



## UT System Administration Policy – Policy UTS142. 1 **Policy on the Annual Financial Report**

**Responsible Officer:** Associate Vice Chancellor – Controller and Chief Budget Officer

**Sponsoring Office:** Office of the Controller

**Effective Date:** February 16, 2004

**Last Reviewed:** August 24, 2009

**Next Scheduled Review:** January 4, 2010

**Errors or changes to:** [policyoffice@utsystem.edu](mailto:policyoffice@utsystem.edu)

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## **CONTENTS**

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**Policy Statement**

**Rationale**

**Scope**

**Website Address For This Policy**

**Related Statutes, Policies, Requirements Or Standards**

**Contacts**

**Definitions**

**Responsibilities**

**Procedures**

**Forms Tools/Online Processes**

**Appendix**

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## **POLICY STATEMENT**

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The combined financial statements of The University of Texas System are prepared in accordance with Governmental Accounting Standards Board requirements and in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report.

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## **RATIONALE**

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This Policy 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; and procedures for obtaining services by an external audit firm.

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## **SCOPE**

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All institutions and UT System Administration

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## **WEBSITE ADDRESS FOR THIS POLICY**

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[http://www.utsystem.edu/policy/policies/uts142\\_1.html](http://www.utsystem.edu/policy/policies/uts142_1.html)

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## **RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS**

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<b>UT System Administration Policies &amp; Standards</b>	<b>Other Statutes, Policies &amp; Standards</b>
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<ul style="list-style-type: none"> <li>• <a href="#"><u>Board of Regents Rules and Regulations, Rule 20402: Provision of Audit and Non-Audit Services by External Audit Firms</u></a></li> <li>• <a href="#"><u>Board of Regents' Rules and Regulations, Rule 20501: Accounting, Operating Budgets, and Legislative Appropriation Requests, Part 2, Sec. 1 Approval of Accounting Records</u></a></li> <li>• <a href="#"><u>UTS134, Code of Ethics for Financial Officers and Employees</u></a></li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#"><u>Texas Government Code, Section 321.020</u></a></li> <li>• <a href="#"><u>Article IX Rider, General Appropriations Act, General Limitations on Expenditures, Sec. 6.22. Use of Appropriation to Contract for Audits 2008-2009 Biennium</u></a></li> </ul>
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## CONTACTS

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If you have any questions about UT System Administration Policy UTS 142.1, *Policy on the Annual Financial Report*, contact the following offices:

Subject	Office Name	Telephone Number	Email/URL
	Office of the Controller	512-499-4527	<a href="mailto:Controllersoffice@utsystem.edu">Controllersoffice@utsystem.edu</a> <a href="http://www.utsystem.edu/cont/">http://www.utsystem.edu/cont/</a>

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## DEFINITIONS

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**Account Owner:** The person with fiscal responsibility and decision making authority for the account. This is typically the department head for non-grant accounts and the principal investigator for grant accounts.

**External audit firm:** A public accounting firm (including its partners, employees, and agents) engaged by the Board to provide audit services.

**Financial Reporting Officer:** Person directly responsible to the respective Chief Administrative Officer for the integrity of the institution's Annual Financial Report.

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# RESPONSIBILITIES

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## **Associate Vice Chancellor – Controller and Chief Budget Officer**

- Interprets this Policy and is responsible for revising it as necessary to meet the changing needs of The University of Texas System and statutory and regulatory requirements.
- Serves as Financial Reporting Officer of UT System Administration and in that capacity is responsible to the Chancellor for the integrity of The University of Texas System Administration Annual Financial Report and the consolidated University of Texas System Annual Financial Report.

## **Institutional Financial Reporting Officer (at each of the Institutions)**

- Certifies to the Financial Reporting Officer of UT System Administration that their institution's financial statements are presented fairly, materially accurate, and any significant internal control deficiencies, material weaknesses, and all known frauds have been reported and addressed.
- Certifies their compliance with the UT System Financial Code of Ethics and knowledge of any violations with the Financial Code of Ethics.
- Prepares or updates annually, the Monitoring Plan for the Segregation of Duties and Account Reconciliations ("Monitoring Plan").
- Certifies annually, the execution of the Monitoring Plan, as prepared and submitted.

## **Chief Administrative Officer**

- Certifies to the Financial Reporting Officer of UT System Administration that their institution's financial statements are presented fairly, materially accurate, and any significant internal control deficiencies, material weaknesses, and all known frauds have been reported and addressed.

## **Internal Audit Director**

- Certifies to the Financial Reporting Officer of UT System Administration that their institution's financial statements are presented fairly, materially accurate, and any significant internal control deficiencies, material weaknesses, and all known frauds have been reported and addressed.
- Reviews and provides advice on the Institutional Financial Reporting Officer's Monitoring Plan for segregation of duties and account reconciliations.
- Performs annual testing, within 60 days of the fiscal year end, of the Monitoring Plan and the sub-certifications, and validates the assertions on segregation of duties and account reconciliations.

**Account Owner**

- Provides a subcertification annually to the Financial Reporting Officer either directly or through their Dean or division head.

**External Audit Firm**

- Conducts audit and provides an opinion on The University of Texas System financial statements or the financial statements of any of its institutions.
- Presents opinion to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**The Audit, Compliance, and Management Review Committee of the Board of Regents (ACMR)**

- Contracts with external audit firm for an opinion on the UT System financial statements or individual financial statements of any institution.
- Submits request for a delegation of authority for purchased audit services, complete and submit the information to the State Auditor.

**Board of Regents**

- Approves contracts with external audit firms that exceed \$1 million.

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**PROCEDURES**

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**1.** The Chief Administrative Officer of each institution and System Administration shall designate a single Financial Reporting Responsible Party, known as the Financial Reporting Officer.

**1.1** Each institution's Financial Reporting Officer is directly responsible to the respective Chief Administrative Officer for the integrity of the institution's Annual Financial Report.

**1.2** The System Administration Financial Reporting Officer is directly responsible to the Chancellor for the integrity of The University of Texas System Administration Annual Financial Report and the consolidated University of Texas System Annual Financial Report.

**2. Duties of Financial Reporting Officer****2.1 Annual Financial Report Preparation Process**

The Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report. This includes:

- a) Identification of all sources of information for the annual financial report.
- b) Evaluation of the impact of each source of information on the “material” accuracy of the annual financial report.
- c) Identification of opportunities for misstatement of information in those sources that have a “material” impact on the accuracy on the annual financial report.
- d) Determining a system of internal controls for opportunities for misstatement of information in those sources that have a “material” impact on annual financial report accuracy.

## **2.2 Financial Report Data**

The Financial Reporting Officer is responsible for establishing appropriate controls over the annual closing of the accounting records and the inclusion of information in the annual financial statements. This includes:

- a) Ensuring that sources that can have a “material” impact on the annual financial report are included in the proper reporting period.
- b) Determination of the proper documentation and validity of all adjusting journal entries.
- c) Reconciliation of all sub-ledgers to their respective general ledger account and reconciliation from the general ledger to the annual financial report.

## **2.3 Monitoring Plan**

Each 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 but also include random monitoring of low risk departments for the fiscal year.

The Institutional Financial Reporting Officer, after consultation with the institutional audit director, shall provide the Monitoring Plan and any updates to the UT System Financial Reporting Officer by February 28 each year.

## **3. Certification**

The Chief Administrative Officer, Financial Reporting Officer, and Internal Audit Director will certify to the Financial Reporting Officer of System Administration that the financial statements are fairly presented and that they contain no false information or omissions of information that would materially affect their accuracy. They will certify

that significant deficiencies and material weaknesses in the design or operation of internal controls as well as all known frauds have been appropriately reported and addressed. They will also certify compliance with the UT System Financial Code of Ethics and to knowledge of any violations of the Financial Code of Ethics.

**3.1 Certification.** The certifying officials will provide a certification according to the format specified in the attached letter in **Appendix 1**.

**3.2 Certifications by Account Owners (Subcertifications).** Each Account Owner should provide a subcertification annually to the Financial Reporting Officer, either directly or through their Dean or department/division head, as determined appropriate by the institution's Financial Reporting Officer. The Dean or department/division head is responsible for reporting to the Financial Reporting Officer, any Account Owner failing to sub-certify as required. The minimum requirements of the subcertification letter are included in **Appendix 2**.

**3.3 Financial Code of Ethics.** The Financial Reporting Officer will certify compliance with the Financial Code of Ethics (UTS134) by those involved in the preparation of the Annual Financial Report and whether to the FRO's knowledge, of any of those employees violated the Financial Code of Ethics. See **Appendix 3** for the Financial Code of Ethics certification form.

**4. Internal Audit of the Monitoring Plan.** The institutional Internal Audit Director shall perform annual testing, within 60 days of the fiscal year end, of the Monitoring Plan and the sub-certifications, and validate the assertions on segregation of duties and account reconciliations.

## **5. External Audit of the Financial Statements**

An external audit firm may be engaged to express an opinion on The University of Texas System financial statements or the financial statements of any of its institutions.

**5.1** The Audit, Compliance, and Management Review Committee of the Board of Regents is responsible for contracting with any external audit firm for the expression of an opinion on the UT System financial statements or individual financial statements of any institution. If the contract exceeds \$1 million, it must be approved by the Board of Regents.

**5.2** The results of any external audits which express an opinion on the financial statements of the UT System or any of its institutions should be presented to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**5.3** An external audit firm engaged to express an opinion on the UT System financial statements or those of any institution must be free of any conflict of interest as prescribed by the requirements indicated in the authoritative guidelines noted in **Related Policies, Requirements or Standards**.

**5.4** See additional requirements of the State Auditor's Office in section 6.

## **6. Approval Required by the State Auditor's Office**

**6.1** Government Code Section 321.020 (a) Legislation (HB 905) passed during the 79th Regular Legislative Session expands the circumstances provided in Sec. 321.020 Gov. Code, in which a delegation of authority to contract with a private auditor from the State Auditor is necessary before an agency can contract for private audit services. This change in the law took effect on June 18, 2005.

Such delegation of authority may be subject to certain requirements or contractual language provided by the State Auditor.

The criteria in the Government Code requires that the scope of the proposed audit be submitted to the State Auditor for review and comment and the services of the private auditor are procured through a competitive selection process in a manner allowed by law. Therefore, in requesting such approval from the State Auditor's Office, they may require a copy of the original RFP/RFQ and the draft contract for their review and comment.

(See "Process to Request Approval By State Auditor" in **Forms and Tools/Online Processes**)

## **6.2 Article IX Rider, General Appropriations Act, 2008-2009 Biennium**

General Limitations on Expenditures

Sec. 6.22. Use of Appropriation to Contract for Audits

**(a)** Notwithstanding any other law, or other sections of this Act, none of the funds appropriated in this Act shall be used by the agencies or institutions of higher education to enter into a contract with an independent audit entity for audit services, except as specified by this section.

**(b)** An agency or institution appropriated funds in this Act may use funds appropriated in the Act to:

**(1)** Enter into an interagency contract with the State Auditor's Office (SAO) for the SAO to provide audit services to the agency or institution. At the discretion of the State Auditor and the Legislative Audit Committee, the SAO may conduct the audit or the SAO may enter into a contract with an independent audit entity to

conduct the audit; or

(2) Enter into a contract with an independent audit entity for the provision of audit services pursuant to Sec. 321.020, Gov. Code, if:

(A) the SAO has reviewed the scope of the proposed audit and has issued a written approval for the scope of the proposed audit, and

(B) the SAO has delegated the authority to enter into the proposed audit to the agency or institution, in the event the agency or institution does not have a specific statutory delegation of authority to enter into a contract for audit services.

### **6.3 Request for Delegate Authority to Procure Audit Services**

To submit your request for a delegation of authority for purchased audit services, complete and submit the information to the State Auditor. In order to review your request for delegation of authority, the State Auditor's Office will be interested in the following sections of the request for proposal. (Note: The State Auditor's Office will not be reviewing the request for proposal or the procurement for compliance with other statutory requirements).

- Scope of services being procured
- Term of the contract
- Provision relating to the State Auditor's Office
- State Auditor will receive a copy of the contract between the agency and the contractor
- State Auditor will receive a copy of the contractor's final report
- State Auditor has access to working papers related to procured services
- State Auditor has access to all draft and final reports and memoranda of discussions with agency management

(See “Process to Request Approval By State Auditor” in **Forms and Tools/Online Processes**)

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## **FORMS AND TOOLS/ONLINE PROCESSES**

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### **Process to Request Approval By State Auditor**

The State Auditor's Office has created a web portal that institutions should use to submit requests for delegation of authority. This web site also contains additional details on the process, including the type of information required. The web site can be accessed by choosing the button labeled "Online Services & Surveys" at <http://www.sao.state.tx.us> . After that, select "Delegation of Audit Authority" from the next page. The portal can also be accessed through the “Requests” section. If you have any questions, contact the

appropriate contact manager for your institution. The contact manager list can be found at <http://www.sao.state.tx.us/Contact/mgmtart.html> by clicking on Agency Contact Managers on the right side of the web page.

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## **APPENDIX**

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### **Appendix 1**

- [Certification Letter – Health Institutions](#)
- [Certification Letter – Academic Institutions](#)

### **Appendix 2**

[Subcertification Letter](#)

### **Appendix 3**

[Financial Code of Ethics Certification](#)

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Keywords: annual reports, financial reports, finances, audits, accounting, audit, annual report, financial

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