



June 5, 2019

Mr. Cesario Valenzuela, CPA
Vice President for Business Affairs and Chief Financial Officer
The University of Texas Permian Basin
4901 E. University Boulevard
Odessa, Texas 79762

Dear Mr. Valenzuela:

We have completed our audit of the University of Texas Permian Basin (UTPB) account reconciliation/subcertification process; Monitoring Plan; and segregation of duties for fiscal year 2018, as required by University of Texas System (UTS) 142.1. This audit was conducted in accordance with guidelines set forth in UTS 129, the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, and *Generally Accepted Government Auditing Standards* (GAGAS) as issued by the Comptroller General of the United States.

The purpose of our audit was to perform testing of the Monitoring Plan and subcertification process as required under UTS 142.1 and validate management's assertions on segregation of duties and account reconciliations.

From our audit we noted three medium risk findings that are discussed in detail in the attached report along with management's response. Overall, we conclude that there was an adequate level of segregation of duties and the requirements of UTS 142.1 have been substantially implemented.

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

Sincerely,

A handwritten signature in black ink that reads "Glenn S. Spencer".

Glenn Spencer, CPA
Chief Audit Executive

cc: Dr. Sandra Woodley, President
Ms. Felecia Burns, Director of Accounting
Mr. J. Michael Peppers, CPA, UT System Chief Audit Executive

The University of Texas

Permian Basin

Segregation of Duties and Reconciliation of Accounts Monitoring Plan – FY 2018

June 2019



**Office of Internal Audit
4901 E. University Boulevard
Odessa, Texas 79762**

Table of Contents

Executive Summary 3

Audit Objective 3

Scope and Methodology 4

Risk Ranking Criteria 4

Current Year Audit Results..... 5

Status of Prior Findings and Recommendations 7

Conclusion 7

Appendix A – Status of Prior Findings and Recommendations..... 8

Executive Summary

The University of Texas System’s Policy (UTS) 142.1 requires that the internal audit department of The University of Texas Permian Basin (UTPB) perform annual testing of the subcertification process and the Monitoring Plan; and validate management’s assertions on segregation of duties and account reconciliations. This audit encompassed UTPB’s Monitoring Plan; and subcertification process and account reconciliations completed in fiscal year 2018 (FY 2018).

For our testing, we reviewed the reconciliations for ten different departments. Overall, we found that the Monitoring Plan was implemented by the Office of Accounting. However, we did note the following exceptions:

Risk

Rank Finding

- Of the ten departments’ account reconciliations that we tested, all were reviewed by Accounting after the end of the fiscal year, and not on a quarterly basis as required in the 2018 Monitoring Plan.**
- Annual subcertification letters, required by UTS 142.1, were not submitted by two of the departments. There was no evidence of follow-up action being taken to acquire the missing letters.**
- Five out of ten departments’ account reconciliations were lacking the signatures and/or dates of the preparer and/or budget head.**

OVERALL CONCLUSION

There was an adequate level of segregation of duties and the requirements of UTS 142.1 have been substantially implemented

For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. Overall, we conclude that the requirements of UTS 142.1 have been implemented. Additional information, along with our recommendations, is detailed in the section entitled “Current Year Audit Results”.

Risk Ranking for Findings: Critical High Medium Low

Audit Objective

The purpose of our audit was to perform testing of the Monitoring Plan and subcertification process as required under UTS 142.1 and validate management’s assertions on segregation of duties and account reconciliations.

Scope and Methodology

The scope of the audit was FY 2018, which was from September 1, 2017 to August 31, 2018. Our audit included the following procedures:

- Gained an understanding of the monitoring process through interviews
- Reviewed prior audit findings and recommendations
- Reviewed the account reconciliation process and results
- Reviewed the sub-certification process
- In addition to testing the monitoring conducted by the Office of Accounting, we performed additional testing at the individual department/cost center level

Our audit was conducted in accordance with guidelines set forth in UTS 129, with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*, and with *Generally Accepted Government Auditing Standards (GAGAS)* as issued by the Comptroller General of the United States.

Risk Ranking Criteria

Risk Level	Definition
PRIORITY	An issue identified by an internal audit, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Permian Basin or UT System as a whole.
HIGH	Risk that is considered to be substantially undesirable and results in a medium to high probability of significant adverse effects to UT Permian Basin either as a whole or at the college/department/unit level.
MEDIUM	Risk that is considered to be undesirable and has a low to medium probability of adverse effects to UT Permian Basin either as a whole or at the college/department/unit level. Without appropriate controls, the risk will occur some of the time.
LOW	Considered to have minimal probability of adverse effects to the UT institution either as a whole or at the college/school/unit level. Even with no controls, the exposure to UT Permian Basin will be minimal.

Current Year Audit Results

Finding No. 1: Timing of Monitoring

From our audit sample consisting of the months of February and March 2018, we noted that the monitoring for those months was not performed until September 2019, and not quarterly, as stated in the 2018 Monitoring Plan. Periodic reviews, whether monthly or quarterly, is important in order to identify and correct any errors in a timely manner as well as to reduce the risk of misappropriation of assets.

Assessed Level of Risk: Medium

Recommendation

The Office of Accounting should conduct monitoring on at least a quarterly basis.

Management's Response

Starting in FY19, we will conduct Statement of Accounts Reconciliation monitoring on a quarterly basis.

Implementation Date

April 2019

Person Responsible for Implementation

Felecia Burns, Director of Accounting

Finding No. 2: Subcertification Letters

We noted that out of the ten cost centers that were tested, annual subcertification letters were received from eight departments, as required by UTS 142.1. However, subcertification letters were not received from two departments and there was no documentation that the Office of Accounting had tracked receipt of the letters or followed up departments.

Subcertification letters are part of the internal control process over the fair presentation of the financial statements, and provide notice from Account Owners to the Financial Reporting Officer that financial information is accurate.

Assessed Level of Risk: Medium

Recommendation

The Office of Accounting should ensure receipt of the subcertification letters by each Account Owner (department) and perform follow-up procedures as necessary to ensure that all subcertification letters have been submitted.

Management’s Response

We will more carefully track distribution and subsequent receipt of subcertification letters through more frequent follow-up attempts with departments who miss our original deadlines for submission.

Implementation Date

September 2019

Person Responsible for Implementation

Felecia Burns, Director of Accounting

Finding No. 3: Completeness and Timeliness of Monthly Account Reconciliations

According to UTS 142.1, all departments are to complete a reconciliation of the Statement of Accounts on a monthly basis for each account under its responsibility. This important internal control is used to identify any errors in a timely fashion as well as to reduce the risk of misappropriation of assets.

For our audit, we further reviewed a sample of monthly reconciliations for ten different departments. Out of this sample, we found the following:

- Five out of the ten departments account reconciliations were lacking the signatures and/or dates of the preparer and/or department head. It is important for there to be evidence of timely preparation and supervisor review in order to mitigate against possible error.

Assessed Level of Risk: Medium

Recommendation

The Office of Accounting should continue to take proactive measures to encourage budget heads to: 1) complete their account reconciliations in a timely manner; 2) review and approve each reconciliation; and 3) ensure that all the proper signatures and dates *for both the preparer and reviewer* are included. Ongoing training of the reconciliation process should be continued, both as a refresher and also due to employee turnover.

Management’s Response

We continually offer reconciliation training to all departments at least bi-monthly, where department representatives are instructed on the proper way to reconcile each of their cost centers/grant projects. We also encourage departments to complete their reconciliations in a timely manner and to obtain all necessary signature on each reconciliation.

Implementation Date

September 1, 2019

Person Responsible for Implementation

Ashley Spears, Administrative Coordinator, Office of Accounting

Status of Prior Findings and Recommendations

We followed-up on the results from the previous audit report covering FY 2017, which was issued in December 2018 and containing one recommendation. It should be noted that the implementation date for corrective action by Management is scheduled to be implemented September 1, 2019. See *Appendix A* for detailed results.

Conclusion

For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. However, the Office of Accounting needs to ensure timely monitoring of monthly reconciliations during the fiscal year, ensure proper tracking and follow-up for return of subcertification letters, and continue working with departments in performing reconciliations in a timely manner and in signing off/dating the monthly statements.

Overall, it is our opinion that the requirements of UTS 142.1 have been substantially implemented.

**APPENDIX A
 STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS**

Finding	Recommendation	Status
<p><u>Completeness and Timeliness of Monthly Account Reconciliations</u> According to UTS 142.1, all departments are to complete a reconciliation of the Statement of Accounts on a monthly basis for each account under its responsibility. This important internal control is used to identify any errors in a timely manner as well as to reduce the risk of misappropriation of assets. For our audit, we reviewed a sample of monthly reconciliations for 10 different departments. Out of this sample, we found the following:</p> <ul style="list-style-type: none"> ➤ 5 out of 10 department’s account reconciliations were lacking the signatures and/or dates of the preparer and/or budget head. It is important for there to be evidence of timely preparation and supervisor review in order to mitigate against possible error. <p>Assessed Level of Risk: Medium</p>	<p>The Office of Accounting should continue to take proactive measures to encourage budget heads to:</p> <ol style="list-style-type: none"> 1) complete their account reconciliations in a timely manner; 2) review and approve each reconciliation; and 3) ensure that all the proper signatures and dates <i>for both the preparer and reviewer</i> are included. Ongoing training of the reconciliation process should be continued, both as a refresher and also due to employee turnover. <p><u>Management Response</u> The Office of Accounting continues to encourage administrative assistants and budget heads to attend account reconciliation training to ensure that they understand that reconciliations must be completed and signed monthly, and that budget heads are reviewing, approving/signing, and dating the reconciliations.</p> <p>The Monitoring Plan will be updated so that all account reconciliations without the necessary signatures and/or dates will be considered incomplete and returned to the department for prompt completion. For those departments that cannot meet the reconciliation requirements on a consistent basis, all preparers and reviewers/approvers/budget heads will be required to attend refresher training.</p> <p>We plan to implement considerable consequences for those departments that do not complete their</p> 	<p>Implementation date is 9/1/2019</p>

	<p>reconciliations in a timely manner, and for reviewers/approvers that do not approve the reconciliations in a timely manner.</p> <p>We also plan to offer account reconciliation training at least once a month for new employees, and as a refresher for current employees to learn of policy and process updates. In FY19, there will be an upgrade of the PeopleSoft system to the 9.2 version that will automate much of the reconciliation and monitoring process.</p> <p><u>Implementation Date</u> September 1, 2019</p> <p><u>Person Responsible for Implementation</u> Felecia Burns, Director of Accounting</p>	
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