August 29, 2013

Dr. Daniel:

We have completed an audit over Financial Statement Certifications as part of our Fiscal Year 2013 Audit Plan, and the detailed report is attached for your review. The objective of this audit was to ensure compliance with UTS 142.1, Policy on the Annual Audit Report.

Generally, we found that UT Dallas is in compliance with the requirements outlined in UTS 142.1. No significant issues were found, but implementation of the recommendations outlined in this report will help strengthen compliance with UTS 142.1 requirements.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Please let me know if you have any questions or comments resulting from this audit.

Toni Stephens
Executive Director of Audit and Compliance

Members of the UT Dallas Audit and Compliance Committee:
- Dr. Hobson Wildenthal, Executive Vice President and Provost
- Dr. Calvin Jamison, Vice President for Administration
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
- Dr. Bruce Gnade, Vice President for Research
- Dr. Darrelene Rachavong, Vice President for Student Affairs
- Mr. Curt Eley, Vice Provost for Enrollment Management
- Dr. James Marquart, Vice Provost
- Ms. Leah Teutsch, Chief Information Security Officer
- Mr. Timothy Shaw, University Attorney
- Ms. Lisa Choate, Partner, Ultimate Health Resources

The University of Texas System:
- Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
- Alan Marks, Attorney
- Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
- Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

State of Texas Agencies:
- Legislative Budget Board
- Governor’s Office
- State Auditor’s Office
- Sunset Advisory Commission

AN EQUAL EMPLOYMENT/AFFIRMATIVE ACTION UNIVERSITY
Table of Contents

EXECUTIVE SUMMARY........................................................................................................................................2

BACKGROUND ....................................................................................................................................................3

AUDIT OBJECTIVE...........................................................................................................................................3

SCOPE AND METHODOLOGY ..........................................................................................................................3

AUDIT RESULTS AND MANAGEMENT’S RESPONSES ......................................................................................4
  (1) Improve Balance Sheet Reconciliations ..................................................................................................5
  (2) Reconcile the Human Resource System to the Financial System ......................................................6
  (3) Define Materiality Threshold ................................................................................................................6

STATUS OF PRIOR AUDIT RECOMMENDATIONS .........................................................................................7

CONCLUSION ....................................................................................................................................................11
Executive Summary

Audit Report: Financial Statement Certification

Audit Objective: The objective of this audit was to provide assurance that UT Dallas is in compliance with UTS 142.1, Policy on the Annual Financial Report. The scope of our audit work was fiscal year 2012-2013.

Audit Results:

Generally, we found that UT Dallas is in compliance with the requirements outlined in UTS 142.1. No significant issues were found, but implementation of the recommendations outlined in this report will help strengthen compliance with UTS 142.1 requirements.

1. **Improve Balance Sheet Reconciliations** - Consideration should be given to formalizing the process of communication to the VPBF regarding Balance Sheet reconciliations.

2. **Reconcile the Human Resource System to the Financial System** - Management should ensure that the processes that have been put in place for reconciling the two systems continue to work as designed throughout the year.

3. **Define Materiality Threshold** - A materiality threshold should be formally documented and added to the Letters of Representation Process policy. Additionally, consideration should be given to improving the process so that the resolution status of all issues noted as concerning will be tracked.

Conclusion: Overall, compliance with the requirements outlined in UTS 142.1 should be improved. Implementation of the recommendations outlined in this report will help enhance compliance with UTS 142.1 requirements.

<table>
<thead>
<tr>
<th>Does Management Agree with Recommendations?</th>
<th>Estimated Date of Implementation of All Recommendations:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes ☑ No ☐</td>
<td>October 1, 2013</td>
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Background

UTS 142.1, *Policy on the Annual Financial Report*, provides for “financial reporting requirements and duties related to those responsible for financial reporting, the approval of accounting records and responsibilities for establishing internal controls to ensure that funds are expended and recorded appropriately, and procedures for obtaining services by an external audit firm.” The policy designates a Financial Reporting Officer who is responsible for the integrity of the financial statements. These responsibilities include assuring efficient and effective internal controls over the preparation of the financial statements, identifying sources of the financial data, and evaluating material impacts of the sources of financial data.

In addition, the Financial Reporting Officer establishes controls over the annual closing of the accounting records, including the correct timing to ensure inclusion of material financial data, the validity of the adjusting entries, and the reconciliation of sub-accounts into the general ledger.

UTS 142.1 also states that each university must have a monitoring plan for account reconciliation and segregation of duties. The Risk Assessment and Monitoring Plan (RAMP) is risk-based and updated annually. The VP for Budget and Finance is listed as the responsible person over this area, and duties have been delegated to the Financial Compliance Manager to ensure compliance in this area. Internal Audit tests the monitoring plan annually. The Financial Reporting Officer certifies that the financial accounts are presented fairly with no misrepresentations and abides by the Financial Code of Ethics.

Audit Objective

The objective of this audit was to provide assurance that UTD is in compliance with UTS 142.1, *Policy on the Annual Financial Report*.

Scope and Methodology

We conducted this audit as part of our audit plan for Fiscal Year 2013. The scope of our audit work was fiscal year 2012 - 2013. Our audit fieldwork concluded on June 13, 2013.

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Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The Standards set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Specific audit procedures included, but were not limited to, the following:

- Gained an understanding of the policies and processes relating to account reconciliation.
- Interviewed Accounting and Financial Reporting personnel to gain an understanding of the cost center reconciliation, as well as the Letters of Representation process.
- Tested balance sheet accounts for compliance with the provisions of the Balance Sheet Account Reconciliation policy.
- Analyzed subsystem data to check for data accuracy in the general ledger.
- Analyzed data in PeopleSoft for the completeness and timing of account reconciliation and approvals.

**Audit Results and Management’s Responses**

Overall, we found that UTD generally complies with the requirements of UTS 142.1. Our audit work indicated that the following controls currently exist:

- Cost centers managers are making progress in ensuring the timely completion of cost center/account reconciliations.
- The Risk Assessment and Monitoring Plan satisfies the requirements of the monitoring of internal controls set forth in the UT System policy.
- The percentage of returned Letters of Representation is high.

A significant recommendation is defined as one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. We have **no significant recommendations** resulting from this audit.
Although the above controls exist, opportunities to enhance controls are listed below.

(1) **Improve Balance Sheet Reconciliations**

The process for reporting issues to the VP for Budget and Finance (VPBF) that were identified during Balance Sheet reconciliations is not formalized, since a summary report that adequately details the reconciliations that have been completed, or reconciling differences that have been noted, is not provided to the VPBF. As a result, the VPBF may not be fully aware of differences that may have been reported, and inaccuracies may occur.

Lastly, based on limited discussions an individual that was tasked with performing Balance Sheet reconciliations, it appeared that the level of understanding of the reconcilers may not be adequate enough to fully understand the type of financial activity that actually belongs on the balance sheet account.

**Recommendation:** Consideration should be given to formalizing the process of communication to the VPBF by providing a summary report indicating the completion rate of reconciliations and also detailing accounts where reconciling differences have been identified. In addition, the Office of Budget Finance should continue its efforts of providing the appropriate training to individuals that reconcile balance sheet accounts. Lastly, the Balance Sheet reconciling differences that are identified should be appropriately addressed.

**Management’s Response and Action Plan:**
The Balance Sheet Reconciliation procedure will be updated to include a procedure for reporting summarized results to the Vice President of Budget and Finance. The summarized report will include overall completion rates and details regarding reconciling items. In addition, the procedure update will include steps for tracking reconciling items to completion. One-on-one training and support will be offered to any individual who requests or appears to need additional assistance performing their assigned balance sheet reconciliation.

**Estimated Date of Implementation:**
Procedure updates – September 2, 2013
One-on-one training – As needed.
(2) **Reconcile the Human Resource System to the Financial System**

According to UTS 142.1¹, “The Financial Reporting Officer is responsible for establishing appropriate controls over the annual closing of the accounting records… This includes reconciliation of all sub-ledgers to their respective general ledger account and reconciliation from the general ledger to the annual financial report.”

At the time of the audit in January 2013, Internal Audit could not fully reconcile the Human Resources (HR) system to the Financial Reporting System. This was mainly due to the fact that no individual or department had been formally designated as being responsible for performing the reconciliation of the two systems. Without a full reconciliation, the financial statements may be inaccurate.

Prior to the issuance of this audit report, an individual has been tasked with having the responsibility for fully reconciling the two systems.

**Recommendation:** Management should ensure that the processes that have been put in place for reconciling the two systems continue to work as designed throughout the year.

**Management’s Response and Action Plan:**
Management will continue to monitor the reconciliation between the two systems.

**Estimated Date of Implementation:**
Implemented

(3) **Define Materiality Threshold**

According to UTS 142.1², “The Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report. This includes: ……(c) identification of opportunities for misstatement of information in those sources that have a “material” impact on the accuracy on the annual financial report; and (d) determining a system of internal controls for opportunities for misstatement of information in those sources that have a “material” impact on annual financial report accuracy.”

Currently, when a Letter of Representation (LOR) that is received in the Office of Finance identifies concerns by the cost center owner, all issues are logged. Material

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¹ [http://www.utsystem.edu/bor/procedures/policy/policies/uts142_1.html](http://www.utsystem.edu/bor/procedures/policy/policies/uts142_1.html)

issues are summarized and provided to the Vice President of Budget and Finance along with the detailed log by the Financial Compliance Manager. However, a materiality threshold is not defined, and therefore the content of the summarized document is based on the judgment of the Financial Compliance Manager. Lastly, the Financial Compliance Manager, who has the responsibility for tracking the status of material issues, is not in a position to know if the issues reported have been appropriately addressed since she does not receive follow-up reports. Without such a process in place, material issues may not be addressed prior to the issuance of the financial statements resulting in inaccuracies.

**Recommendation:** A materiality threshold should be formally documented and added to the Letters of Representation process document. Additionally, consideration should be given to improving the process so that the resolution status of all issues noted as concerning will be tracked.

**Management’s Response and Action Plan:**

Any issue raised by a faculty or staff member through the letter of representation process will be reviewed and addressed by the AVP/Controller and the Vice President for Budget and Finance.

**Responsible Person:** AVP/Controller and the Vice President for Budget and Finance.

**Estimated Date of Implementation:**

October 1, 2013

**Status of Prior Audit Recommendations**


<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Status</th>
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<tbody>
<tr>
<td>To ensure compliance with UTS142.1, an updated Risk Assessment and Monitoring</td>
<td>Implemented</td>
</tr>
<tr>
<td>Plan (RAMP) should be developed and implemented. In order to improve monitoring</td>
<td></td>
</tr>
<tr>
<td>of cost center reconciliations and segregation of duties we recommend that risk</td>
<td></td>
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<tr>
<td>assessment, monitoring, processes, and procedures should be improved. Specific</td>
<td></td>
</tr>
<tr>
<td>recommendations are noted below. (a) The Office of Finance should work with</td>
<td></td>
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<tr>
<td>departments across campus to ensure procedures in place for PeopleSoft cost center</td>
<td></td>
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Recommendation | Status
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reconciliations are adequate to ensure revenues and expenses are properly recorded and are being reviewed by high level administrators. Many PeopleSoft users are still uncomfortable using the account reconciliation and approval functions due to their lack of understanding of how to navigate through the system. PeopleSoft data tables should be used to identify departments who may need additional group and/or one-on-one training sessions to assist faculty/staff with reconciliations. | Implemented
(b) Controls which should prevent the same user (netid) from reconciling and approving the same cost center appear to not be working in some scenarios. The instances where the controls have failed should be researched and corrective action should be taken to prevent this from happening. The updated Risk Assessment and Monitoring Plan should also include a process for ensuring that role assignments in PeopleSoft are scrutinized for appropriateness and segregation of duties.

In addition, the Responsible Person for this high-risk area should ensure that only persons who have accountability for the cost center are assigned to the approver roles for cost center reconciliation in PeopleSoft. | Not implemented – see recommendation (3) above. The LOR process document will be updated to include a procedure for recording final resolution of all summarized issues. Sep 2, 2013
(c) A more detailed review of the Letters of Representation should be performed. The Responsible Person should ensure all issues noted by account owners/managers have been recorded on the internal log and that the follow up action by the Office of Finance was timely and appropriate. | Substantially
(d) Cost centers with accounting periods that have


### Recommendation

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<tr>
<td>been reconciled should not have adjustments made to the financial data without the cost center reconciler’s and approver’s knowledge. PeopleSoft controls should be set to disengage the reconciled and approved flags when changes/adjustments are made to accounting periods that are flagged as being reconciled.</td>
<td>implemented. New functionality in the PS ARA will be used this year to ensure Period 12 is not open for reconciliation until final close has occurred. Therefore no reconciliations will occur prior to adjustments. Sep 16, 2013</td>
</tr>
<tr>
<td>(e) Reconciliation monitoring should include general ledger accounts as well as departmental cost centers. A reconciliation or detailed account analysis of all GL accounts should be performed at least annually to ensure the balances are accurate and/or consistent with prior year balances. Those persons responsible for performing high level analysis of combined general ledger accounts should ensure there is documented proof that all of the general ledger accounts included in the analysis have been reconciled.</td>
<td>Substantially implemented - see recommendation (1) above Management will monitor all balance sheet and departmental accounts for reconciliation completeness. Oct 1, 2013</td>
</tr>
<tr>
<td>(f) The University should not rely on “built-in” controls in PeopleSoft to ensure proper segregation of duties or “checked boxes” to ensure proper cost center reconciliations and approvals. Monitoring of cost center reconciliations should include site visits to review the procedures in place at the departmental level, to ensure that expenditures and revenues have backup documentation, that cost center owners/managers are reviewing the monthly reconciliations and that there is proper segregation of duties.</td>
<td>Implemented</td>
</tr>
<tr>
<td>(g) Functional users should be better trained. They should also reconcile their cost centers after a certain date, or the reconciliations should not be made available by Finance until the accounting period has been fully closed.</td>
<td>Implemented</td>
</tr>
<tr>
<td>Recommendation</td>
<td>Status</td>
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<tr>
<td>Additionally, if transactions are posted to a cost center after it has been reconciled, the reconciled flag should revert back to a “no” (which means that the cost center has not been reconciled). This would help ensure that the new transactions are reviewed by the departments.</td>
<td>implemented</td>
</tr>
<tr>
<td>(h) The process for general ledger reconciliations is not up-to-date and should be better documented. Documentation of the reconciliation process should include: the staff member(s) who performed the reconciliation of the individual accounts/fund groups, the employee who reviewed/approved the reconciliation and procedures for both the preparer and the approver. A high level analysis of combined accounts/fund groups should not be performed until reconciliation documentation is received.</td>
<td></td>
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<tr>
<td>We recommend that controls over documentation and authorization over journal entries be enhanced. Journal entries should be approved by someone other than the preparer as well as the account manager. Documentation should be sufficient to explain the reason the transaction was made, including support that provides the explanation for the entry.</td>
<td>substantially implemented but still in process Access for the Asst. Dir. Of Acctg and Fin. Rptg. to run the JGen process has been removed in the TST environment and is being tested. This will remove the opportunity for him to prepare and approve a JE. Sep 2, 2013</td>
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Conclusion

Overall, compliance with the requirements outlined in UTS 142.1 should be improved. Implementation of the recommendations outlined in this report will help enhance compliance with UTS 142.1 requirements. We appreciate the courtesy and cooperation received from the management and staff in the Office of the Vice President for Budget and Finance during this audit.