The University of Texas of the Permian Basin

Audit Report

Monitoring Plan and Sub-certification Audit

November 2013

The University of Texas of the Permian Basin
Office of Internal Audit
4901 E. University
Odessa, Texas 79762
November 14, 2013

Dr. W. David Watts, President
University of Texas of the Permian Basin
4901 East University Boulevard
Odessa, Texas 79762

Dr. Watts:

As part of our Audit Plan for fiscal year 2014, we have completed an audit of the Financial Services Department’s Segregation of Duties and Reconciliation of Accounts Monitoring Plan for the fiscal year 2013 as required by The University of Texas System (UT System) Policy UTS142.1 Policy on the Annual Financial Report.

The objective of this audit was to perform testing of the Monitoring Plan and sub-certification process and validate the assertions on segregation of duties and account reconciliations. Our audit was conducted in accordance with guidelines set forth in the UT System Policy UTS129 and the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

Overall, we found that the Office of Financial Services is complying with UTS142.1 except that it did not submit a monitoring plan for FY 2013. For more detail, please refer to the enclosed report.

We wish to express our appreciation to management and staff for the courtesy and cooperation extended to us during the audit.

Sincerely,

[Signature]
Glenn Spencer
Director of Internal Audit

cc: Dale Cassidy, Vice President for Business Affairs
Cuca Franco, Assistant Director of Accounting
Ana Longoria, Financial Officer, UT System Controller’s Office
Mike Peppers, Chief Audit Executive, UT System Audit Office
Eric Polanski, Assistant Director, UT System Audit Office
Pedro Reyes, Executive Vice Chancellor for Academic Affairs, UT System
Alan Marks, Assist. Vice Chancellor of Academic Affairs, UT System
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Executive Summary

The University of Texas System’s Policy (UTS) 142.1 requires that the internal audit department of The University of Texas of the Permian Basin (UTPB) perform annual testing, within 60 days of the fiscal year end, of the Monitoring Plan and the sub-certification process and validate the assertions on segregation of duties and account reconciliations. This audit was conducted in accordance with guidelines set forth in UTS129 and the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. The audit encompassed UTPB’s sub-certification and account reconciliations completed in fiscal year 2013 (FY13).

The purpose of our audit was to validate the assertions on segregation of duties and account reconciliations as they applied to the UTPB’s sub-certification and account reconciliation Monitoring Plan.

The Office of Financial Services did not submit a monitoring plan for the past fiscal year, however, sub-certification and account reconciliations did occur. A sample of sub-certifications and account reconciliations were reviewed and found to be adequate. We noted the following area where improvement could occur:

- A monitoring plan should be submitted as required and followed.

According to The University of Texas System, a significant recommendation is one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonably low level. This audit did not result in any significant findings and recommendations.

Background

UTS142.1, requires the creation of a Monitoring Plan to strengthen the practice of segregation of duties and reconciliation of accounts. UTPB has developed a draft Monitoring Plan for FY 14, which should be submitted to the UT System Financial Reporting officer by February 28, 2014.

UTS142.1 also states that all account owners are to complete a sub-certification letter to verify that the account owners have been performing monthly reconciliations and submit the letter to the Financial Reporting Officer (the Financial Services Director) annually. The Office of Internal Audit must also perform annual testing of the sub-certification and account reconciliation Monitoring Plan within 60 days of the fiscal year end.

Audit Objectives

The purpose of our audit was to perform testing of the Monitoring Plan and Sub-certification process and validate the assertions on segregation of duties and account reconciliations.
Scope and Methodology

The scope of the audit was FY13, September 1, 2012 to August 31, 2013. Our audit included the following procedures:

- Gained an understanding of the monitoring process through interviews
- Reviewed past audit findings
- Reviewed account reconciliation process
- Reviewed account reconciliation inspection process and results
- Reviewed sub-certification process

The audit was conducted in accordance with the Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing.*

Audit Results

UTPB Financial Services did not submit a monitoring plan for FY 13 as required. However, sub-certification and account reconciliations did occur and were effective. 8% (5 out of 63) of the sub-certification letters were not returned to Financial Services. 25% (16 of 63) of the sub-certification letters were not submitted by the Financial Services deadline. Account reconciliation testing resulted in verification of Financial Service’s review of the sampled accounts. Further compliance with UTS142.1 requirements may be strengthened in the following areas:

**Monitoring Plan Submittal**

The Office of Financial Services did not submit a Monitoring Plan for 2013 to the UT System Financial Reporting Officer by February 28, 2013, as required by UTS142.1.

**Recommendation:** The Office of Financial Services should submit a Monitoring Plan for 2014 to the UT System Financial Reporting Officer by February 28, 2014, as required by UTS142.1.

**Management Response:**

We concur with the recommendation. The Office of Financial Services will work with the Vice President of Business Affairs to develop a Monitoring Plan for 2014 as required by UTS142.1. The plan will consist of reviewing the following: departments with changes in department heads, departments who did not submit their sub-certifications in FY13, large departments (as defined) and all other departments will be monitored on a rotating basis to be defined.

**Implementation Date:**

The plan will be developed by December 31, 2013.

**Conclusion**

UTPB did not submit a sub-certification and account reconciliation Monitoring Plan for FY 13 as required by UTS142.1. Sub-certification and account reconciliations did occur, but not in conjunction
with a formally submitted plan. A draft sub-certification and account reconciliation Monitoring Plan has been developed for FY 14, and should be submitted timely and followed throughout FY 14. We appreciate the assistance and access provided to audit personnel during this audit.

Appendix A

Follow-up on Prior Audit Recommendations

<table>
<thead>
<tr>
<th>Audit Findings 2009</th>
<th>Audit Results 2010</th>
<th>Audit Results 2012 (Audit not complete)</th>
<th>Audit Results 2013</th>
<th>Audit Finding Cleared</th>
</tr>
</thead>
<tbody>
<tr>
<td>The method for identifying staff that needed reconciliation training was inadequate</td>
<td>Training Specialist sent emails to budget heads; however, budget heads did not ensure required parties attended training</td>
<td>Training was not offered during FY12</td>
<td>Training was offered during FY13</td>
<td>Yes</td>
</tr>
<tr>
<td>Only .5% of the UT System recommended inspections had been conducted</td>
<td>100% of accounts were monitored</td>
<td>76% of accounts were monitored</td>
<td>No Monitoring Plan submitted for FY13</td>
<td>No</td>
</tr>
<tr>
<td>The identification of high risk accounts did not include all accounts that met the criteria outlined in the Monitoring Plan</td>
<td>List not updated</td>
<td>List not updated</td>
<td>No Monitoring Plan submitted for FY13</td>
<td>No</td>
</tr>
</tbody>
</table>