March 16, 2015

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:

The System Audit Office has audited The University of Texas (UT) System Office of the Controller’s monitoring plan for segregation of duties and reconciliation of accounts and subcertifications. The detailed report is attached for your review.

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

The System Audit Office will follow up on recommendations made in this report to determine their implementation status. If recommendations are found not to be implemented by the implementation dates reported, clients will be required to request approval from the System Administration Internal Audit Committee (IAC) to extend implementation dates with an explanation of the delay. The first extension request must be made in writing, and subsequent requests are required to be made in person at an IAC meeting. Requests for extension, either in writing or in person, must be made by the appropriate party at the director level or above.

We appreciate the assistance provided by your office and staff from the offices that were reviewed.

Sincerely,

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

cc: Scott Kelley, Ed.D., Executive Vice Chancellor for Business Affairs
Sandra Neidhart, Fiscal and Policy Analyst, Office of the Controller
Amy Barnard, Director of Accounting, Office of the Controller
The University of Texas System Audit Office

UTS142.1 Account Reconciliations & Subcertifications Audit Report
FY 2015

March 2015

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
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EXECUTIVE SUMMARY

UTS142.1, Policy on the Annual Financial Report, requires each financial reporting officer within The University of Texas (UT) System to “develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” According to UTS142.1, “the monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” UTS142.1 also requires that the UT System Audit Office perform annual testing of the Monitoring Plan and the subcertifications, and validate the assertions on segregation of duties and account reconciliations.

In accordance with its monitoring plan, the UT System Office of the Controller (Controller’s Office) plans annual account reconciliation and segregation of duties inspections of UT System Administration (System Administration) offices. The Controller’s Office selects offices based on a risk assessment, and the UT System Audit Office (System Audit) performs audits of the selected offices on behalf of the Controller’s Office. The Offices of Academic Affairs, the Controller (Endowment and Trust cost centers only), Employee Benefits, Federal Relations, and General Counsel were selected for this audit.

The objectives of this audit were to determine whether:

- The Controller’s Office followed its monitoring plan for segregation of duties and reconciliation of accounts;
- Subcertifications submitted by the System Administration offices to the Controller’s Office were complete and submitted timely;
- Account reconciliations were properly performed and reviewed;
- There is adequate segregation of duties for the reconciliation process; and
- Those performing reconciliation duties have received training or if additional training is needed.

On May 1, 2014, System Administration transitioned from the legacy *DEFINE accounting system to PeopleSoft/UTShare. The scope of this audit was limited to PeopleSoft cost center activity for the period May 1, 2014 through August 31, 2014.

As illustrated in the table to the right, we found that all five offices selected for audit completed their account reconciliations for the audit scope and that duties over the reconciliation process were adequately segregated. We also determined that reconciliations were completed timely and all staff assigned to reconcile their respective office’s cost centers completed reconciliation training prior to commencement of this engagement. In addition, we found that all System Administration offices submitted their subcertifications to the Controller’s Office timely; however, we found that subcertifications did not consistently include all active cost centers. While performing this engagement, we observed differences between accounting information from the PeopleSoft budget overview and accounting information from the queries used by System Administration offices to perform reconciliations. Management was aware of this issue and other opportunities to improve the UTShare
reconciliation process. Personnel from the Arlington Regional Data Center were working on a reconciliation solution during the timeframe of this audit. In addition, a working group made up of personnel from System Administration and the UTShare institutions has been convened to strengthen and simplify the reconciliation process, improve accuracy, and ensure user needs are met. A new reconciliation process has been developed, is currently being tested, and will be updated as needed before it is placed into production.

Prior to this engagement we completed an “Audit of the Financial Controls at Selected UT System Administration Offices” that was issued in May 2014. With the exception of annual subcertifications, the previous engagement covered the same audit objectives and the audit scope was limited to activity, as recorded in *DEFINE, for the period September 1, 2013 through January 31, 2014. We followed up on five recommendations from the May 2014 report and found that all five recommendations have been adequately implemented.

CONCLUSION
It appears, based upon procedures performed, that System Administration is in compliance with its monitoring plan for segregation of duties and reconciliation of accounts. For the offices tested, duties for the reconciliation process were adequately segregated. All System Administration offices submitted their subcertifications to the Controller’s Office timely; however, the subcertifications did not consistently include all active cost centers. Consequently, we recommended that the Controller’s Office ensure that all active PeopleSoft cost centers are included in the subcertifications letters for Fiscal Year 2015. Opportunities also exist to strengthen and simplify the current reconciliation process and management, in coordination with the UTShare institutions, is in process of developing and testing a new reconciliation tool. Finally, management from the applicable offices adequately implemented the recommendations from the “Audit of the Financial Controls at Selected UT System Administration Offices” that we issued in May 2014.

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

Eric J. Polonski, CPA, CIA  
Assistant Director of Audits
BACKGROUND
UTS142.1, Policy on the Annual Financial Report, requires each financial reporting officer within UT System to “develop or update a monitoring plan for the segregation of duties and reconciliation of accounts.” According to UTS142.1, “the monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year.” UTS142.1 also requires that the UT System Audit Office perform annual testing of the Monitoring Plan and the subcertifications, and validate the assertions on segregation of duties and account reconciliations.

In accordance with its monitoring plan, the Controller’s Office plans annual account reconciliation and segregation of duties inspections of System Administration offices. The Controller’s Office selects offices based on a risk assessment, and System Audit performs audits of the selected offices on behalf of the Controller’s Office. The primary risk factors for selecting an office include: 1) the date of the last assurance activity; and 2) judgmental factors, which may include lack of required training, multiple errors in past inspections, turnover, and input from System Audit.

For this audit, the following offices were selected:
1. Office of Academic Affairs;
2. Office of the Controller (Endowment and Trust cost centers only);
3. Office of Employee Benefits;
4. Office of Federal Relations; and
5. Office of General Counsel.

On May 1, 2014, System Administration transitioned from the legacy *DEFINE accounting system to PeopleSoft.

AUDIT OBJECTIVES & SCOPE
The objectives of this audit were to determine whether:
• The Controller’s Office followed its monitoring plan for segregation of duties and reconciliation of accounts;
• Subcertifications submitted by the System Administration offices to the Controller’s Office were complete and submitted timely;
• Account reconciliations were properly performed and reviewed;
• There is adequate segregation of duties for the reconciliation process; and
• Those performing reconciliation duties have received training or if additional training is needed.

The scope of this audit was limited to PeopleSoft cost center activity for the period May 1, 2014 through August 31, 2014.

Prior to this engagement we completed an “Audit of the Financial Controls at Selected UT System Administration Offices,” which we issued in May 2014. With the exception of the annual subcertifications, this previous engagement covered the same audit objectives described above and the audit scope was limited to activity, as recorded in *DEFINE, for the period September 1, 2013 through January 31, 2014. The final objective of this audit was to determine whether management implemented the five recommendations from the May 2014 report.

AUDIT METHODOLOGY
To meet our audit objectives, we:
• Requested copies of all System Administration offices’ subcertification letters to determine whether they were complete and included all cost centers with income, expense, or transfer activity during Fiscal Year (FY) 2014 and whether they were submitted to the Controller’s Office within two months of fiscal year end.
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- Obtained an understanding of financial controls over the reconciliation process;
- Reviewed account reconciliations for a sample of months to determine whether they were performed appropriately and timely;
- Tested a sample of transactions for appropriate documentation and recording; and
- Verified training completion to determine whether staff assigned to reconcile their respective office’s cost centers had received the appropriate training.

In addition, we performed follow-up procedures on five recommendations from our report on the “Audit of the Financial Controls at Selected UT System Administration Offices.”

Our engagement was conducted in conformance with The Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing (IIA’s Standards).

AUDIT RESULTS
It appears, based on work performed, that System Administration is in compliance with its monitoring plan for segregation of duties and reconciliation of accounts. As illustrated in the table to the right, the five offices reviewed completed their account reconciliations for the period audited and duties over the reconciliation process were adequately segregated. The reconciliation functionality for UTShare was not available until August 2014. Consequently, System Administration offices could not reconcile transactions from May through July until August. All five offices completed their cost center reconciliations by October 17, 2014. Given the late availability of the reconciliation functionality, we consider the reconciliations reviewed to have been completed timely. We also determined that all staff assigned to reconcile their respective office’s cost centers completed reconciliation training prior to commencement of this engagement. Detailed results by office may be found in Appendix A.

In addition to the office-specific results, we identified one observation and recommendation regarding completeness of the subcertification process:

Completeness of Subcertification Letters
The Controller’s Office sent blank subcertification letter templates to the System Administration offices and asked the offices to list all cost centers that they are responsible for reconciling. The Controller’s Office reviewed the certification letters for completeness. We requested and obtained the subcertification letters submitted to the Controller’s Office. Each office completed and returned their respective subcertification letter to the Controller’s Office in a timely manner.

We also tested the subcertifications of all offices for completeness to determine whether the subcertifications included all active cost centers. To ensure completeness, we downloaded a listing of all System Administration cost centers with activity in FY 2014 from PeopleSoft, and we compared that listing to the cost centers listed within the offices’ subcertification letters. The subcertification letters included the vast majority of cost centers.
that were active during FY 2014. However, we noted that six of the subcertifications did not include all active cost centers.

**Recommendation:** The Controller’s Office should ensure that all active PeopleSoft cost centers are included in the subcertification letters for FY 2015. To ensure completeness, the Controller’s Office should consider producing a download of all active cost centers at the end of the fiscal year and use that information to update its listing of office accounts to be certified annually.

**Management’s Response:** Agreed. This year, departments were asked to list the cost centers they reconciled rather than providing them a list to validate. All seven missing cost centers for FY 2014 have been followed up on. In coordination with the System Administration offices, the Controller’s Office will ensure that all active PeopleSoft cost centers are included in the subcertification letters for FY 2015.

**Anticipated Implementation Date:** November 30, 2015

**FOLLOW-UP RESULTS**

System Audit conducted follow-up procedures in accordance with the IIA’s Standards, which require that we ensure management has effectively implemented the recommendations or has accepted the risk of not taking action. We determined that management has fully implemented all five recommendations made in the “Audit of Financial Controls at Selected UT System Administration Offices” report issued in May 2014. A summary of these implemented recommendations is included in Appendix B.
Appendix A – Audit Results by Office

1. **Office of Academic Affairs**
The Office of Academic Affairs is responsible for reconciling 12 cost centers. System Audit tested each cost center for completion of reconciliation, proper review, and approval. Reconciliations were properly performed as of fiscal year-end. In addition, the staff assigned to reconcile completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions to supporting documentation without exception. We determined, based on the procedures performed, that financial controls over the reconciliation process are in place and functioning as intended.

2. **Office of the Controller**
The Office of the Controller is responsible for reconciling 144 Endowment and Trust cost centers. System Audit reviewed a sample of Endowment and Trust cost centers for a selection of months to determine whether they were reconciled as of fiscal year-end and whether they were reconciled timely. System Audit also vouched a sample of transactions to supporting documentation without exception. Based on the procedures performed, it appears that Endowment and Trust cost centers were reconciled, the reconciliations were approved timely, and controls were in place to ensure adequate segregation of duties.

3. **Office of Employee Benefits**
The Office of Employee Benefits is responsible for reconciling 17 cost centers. System Audit tested each cost center for performance of reconciliation, proper review, and approval. Reconciliations were properly performed as of fiscal year-end. In addition, the staff assigned to reconcile completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions to supporting documentation without exception. System Audit found, based on the procedures performed, that financial controls over the reconciliation process are in place and functioning as intended.

4. **Office of Federal Relations**
The Office of Federal Relations is responsible for reconciling eight cost centers. System Audit tested each cost center for performance of reconciliation, proper review, and approval. Reconciliations were properly performed as of fiscal year-end. In addition, the staff assigned to reconcile completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions to supporting documentation without exception. System Audit found, based on the procedures performed, that financial controls over the reconciliation process are in place and functioning as intended.

5. **Office of General Counsel**
The Office of General Counsel is responsible for reconciling 15 cost centers. System Audit tested each cost center for performance of reconciliation, proper review, and approval. Reconciliations were properly performed as of fiscal year-end. In addition, the staff assigned to reconcile completed reconciliation training, and duties for the reconciliation process are adequately segregated. Lastly, we vouched a sample of transactions to supporting documentation without exception. System Audit found, based on the procedures performed, that financial controls over the reconciliation process are in place and functioning as intended.
Appendix B – Summary of Implemented Recommendations

The following recommendations have been adequately IMPLEMENTED:

**Office of the Controller**
1. **Timeliness Standard for Account Reconciliations**
   *Recommendation:* In light of UT System Administration’s transition to PeopleSoft in May 2014, the Controller’s Office should define a standard for timeliness with respect to completing account reconciliations and communicate this standard to the offices to ensure that accounts are reconciled and reviewed timely. This standard could be documented as part of the new draft reconciliation training and/or an INT policy.

**Office of Governmental Relations**
2. **Account Reconciliations Not Timely**
   *Recommendation:* The Office of Governmental Relations should ensure that account reconciliations are performed and reviewed in a timely manner.

**Office of Health Affairs**
3. **Account Reconciliations Not Timely**
   *Recommendation:* The Office of Health Affairs should ensure that account reconciliations are performed and reviewed in a timely manner.

**Office of Technology Commercialization**
4. **Account Reconciliations Not Timely**
   *Recommendation:* The Office of Technology Commercialization should ensure that account reconciliations are performed and reviewed in a timely manner.

5. **Reconciliation Training**
   *Recommendation:* Personnel involved in the account reconciliation process should take the reconciliation training offered by the Controller’s Office as soon as possible, if they have not done so.