



December 4, 2017

Randy Wallace
Associate Vice Chancellor, Controller, and Chief Budget Officer
Office of the Controller
210 West 7th Street
Austin, Texas 78701

Dear Mr. Wallace:

The System Audit Office has audited The University of Texas (UT) System Office of the Controller's monitoring plan for segregation of duties and reconciliation of cost centers and subcertifications. The detailed report is attached for your review.

We conducted our audit in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We will follow-up on recommendations made in this report to determine their implementation status. Any requests for extension to the implementation dates require approval from the System Administration Internal Audit Committee. This process will help to enhance accountability and ensure that audit recommendations are implemented in a timely manner.

We appreciate the assistance provided by your office and the offices that were selected for audit. We hope the recommendations presented in our report are helpful.

Sincerely,

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

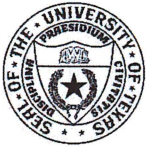
cc: Scott C. Kelley, Ed.D., Executive Vice Chancellor for Business Affairs
Sandra Neidhart, Fiscal & Policy Analyst, Office of the Controller
Sherill Franke, Administrative Programs Manager, Office of the Controller

**The University of Texas System Administration
Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2017
Fiscal Year 2018**



December 2017

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
210 WEST SEVENTH STREET
AUSTIN, TX 78701
(512) 499-4390



The University of Texas System Audit Office
Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2017
Fiscal Year 2018

AUDIT REPORT

December 2017

EXECUTIVE SUMMARY

UTS142.1, *Policy on the Annual Financial Report* (UTS142.1), requires each financial reporting officer within The University of Texas (UT) System to “develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” According to UTS142.1, “the monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” UTS142.1 also requires that the UT System Audit Office (System Audit) perform annual testing of the UT System Office of the Controller’s (Controller’s Office) monitoring plan and subcertifications, and validate the assertions on segregation of duties and cost center reconciliations.

The objectives of this audit were to determine whether: the Controller’s Office followed its monitoring plan for segregation of duties and reconciliation of cost centers, there was adequate segregation of financial duties, cost center reconciliations were properly performed and reviewed, and subcertifications were completed and submitted timely. We also performed follow-up procedures on 13 recommendations from the Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2016 to determine whether management effectively implemented the recommendations or accepted the risk of not taking action.

The scope of this audit was limited to fiscal year (FY) 2017. In coordination with the Controller’s Office, we selected the following five UT System offices for audit: Board of Regents, Contracts and Procurement, Finance, Shared Services, and Police.

CONCLUSION

The Controller’s Office followed its monitoring plan for segregation of duties and reconciliation of cost centers, and substantially all 34 UT System Administration offices submitted subcertifications in a timely manner. For the five offices audited, cost center reconciliations were performed timely, adequate segregation of duties was in place, and we had no reportable recommendations. We identified minor opportunities for each office to improve the completeness of reconciliation documentation and we communicated these individually to the respective office. In addition, we determined that the Offices of the Controller, Health Affairs, Strategic Initiatives, Systemwide Information Services, and Innovation and Strategic Investment, as well as the Texas Oil and Gas Institute and University Lands, fully implemented nine of 13 recommendations. The remaining four recommendations are not yet fully implemented and management from the Controller’s Office, the Texas Oil and Gas Institute, and University Lands have requested additional time to implement their respective recommendations. The UT System Administration Internal Audit Committee approved each request on November 13, 2017.

J. Michael Peppers, CPA, CIA, QIAL, CRMA
Chief Audit Executive

Eric J. Polonski, CPA, CIA
Director of Audits



The University of Texas System Audit Office Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2017 Fiscal Year 2018

BACKGROUND

UTS142.1, *Policy on the Annual Financial Report* (UTS142.1), requires each financial reporting officer within The University of Texas (UT) System to “develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” According to UTS142.1, “the monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” UTS142.1 also requires that the UT System Audit Office (System Audit) perform annual testing of the UT System Office of the Controller’s (Controller’s Office) monitoring plan and subcertifications, and validate the assertions on segregation of duties and cost center reconciliations.

In accordance with its monitoring plan, the UT System Office of the Controller (Controller’s Office) coordinates with System Audit to perform annual audits of selected System Administration offices. Additionally, the Controller’s Office provides reconciliation training to those preparing or reviewing and approving cost center reconciliations and monitors whether department heads submit their annual subcertification letters. The following offices were selected for this audit:

1. Office of the Board of Regents,
2. Office of Contracts and Procurement,
3. Office of Finance,
4. Office of Shared Services, and
5. Office of the Director of Police.

AUDIT OBJECTIVES

The objectives of this audit were to determine whether:

- The Controller’s Office followed its monitoring plan for segregation of duties and reconciliation of cost centers;
- There was adequate segregation of financial duties;
- Cost center reconciliations were properly performed and reviewed; and
- Subcertifications were completed and submitted timely.

SCOPE & METHODOLOGY

The scope of this audit included PeopleSoft cost center activity for the period September 1, 2016 through August 31, 2017.

To achieve our objective, we conducted interviews with relevant personnel, reviewed fiscal year (FY) 2017 subcertification letters for all System Administration offices, and reviewed a sample of reconciliations completed during the audit scope. We evaluated whether selected System Administration offices had adequate segregation of duties and verified that those preparing, reviewing, or approving cost center reconciliations completed required training.

We conducted our audit in accordance with the guidelines set forth in the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.



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AUDIT RESULTS

Monitoring Plan

The Controller's Office primarily relies on System Audit to perform monitoring of cost center reconciliations and segregation of duties. The Administrative Programs Manager from the Controller's Office monitors whether department heads submit their annual subcertification letters and follows-up on any exceptions. Additionally, the Controller's Office provides reconciliation training to those preparing, reviewing, or approving cost center reconciliations.

Overall, the Controller's Office established and followed its monitoring plan to provide adequate monitoring of cost center reconciliations and segregation of duties. For the five offices selected for audit, staff members responsible for reconciliations generally followed guidance provided by the Controller's Office. Several offices also developed reconciliation procedures and templates tailored to meet the needs of their individual offices. In addition, all five offices segregated duties adequately to ensure that no one person may request, process, approve, and reconcile the same transaction.

Reconciliation Training

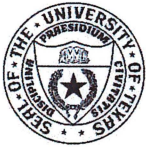
The Controllers Office's monitoring plan indicates that reconciliation training is to be provided to those preparing, reviewing, or approving cost center reconciliations. The training is mandatory for new reconcilers and individuals who have had challenges with completing reconciliations adequately.

We identified 157 individuals in 34 offices responsible for preparing, reviewing, or approving reconciliations during FY 2017. Twenty-six (16.6%) had not completed any training as of November 2017. Seventeen of those individuals are no longer with UT System. The Controller's Office has agreed to offer training to the remaining nine individuals who are primarily approvers; some are new to UT System while others are executives with limited availability.

Cost Center Reconciliations

The Cost Center Reconciliation Process Job Aid, developed by the Controller's Office, states that reconciliations are to be completed within two months of the close of the month (typically the fifth working day of the following month). Additionally, supporting documentation must be retained for three fiscal years.

We reviewed 40 reconciliations performed by the five offices selected for this audit. All five offices performed timely reconciliations and retained adequate supporting documentation as required. We identified minor opportunities for each office to improve the completeness of reconciliation documentation, and we communicated these individually to the respective offices.



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Subcertifications

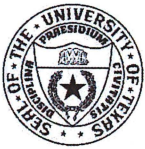
In accordance with UTS142.1, each System Administration office is required to complete an annual subcertification in which the office's responsible account owner certifies in writing that their office's cost centers have been reconciled, that transactions are appropriate and properly recorded, that the office maintains adequate segregation of duties, and that they have no knowledge of misstatements, fraud, or noncompliance. Substantially all System Administrations offices submitted subcertifications to the Controller in a timely manner. Twenty-seven offices submitted subcertifications by the established deadline of October 13, 2017. Six offices submitted subcertifications within six days or less of the deadline due to employee absences, staffing shortages, and additional time needed to resolve identified discrepancies. However, the Office of Federal Relations submitted its subcertification 38 days after the established deadline due to a staffing shortage. The Controller's Office repeatedly followed-up with the office until the subcertification was obtained.

For all 34 System Administration offices, we compared a listing of active UT System Administration cost centers and projects to those listed within each office's subcertification letter. Only one cost center and 11 projects were omitted because each only had limited closing activity during FY 2017. These projects and cost center represent less than 2% of the 662 projects and cost centers with FY 2017 transactions. Overall, the 34 subcertification letters included a substantially complete listing of active cost centers and projects for which each office had reconciliation responsibility.

Follow-up on Prior Year Recommendations

We performed follow-up procedures on 13 recommendations from the Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2016 to ensure that management effectively implemented the recommendation or accepted the risk of not taking action. We determined that the Offices of the Controller, Health Affairs, Strategic Initiatives, Systemwide Information Services, and Innovation and Strategic Investment, as well as the Texas Oil and Gas Institute and University Lands, fully implemented nine recommendations, and we communicated these results to each office. The remaining four recommendations are not yet fully implemented:

- We provided two recommendations for the Controller's Office to continue its efforts to enhance tracking of reconciliation training, develop improved training materials, and incorporate reconciliation procedures into the UT System Administration's Handbook of Operating Procedures. The Controller's Office requested an extension of the implementation date for these recommendations until August 31, 2018.
- We also provided two recommendations to the Texas Oil and Gas Institute and University Lands to strengthen the reconciliation review process and ensure that their reconciliations are completed timely. Both offices requested extensions to complete implementation of their respective recommendations on or before the start of calendar year 2018.
- The three extension requests may be found in *Appendices A, B, and C*. The UT System Administration Internal Audit Committee approved each request on November 13, 2017.




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Appendix A – Controller’s Office Request for Extension

Memorandum

Date: October 25, 2017

To: Internal Audit Committee

From: Randy Wallace 
Associate Vice Chancellor, Controller and Chief Budget Officer
Office of the Controller

Re: Request for Extension: Cost Center Reconciliations & Subcertifications Audit Report for
Fiscal Year 2016

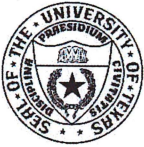
The Office of the Controller requests an extension of the due date until August 30, 2018 for the following two recommendations from the report on the *Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2016* issued in January 2017.

1. Reconciliation Training

Recommendation: The Controller’s Office should:

- a) Improve its tracking methods to provide more effective identification of individuals who participate in the reconciliation process but lack required training; including those individuals who have not yet completed PeopleSoft reconciliation training. Such methods could include requiring each office to provide a mid-year confirmation of cost centers and responsible reconcilers, reviewers, and approvers.
- b) Coordinate with the applicable offices to ensure that all individuals currently involved in the reconciliation process receive training. Because executive officers can be involved in approval of reconciliations and subcertifications, the Controller’s Office should consider providing a targeted approval-level training during a regularly scheduled executive officer meeting.
- c) Consider developing more comprehensive training tailored to address areas identified as challenging for reconcilers. This may include offering a more interactive learning opportunity, especially for offices in remote locations, or specialized training for offices that have unique transactions.

Management Response: *The Office of the Controller will design an online training utilizing the Learning Zone which maintains a database of individuals participating in training. Training will be expanded to include how to use and document reconciliation support documents in Content*



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Navigator. Specific Excel on-line training courses will be recommended in the training module to participants to compliment skills needed for the reconciliation process.

An executive overview of the reconciliation process will be offered during a regularly scheduled Executive Officer Meeting in order ensure that Executive Officers have received training.

A mid-year notice will be sent to Department Heads reminding them of their responsibility to ensure that reconciliation preparers and reviewers receive required training.

Original Implementation Date: March 1, 2017 for notice to Department Heads and August 31, 2017 for development of on-line training/tracking

Explanation: Department Heads were noticed timely. On-line training development was delayed due to Legislative session, budget cycle which included numerous hours and reports for Board of Regents, VISP reduction in staffing, and additional competing priorities. Additionally, Concur Expense will go live March 21st and we would like to incorporate the possible exclusion of these transactions during the reconciliation training. In-person training continues to be performed on an as-needed basis.

Plan of Action: Once Concur Expense is reviewed for controls by System Audit Office and a determination made as to exclusion of transaction from the reconciliation process, we will incorporate in training, review, and publish in the Learning Zone.

Revised Implementation Date: August 31, 2018

2. Timeliness and Completeness of Reconciliations

Recommendation: As part of the development of the HOP, the Controller's Office should ensure that UT System's cost center reconciliations and segregation of duties expectations are clearly documented in the HOP.

Management Response: Agreed.

Original Implementation Date: August 31, 2017

Explanation: Competing priorities and the need to incorporate new processes for transactions through eShop and Concur has delayed the development of procedures.

Plan of Action: When both processes are in place and functioning, the HOP will be updated.

Revised Implementation Date: August 31, 2018



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Appendix B – Texas Oil & Gas Institute Request for Extension

Memorandum

Date: September 29, 2017

To: Internal Audit Committee

From: Jeffrey B. Spath, PhD, CEO – Texas Oil & Gas Institute

Re: Request for Extension: Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2016

The Texas Oil & Gas Institute (TOGI) requests an extension of the due date until October 31, 2017 for the following recommendation from the report on the *Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2016* issued in January 2017.

Reconciliations Not Timely or Complete

Recommendation:

TOGI should strengthen its review process to ensure that reconciliations are completed in a timely manner and accurately include all applicable transaction activity:

Management Response: TOGI staff was unaware of any reconciliation and subcertification responsibilities until we were made aware in mid-October by UT System Administration. TOGI staff was trained in October and thereafter both processes were completed in a timely manner.

Original Implementation Date: January 13, 2017

Explanation: Extension is requested primarily because TOGI is still working with the Controller's Office to ensure reconcilers have a comprehensive understanding of the process. Additionally, improved and/or updated training materials regarding the reconciliation process are forthcoming from the Controller's office, but the deployment date of the new materials has yet to be determined.

Plan of Action: Continue to complete reconciliation report within the suggested two-month window after the final closing date for the previous month (generally, fifth business date of the new month).

Revised Implementation Date: January 1, 2018

TOGI



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Fiscal Year 2018

Appendix C – University Lands Request for Extension



Richard Brantley
Executive Director
P.O. Box 553
Midland, TX 79702-0553

Tel: (432) 684-4404
Fax: (432) 682-7456

Memorandum

Date: August 28, 2017

To: Internal Audit Committee

From: Amber D. Jackson, Budget & Revenue Manager, University Lands *ADJ*

Re: Request for Extension: Cost Center Reconciliations & Subcertifications Audit Report for FY 2016

University Lands requests an extension of the due date until December 1, 2017 for the following recommendation from the report on the *Cost Center Reconciliations & Subcertifications Audit Report for Fiscal Year 2016* issued in January 2017.

Reconciliations Not Timely or Complete

Recommendation:

University Lands should strengthen its review process to ensure that reconciliations are completed in a timely manner and that all discrepancies are adequately resolved.

Management Response: UL Staff will make an effort to complete all reconciliations in a timely manner and will investigate any PeopleSoft discrepancies until the issues are resolved.

Original Implementation Date: May 1, 2017

Explanation: The reconciliations were done timely. Journal transactions that are typically created by the budget office (transfers and budget infusions) were not captured in the spreadsheet. It was noted as reconciled as the cost center balances reflect the transactions.

Plan of Action: Training for new employees.

Revised Implementation Date: Immediate