THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
UTS 142 Reconciliation and Segregation of Duties Audit
Fiscal Year 2024

SUMMARY

BACKGROUND: UTS 142 Financial Accounting and Reporting (UTS 142) requires each Financial Reporting Officer "to develop or update a monitoring plan for the segregation of duties and reconciliation of accounts." The University of Texas (UT) System Controller is responsible for developing and implementing a monitoring plan for UT System Administration (System Administration). UTS 142 also requires the institutional chief audit executives to perform an annual risk assessment of the monitoring plan and determine, in consultation with the institutional audit committee, whether an audit should be performed. In June 2023, the UT System Chief Audit Executive (CAE), with the approval of the System Administration Audit Committee, elected to perform an audit of the monitoring plan in fiscal year (FY) 2024. While the CAE did not assess non-compliance with UTS 142 as a high risk, a factor that impacted the decision to perform the audit was that it had not been performed since 2017. Since then, the Controller's Office, in coordination with Shared Information Services, implemented the SAHARA Account Reconciliation Application (SAHARA). SAHARA, which is a module within PeopleSoft, permits all departments from UT Share institutions and System Administration to electronically record performance and approval of reconciliations and permits department heads to complete their annual certifications electronically.

OBJECTIVE: To determine whether the Controller's Office is monitoring cost center reconciliations and segregation of duties requirements at System Administration, there is adequate segregation of financial duties, cost center reconciliations are being performed and reviewed, and sub-certifications provided to the Controller's Office from the departments are submitted timely and complete.

CONCLUSION: The Controller's Office actively monitors reconciliation completion status, informs departments that have fallen behind on their reconciliations, and ensures completion of all annual departmental certifications, has developed comprehensive training materials, and has provided reconciliation training to over 130 individuals during the past three years. In addition, SAHARA is and effective monitoring tool, providing the Controller's Office monitoring capabilities that were not previously available. For the six departments we selected for review, financial duties appeared adequately segregated and cost center reconciliations were performed and reviewed. By the end of October 2023, 99.8% of monthly reconciliations were completed; however, just 72% of the monthly reconciliations were completed timely. We also found that some departments had certified completion of reconciliations without having completed them all, that individuals who participated in the reconciliation process had not received training and/or acknowledged their understanding of their roles and responsibilities as required by policy, and that there is no monitoring to ensure duties are adequately segregated. Overall, opportunities exist to strengthen monitoring to improve timeliness of completion of reconciliations, ensure all involved in reconciliations are trained, and include risk-based monitoring of segregation of duties.

OBSERVATIONS

1 **Medium**	When monthly reconciliations are not performed timely, there is an increased risk that potential errors are not detected or corrected in a timely manner. Without reporting of quarterly monitoring results to leadership, the Controller's Office might miss opportunities to assist departments with timely and efficient completion of their reconciliations.
2 **Low**	Without a process to verify that all reconciliations are completed as certified, there is a risk that certain cost centers or projects may remain unreconciled and that potential errors are not identified and corrected. Without the verification, the Controller's Office cannot rely on the accuracy and completeness of the department certifications.
3 **Low**	The risk of errors being undetected and unresolved increases when individuals assigned to perform or approve reconciliations do so without training or understanding their responsibilities.
4 **Low**	Without periodic refresher training and sharing of best practices, performance of reconciliations may not be optimized for efficiency and effectiveness.
5 **Low**	Without risk-based monitoring of segregation of duties, there is an increased risk that appropriate internal controls are not in place to reduce the risk of errors and irregularities.

Management developed action plans that incorporated System Audit Office recommendations to address these observations and anticipates implementation by October 31, 2024.

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OBSERVATION 1
MEDIUM

Enhance monitoring to improve timeliness of completion of reconciliations

> When monthly reconciliations are not performed timely, there is an increased risk that potential errors are not detected or corrected in a timely manner. Without reporting of quarterly monitoring results to leadership, the Controller's Office might miss opportunities to assist departments with timely and efficient completion of their reconciliations.

According to HOP 2.1.7, Cost Center/Project Reconciliations & Segregation of Duties, System Administration departments are to reconcile their cost centers and projects within 45 days after month-end close.

The Controller's Office staff monitor monthly the completion status of departmental reconciliations, which includes sending emails to cost center and project owners from departments that have fallen behind on their reconciliations. However, monitoring did not begin until January 2023. The delay was related to a transition of duties from a former employee to a current one. While started late, the reminder process appeared effective. As illustrated in the graph below, timely reconciliation completion improved from September 2022 (period 1) to August 2023 (periods 12 and 13). Starting the process of sending email reminders earlier in the fiscal year could further improve timeliness of reconciliation completion.

While timeliness improved during 2023, just 72% of monthly cost center and project reconciliations were completed (performed and approved) timely. A contributing factor was that those assigned to approve reconciliations did not approve them as quickly as the reconcilers performed them. By November 2023, 4,938 reconciliations were completed. Reconcilers reconciled 4,280 (86.7%) timely; however, approvers did not approve 716 of the 4,280 timely. For these 716 reconciliations, reconcilers took an average of 23 days to reconcile. However, approvers took an additional 45 days to approve the reconciliations. In addition, there were

Percent of Monthly Reconciliations Performed Timely

658 reconciliations (13.3%) where reconcilers did not reconcile timely and, consequently, the reconciliations were not approved timely. In addition to delays in approval, there were other factors that appeared to contribute to challenges with completing reconciliations timely. From our work with the selected departments, it did not appear that all were consistently aware that reconciliations are to be completed 45 days after month-end close. In addition, there were transfers of reconciliation responsibilities from employees that retire or leave to employees to different employees without cross training or available departmental procedures. In some departments, there are staff (who do not have backup) who are assigned the bulk of a department's reconciliation responsibilities.
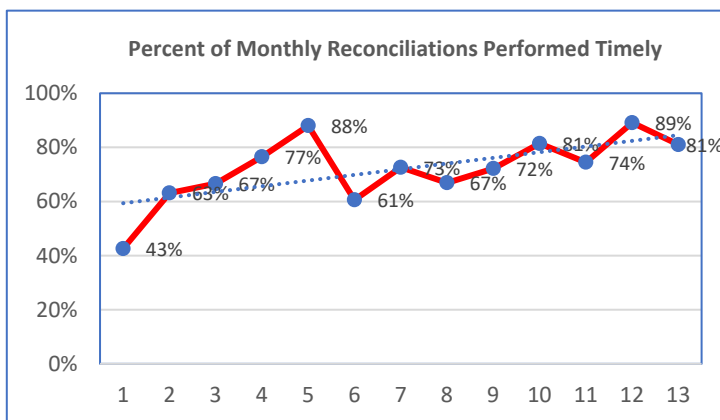
While the Controller's Office staff monitors timeliness of reconciliations, they do not provide quarterly summaries regarding the status of completeness and timeliness of reconciliations to the Controller. Developing key performance indicators, summarizing reconciliation results, and providing the information to the Controller each quarter could help in identifying recuring challenges and opportunities to assist departments improve completing their reconciliations timelier.

ACTION PLAN
The Controller's Office will leverage the Power BI tracking tool that has been developed by System Audit to provide KPIs and dashboard reporting to each department head.

Anticipated Implementation Date: May 31, 2024.

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OBSERVATION 2
Low

Develop a process to ensure completeness of reconciliations for annual certifications

Without a process to verify that all reconciliations are completed as certified, there is a risk that certain cost centers or projects may remain unreconciled and that potential errors are not identified and corrected. Without the verification process, the Controller's Office cannot rely on the accuracy and completeness of the department certifications.

According to HOP 2.1.7 Cost Center/Project Reconciliations & Segregation of Duties, department leaders are to "review all assigned cost centers and projects and ensure reconciliations are completed on a timely basis" and "provide an Annual Financial Certification to the Financial Reporting Officer." Between October 16 and November 9, 2023, all department leaders certified they had completed all their cost center and project reconciliations. However, we identified five departments that, collectively, did not complete 25 cost center reconciliations by November 10th. We informed the Controller's Office who then reached out to the departments to complete their reconciliations.

As described by HOP 2.1.7, the annual certifications "provide assurance to the Financial Reporting Officer that all cost centers and projects, and ultimately the financials of UT System, are accurate and without material errors or known fraud." Within the certifications, department leaders are asked to certify whether they have completed their reconciliations timely. Department leaders have an opportunity to provide responses if reconciliations were not completed timely. Five departments were timely 100% of the time and six were timely between 91% and 98% of the time. However, between 17% and 87% of reconciliations were not completed timely in 16 departments. No department provided an explanation as to why reconciliations were not completed timely. The Controller's Office does not provide the departments with timeliness metrics, and the departments do not calculate this themselves prior to certification.

ACTION PLAN
A query is available to be run that indicates which department head has certified that reconciliations were complete and compares the results to the actual monthly reconciliations. If reconciliations are not completed, the Controller's Office will follow-up with the applicable departments to ensure they have completed all open reconciliations.

Anticipated Implementation Date: October 31, 2024

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OBSERVATION 3
Low

Strengthen follow-up to ensure all reconcilers and approvers receive and acknowledge training

> The risk of errors being undetected and unresolved increases when individuals assigned to perform or approve reconciliations do so without training or understanding of their responsibilities.

HOP 2.1.7 requires "any employees performing, reviewing, or approving reconciliations" to attend training and "acknowledge an understanding of their responsibilities." The Monitoring Plan also states, "the Controller's Office will ensure that all SAHARA reconcilers have completed training by comparing the training list against [the] SAHARA access list."

Training records indicate the Controller's Office has trained over 130 reconcilers and approvers since February 2020. However, the training record was incomplete and did not include training information for three individuals that either performed or approved reconciliations. We were informed that each had been trained but two had not completed and returned their acknowledgements. There were also three individuals indicated as trained in the training record but had not returned their completed acknowledgements. Four approvers had not completed training prior to approving reconciliations. The reconciliation training coordinator was aware of this prior to the audit and planned to reach out to these four individuals to provide training. In addition, the Monitoring Plan requires department heads to receive and acknowledge training. Training records indicates that 11 of 25 current department leaders (44%) have not received training. Some, but not all, of the department leaders who have received training are also approvers.

We also found that acknowledgments were not being completed in a reasonable period of time. On average, FY 2023 reconcilers returned their acknowledgements within 45 days after the recorded training dates and FY 2023 approvers within 22 days. However, we identified several acknowledgements that were returned 60 days or more after the recorded training date. The training coordinator had been sending blank acknowledgement forms by email upon the completion of training, but this did not always occur timely. There were also instances where the training coordinator had to follow-up with individuals to complete and return their acknowledgements. In addition, those who reconcile and approve reconciliations can be granted access in SAHARA to perform these duties before completion of training or acknowledgements are received.

ACTION PLAN

Acknowledgement forms that training has been conducted are available now. Processes have currently been implemented to follow up with employees who have been trained but have not acknowledged in writing that they have been trained.

Anticipated Implementation Date: December 31, 2023

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OBSERVATION 4
Low

Provide periodic refresher training and develop best reconciliation practices

> Without periodic refresher training and sharing of best practices, performance of reconciliations may not be optimized for efficiency and effectiveness.

The Controller's Office has developed comprehensive training materials and, as previously mentioned, provided training to over 130 individuals. However, training is provided to reconcilers and approvers once, and periodic refresher training is not provided. While reconciliation training includes a demonstration of how to perform a cost center reconciliation, it is not required that the departments complete reconciliations of their operating cost centers in a standardized manner. In addition, no specific guidance is provided on how to review monthly payroll expenses. Each department decides how to perform reconciliations, and most already had a particular way of performing reconciliations prior to the implementation of SAHARA. During the audit, we observed wide variation in how reconciliations are performed and documented. We also found that all departments did not have department-specific reconciliation training procedures and did not consistently provide cross-training to employees who were assigned the reconciliation duties of former employees. More consistent reconciliation practices for operating cost centers could help departments in completing reconciliations timelier and could also reduce the need for department specific reconciliation procedures for cost centers that are similar in structure and purpose.

We also received training feedback from the departments we reviewed. In the absence of refresher training, one department sought the assistance of another department instead of the Controller's Office as they have found that department's support has been valuable. Another department thought it would be helpful if an annual training update was provided where department reconcilers could meet and share their best practices. Another department suggested additional accounting training for administrative staff who may not sufficiently understand accounting concepts related to the reconciliation process but are assigned to reconciliation duties. We were also informed that while SAHARA permits departments to mark reconciliations as completed and approved, the reconciliation process itself remains a manual, time consuming process involving multiple systems and spreadsheets with a higher risk for error.

ACTION PLAN
During the training sessions, a standing agenda item will be discussed that addresses best practices. The list and discussion of best practices will be distributed after the training to all attendees to document within their departments. The Controller's Office will maintain a list of best practices for reference and distribution.

Anticipated Implementation Date: January 31, 2024

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OBSERVATION 5
Low

Develop risk-based monitoring for segregation of duties of incompatible financial functions

> Without risk-based monitoring of segregation of duties, there is an increased risk that appropriate internal controls are not in place to reduce the risk of errors and irregularities.

According to UTS 142, Sec. 5, Duties of Financial Reporting Officer, "The Financial Reporting Officer shall develop or update 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." Currently, the Monitoring Plan, explains what segregation of duties is, that department managers are responsible for arranging assignments so that no employee has incompatible duties, and that mitigating controls be established in small departments where certain duties may not be ideally segregated. The Monitoring Plan also states that "Segregation of duties for vouchers is largely governed automatically through PeopleSoft routing and approval requirements." However, the current Monitoring Plan does not include any monitoring activities that the Controller's Office might perform to provide itself assurance that duties are adequately segregated.

ACTION PLAN
The Controller's Office acknowledges the opportunity to develop risk- based monitoring and will develop activities to review segregation of duties. As processes and details of such plan are defined, progress will be discussed with the Internal Audit team to ensure that appropriate internal controls are in place.

Anticipated Implementation Date: March 31, 2024.

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METHODOLOGY

The System Audit Office conducted this engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing* and generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our objectives. The System Audit Office is independent per GAGAS requirements for internal auditors.

SCOPE AND PROCEDURES

The audit scope included reconciliation activity for FY 2023 that occurred between September 2022 and November 2023. Audit procedures included gaining an understanding of the cost center / project and segregation of duties monitoring process, analyzing data to determine timeliness of reconciliations performed, selecting a risk-based sample of six departments to validate reconciliations performed, reviewing training records, obtaining and reviewing annual certifications from the departments to the Controller's Office, and determining whether all applicable cost centers and projects were reported as reconciled for FY 2023.

We will follow up on action plans in this report to determine their implementation status. We validate implementation of action plans for Priority- and High-level observations and review and rely on written affirmation from the responsible department to track completion of action plans for Medium- and Low-level observations. Responsible departments may request an extension to implement their action plans. Extension requests for Priority- and High-level observations require approval by the appropriate executive officer. This process will help enhance accountability and ensure that timely action is taken to address the observations.

OBSERVATION RATINGS

Priority	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of System Administration or the UT System as a whole.
High	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to System Administration as a whole.
Medium	An issue considered to have a low to medium probability of adverse effects to an office or business process or to System Administration as a whole.
Low	An issue considered to have minimal probability of adverse effects to an office or business process or to System Administration as a whole.

CRITERIA

System Administration policies and procedures, including, but not limited to:

- UTS 142 Accounting and Reporting, Section 5, Duties of Financial Reporting Officer; and Section 7, Internal Audit Risk Assessment and Certification of the Monitoring Plan
- HOP 2.1.7 Cost Center/Project Reconciliations & Segregation of Duties
- The UT System Administration Monitoring Plan for Segregation of Duties and Review of Financial Activity

REPORT DATE

December 15, 2023

REPORT DISTRIBUTION

To: Veronica Hinojosa Segura, Associate Vice Chancellor and Controller
Cc: Jonathan Pruitt, Executive Vice Chancellor for Business Affairs
      UT System Administration Internal Audit Committee
      External Agencies (State Auditor, Legislative Budget Board, Governor's Office)