Proportional Funding of Benefits Audit

Internal Audit Report 22:50

August 19, 2022
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Executive Summary

Background

The Texas Comptroller of Public Accounts, under the authority of the General Appropriations Act (GAA), requires state agencies and institutions of higher education to ensure:

- Payments for benefit costs are proportional to an institution’s funding from appropriated funds and federal receipts unless another legal provision prohibits proportionality.
- State appropriated general revenue (GR) funds are not used for paying benefits associated with salaries and wages paid from other funding sources.
- When it is determined that GR paid more than its proportionate share of benefits, an adjustment must be made to achieve a proportional benefit distribution.

Funds created by the state constitution or statute are expended through a legislative appropriation process and are captured in the Uniform Statewide Accounting System (USAS). UT Southwestern Medical Center (Medical Center) receives its appropriation through GAA appropriated funds. Accounting and Fiscal Services is responsible for the assessment, monitoring and reporting of benefits proportional requirements for all appropriated funds. They are also responsible for completing the annual Benefits Proportional by Fund report form (APS 011 Report) for management certification and submitting this certified report to the Comptroller’s Office and the State Auditor’s Office (SAO). This report outlines the computation and recording of relevant adjustments to accomplish proportionality of benefits costs and funding based on the prior appropriation year (AY)’s budget.

Scope and Objectives

The Office of Internal Audit has completed its Proportional Benefits Funding audit. This is a required audit and part of the fiscal year 2020 Audit Plan. The audit scope included review of the annual Benefits Proportionality by Fund Report for AY 2020 and 2021 (85th and 86th State Legislature). Audit procedures included interviews with stakeholders, review of policies and operating procedures and other documentation, account reconciliation, data analytics and substantive testing. The primary objectives included the following:

- Accuracy of the Benefits Proportionality by Fund Reports (APS 011) for appropriation years 2020 and 2021, as submitted to the State Comptroller.
- Adequate controls in place to prepare the annual benefits funding proportionality report according to the guidelines established in Article IX, Section 6.08, of the General Appropriations Act.
Executive Summary

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

Conclusion

Overall, Benefits Proportionality by Fund Reports (APS 011) for AY 2020 and 2021, as submitted to the State Comptroller, were materially accurate. The process in place to prepare the annual report is sufficient to ensure benefits funding proportionality applies according to the guidelines established in Article IX, Section 6.08, of the General Appropriations Act.

We would like to thank management and staff from Accounting and Fiscal Services and Budget and Resource Planning for the courtesies and cooperation extended to us during the review.

Sincerely,

Valla F. Wilson, Vice President and Chief Audit Executive, Office of Internal Audit Services

Audit Team:

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cc: Holly Crawford, Executive Vice President for Business Affairs
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    John Schmidt, Director, Fiscal Reports & Accounting Operations
    Michael Serber, Vice President, Finance and Institutional Chief Financial Officer
Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

<table>
<thead>
<tr>
<th>Risk Definition</th>
<th>Degree of Risk and Priority of Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority</td>
<td>An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.</td>
</tr>
<tr>
<td>High</td>
<td>A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.</td>
</tr>
<tr>
<td>Medium</td>
<td>A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.</td>
</tr>
<tr>
<td>Low</td>
<td>A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.</td>
</tr>
</tbody>
</table>

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the above pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.