

**The University of Texas at Tyler**  
**Annual Financial Report Audit**  
**For Fiscal Year Ended August 31, 2016**



**December 2016**

THE UNIVERSITY OF TEXAS AT TYLER  
OFFICE OF AUDIT AND CONSULTING SERVICES  
3900 UNIVERSITY BOULEVARD  
TYLER, TEXAS 75799

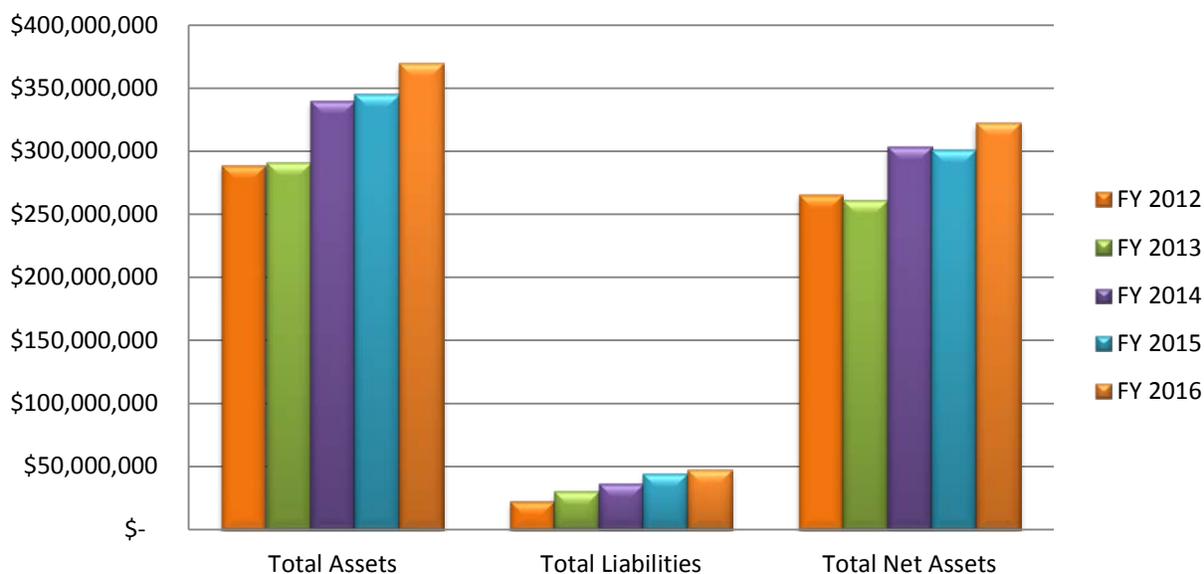
**The University of Texas at Tyler**  
Annual Financial Report Audit

**BACKGROUND**

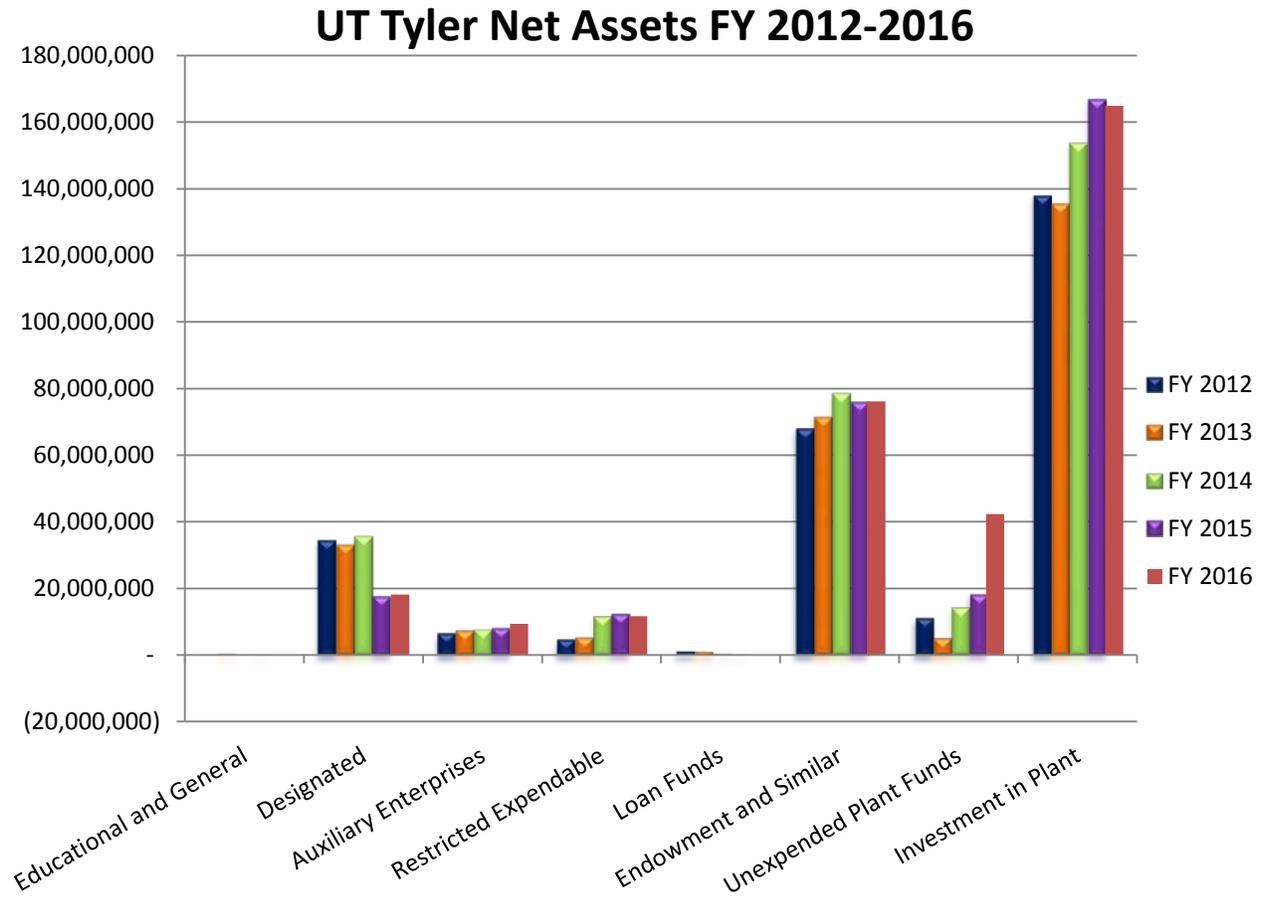
The University of Texas System (UT System) is composed of fourteen institutions of higher education as well as UT System Administration. Annual Financial Reports (AFRs) and related footnote information are prepared by the financial reporting officers at each UT institution and UT System Administration in accordance with accounting and financial reporting requirements promulgated by UT System policy and the Texas Comptroller of Public Accounts to be included in the UT System Consolidated AFR. The Office of the Controller at UT System Administration consolidates AFRs from all UT institutions and UT System Administration and prepares footnotes and other related disclosures so that the UT System Consolidated AFR is prepared in accordance with generally accepted accounting principles. The information included in the University of Texas at Tyler (UT Tyler) AFR and related footnote information is the responsibility of UT Tyler management.

Deloitte has audited the Consolidated AFR, which includes the balance sheet as of August 31, 2016, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. As part of the external financial audit, UT Tyler’s Office of Auditing and Consulting Services performed audit procedures requested by Deloitte for the Fiscal Year (FY) 2016. Deloitte presented their report to UT System Administration on December 15, 2016 which included an unmodified opinion.

**UT Tyler Balance Sheet Amounts FY 2012 - 2016**



<b>Balance Sheet</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Total Assets	\$289,008,173	\$290,617,738	\$339,623,790	\$345,459,545	\$369,726,603
Total Liabilities	\$ 23,354,795	\$ 29,940,125	\$ 36,244,708	\$ 44,454,309	\$ 47,406,369
<b>Total Net Assets</b>	<b>\$265,653,378</b>	<b>\$260,677,613</b>	<b>\$303,379,082</b>	<b>\$301,005,236</b>	<b>\$322,320,234</b>



Description	Net Assets FY 2012	Net Assets FY 2013	Net Assets FY 2014	Net Assets FY 2015	Net Assets FY 2016
Educational and General	\$ 58,851	\$ 381,343	\$ 12,331	\$ 98,148	-
Designated	34,964,854	33,540,146	36,092,440	17,937,218	18,153,264
Auxiliary Enterprises	6,749,160	7,540,984	7,800,293	8,330,194	9,384,682
Restricted Expendable	4,862,659	5,459,577	11,881,802	12,588,204	11,627,884
Loan Funds	1,270,109	1,107,178	372,831	181,791	(173,536)
Endowment and Similar	68,337,423	71,690,776	78,886,486	76,376,283	76,133,273
Unexpended Plant Funds	11,352,844	5,259,181	14,525,641	18,499,055	42,341,493
Investment in Plant	138,057,478	135,698,428	153,807,258	166,994,343	164,853,174
	<b>\$ 265,653,378</b>	<b>\$ 260,677,613</b>	<b>\$ 303,379,082</b>	<b>\$ 301,005,236</b>	<b>\$322,320,234</b>

# The University of Texas at Tyler

## Annual Financial Report Audit

---

### **AUDIT OBJECTIVE**

The overall objective of the external financial audit is to determine whether the Consolidated AFR of the UT System presents fairly, in all material respects, the financial position of the UT System as of August 31, 2016, and its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The objective of the work we performed for Deloitte was to execute audit procedures, in coordination with procedures performed at each UT System institution and UT System Administration, sufficient for Deloitte to express an opinion on the Consolidated AFR of the UT System. The extent of our procedures is not sufficient to provide an opinion on the AFR of UT Tyler.

In addition, our objective was to determine whether UT Tyler's Internal Controls Monitoring Plan, which includes the certification process, was in place and functioning as intended. This included determining whether account reconciliations were being performed and whether duties were adequately segregated as asserted by management.

### **STANDARDS**

Deloitte is required to perform the audit of the consolidated financial statements of the UT System in conformity with auditing standards generally accepted in the United States of America. Those standards require that Deloitte plan and perform their audits in order to obtain reasonable assurance about whether the consolidated financial statements of the UT System are free of material misstatements.

Our audit of the UT Tyler monitoring plan was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.

### **SCOPE AND METHODOLOGY**

The internal audit functions from across the UT System agreed to assist Deloitte in conducting the independent financial audit. All work performed by internal audit was done under Deloitte's direction and supervision. The scope of the audit procedures developed by Deloitte and executed across the UT System varied based on the size of the institution and financial statement line items. The extent of the work assigned to these institutions, in coordination with work performed and managed by Deloitte at the larger UT institutions and UT System Administration, was limited to procedures necessary for Deloitte to provide an opinion on the Consolidated AFR for the fiscal year ended August 31, 2016. As requested by Deloitte, the following was obtained and submitted:

- Information Technology Control Questionnaire responses,
- Status of prior year deficiencies,
- Bank account reconciliations, and
- Variance analysis prepared by the Financial Reporting Office for specified financial statement line items.

## The University of Texas at Tyler

### Annual Financial Report Audit

---

As required by UT System Policy (UTS) 142.1, *Policy on the Annual Financial Report*, we also tested implementation of the UT Tyler Internal Controls Monitoring Plan and validated management's assertions on segregation of duties, account reconciliations, and the annual certification process. We tested implementation of the UT Tyler Internal Controls Monitoring Plan as follows:

- Reviewed the Internal Controls Monitoring Plan and obtained evidence of oversight controls.
- Reviewed the results of Quality Assurance Reviews conducted by the Compliance Office that included verification of segregation of duties on expenditures, employee time sheets, employee reimbursements, and departmental reconciliations.
- Tested a judgmental sample of supporting documentation to verify segregation of duties on employee appointment and payroll transactions.
- Verified the certification process noting that 100% of the budget authorities submitted subcertification letters as of the date of this report.
- Reviewed responses on the subcertification letters for reasonableness.
- Obtained the Financial Reporting Office plans for addressing budget authority subcertification letter responses.

#### **AUDIT RESULTS**

According to The University of Texas System Audit Office, *"A Priority Finding is defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated. This audit resulted in two Medium-level and one Low-level findings."*

#### **Annual Financial Report**

Based on the audit procedures performed on the FY 2016 AFR, Deloitte noted no material adjustments that needed to be recorded in the UT Tyler AFR for the year ended August 31, 2016.

#### **Internal Controls Monitoring Plan**

The audit of the Internal Controls Monitoring Plan resulted in two Medium-level findings and one Low-level finding.

**#1 Budget Authority Training (Medium)**

The Internal Controls Monitoring Plan states new budget authorities are trained upon hire and continuing budget authorities receive training every other year. The UT Tyler Management Responsibilities Handbook states, “*Department heads and budget authorities are responsible for the design, execution, and effectiveness of a system of internal controls in their departments and budget units that provide reasonable assurance those operations are effective and efficient; assets are safeguarded; financial information is reliable; and laws, regulations, policies and procedures are complied with. Additionally, department heads and budget authorities are responsible for maintaining written documentation of the internal controls utilized in their department in order to comply with the Sarbanes-Oxley Act. Biennially, department heads and budget authorities are required to attend a two-hour Budget Authority training session.*” Currently Budget Authority Training is offered every two years; however, there is no training for budget authorities appointed between the biennial training. Inadequate training for new budget authorities could result in policies and procedures not followed and allow weak internal controls to go unnoticed which could result in undiscovered errors, omissions, fraud, and/or inaccurate financial statements.

***Recommendation:*** We recommend employees receive training upon being appointed as a budget authority.

***Vice President for Business Affairs (VPBA) Response and Implementation Date:*** *Concur. The Budget Authority Training is scheduled for December 9, 2016 and includes presentations from multiple departments. After the training, the materials used for the Budget Authority Training will be compiled into an electronic file for the Office of Budget and Financial Reporting to distribute to employees newly appointed as budget authorities beginning January 2, 2017.*

**#2 Quality Assurance Reviews (Medium)**

Quality Assurance Reviews (QARs) are included in UT Tyler's Internal Controls Monitoring Plan to verify segregation of duties and account reconciliations. QARs are reviews of budget authority responsibilities and departmental transactions to verify compliance with institutional and state policies and procedures for financial and other responsibilities and are to be conducted on a risk-based, rotating basis across campus. The Office of Compliance was responsible for completing QARs on 25% of all departmental budget authorities for FY 2016 by August 31, 2016. However, QARs were completed on only 6% (9 of the 145) of the budget authorities. Lack of monitoring departmental transactions, reconciliations, and activities could allow weak internal controls to go unnoticed which could result in undiscovered errors, omissions, fraud, and/or inaccurate financial statements.

***Recommendation:*** We recommend the QAR process be completed on at least 25% of the departments annually in accordance with the Monitoring Plan or that the VPBA develop alternatives to the QAR Process.

***Vice President for Business Affairs Response and Implementation Date:*** *Concur. The campus has not fully implemented the current Internal Controls Monitoring Plan which heavily relies upon Quality Assurance Reviews. In order to fully address this issue, the Office of Business Affairs deems it necessary to take a comprehensive approach to review and update, as necessary, the Internal Controls Monitoring Plan and the assignment of duties and responsibilities for completing the various aspects of the plan. This process will be completed by February 28, 2017.*

**#3 Internal Controls Monitoring Plan (Low)**

UT System Policy 142.1 states, “Each Financial Reporting Office shall develop or update a monitoring plan for the segregation of duties and reconciliation of accounts. The monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” The Internal Controls Monitoring Plan was generally executed; however, issues were noted of non-compliance. Incomplete execution of the plan could allow inadequate segregation of duties and reconciliations to go unnoticed and uncorrected.

***Recommendation:*** The following recommendations are made to further improve implementation of the Internal Controls Monitoring Plan and strengthen related internal controls:

- a) Follow-up on budget authority responses to the sub-certification letters should be conducted to assure all issues are properly addressed.
- b) Employee appointments should be tested during the QAR procedures or the monitoring plan should be updated to include an alternative control.
- c) Journal Entry testing by the Financial Reporting Office should note the approver of the journal entry reviewed.
- d) Year-end bank account reconciliations should be reviewed by the Financial Reporting Office and include documentation of reconciliation to the AFR.
- e) The Student Business Services department should report departmental cash reviews to the Compliance Officer as noted on the monitoring plan and the Compliance Officer should request the review information as needed.

***Vice President of Business Affairs Response and Implementation Date:*** *As noted in the previous audit recommendation response, the Internal Controls Monitoring Plan will be reviewed and updated along with the assignment of the duties and responsibilities for the plan components. Each of these recommendations to improve the implementation of the existing plan will be considered for implementing the new plan. The new Internal Controls Monitoring Plan will be completed by February 28, 2017.*

**CONCLUSION**

Based on the limited procedures conducted and communication with Deloitte, we found no adjustments needed to the AFR. The Internal Controls Monitoring Plan is generally executed except as noted above. We appreciate the assistance provided to us by the Office of the Vice President of Business Affairs and the Financial Reporting Office. We hope the information included in this report is helpful.