

## 22-109 Review and Validation

### EXECUTIVE SUMMARY

We have completed our audit of the Review and Validation. This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

#### Background

UTS 142.1, Section 7 *Internal Audit Risk Assessment and Certification of the Monitoring Plan*, last amended or reviewed on June 25, 2019, states, "The institutional Chief Audit Executive shall perform an annual risk assessment of the Monitoring Plan. The institutional Chief Audit Executive will certify within 60 days of the fiscal year end, to the Financial Reporting Officer of U. T. System Administration, whether an audit was performed based on the risk assessment and discussion with the institutional audit committee."

#### Audit Objectives

Our objective was to determine whether UTHealth complies with UTS Policy 142.1 on Review and Validation. Specifically, we wanted to determine if:

- UTHealth followed its monitoring plan for segregation of duties and reconciliation of accounts
- Account owners submitted sub certifications timely
- Assertions of segregation of duties and account reconciliations are valid

#### Scope

The scope period was fiscal year 2021.

#### Conclusion

Overall, controls around the Review and Validation process are adequate and functioning as intended. We noted the following opportunities for improvement:

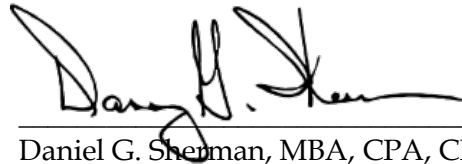
| # | Audit Observation Summary   | Risk  | Risk Rating |
|---|---|---|-------------|
| 1 | Finance and Business Services currently does not have a process for monitoring segregation of duties beyond the certification letter. | UTHealth may not be able to demonstrate compliance with UTS Policy 142.1. | Medium      |

**AUDIT OBSERVATIONS & MANAGEMENT RESPONSES**

| <b>#1 - UTHealth's Monitoring Plan</b>  |
|---|
| <p><b>Cause</b><br/>The monitoring process was streamlined, and as a result, parts of the process were eliminated such as the Internal Control Questionnaire.</p>   |
| <p><b>Risk</b><br/>Without a sufficient review of segregation of duties, UTHealth may not be able to demonstrate compliance with UTS Policy 142.1.</p>  |
| <p><b>Condition</b><br/>UTHealth departments are required to submit a certification letter twice a year attesting they have completed the review and validation process and report any exceptions noted in segregation of financial duties, the design or operation of internal controls, misstatements or omissions of accounts, or fraud. Finance and Business Services currently does not have a process for monitoring segregation of duties beyond the certification letter.</p>   |
| <p><b>Criteria</b><br/>UTS 142.1 Policy on the Annual Financial Report states, "The Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report." The policy further states, "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."</p>  |
| <p><b>Recommendation</b><br/>Develop and implement a process to ensure the monitoring requirement of UTS Policy 142.1 is met at UTHealth. In addition, reassess the need to include the Internal Control Questionnaire as a part of the monitoring process.</p>   |
| <p><b>Rating</b><br/>Medium</p>   |
| <p><b>UT System Priority Findings Matrix Mapping (see Appendix A)</b><br/>Effectiveness and Efficiency: Low probability of a mission critical activity failing with major regulatory, reporting consequences.</p>   |
| <p><b>Management Response</b><br/>Accounting and Budget agrees to implement additional monitoring by providing the Internal Control Questionnaire as part of the yearly Review and Validation testing of a select number of departments. The responses will be reviewed and followed up with the departments as needed. The departmental responses and questionnaire will be sent to audit during their yearly review of the Review and Validation process. In addition, we will expand the tested departments to include a random selection of departments as well as those determined to be at a higher risk. This will ensure a wider selection of departments across the university are tested.</p> |
| <p><b>Responsible Party</b><br/>Scott Barnett, Assistant Vice President ad interim, Accounting &amp; Budget</p>   |
| <p><b>Implementation Date</b><br/>January 1, 2022</p>   |

**22-109 Review and Validation**

We would like to thank the Finance & Business Services staff and management who assisted us during our review.



Daniel G. Sherman, MBA, CPA, CIA  
Associate Vice President & Chief Audit Officer

**NUMBER OF PRIORITY FINDINGS REPORTED TO UT SYSTEM**

None

**MAPPING TO AUDITING & ADVISORY SERVICES FY 2022 RISK ASSESSMENT**

| Reference | Risk  | Risk Rating |
|-----------|---|-------------|
| FIN 133   | Review and validation is not being performed effectively due to remote workforce. | High        |

**DATA ANALYTICS UTILIZED**

None

**AUDITING & ADVISORY SERVICES ENGAGEMENT TEAM**

AVP/CAO - Daniel G. Sherman, MBA, CPA, CIA  
Audit Manager - Nat Gruesen, MBA, CIA, CISA, CFE  
Auditor Assigned - Casandra Wiley

**END OF FIELDWORK DATE**

October 29, 2021

**ISSUE DATE**

November 4, 2021

**REPORT DISTRIBUTION**

Audit Committee  
Kevin Dillon  
Ana Touchstone  
Michael Tramonte  
Scott Barnett

## APPENDIX A UT SYSTEM PRIORITY FINDINGS MATRIX

The University of Texas System  
Systemwide Internal Audit  
Priority Findings Matrix

| Priority Findings Matrix  | ACRMC Reporting   | Institutional Reporting  |   |  |
|---|---|--|---|--|
|   | Priority Finding  | HIGH   | MEDIUM  | LOW  |
| <b>QUALITATIVE RISK FACTORS – Potential Probability and Consequences in various risk areas with respect to impact on institution as a whole</b> |   |  |   |  |
| <b>Reputation:</b><br>Damaged to the image of the institution and/or UT System  | High probability that donors and other funding sources will withdraw or withhold funding  | High probability that individuals will not choose to participate as students, faculty, or other stakeholders   | Medium probability that individual stakeholders will not choose to participate in the institution   | Low probability that individual stakeholders will be affected                                    |
|   | National media exposure   | Adverse regional media exposure  | Adverse local media exposure  | No media exposure  |
| <b>Information Security:</b><br>Integrity, confidentiality and availability of information  | High probability of regulatory action or loss of reputation or affect on availability of budget in connection with incorrect external financial reporting                     | Medium probability of some external financial/operating data being incorrect   | Low probability of external financial or operating data being incorrect   | N/A  |
|   | High probability of data breach   | Medium probability of data breach  | Low probability of data breach  | Opportunity to enhance existing acceptable system  |
|   | N/A   | High probability of key internal financial/operating data being incorrect  | Medium probability of internal data being incorrect   | Low probability of internal information being incorrect  |
| <b>Compliance:</b><br>Compliance with external legal or regulatory requirements   | High probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant, prolonged adverse impact on institution's          | Medium probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant, prolonged adverse impact on | Low probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant adverse impact on institution's reputation | N/A  |
|   | N/A   | High probability of increased monitoring or negative perception by the regulators  | Medium probability of increased monitoring or negative perception by the regulators   | Low probability of increased monitoring or negative perception by the regulators                 |
| <b>Accomplishment of Management's Objectives:</b><br>Goals being met, projects being successful   | High probability that a major operating project or initiative (i.e. a new degree program or information system) will be materially late, over budget or technically deficient | Medium probability that an operating project will miss time, cost or technical goals   | Low probability that an operating project will not achieve some of its goals  | Process improvement opportunity to assist in achieving a goal                                    |
|   | N/A   | High probability that an internal activity or project will not achieve its goals   | Medium probability that an internal activity or project will not achieve some of its goals  | Low probability that an internal activity or project will not achieve some of its goals          |
| <b>Effectiveness and Efficiency:</b><br>Objectives at risk and/or resources being wasted  | High probability of a mission critical activity failing with major regulatory, reporting consequences   | Medium probability of a mission critical activity failing with major regulatory, reporting consequences  | Low probability of a mission critical activity failing with major regulatory, reporting consequences  | N/A  |
|   | N/A   | High probability that some objectives are not met  | Medium probability of some objectives not being met   | Low probability that some objectives may not be met  |
|   | N/A   | High probability of significant cost over runs   | Medium probability of significant cost over-runs  | Low probability of significant cost over runs  |
|   | N/A   | High probability of a significant waste of resources   | Medium probability of a significant waste of resources  | Low probability of a significant waste of resources  |
| <b>Capital Impact:</b><br>Loss or impairment of use of assets   | High probability of significant financial loss of use of assets with reputation consequences  | Medium potential for significant financial loss of use of assets with reputation side effects  | Low probability for significant financial loss of use of assets with reputation side effects  | Probability of immaterial and/or small financial losses of use of assets with minimal reputation |
|   | Loss of control over significant assets   | Loss of control over other assets  | Minor control deficiency over assets  | Opportunity to improve existing controls over assets   |
| <b>Life Safety</b>  | High probability for loss of life   | Medium probability for loss of life  | Low probability for loss of life  | N/A  |
|   | N/A   | High probability for personal injury   | Medium probability for personal injury  | Low probability for personal injury  |
|   | High probability of material release of toxics/infectious disease   | Medium probability for: release of toxics/infectious disease   | Low probability for release of toxics/infectious disease  | N/A  |
|   | High probability of Substantial incident of toxics/infectious disease effects   | Medium probability of toxic/infectious disease effects   | Low probability of toxic/infectious disease effects   | N/A  |

Last Updated: June 2014

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Priority Findings Matrix

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|---|---|---|---|--|
|   | Priority Finding  | HIGH  | MEDIUM  | LOW  |
| <b>OPERATIONAL CONTROL RISK FACTORS - Vulnerabilities in operational controls with consequences of not achieving objectives (If strategy or important operational objectives are directly impacted):</b>  |   |   |   |  |
| <i>Operational Oversight/Alignment</i>  | Operational oversight, alignment or management issue has the capacity to derail or significantly impact an Institutional or UT System strategic initiative                              | Operational oversight, alignment or management issue has the capacity to impair progress on an Institutional strategic initiative   | N/A   | N/A  |
| <i>Management Oversight</i>   | Management oversight control of critical organizational objectives is absent  | Management oversight control of critical organizational objectives is ad hoc and/or not formalized  | Management oversight control of critical organizational objectives is weak in important areas   | Management oversight control of critical objectives can be improved  |
| <i>Management Alignment</i>   | Management's alignment of people, process and technology to efficiently accomplish organizational objectives is lacking risk awareness creating critical inefficiency and risk exposure | Management's alignment of people, process and technology to efficiently accomplish organizational objectives is not effectively creating awareness of inefficiencies and potentially significant risks, potentially impacting objective achievement | Key organizational components (trained people, defined process, or appropriate technology) are exposed to moderate risks yet to be addressed, potentially impacting objective achievement | Key organizational components (trained people, defined process, or appropriate technology) are exposed to low risks yet to be addressed, potentially impacting objective achievement |
| <i>Designed Controls</i>  | Designed controls within objective critical operations are inadequate or are non-functional impacting objective achievement   | Designed controls within important operations are not functional on a consistent day-to-day basis, with no compensating controls, potentially impacting objective achievement   | Designed controls within important processes and transactions are inconsistent in their effectiveness, with no compensating controls, potentially impacting objective achievement         | Breakdown of designed controls on a frequent and regular basis with compensating controls, but little impact on the achievement of objectives  |
|   | N/A   | Control or process improvement opportunities that will provide a measurable economic result (significant to the institution)  | Control or process improvement opportunities that will correct a reputational or compliance deficiency  | N/A  |
| <b>QUANTITATIVE RISK FACTORS – Estimated Financial Consequences with respect to impact on the institution as a whole (quantitative factors % will vary by institution, so may be agreed upon by the institutional Chief Audit Executive &amp; Chief Business Officer)</b> |   |   |   |  |
| <i>Payments (including fines and legal costs)</i>   | >5% of outlays/expenditures   | >2% to 5% of outlays/expenditures   | 1% to 2% of outlays/expenditures  | <1% of outlays/expenditures  |
| <i>Lost Revenues (actual and/or opportunities)</i>  | >5% of Revenue  | >2% to 5% of Revenue  | 1% to 2% of Revenue   | <1% of Revenue   |

Last Updated: June 2014