The University of Texas Rio Grande Valley™

**UTS Policy 142.1 Segregation of Duties
and Account Reconciliations Audit**

Report No. 20-AEN-01

June 12, 2020

Office of Audits & Consulting Services

June 12, 2020

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
2102 Treasure Hills Blvd., Suite 3.115
Harlingen, TX 78550

Dear Dr. Bailey,

The Office of Audits & Consulting Services has completed the UTS Policy 142.1 Segregation of Duties and Account Reconciliations Audit as part of our fiscal year 2020 Audit Plan. The objective of this audit was to perform testing of the monitoring plan and sub certification process and validate the assertions of segregation of duties and account reconciliations.

This audit was conducted in accordance with The University of Texas System's (UTS) Policy 129 Internal Audit Activities, the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards) and Generally Accepted Government Auditing Standards (GAGAS).   The Standards and GAGAS set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of audits. We are required to adhere to these Standards and UTS 129.

We concluded that the monitoring plan for segregation of duties and reconciliation of accounts is not comprehensive to address the risks. In addition, the training content does not mitigate those risks.

The recommendations in this report represent, in our judgment, those most likely to provide a greater likelihood that management's objectives are achieved. Implementation of the recommendations will strengthen and improve controls surrounding the account reconciliation process.
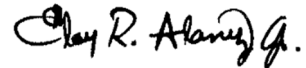
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We appreciate the assistance provided by UTRGV's management and other personnel. We hope the information and analyses presented in our report are helpful.

Sincerely,

Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Officer

cc: Mr. Rick Anderson, Executive VP for Finance & Administration
        Mr. Michael Mueller, Senior Associate VP for Financial Planning and Resource Development
        Mr. Geoffrey Scarpelli, Associate VP Financial Services
        UTRGV Internal Audit Committee
        UT System Audit Office
        Governor's Office of Budget, Planning and Policy
        Sunset Advisory Commission
        State Auditor's Office
        Legislative Budget Board

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Executive Summary

Overall Assessment:

We concluded that the monitoring plan for segregation of duties and reconciliation of accounts is not comprehensive to address the risks. In addition, the training content does not mitigate those risks.

Background: The University of Texas System institutions are responsible for the accuracy and integrity of their financial statements. Management at each institution provides an annual certification of compliance with financial reporting requirements and the fair presentation of the financial statements. The certification includes the acknowledgement of responsibility for establishing and monitoring internal controls by the Financial Reporting Officer. In addition, the Financial Reporting Officer is responsible for developing and updating a monitoring plan for the segregation of duties and reconciliation of accounts. The monitoring plan should be risk-based and establish the minimum requirements for the institution.

Objectives: To perform testing of the monitoring plan and sub certification process and validate the assertions of segregation of duties and account reconciliations.

Scope/Period: Monitoring plan and account reconciliations conducted during September 1, 2018 - August 31, 2019 along with corresponding supporting documentation.

Key Observations:

Medium	1. Monitoring plan not effective and not fully implemented to address risks.
High	2. Low attendance for account reconciliation training sessions, as well as inconsistent and incomplete training resources.
High	3. Account reconciliations not adequately performed.

Risk Levels
Appendix I

Priority
High
Medium
Low

Root Causes:

1. There is minimum to no accountability for ownership of the monitoring plan.
2. Training is not required for certifiers and reconcilers. Inspection results are not aligned with training and account reconciliation overview document is not part of the training content.
3. Ineffective training, nonadherence to institutional policies and processes and lack of oversight.

Executive Summary Continued

Management Responses/Action Plans:

1. Management will a.) implement a process to ensure all cost center/projects are certified including a notification for non-compliance, b.) establish a risk-based assessment, and c.) communicate key information to enhance the validity of the financial statements. Additionally, Accounting will obtain corrective action plans from all non-compliant managers and ensure the plans are completed. Management has begun the process to update the status certification report. Management has implemented the update to the Certification Acknowledgement in PeopleSoft to ADM 10-703 Accounting Policy on 3/23/2020.

2. Management will require all certifiers and reconcilers to attend the updated training for "PeopleSoft – GL – Monthly Financial Reconciliation Process". A process will be implemented to ensure additional training opportunities are provided, as well as notifying management for those individuals who do not comply with these requirements.

3. Management has implemented the updates to the "PeopleSoft – GL – Monthly Financial Reconciliation Process" training to include the auditor's recommended information listed in this report.

Detailed Observations	Recommendations	Management Action Plans
Monitoring Plan Although a monitoring plan is in place, the plan is not comprehensive to identify all risks relating to account reconciliations, address segregation of duties, provide an effective training plan and clearly identify roles & responsibilities and ownership/accountability for monitoring of account reconciliations. The controls identified in the current monitoring plan are not fully implemented.	1) Management should evaluate the monitoring plan to determine adequate internal controls are in place to ascertain the validity of the financial statements. Management should ensure: • All cost center and project account reconciliations are certified. • Escalation process for instances of noncompliance are followed and process is documented. • Sample selected for review be risk based and focus on high dollar, high value cost center/project accounts. This process should be documented. • Appropriate information is communicated which is essential for an internal control system to be effective.	**1) Management Action Plans**: Management agrees with the recommendations and will implement the following activities / processes, at a minimum: a) A process will be implemented to ensure all cost center/projects are certified, including a process to notify management for those areas that are in non-compliance with policy. b) A risk-based assessment will be established to review and document cost center/projects, which are deemed to be high-risk. c) Key information will be communicated to appropriate individuals to enhance the validity of the financial statements. Accounting will obtain corrective action plans from all non-compliant managers and ensure the plans are completed.

Monitoring Plan	Status:
Operating Controls:	
Reduce the instances of non-compliance with segregation of duties and reconciliation of accounts as required by insitution policy, system policy, and Texas Code by performing reconciliations on a monthly basis.	In Progress
On a monthly basis and after the accounting period close, a listing of all active cost centers/projects will be posted to the Accounting and Reporting website.	In Progress
On a monthly basis, an electronic notification of all projects subject to reconciliation will be sent to all Cost Center/Project Managers and Reconcilers via the PeopleSoft notification process.	In Progress
After semi-annual period, electronic notification will be sent to Cost Center/Project Manager – listing of all cost centers/projects subject to certification via the PeopleSoft notification process.	In Progress
After semi-annual period, electronic notification will be sent to Cost Center/Project Dean/Director (based on Key Member Roles) – listing of all Cost Center/Project Managers and their corresponding projects under their supervision.	In Progress
Monitoring Controls:	
Electronic notification will be sent to Divisional Executive semi annually listing all projects as certified or not certified.	In Progress
Corrective action to bring all non-compliant project managers to meet policy.	In Progress
Oversight Controls:	
Test the effectiveness of the monitoring plan by reviewing results from Semi-Annual Review(s), Inspection(s) and Divisional Executive's correction actions.	In Progress

Detailed Observations	Recommendations	Management Action Plans
		We plan to implement later this summer the reconciliation and certification tool currently being implemented for all UT Share institutions. Planning meetings with UTSIS will commence in June 2020. In addition, for FY2021, UTRGV is considering revising the Monitoring Plan to change the reporting basis from Semi-annual to Annual to be consistent with the UT Share institutions. **Action Plan owner**: Lilia St. Clair **Implementation Date:** 5/31/2020

Detailed Observations	Recommendations	Management Action Plans
Additionally, we observed the following: • The report generated to provide status of certifications incorrectly updates reconcilers and certifiers to those currently assigned and not those that completed the task. We noted 11 certifications without a reconciler, or a certifier listed.	2) Review status certification report to ensure audit trail is preserved and reconcilers and certifiers are listed.	**2) Management Action Plans**: Management agrees with the recommendations and has begun the process to update the status certification report. Cherwell ticket 12657365 was submitted to UTSIS on 3/03/2020 to update the Semi-annual Certification Report to include columns with the name of the person who certified and the date/time it was certified. UTSIS is pending the determination of the level of effort before they can begin working on this request. **Action Plan owner**: Lilia St. Clair **Implementation Date:** 6/30/2020
• The PeopleSoft Certification Acknowledgement included a reference to an outdated policy - University Budget Policy/Fiscal Accounting 8.6.1, which should be ADM 10-703 Accounting Policy.	3) Update the Certification Acknowledgement in PeopleSoft from to ADM 10-703 Accounting Policy.	**3) Management Action Plans**: Management agrees with the recommendation and has implemented the update to the Certification Acknowledgement in PeopleSoft to ADM 10-703 Accounting Policy on 3/23/2020. **Action Plan owner**: Lilia St. Clair

Detailed Observations	Recommendations	Management Action Plans
		Implementation Date: 3/23/2020
Training Training during FY2019 was critical due to the implementation of PeopleSoft. We reviewed the training list and noted the following: **TRAINING SUMMARY** 	Identifier	Total	Trained	% Trained	 |---|---|---|---| | Reconciler	233	93	40%	 | Certifier	401	31	8%	 | **TOTAL**	634	124	20%		4) Management should strengthen the training program to include: • Information on UTS 142.1, ADM 10-703 Accounting Policy, and PeopleSoft Cost Center/Project Reconciliation Overview. • Roles & Responsibilities for Reconciler, Certifier, Dean/Director, Vice President. • All information required to properly reconcile cost centers and projects such as o Encumbrances and payroll expenses o Revenue resources to reconcile • Discussion on prior period adjustments	**4) Management Action Plans:** Management agrees with the recommendations and has implemented the updates to the "PeopleSoft – GL – Monthly Financial Reconciliation Process" training to include the auditor's recommended information listed in this section. **Action Plan owner:** Lilia St. Clair **Implementation Date:** 3/31/2020
	5) Reconciliations assist management in identifying errors and inconsistencies, determining availability of funds and identifying	**5) Management Action Plans:** Management agrees with the recommendations and all certifiers and reconcilers will be

Detailed Observations	Recommendations	Management Action Plans
	internal control deficiencies. Management should emphasize the importance of monthly account reconciliations and require both certifiers and reconcilers to attend the reconciliation training.	required to attend the updated training for "PeopleSoft – GL – Monthly Financial Reconciliation Process". Process will be implemented to ensure additional training opportunities are provided, as well as notifying management for those individuals who do not comply with these requirements. **Action Plan owner**: Lilia St. Clair **Implementation Date:** 4/30/2020
Departmental Reviews We evaluated 10 certified and reconciled projects, and we observed the following: • Annual certifications were submitted late. (5 instances) • Reconcilers and certifiers lack an understanding of the reconciliation process evidenced by lack of support available for review. (3 instances and 5 instances, respectively) • Reconciliations were not completed timely exceeding the 15 days past the month end close or not dated; therefore, unable to determine timeliness (2 instances and 1 instance, respectively) • Reconciliations were incomplete due to: o Review of reconciling items not completed, including encumbrances. (8 instances)	See Recommendations in **Training Section** of this report**.**	See Management Action Plans in **Training Section** of this report.

Detailed Observations	Recommendations	Management Action Plans
o Payroll expenses not reconciled. (2 instances) o Revenue not reconciled. (1 instance) • Reconciliation was approved by someone other than Certifier or Alternate Approver (1 instance) We interviewed the reconcilers and they provided the following concerns: • Trainings included an overview of generating the MFR report and navigating PeopleSoft to complete the monthly reconciliation and semiannual certification. However, the trainings do not provide step by step reconciliation guidance for cost centers/projects. • Issues with encumbrances posting for payroll related costs - not timely and incorrect. • Revenue reconciliations are difficult to complete without having the appropriate access or knowledge of the complete revenue process. Guidance is not provided. • Payroll expenses are difficult to reconcile without payroll information provided. • Reconciliation reports not understandable for Account Managers. • Prior period postings without support documentation provided.		

APPENDIX I

Risk Classifications and Definitions

Priority	High probability of occurrence that would significantly impact UT System and/or UT Rio Grande Valley. Reported to UT System Audit, Compliance, and Risk Management Committee (ACMRC). Priority findings reported to the ACMRC are 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.*"
High	Risks are considered substantially undesirable and pose a significant level of exposure to UT Rio Grande Valley operations. Without appropriate controls, the risk will happen on a consistent basis. Immediate action is required by management in order to address the noted concern and reduce exposure to the organization.
Medium	Risks are considered undesirable and could moderately expose UT Rio Grande Valley. Without appropriate controls, the risk will occur some of the time. Action is needed by management in order to address the noted concern and reduce the risk exposure to a more desirable level.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Rio Grande Valley will be minimal. Action should be taken by management to address the noted concern and reduce risk exposure to the organization.