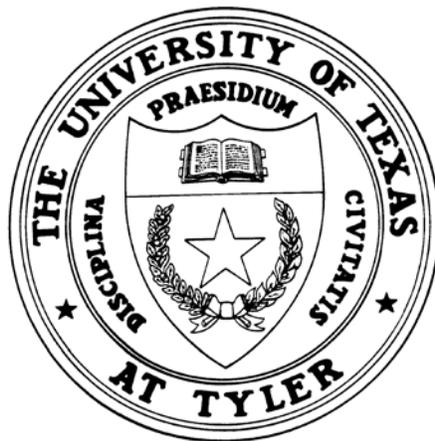


The University of Texas at Tyler

**Internal Controls Monitoring Plan Audit
(UTS 142.1 Assurance)
Fiscal Year 2018**



March 2019

THE UNIVERSITY OF TEXAS AT TYLER
OFFICE OF AUDIT AND CONSULTING SERVICES
3900 UNIVERSITY BOULEVARD
TYLER, TEXAS 75799

**The University of Texas at Tyler
Internal Controls Monitoring Plan Audit
Fiscal Year Ended August 31, 2018**

BACKGROUND

The University of Texas at Tyler (UT Tyler) is an institution that is part of the University of Texas System (UT System) and is required to follow UT System (UTS) policies. UTS Policy 142.1, Policy on the Annual Financial Report, states “*provides for financial reporting requirements and duties related to those responsible for financial reporting, the approval of accounting records and responsibilities for establishing internal controls to ensure that funds are expended and recorded appropriately.*” The policy requires the following:

- A monitoring plan for the segregation of duties and reconciliation of accounts that is risk-based but also includes random monitoring of low risk departments for the fiscal year (Section 5.3).
- Each Account Owner to provide a subcertification annually to the Financial Reporting Officer (Section 6.2).
- An annual risk assessment of the monitoring plan including the subcertification process and assertions on segregation of duties and account reconciliations. If deemed necessary, an audit performed based on the risk assessment and discussion with the institutional audit committee (Section 7).

This audit was included in the Fiscal Year (FY) 2019 Annual Audit Plan and approved by the Institutional Audit Committee.

AUDIT OBJECTIVE

Our objective was to determine whether UT Tyler implemented its Internal Controls Monitoring Plan, which includes oversight of account reconciliations, segregation of duties, and the Annual Financial Report subcertification process.

STANDARDS

Our audit of the UT Tyler Internal Controls Monitoring Plan was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors’ Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*.

SCOPE AND PROCEDURES

The scope of this audit included testing of the UT Tyler Internal Controls Monitoring Plan during FY 2018. Audit procedures included the following:

- ✓ Reviewed the Internal Controls Monitoring Plan and obtained evidence of oversight controls,
- ✓ Tested a judgmental sample of supporting documentation to verify segregation of duties on employee appointments, job data changes, and payroll transactions,
- ✓ Verified the subcertification process,
- ✓ Reviewed responses on the subcertification letters for reasonableness, and
- ✓ Obtained the Accounting and Financial Reporting Office’s plans for addressing subcertification responses.

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AUDIT RESULTS

Subcertification Process: The Vice President for Budget and Finance used DocuSign to obtain subcertifications for FY 2018. Subcertifications were sent to 15 Executives including Vice Presidents and Deans which included a list of the departments that report to each executive. 100% of the subcertifications were returned which included 220 of the 224 departments (98.2%). The difference in the number of departments included was due to timing differences when new Budget Authorities were appointed. The subcertification process using DocuSign created efficiencies in obtaining the signatures and tracking responses.

Workflow for Employee Appointments and Expenditures: In August, workflow was implemented within PeopleSoft for employee appointments and expenditures. This required two approvals and reduced the risk for erroneous and unapproved employee appointments and expenditures.

Audit Findings

According to the UT System Audit Office, “A *Priority Finding* is defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. *Non-Priority Findings* are ranked as *High, Medium, or Low*, with the level of significance based on an assessment of applicable *Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated.*”

Finding Level Legend	
Priority	<i>A finding is defined as an issue that if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Tyler.</i>
High	<i>A finding that is considered to have a <u>medium to high probability</u> of adverse effects to UT Tyler as a whole or to a significant college or department.</i>
Medium	<i>A finding that is considered to have a <u>low to medium probability</u> of adverse effects to UT Tyler as a whole or to a college or department.</i>
Low	<i>A finding that is considered to have a <u>minimal probability</u> of adverse effects to UT Tyler as a whole or to a college or department.</i>

This audit resulted in four Medium-level findings.

Audit Findings		
	Level	Summary of Finding
1	Medium	Account reconciliations were not monitored
2	Medium	Inadequate oversight of timecards
3	Medium	Journal entries posted without Budget Authority approval
4	Medium	Compliance Training does not include information on contracts or purchasing

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#1 Account Reconciliations were Not Monitored

The Internal Controls Monitoring Plan in effect at the beginning of FY 2018 referenced Quality Assurance Reviews (QARs) conducted by the Institutional Compliance Department. The QARs included account reconciliation monitoring, however, QARs were not completed during FY 2018. The Internal Controls Monitoring Plan was revised in August 2018 by the new Vice President for Budget and Finance and states: "*Financial Reporting conducts periodic monitoring reviews of account reconciliations and segregation of duties on a risk-based and random sample basis across campus.*" The periodic monitoring was not conducted during August 2018 due to other year-end priorities. Therefore, the Office of Audit and Consulting Services conducted an Account Reconciliations Audit to test completeness and timeliness of department account reconciliations. The results revealed that 49% of account reconciliations did not comply with the requirements for timely completion or approval. Failure to timely complete and approve account reconciliations could allow incorrect or fraudulent transactions to be undetected as well as monthly and annual financial reports to be incorrect. Monitoring account reconciliations will strengthen the controls over the reconciliation process and increase compliance with the requirements.

The Accounting and Financial Reporting Office should conduct account reconciliation monitoring as stated in the Internal Controls Monitoring Plan. Management concurred with this recommendation during the Account Reconciliations Audit and has developed procedures and monitoring tools to verify compliance.

#2 Inadequate Oversight for Timecards

Automatic routing of timecards (workflow) is not included with the current version of PeopleSoft available through the Shared Services of UT System. The current process requires the employee to submit a signed timecard to their supervisor. The supervisor approves the timecard and submits it to the departmental timekeeper to enter the hours in PeopleSoft. There is no automatic verification that the timecard is approved or the hours recorded in PeopleSoft agree to the timecard. However, errors could be identified during the account reconciliation process. Testing of ten employees revealed one timecard was entered without the employee's signature and without supervisor approval, and the hours entered in PeopleSoft for one employee did not match the timecard hours. These errors occurred due to inadequate oversight of the timekeepers and inadequate verification during the account reconciliation process. A lack of oversight for timecards could result in unapproved and incorrect payments to employees.

Recommendation: Timekeepers should be reminded that timecards should not be entered in PeopleSoft until all signatures are obtained. Administrative Assistants and Budget Authorities should be reminded to verify timecard approvals and accurate hours were recorded when account reconciliations are reviewed. Workflow should also be implemented when it is available from Shared Services.

Management Response: *Management concurs with the recommendation. The Payroll Office will conduct outreach and training to ensure Administrative Assistants and Budget Authorities are aware of the timecard entry and approval process. Additionally, monitoring tools will be developed to conduct periodic reviews of any time reporting exceptions, such as non-exempt, active status with zero hours reported and periodic tests of time entered into the system to source documents.*

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Finally, work will continue with UT SIS for the implementation of employee self-service and timekeeping workflow within PeopleSoft post 9.2 implementation (scheduled for June 2019).

Implementation Date: *Outreach and monitoring—June 30, 2019; employee self-service and timekeeping workflow—hopefully within 12-18 months post 9.2 implementation.*

#3 Journal Entries Posted without Budget Authority Approval

The Internal Controls Monitoring Plan dated August 2017 states “*Journal entries should be approved by a second approver.*” The Internal Controls Monitoring Plan dated August 2018 states: “*Journal entry requests from departments are approved by the budget authority. The approval is attached to the PeopleSoft journal entry.*” 100% of the sample of journal entries tested had two approvals within PeopleSoft, however, these did not always include Budget Authority approval. All transactions should be approved by the Budget Authority with exceptions made for intracampus charges such as utilities, postage, copy center, and bookstore charges. When journal entry transfers are requested, the Budget Authority should be copied on the request so they have the opportunity to review and approve the transfer. Our testing revealed that 68% of our 25 samples did not have Budget Authority approval. This was an oversight of the requestor, the Accounting and Financial Reporting Office, and the Budget and Resource Planning Office. Journal entries posted without Budget Authority approval could allow erroneous transactions to be posted, monthly financial reports to be incorrect, and fraudulent transactions to be undetected.

Recommendation: Transfer journal entries should not be recorded until approval is obtained from the Budget Authority. This should be communicated to Administrative Assistants, Budget Authorities, Accounting and Financial Reporting Office staff, and Budget and Resource Planning Office staff.

Management Response: *Management concurs with the recommendation. Accounting and Financial Reporting and Grant Accounting offices will work together to implement a consistent transfer approval workflow protocol to include Budget Authority approval prior to posting. Monitoring tools will be developed to ensure compliance. Ultimately, budget and general ledger transfer workflow will be implemented within PeopleSoft. This will ensure compliance as no transfer entry will progress to posting until all required approvals have been received.*

Implementation Date: *Consistent transfer workflow protocol and monitoring, June 30, 2019; implementation of PeopleSoft-resident transfer workflow, 12-18 months post-9.2 implementation.*

#4 Compliance Training does not Include Information on Contracts or Purchasing

The Internal Controls Monitoring Plan states all employees are trained on contracts and purchasing through the Employee Compliance Training Modules. However, information on contracts and purchasing are not currently included in the modules. Without this information, employees may be unaware of the related policies and procedures which could result in invalid contracts, purchasing violations, and a misuse of university funds.

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Recommendation: Contracts and purchasing information should be added to the Employee Compliance Training Modules.

Management Response: *Management concurs with the recommendation. Work is underway to update contract and purchasing procedures and related internal guides. Once all changes have been implemented, Procurement will conduct customer outreach events (such as the one that will be held April 24) to inform employees of the contract and purchasing policies and procedures. Additionally, curriculum will be developed for face-to-face training sessions as well as an online course module.*

Implementation Date: *Customer outreach and face-to-face training curriculum and established session schedules: July 31, 2019; online training module, January 31, 2020.*

CONCLUSION

Management's implementation of the recommendations should increase internal controls for segregation of duties and account reconciliations. The details of our observations have been provided to department and executive management. Additional opportunities for risk mitigation and improvement have also been communicated to management.

We appreciate the assistance of the Vice President of Budget and Finance, departmental management, and administrative assistants during this project.