December 6, 2012

Randy Wallace
Associate Vice Chancellor, Controller, and Chief Budget Officer
The University of Texas System Administration
Office of the Controller
201 West 7th Street, ASH 5
Austin, Texas 78701

Dear Mr. Wallace:

We have audited The University of Texas (UT) System Administration’s monitoring plan for segregation of duties and reconciliation of accounts. The detailed report is attached for your review.

We conducted our audit in accordance with The Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

We appreciate the assistance provided by your office and staff from the departments we reviewed. We hope the information presented in our report is helpful.

Sincerely,

[Signature]
J. Michael Peppers, CIA, CRMA, CPA, FACHE
Chief Audit Executive ad interim

cc: Francisco Cigarroa, M.D., Chancellor
Dr. Scott Kelley, Executive Vice Chancellor for Business Affairs
Ms. Sandra Neidhart, Fiscal and Policy Analyst, Office of the Controller
The University of Texas System Administration
UTS142.1 Account Reconciliations & Subcertifications Audit Report
FY 2013

December 2012

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
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**EXECUTIVE SUMMARY**


UTS142.1, Section 6, also states that the institutional internal audit activity “shall perform annual testing, within 60 days of the end of the fiscal year end, of the Monitoring Plan and the subcertifications, and validate the assertions on segregation of duties and account reconciliations.”

The University of Texas (UT) System Audit Office (System Audit) has audited the UT System Administration monitoring plan for segregation of duties and reconciliation of accounts. Based on a risk assessment, we selected and examined account reconciliations and financial controls for seven UT System Administration departments, including:

1. Office of Business Affairs (Business Affairs)
2. Office of the Controller (Controller’s Office)
3. Office of Employee Benefits (OEB)
4. Office of General Counsel (OGC)
5. Shared Business Operations (SBO)
6. Systemwide Information Services (SWIS)
7. Office of Finance (Finance)

The accounts for the departments above represent over 90% of the income and expenditures recorded in all UT System Administration accounts. We also reviewed the subcertifications for the departments listed above to determine whether the certifications were complete and included all accounts that were active during Fiscal Year (FY) 2012. Finally, we requested all UT System Administration departments’ subcertification letters to determine whether they were submitted to the Controller’s Office by the requested due date.

Overall, we determined that UT System Administration is in compliance with its monitoring plan for segregation of duties and reconciliation of accounts. In addition, all UT System Administration departments submitted their subcertifications to the Controller’s Office and controls were in place to ensure adequate segregation of duties. However, the Office of Strategic Initiatives (OSI) did not complete its account reconciliations timely or submit its subcertification to the Controller’s Office by the requested due date. Prior to completion of our audit, OSI undertook appropriate corrective action to reconcile its accounts. Consequently, we have no further action to recommend to OSI. We also found that the subcertifications tested for the seven departments listed above did not consistently include all active accounts. Lastly, we noted that there are some accounts listed under Finance’s debt-related unit code that are used by the Controller’s Office to post year-end accounting entries. These accounts are not included on the subcertifications for either department. To address the remaining observations, we have recommended that:

- The Controller’s Office should ensure that all active *DEFINE* accounts are included in the departmental subcertifications and should consider exploring a solution in PeopleSoft/UTShare that indicates which accounts are active and should be reconciled for a given fiscal year and/or selected time frame; and
- The Controller’s Office should ensure that it includes all active accounts, including those used to post year-end accounting entries, within its subcertification letter.
BACKGROUND
UTS142.1, Section 6, also states that internal audit “shall perform annual testing, within 60 days of the end of the fiscal year end, of the Monitoring Plan and the subcertifications, and validate the assertions on segregation of duties and account reconciliations.”

At UT System Administration, there were 29,561 individual accounts with some type of activity (i.e., those accounts having expense, budget set-up, budget adjustment, transfer, and/or encumbrance transactions) for FY 2012. 28,456 are endowment accounts that reflect activity at the institutions and year-end mark-to-market adjustments, the amounts of which are provided by The University of Texas Investment Management Company (UTIMCO) to the Controller’s Office. The remaining 1,105 accounts reflect the activity of UT System Administration.

AUDIT OBJECTIVES & SCOPE
The objectives of this audit were to determine whether:

- UT System Administration followed its monitoring plan for segregation of duties and reconciliation of accounts;
- Account owners submitted subcertifications timely; and
- Assertions of segregation of duties and account reconciliations were valid for the seven departments listed above.

This audit included activities in departmental accounts and operations for FY 2012 beginning September 1, 2011 through August 31, 2012. Based on a risk assessment, we selected seven UT System Administration departments to examine, including:

1. Office of Business Affairs (Business Affairs)
2. Office of the Controller (Controller’s Office)
3. Office of Employee Benefits (OEB)
4. Office of General Counsel (OGC)
5. Shared Business Operations (SBO)
6. Systemwide Information Services (SWIS)
7. Office of Finance (Finance)

The accounts for the departments above represent over 90% of the income and expenditures recorded in all UT System Administration accounts.

AUDIT METHODOLOGY
Our audit procedures included testing controls and performing substantive tests, on sample months, related to account reconciliations and segregation of duties. Specifically, our procedures included testing:

- Account reconciliations to determine whether all accounts were reconciled and approved timely;
- Controls to ensure appropriate segregation of duties; and
- Completeness of the monitoring plan.
We also reviewed the subcertifications for the departments listed above to determine whether the certifications were complete and included all accounts that were active during FY 2012. Finally, we requested all UT System Administration departments’ subcertification letters to determine whether they were submitted to the Controller’s Office and whether those submissions were made timely by the requested due date.

We conducted our audit in accordance with guidelines set forth in the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

**RESULTS**

Overall, we determined that UT System Administration is in compliance with its monitoring plan for segregation of duties and reconciliation of accounts. It appears that all UT System Administration departmental accounts tested were reconciled as of the fiscal year ended August 31, 2012, that all UT System Administration departments submitted their departmental subcertification letters to the Controller’s Office, and that controls were in place to ensure adequate segregation of duties among account reconciler, reviewer (where applicable), approver. In addition, we found that the Controller’s Office’s monitoring plan for account reconciliations included the vast majority of the active accounts to be reconciled; however, due to the manual process of maintaining such a list, we identified some active accounts that were inadvertently excluded from the monitoring plan. The details of our observations and recommendations (where applicable) are outlined below:

1. **Office of Business Affairs**
   We reviewed a sample of accounts for a selection of months to determine whether accounts were reconciled as of fiscal year-end and whether they were reconciled timely. We also vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. Based on the procedures performed, it appears that Business Affairs accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

2. **Shared Business Operations**
   Shared Business Operations is a new department, established during FY 2012, which is organizationally located under Business Affairs. For FY 2012, the Controller’s Office provided account reconciliation support for Shared Business Operations. We reviewed a sample of accounts for a selection of months to determine whether accounts were reconciled as of fiscal year-end and whether they were timely. We also vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. Overall, it appears that SBO accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

3. **Office of the Controller**
   We reviewed a sample of accounts for a selection of months to determine whether accounts were reconciled as of fiscal year-end and whether the reconciliations were timely. We also vouched a sample of transactions from the reconciled statements of account to supporting documentation without exception. Overall, it appears that the Controller’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

4. **Office of Employee Benefits**
   We reviewed a sample of accounts for a selection of months to determine whether accounts were reconciled as of fiscal year-end and whether they were timely. We also vouched a sample of transactions from the reconciled statements of accounts to supporting documentation without exception. Overall, it appears that OEB’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.
5. **Office of General Counsel**

In our financial controls audit performed in FY 2012, System Audit reported that OGC’s accounts were not reconciled for the months of January, March, and April 2012, due to the departure of its Senior Accountant and the time to hire a replacement to assume OGC’s reconciliation duties. During this engagement, OGC informed us that it had caught up on all of its reconciliations as of fiscal year-end.

We reviewed a sample of accounts for a selection of months to determine whether accounts were reconciled and whether the reconciliations were approved as of fiscal year-end. We also vouched a sample of transactions from the reconciled statements of accounts to supporting documentation without exception. Overall, it appears that OGC’s accounts were reconciled and that controls were in place to ensure adequate segregation of duties.

6. **Office of Systemwide Information Services**

In our financial controls audit performed in FY 2012, System Audit reported that SWIS’s accounts were reconciled timely but not approved timely. Therefore, we limited our testing to a sample of accounts for August 2012 to determine whether they were reconciled and whether the reconciliations were approved as of fiscal year-end. We also vouched a sample of transactions from the reconciled statements of accounts to supporting documentation without exception. Overall, it appears that SWIS’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

7. **Office of Finance**

We reviewed a sample of Finance’s debt-related accounts for a selection of months to determine whether accounts were reconciled as of fiscal year-end and whether they were timely. We also vouched a sample of transactions from the reconciled statements of accounts to supporting documentation without exception. Overall, it appears that Finance’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

**Monitoring Plan and Subcertification Letters**

In addition to our testing for the seven departments above, we requested and obtained the account subcertification letters for all of the departments at UT System Administration. All but one department, the Office of Strategic Initiatives (OSI), completed and turned their respective subcertification letters in to the Controller’s Office timely (by the Controller’s Office’s October 19, 2012 due date). Because of staff turnover, OSI did not have all of its accounts reconciled by the due date. OSI submitted its subcertification letter on November 1, 2012. We reviewed a sample of OSI accounts for the months of June 2012 and August 2012 to determine whether OSI’s accounts were reconciled and whether the reconciliations were approved for FY 2012. Overall, it appears that OSI’s account reconciliations were completed for the FY 2012.

We also tested the subcertifications of the seven departments above for completeness—that they included all active accounts. To ensure completeness, we downloaded a listing of all UT System Administration accounts with activity in FY 2012 from the *DEFINE* accounting system, and we compared that listing to the accounts listed within the seven departments’ subcertification letters. We found that the subcertification letters included the vast majority of accounts that had some type of activity during FY 2012. However, we noted that four of the departmental subcertifications did not include all active accounts (66 accounts in total) including:

- Controller’s Office (4)
- OEB (4)
- Finance (53)
- SWIS (5)
Recommendation: The Controller’s Office should ensure that all active *DEFINE accounts are included in the departmental subcertifications for FY 2013. With the upcoming transition from *DEFINE to PeopleSoft/UT Share, the Controller’s Office should consider exploring an automated solution that provides information on which accounts are active and should be reconciled for a given fiscal year and/or selected time period. An automated solution may also reduce the manual effort required of staff to ensure that it has a complete population of active accounts for the departmental subcertifications.

Management Response: Agreed.

Implementation Date: For FY 2013, we will ensure all active *DEFINE accounts are included in the subcertifications. We anticipate implementation in October 2013. For FY 2014 forward, implementation is contingent on PeopleSoft implementation date.

We tested a sample of the 66 accounts noted above from each of the four departments above to determine whether they were reconciled during FY 2012. We found that the sampled accounts were reconciled. However, the majority of the Finance accounts are used once a year by the Controller’s Office to post year-end accounting entries—for example, mark-to-market adjustments for derivative instruments related to variable rate debt. Finance provides the Controller’s Office supporting documents for these transactions but was unaware of the account numbers used to make the year-end entries. The Controller’s Office records entries in these accounts and has controls in place as part of its annual financial reporting process to ensure that the amounts are correctly recorded at year-end. These accounts did not appear on either the Controller’s Office’s or Finance’s subcertifications.

Recommendation: The Controller’s Office should ensure that it includes all active accounts, including those used to post year-end accounting entries, within its subcertification letter.

Management Response: Agreed.


CONCLUSION
Overall, we determined that UT System Administration is in compliance with its monitoring plan for segregation of duties and reconciliation of accounts. In addition, all departments submitted their subcertifications to the Controller’s Office. Generally, duties were adequately segregated and account reconciliations were performed properly and timely, with limited exceptions as noted in the report.

We would like to thank each office involved in this audit for their support and assistance. We hope that the information in this report is helpful.

J. Michael Peppers, CIA, CRMA, CPA, FACHE
Chief Audit Executive ad interim

Eric Polonski, CPA, CIA
Assistant Director of Audits