THE UNIVERSITY *of* TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Audit Office
210 West 6th Street, Suite B140.E
Austin, Texas 78701
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March 14, 2016

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

Dear Mr. Wallace:

We have completed our audit of Benefits Proportionality by Fund for The University of Texas System (UT System) Administration as required by Rider 8, page III-39, of the *General Appropriations Act* (84th Legislature, Conference Committee Report). The rider requires that the audit examine appropriation years (AY) 2012 through 2014. However, an internal audit of the proportionality of higher education benefits for AY 2013 was conducted during Fiscal Year 2015 at the request of the Governor. Therefore, the scope of this year's audit included only AY 2012 and AY 2014. Our report on AY 2013 is included as Attachment 1.

Based on audit procedures performed, *Benefits Proportionality by Fund Reports* (APS 011) for appropriation years 2012 through 2014, as submitted to the State Comptroller, were materially accurate and no reimbursement is due. The process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in Article IX, Section 6.08, of the *General Appropriations Act.*

Our audit procedures were consistent with the methodology prescribed by the Texas State Auditor's Office to comply with Rider 8, and included review of source information obtained from the internal accounting system and the State's Uniform Statewide Accounting System (USAS), review of the benefits proportionality reporting process, validation of the accuracy of information and proportional funding calculations reported to the State Comptroller on the APS 011 reports, and testing to verify eligibility of employee benefits paid with appropriated funds. Sample size for testing was determined following guidance on internal control testing for compliance from the American Institute of Certified Public Accountants (AICPA). In addition, we relied upon work conducted in previous audits by our office, our external audit firm, and the State Auditor's Office to gain assurance about the reliability of data in the internal accounting system and USAS. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing.*

Additionally, Article III of the *General Appropriations Act* allows the UT System to redistribute appropriated funds for employee group insurance (EGI) benefits among UT System institutions. If an institution's proportional need is less than its original appropriation, then the excess can be allocated among the UT System institutions with a shortfall. However, if an institution has a proportional need in excess of its original appropriation, no additional benefits funding is provided by the State. The UT System submitted annual reports to the State summarizing these transfers to allocate the appropriations.

We obtained the UT System appropriations transfer reports for the years ended August 31, 2012 and August 31, 2014, along with each UT System institution's APS 011 report for AY 2012 and AY 2014, and agreed the amounts from the institutional reports and other accounting information to the appropriations transfer reports. Based on the procedures performed, we determined that the UT System appropriations transfer report was complete and mathematically accurate. No relevant exceptions were noted.

On a Systemwide level, approximately $27.9 million and $10.2 million in additional appropriations would have been required in AY 2012 and AY 2014, respectively, to fully fund the General Revenue proportional share of EGI contributions.

We appreciate the assistance from staff in the Office of the Controller.

Sincerely,

J. Michael Peppers

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

cc: Scott Kelley, Ed.D., Executive Vice Chancellor for Business Affairs

Attachment 1
Benefits Proportionality by Fund Audit Report – Appropriation Year 2013

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

System Audit Office
210 W. 6th Street, Suite B.140E, Austin, Texas 78701
Phone: 512-499-4390 Fax: 512-499-4426

November 21, 2014

Randy Wallace
Associate Vice Chancellor – Controller and Chief Budget Officer
The University of Texas System
201 W. 7th Street
Austin, Texas 78701

Dear Mr. Wallace:

We have completed our audit of Benefits Proportionality by Fund for The University of Texas (UT) System Administration, as requested by Governor Rick Perry. Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for appropriation year (AY) 2013, as submitted to the State Comptroller on November 19, 2013, was materially accurate and no reimbursement is due. The process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in Article IX, Section 6.08, of the *General Appropriations Act.*

The scope of our audit included benefits funding proportionality reporting for AY 2013. Risk of material error in reporting accuracy for years prior to AY 2013 was assessed based on audit results and determined to be low, thus additional testing of prior appropriation years was not performed.

Our audit methodology included review of source information obtained from the UT System Administration internal accounting system and the State's Uniform Statewide Accounting System (USAS). We relied upon work conducted in previous audits by our office, our external audit firm, and the Texas State Auditor's Office to gain assurance about the reliability of data in our internal accounting system and USAS. Based on that work, we determined that the information in these systems was sufficiently reliable for the purposes of this audit. In addition, we reviewed the benefits proportionality reporting process with relevant staff, validated the accuracy of information and proportional funding calculations reported to the State Comptroller on the APS 011, and tested to verify eligibility of employee benefits paid with appropriated funds. Sample size for testing was determined following guidance on internal control testing for compliance from the American Institute of Certified Public Accountants. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing.*

Additionally, Article III of the *General Appropriations Act* allows the UT System to redistribute appropriated funds for employee group insurance (EGI) benefits among UT System institutions. If an institution's proportional need is less than its original

Attachment 1
Benefits Proportionality by Fund Audit Report – Appropriation Year 2013

appropriation, then the excess can be allocated among the UT System institutions with a shortfall. However, if an institution has a proportional need in excess of its original appropriation, no additional benefits funding is provided by the State. The UT System must submit an annual report to the State summarizing these transfers to allocate the appropriations.

We obtained the UT System appropriations transfer report for the year ended August 31, 2013, along with each UT System institution's APS 011 for AY 2013, and agreed the amounts from the institutional reports and other accounting information to the appropriations transfer report. Based on the procedures performed, we determined that the UT System appropriations transfer report was complete and mathematically accurate. For AY 2013, on a Systemwide level, approximately $25.4 million in additional appropriations would have been required to fully fund the General Revenue proportional share of EGI contributions. No relevant exceptions were noted.

We appreciate the assistance from staff in the Office of the Controller.

Sincerely,

J. Michael Peppers

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

cc: Francisco G. Cigarroa, M.D., Chancellor
Scott C. Kelley, Ed. D., Executive Vice Chancellor for Business Affairs