November 20, 2013

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.

Sincerely,

[Signature]

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

cc: Francisco Cigarroa, M.D., Chancellor
Scott Kelley, Ed.D., Executive Vice Chancellor for Business Affairs
Sandra Neidhart, Fiscal and Policy Analyst, Office of the Controller
The University of Texas System Administration
UTS142.1 Account Reconciliations & Subcertifications Audit Report
FY 2014

November 2013

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
702 COLORADO STREET, CLB 3.100
AUSTIN, TX 78701
(512) 499-4390
AUDIT REPORT
November 2013

EXECUTIVE SUMMARY
UTS142.1, Policy on the Annual Financial Report, Section 4.3, states that “each Financial Reporting Officer shall develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” 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 [Certifications by Account Owners], and validate the assertions on segregation of duties and account reconciliations.”

During Fiscal Year (FY) 2013, The University of Texas (UT) System Audit Office (System Audit) audited financial controls for a sample of UT System Administration departments that were selected with input from the Office of the Controller. We found that financial controls were in place and functioning for the departments we audited.

In this audit, we selected and examined, based on a risk assessment, fiscal year-end account reconciliations and segregation of duties for seven UT System Administration departments, including:

1. Office of the Controller
2. Office of Employee Benefits
3. Office of Finance
4. Office of Health Affairs
5. Office of Risk Management
6. Office of Facilities Planning and Construction
7. University Lands

The accounts for the departments above represent over 90 percent 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 they were submitted to the Office of the Controller by the requested due date. Finally, we requested all UT System Administration departments’ subcertification letters to determine whether the subcertifications were complete and included all budget groups with income, expense, or transfer activity during FY 2013.

CONCLUSION
It appears, based upon procedures performed, 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 complete subcertifications to the Office of the Controller. Finally, we followed up on two open recommendations from the FY 2013 UTS142.1 audit, the equivalent audit from the prior year, to ensure that management has effectively implemented the recommendations, or has accepted the risk of not taking action. We found that both recommendations have been adequately implemented.

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

Eric Polonski, CIA, CPA
Assistant Director of Audits
BACKGROUND
UTS142.1, Policy on the Annual Financial Report, Section 4.3, states that “each Financial Reporting Officer shall develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” 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 25,854 individual accounts with some type of activity (i.e., those accounts having expense, budget set-up, budget adjustment, transfer, and/or encumbrance transactions). However, 24,813 of them 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 Office of the Controller. The remaining 1,041 accounts reflect the activity of UT System Administration.

We performed a separate audit of financial controls at selected UT System Administration departments during FY 2013 and issued a report on that audit in October 2013. The audited departments were selected with input from the Office of the Controller. For that audit, we determined that UT System Administration is in compliance with its monitoring plan for segregation of duties and reconciliation of accounts and that financial controls were in place and functioning for the departments we audited.

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 completed and submitted their subcertifications timely; and
- Assertions of segregation of duties and account reconciliations were valid for the seven departments listed below.

This audit included activities in departmental and operational accounts for FY 2013—from September 1, 2012 through August 31, 2013.

AUDIT METHODOLOGY
We requested copies of all UT System Administration departments’ subcertification letters to determine whether they were complete and included all budget groups with income, expense, or transfer activity during FY 2013 and whether they were submitted to the Office of the Controller by the requested due date.

In addition, our audit procedures included testing controls and performing substantive tests, on a sample basis, related to account reconciliations and segregation of duties. Specifically, our procedures included testing:

- Account reconciliations to determine whether the accounts were reconciled and approved timely; and
- Controls to ensure appropriate segregation of duties.

Based on a risk assessment, we selected seven UT System Administration departments, including:
1. Office of the Controller (Controller’s Office)
2. Office of Employee Benefits (OEB)
3. Office of Finance (Finance)
4. Office of Health Affairs (Health Affairs)
5. Office of Risk Management (ORM)
6. Office of Facilities Planning and Construction (OFPC)
7. University Lands
The accounts for the seven departments selected represent over 90 percent of the income and expenditures recorded in all UT System Administration accounts.

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**

It appears, based upon procedures performed, 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 departmental and operational accounts tested were reconciled as of the fiscal year ended August 31, 2013, and all UT System Administration departments submitted their departmental subcertification letters to the Controller’s Office by the October 18, 2013 due date. Based on our review of the subcertifications and testing of selected accounts, it appears that controls were in place to ensure adequate segregation of duties among account reconciler, reviewer (as applicable), and approver. The details of our observations by department are outlined below:

1. **Office of the Controller**
   We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. It appears that the Controller’s Office’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

2. **Office of Employee Benefits**
   We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. 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.

3. **Office of Finance**
   We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. 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.

4. **Office of Health Affairs**
   We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. It appears that Health Affairs’ accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

5. **Office of Risk Management**
   We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. It appears that ORM’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.
6. Office of Facilities Planning and Construction
We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. It appears that OFPC’s accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

7. University Lands
We reviewed a sample of accounts for August and the 13th Month of FY 2013 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. It appears that University Lands’ accounts were reconciled, the account reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

Completeness of Monitoring Plan and Subcertification Letters
We also tested the subcertification letters for completeness—that they included all active budget groups—by comparing a listing of all UT System Administration accounts with activity in FY 2013, as downloaded from the *DEFINE accounting system, to the accounts listed within the departmental subcertification letters. We noted that all departmental certification letters included all active budget groups for which they have reconciliation responsibility. However, the official occasions account belonging to the Institute for Transformational Learning, a new department in FY 2013, was not initially included, but the subcertification letter was subsequently amended upon our notification.

Follow-up
We performed follow-up procedures on two open recommendations from the FY 2013 UTS142.1 audit to ensure that management has effectively implemented the recommendations or has accepted the risk of not taking action. During the previous year’s audit, we noted that the Controller’s Office’s monitoring plan for account reconciliations inadvertently excluded some active accounts from the monitoring plan. Additionally, we noted that there were some accounts listed under Finance’s debt-related unit code that are used by the Controller’s Office to post year-end accounting entries, and these accounts were not included on the subcertifications for either department. We had made the following recommendations:

- The Controller’s Office should ensure that all active *DEFINE accounts are included in the departmental subcertifications; 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.

We reviewed the completed subcertification letters for the departments selected for testing and noted that on the budget group level, the departmental subcertification letters included all active budget groups for which they have reconciliation responsibility. Additionally, the subcertification letter for the Controller’s Office included all active accounts, including those in Finance’s debt-related unit code and those used to post year-end accounting entries. Consequently, we consider both recommendations to be implemented.