

June 13, 2018

Michael Keneker  
Associate Vice President and Controller  
1515 Holcombe Blvd.  
Unit 1694  
Houston, TX 77030

Dear Mr. Keneker,

We have completed our audit of Benefits Proportionality by Fund for The University of Texas MD Anderson Cancer Center, as required by Rider 8, page III-44, of the General Appropriations Act (85<sup>th</sup> Legislature, Conference Committee Report). The rider requires that the audit examine fiscal years (AY) 2015 through 2017.

Based on audit procedures performed, *Benefits Proportionality by Fund Reports* (APS 011) for fiscal years 2015 through 2017, as submitted to the State Comptroller, **were materially accurate**. Also, 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. However, several immaterial errors were noted, as discussed in the Observation below.

#### **Observation**

Our review of APS 011 reporting, employee eligibility, and AFR/USAS reconciliation processes and subsequent submissions to the State Comptroller revealed the following *immaterial errors*:

#### **APS 011 Reporting Review**

On the AY 2016 APS 011 Report, the Total Retiree Group Insurance Costs “subsection” amount was incorrect. A discrepancy of \$2,552,177 occurred, because July 2016 insurance amounts were not included in the subsection total. Since the overall Actual Benefits Paid amount subject to proportionality was calculated correctly, the error did not impact the funding amount, and therefore no adjustment was needed.

#### **Employee Eligibility Review**

In general, employees that were submitted for reimbursement as paid from general revenue funds were eligible according to Rider 8 requirements. However, in the three years reviewed, Work Life Choice (WLC) expenditures were submitted for employees who were ineligible. The system was incorrectly configured to include all WLC expenditures. This error, previously identified in a prior audit, has been subsequently corrected. These immaterial exceptions did not require any adjustments to the reimbursement amount.

### USAS/AFR Reconciliation Review

Annually, the Institution is required to ensure and certify that its financial data correctly reflects its financial position as recorded in both the State's Uniform Statewide Accounting System (USAS) and the Institution's accounting system. The following immaterial reporting errors were identified within the audit review:

- In 2017, AY 2016 Optional Retirement Program (ORP) amounts were incorrectly classified on the reconciliation which resulted in overstating Retirement-State Match and understating ORP by \$310,614.
- In 2017, Legislative Appropriations of \$1,028 were recorded in both USAS and AFR, but were not reported on the reconciliation.
- In both 2015 and 2017, the USAS and Interagency Activity Certification Form contained a statement that was inadvertently left uncertified when forwarded to the State Comptroller.

These errors did not have a material impact on the Institution's reconciliations submitted to the State Comptroller.

### Recommendation

Management should strengthen the review process for APS011 to ensure that errors are identified and addressed. In addition, a review and approval process should be established to ensure the accuracy and completeness of the USAS/AFR Reconciliation prior to submission.

### Management's Action Plan

Responsible Executive: Mike Keneker

Owner: Christy Harrison

Due Date: 08/31/2018

For the APS 011 Reporting Review finding, the subsection in reference is for informational purposes and had no impact to the overall benefit proportionality calculations. As noted, only 11 out of 12 months were included in the amount reported in the Total Retiree Group Insurance Costs subsection. Prior to finalizing this subsection in the future, there will be a validation with the Financial Reporting group that the final amounts in the AFR match any amounts reported for Total Retiree Group Insurance Costs. The procedures document for Benefits Proportionality by Fund will be updated to reflect the requirement to verify the amount reported is final.

The Employee Eligibility Review finding for ineligible expenditures being submitted for Work Life Choice is noted by Internal Audit as having already been addressed and corrected.

The USAS/AFR Reconciliation was completed by an employee in Financial Reporting but was not reviewed by a second employee to verify that the amounts reported were correct. A secondary review will be required going forward to minimize the risk of misreported amounts or other oversights of required steps in the process. Procedures will be updated to reflect the requirement for a secondary review.

Additionally, the areas responsible for the information that is ultimately reported in the APS 011—General Accounting, Financial Reporting and Payroll—will meet to review these audit findings and discuss other measures that can assist with minimizing the risk of errors and misstatements in future reports.

While these findings are immaterial and did not impact our benefit proportionality calculations to the state, we appreciate the review and will work on updating our procedures to ensure they get corrected going forward.

For audit methodology, please refer to **Appendix A**.

The courtesy and cooperation extended by the Division of Finance was sincerely appreciated.



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Sherri Magnus, CPA, CIA, CFE, CRMA  
Vice President & Chief Audit Officer

cc: Ben Melson, Senior Vice President and Chief Financial Officer, MD Anderson Cancer Center  
Juan Castro, Associate Vice President, MD Anderson Cancer Center  
Tomas Guajardo, Executive Director, MD Anderson Cancer Center  
Christy Harrison, Executive Director and Assistant Controller, MD Anderson Cancer Center  
Randy Wallace, Associate Vice Chancellor – Controller and Chief Budget Officer, UT System  
J. Michael Peppers, Chief Audit Executive, UT System

## APPENDIX A - Audit Methodology

Our audit procedures were consistent with the methodology prescribed by the State Auditor's Office to comply with Rider 8, and included the following:

- A review of source information obtained from the internal accounting system and the State's Uniform Statewide Accounting System (USAS)
- A 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
- Testing to verify eligibility of employee benefits paid with appropriated funds

The sample size for testing was determined following guidance on internal controls testing for compliance from the American Institute for Certified Public Accountants (AICPA). 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* and *Government Auditing Standards*.