



2017 Annual Financial Report Audit

Office of Auditing and Consulting Services

Internal Audit Report # 2018-01

January 29, 2018

Reviewed by:

A handwritten signature in black ink, appearing to read "Taylor Eighmy". The signature is written over a horizontal line.

Taylor Eighmy, Ph.D.
President

Executive Summary
2017 Annual Financial Report
Internal Audit Report #2018-01

Objectives & Scope

UTSA's Office of Auditing and Consulting Services work was limited to procedures necessary for Deloitte to provide an opinion on the FY17 UT System Consolidated Annual Financial Report (AFR). The extent of our work was not sufficient to provide an opinion on UTSA's AFR and was limited to determining whether any material adjustments need to be recorded in the UTSA AFR.

Conclusion

No material adjustments were identified that needed to be recorded in the UTSA AFR or included in the UT System Consolidated AFR. Deloitte issued an unqualified opinion on the UT System Consolidated AFR (See Appendix B – Independent Auditors' Report) and did not identify any deficiencies in internal control over financial reporting (Appendix C – Report on Internal Control over Financial Reporting). Deloitte will present its opinion on the UT System Consolidated AFR to the UT System Board of Regents at the February meeting.

**2017 Annual Financial Report
Internal Audit Report #2018-01**

Background

In accordance with accounting and financial reporting requirements promulgated by UT System policy and the Texas Comptroller of Public Accounts, Annual Financial Reports (AFRs) and related footnote information are prepared by the financial reporting officers at each UT institution and UT System Administration. The Office of the Controller at UT System Administration consolidates the AFRs and prepares footnotes and other related disclosures to comply with generally accepted accounting principles. The University of Texas at San Antonio (UTSA) AFR and related footnote information is the responsibility of UTSA management.

At the July 2016 meeting, the Board of Regents approved the renewal of Deloitte to conduct an independent audit of the Consolidated AFR of the UT System for FY 2016 and for FY 2017. Deloitte has audited the Consolidated AFR, which includes the statement of net position as of August 31, 2017, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, which are summarized in the Appendix A.

**Audit Scope
and
Objectives**

Deloitte is required to perform the audit of the Consolidated Annual Financial Report of the UT System in conformity with auditing standards generally accepted in the United States of America 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, 2017, and its changes in net position and its cash flows for the year then ended.

The UT System Audit Office agreed to assist Deloitte in conducting the independent financial audit. The scope of the audit procedures developed by Deloitte and executed across the UT System varied based on size of the institution and financial statement line item.

Our work was limited to procedures necessary for Deloitte to provide an opinion on the FY17 UT System Consolidated AFR. The extent of UTSA's Office of Auditing and Consulting Services procedures is not sufficient to provide an opinion on the AFR of UTSA and was limited to determine whether any material adjustments need to be recorded in the UTSA AFR.

Audit Results

**Overview of
Procedures
Performed –
Internal Audit**

At the request of Deloitte, we updated control documentation and performed limited control testing on controls selected by Deloitte. Additionally, at the request of Deloitte, we performed analytical procedures, recalculations, and substantive testing of a sample of transactions.

Cash & Cash Equivalents	\$ 26,978,293
Student Tuition and Fees	270,305,549
Tuition Discounts and Allowances	(79,785,278)

Based on the testing performed, no exceptions were noted.

**Overview of
Procedures
Performed –
Deloitte**

Deloitte tested pension liability calculations at all institutions, including UTSA. UTSA's pension liability was overstated due to over remissions/payments of retirement contributions to Teacher Retirement System (TRS) in FY15 of \$3.5M and in FY16 of \$3.1M. The error was caused by a miscalculation by the Payroll Office at UTSA, but had no effect on contributions to employee accounts. The UTSA Office of the Controller is working with TRS to obtain credit against future contributions to correct the over remissions over the next 12-18 months. Additionally, the Office of the Controller has created procedures to ensure the error does not occur again and has recorded a \$2.7M receivable in FY18 to account for the portion of overpayment not yet recognized.

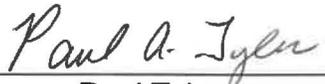
The incorrect pension liability is immaterial to the UT System Consolidated AFR and will be included in the February 2018 Audit, Compliance, and Risk Management Board of Regents meeting materials in the Summary of Uncorrected Misstatements and Passed Disclosures.

Additionally, Deloitte completed control testing, analytical procedures and substantive testing for the following line items:

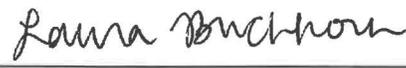
Cash & Cash Equivalents	\$ 26,978,293
Gross Capital/Intangible Assets	1,257,883,786
Student Tuition and Fees	270,305,549
Tuition Discounts and Allowances	(79,785,278)
Operating Expenses	522,828,272

No exceptions were identified.

Conclusion | No material adjustments were identified that needed to be recorded in the UTSA AFR or included in the UT System Consolidated AFR. Deloitte will present its opinion on the UT System Consolidated AFR to the UT System Board of Regents at the February meeting.



Paul Tyler
Interim Chief Audit Executive



Laura Buchhorn
Audit Manager



Aaron Sanders
Auditor III

This engagement was conducted in accordance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Appendix A

Summarized below are UTSA's AFR Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flow information.

Statement of Net Position		
	As of 8/31/17	As of 8/31/16
Total Assets	\$1,310,637,805	\$1,264,006,141
Total Liabilities	184,765,975	172,689,519
Total Net Position	1,125,871,830	1,091,316,622

Statement of Revenues Expenses & Changes in Net Position		
	FYE 8/31/17	FYE 8/31/16
Operating Revenue	\$324,965,553	\$307,955,414
Operating Expenses	(522,828,272)	(513,739,338)
Non-Operating Revenue	222,535,440	187,227,482
Gains, Losses & Transfers	9,882,487	(12,109,131)
Change in Net Position	34,555,208	(30,665,573)

Statement of Cash Flows		
	FYE 8/31/17	FYE 8/31/16
Net Cash (Used) by Operating Activities	\$(152,248,745)	\$(163,451,629)
Net Cash Provided by Noncapital Financing Activities	192,917,609	193,808,035
Net Cash (Used) by Capital and Related Financing Activities	(64,520,074)	(49,314,814)
Net Cash Provided/(Used) by Investing Activities	6,978,514	(9,156,826)
Net (Decrease) in Cash	(16,872,696)	(28,115,234)
Cash & Cash Equivalents – Beginning of the Year	57,753,356	85,868,590
Cash & Cash Equivalents – End of the Year	40,880,659	57,753,356



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INDEPENDENT AUDITORS' REPORT

To the Members of the Audit, Compliance, and Risk Management Committee of the University of Texas System Board of Regents

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Texas System (the System), which comprise the consolidated statements of net position as of and for the years ended August 31, 2017 and 2016, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of August 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the State of Texas that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2017 and 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. The results of our review are not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits Schedule of Funding Progress, the Schedule of the System's Proportionate Share of the Net Pension Liability, and the Schedule of the System's Contributions be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 8, 2017



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the Audit, Compliance, and Risk Management Committee of the University of Texas System Board of Regents

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the University of Texas System (the "System") as of and for the year ended August 31, 2017, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

December 8, 2017