

MEMORANDUM

Date: February 29, 2016

To: Arnim Dontes, Executive Vice President, Business Affairs

From: Valla Wilson, Assistant Vice President, Office of Internal Audit

Subject: Proportional Funding of Benefits Audit – Management Memorandum

We have completed our audit of Benefits Proportionality by Fund for UT Southwestern Medical Center, as required by Rider 8, page III-39, of the General Appropriations Act (84<sup>th</sup> 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, were 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. 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*.

## Proportional Funding of Benefits Audit – Management Memorandum

Below is a summary of findings:

1. ORP Retirement Benefits Matching - FY 2014. The Medical Center received education and general (E&G) appropriated salaries and wages totaling \$379,873,849 for fiscal years 2012 through 2014. E&G appropriated benefits related to those salaries and wages amounted to \$98,902,165 which included proportional benefit reimbursements of \$87,208,306 for employees' social security insurance (OASI), group health insurance premium (GIP), and contribution matching under the TRS and ORP retirement plans. Fiscal Reports used an internally prepared spreadsheet to determine the State matched ORP retirement benefits as a percentage of employees' salary and to process applicable monthly reimbursement requests through USAS. For fiscal year 2014, this spreadsheet incorrectly referenced the old State matching of 6% which was lower than the newly established rate of 6.6%. This error resulted in understated reimbursement requests of approximately \$252,338. State retirement benefits matching to employees processed through payroll was not affected. Fiscal Reports has contacted the University's Appropriation Control Officer at the State Comptroller's Office and has been instructed to send a revised APS 11 report for FY2014 in order to begin the process to recover the unreimbursed ORP funds due to the University. Additionally, the rate change was discovered during FY2015 by Fiscal Reports staff and all ORP retirement matching benefits have been reimbursed at the correct rate for FY 2015 and going forward. Staff has also been instructed to obtain the state rate for ORP directly from the TRS website so that the applicable rate for any given fiscal year is reimbursed accurately.
2. TRS Retirement Benefits Matching – Temporary Assignments. Temporary positions are not eligible for State matching retirement benefits, longevity pay, or salary reimbursement. Sample testing of two monthly benefit data transmissions to the TRS for fiscal year 2014 identified eight employees that were in temporary positions. There were four instances of ineligible TRS matching benefits and one instance of ineligible longevity pay. The root cause of the five ineligible benefit elections was due to delays by departments in updating the HCM position status from full-time to temporary. These exceptions were deemed immaterial and were communicated to the Office of Human Resources for further evaluation.

We would like to thank management of Fiscal Reports and Office of Accounting for their cooperation and assistance during this review.

Cc: Daniel K. Podolsky, M.D., President  
Mike Serber, Vice President, Financial Affairs  
Sharon Leary, Assistant Vice President, Office of Accounting  
Chuck Fox, Director, Fiscal Reports & Accounting Operations  
Ivan Thompson, Vice President, Office of Human Resources  
Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer,  
University of Texas System

**REPORT APPENDIX: SUMMARY OF ERRORS**  
**UT Southwestern Medical Center**

	Appropriation Year	Benefit Type	Financing Source	Error Description	Error Amount	Refund Status	Document Number and Effective Date
Subtotal	2012		GR Fund # 0001	\$754,325.51 of salaries and wages were not reimbursed with APS 11 eligible fund sources within the required two year time limit. Funds were available in the University's fund 0252 held in the treasury, but when this was identified, the two year window to reimburse had expired. Associated benefits were reimbursed during FY12.	(102,965.43)	UTSW contacted the State Comptroller's Office in November 2014 to request instructions on how to return the funds. Was told that Comptroller would have to research and investigate a method for us to return the funds. Have not heard from Comptroller's Office as far as a resolution. The Comptroller's Office did not deem this as material and we were made aware that UTSW did have the funds available in its 0252 treasury funds to reimburse the amount but did not do so within the two year time limit.	
	<b>2012</b>				<b>\$ (102,965.43)</b>	In Process	
Subtotal	2013		GR Fund # 0001	Since completion of the APS 11 audit one year ago, all salaries were reimbursed with APS 11 eligible fund sources. The outstanding amount of salaries that were reimbursed were \$1,124,023.17. As a result all proportional benefits reimbursed and submitted on the annual APS 11 report are in compliance.*	-	Complete	
	<b>2013</b>				<b>\$ -</b>	Complete	
Subtotal	2014		GR Fund # 0001	Since completion of the APS 11 audit one year ago, all salaries were reimbursed with APS 11 eligible fund sources. The outstanding amount of salaries that were reimbursed were \$5,458,021.64. As a result all proportional benefits reimbursed and submitted on the annual APS 11 report are in compliance.*	-	Complete	
	2014	ORP	GR Fund # 0001	Understated reimbursement requests - incorrect benefits matching % used	\$252,338.00	In Process - Have contacted the State Comptroller's Office and the FY14 APS 11 report will be revised and resent in order for the University to receive reimbursement that is due.	
	2014	TRS	GR Fund # 0001	Ineligible State matched benefits - Temporary assignments	Not Material	Not Applicable	Not Applicable
	<b>2014</b>				<b>\$ 252,338.00</b>	In Process	
<b>Total</b>	<b>2012-2014</b>				<b>\$ 149,372.57</b>	<b>AMOUNT DUE TO UTSW</b>	

\* The Office of Accounting has updated its APS011 procedures to include a semi-annual reconciliation of all salaries within the E&G fund group to ensure they are reimbursed with APS011 eligible funding sources