	GR Fund 001	-Group insurance's Fund 001 allocation changed from \$12,541,573.46 to \$12,533,220.42 resulting in \$8,353.04 owed to the State. As the amount that UTSA is appropriated for group insurance was limited by the State at \$12,924,537, \$8,353.04 would still be owed to the State.	\$ 8,353.04	In Process	Underpayment by UTSA owed to State
	2014	TRS	GR Fund 001	-TRS's Fund 001 allocation changed from \$3,756,037.41 to \$3,754,833.21 resulting in \$1,204.20 owed to the TRS.	\$ 1,204.20	In Process	Overpayment by TRS owed back to TRS.
	2014	ORP	GR Fund 001	-ORP's Fund 001 allocation changed from \$3,881,944.29 to \$3,880,699.73 resulting in \$1,244.57 owed to ORP.	\$ 1,244.57	In Process	Overpayment by ORP owed back to ORP.
Subtotal	2014				\$ 13,141.19	In Process	Pending.
Total	2012-2014				\$ 13,141.19		

November 26, 2014

Mr. Kerry Kennedy, Vice President for Business Affairs
One UTSA Circle
San Antonio, Texas 78249

Dear Mr. Kennedy,

We have completed our audit of Benefits Proportionality by Fund for The University of Texas at San Antonio (UTSA) as requested by Governor Rick Perry. The scope of our audit included benefits funding proportionality reporting for appropriation year (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 UTSA's internal accounting system, DEFINE, 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). 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 March 2014, Financial Affairs identified an immaterial error in the retiree group insurance calculation for the APS 011 report. UTSA 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. UTSA has historically paid for the retiree group insurance for all retirees from the General Revenue Fund. The retiree costs should be borne equitably between general revenue, other appropriated funding sources and institutional funds. Retiree group insurance cost should be allocated based on an institution's current salaries and benefits calculation. In April 2014, UTSA revised the AY 2013 APS 011 report utilizing this new methodology and provided the report to UT System Controller's Office for review. The amount that UTSA is appropriated for group insurance is limited by the State and does not fully fund the proportional need for group insurance at UTSA. Therefore, there was no effect on the amount UTSA received from the state due to this error.

Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for AY 2013, as submitted to the State Comptroller in November 2013 was 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.

Sincerely,

A handwritten signature in cursive script that reads "J. Richard Dawson" followed by a long horizontal flourish.

J. Richard Dawson
Institution Chief Audit Executive

cc: Dr. Ricardo Romo, President, UTSA
J. Michael Peppers, Chief Audit Executive, UT System
Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer,
UT System