October 27, 2015

Dr. Hobson Wildenthal, President ad interim
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Journal Entry and Interdepartmental Transfer Process as part of our fiscal year 2015 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing. The objective of our audit was to provide assurance that controls over journal entry accounting operations are effective and efficient and that financial and operational information is reliable.

Overall, we found controls are generally adequate, but could be improved. The attached report details recommendations to improve policies and procedures and PeopleSoft user access.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:
Dr. Kim Laird, Associate VP for Budget and Finance and Controller
Mr. Greg Argueta, Director of Accounting and Financial Reporting

Members of the UT Dallas Institutional Audit Committee:
External Members:
Mr. Bill Keffler
Mr. Ed Montgomery
Ms. Julie Knecht
Dr. Inga Musselman, Acting Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Mr. David Crain, Vice President and Chief Information Officer
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Dr. Gene Fitch, Vice President for Student Affairs
Mr. Timothy Shaw, University Attorney

The University of Texas System:
Dr. Steven Leslie, 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
Executive Summary

Journal Entry and Interdepartmental Transfer Process, Report No. 1603

Audit Objective and Scope: To provide assurance that controls over journal entry accounting operations are effective and efficient and that financial and operational information is reliable.

The following is a summary of the audit recommendations by priority and risk type. See Appendix A for additional details.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Priority and Risk Type</th>
<th>Estimated Implementation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Document Policies and Procedures</td>
<td>Effectiveness and Efficiency</td>
<td>5/31/16</td>
</tr>
<tr>
<td>(2) Update PeopleSoft User Access</td>
<td>Information Security</td>
<td>5/31/16</td>
</tr>
</tbody>
</table>

Responsible Vice Presidents: Mr. Terry Pankratz, Vice President for Budget & Finance

Responsible Parties:
- Dr. Kim Laird, Associate VP for Budget and Finance and Controller
- Mr. Greg Argueta, Director of Accounting and Financial Reporting

Staff Assigned to Audit: Project Leader: Dominique DiAndrea, CIA, Senior Auditor
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Background

A journal entry is a formal accounting entry used to identify, and record a business transaction. An interdepartmental transfer is a journal which permits authorized users to transfer revenue or expenses from one cost center to another, for reasons including the correction of errors.

The journal entry and interdepartmental transfer process is administered by the Office of Budget and Finance through the Accounting and Financial Reporting department. Accounting and Financial Reporting is responsible for managing the overall accounting, financial reporting, campus receivables and support of the University. It ensures that the official accounting records of the University are up-to-date and accurate, works with Information Technology to deploy reporting tools, and implements policies and procedures to safeguard the assets of the University. As such, responsibility for the journal entry and interdepartmental transfer process falls under this area.

In FY 2015, there were 3,992 revenue journal entries and interdepartmental transfers posted, totaling $692,887,992, and 5,393 expense journal entries and interdepartmental transfers, totaling $507,690,792. In addition, approximately 1,100 UT Dallas employees across numerous departments have the ability to create and modify journal entries and interdepartmental transfers. As a decentralized environment exists, AFR is responsible for ensuring that an effective system of internal control is in place to help prevent material misstatements, whether due to error or fraud, from occurring.

Audit Objective

To provide assurance that controls over journal entry accounting operations are effective and efficient and that financial and operational information is reliable.

Scope and Methodology

The scope of this audit was fiscal year 2015 and our fieldwork concluded on September 11, 2015. To satisfy our objectives, we performed the following:

- Interviewed staff and examined documentation to gain an understanding of journal entry and interdepartmental transfer operations on campus.
- Reviewed applicable university policies and procedures.
- Determined if:
  - Journal entries and interdepartmental transfers were sufficiently supported by documentation, reviewed timely, authorized, and had a business purpose.

1 http://www.utdallas.edu/afr/
Accounting performed monthly queries to catch and research journals that skipped the PeopleSoft workflow, or were fed from an unidentified user.

PeopleSoft user access to edit and post journals across all system sources was appropriate.

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.

**Audit Results and Management’s Responses**

**Controls**

Our audit work indicated that the following controls currently exist:

- All non-subsystem journal entries and interdepartmental transfers are routed in PeopleSoft for appropriate approvals. Subsystems represent external systems (e.g. Human Resources, Student Finance) which are fed to the general ledger.

- Accounting performs monthly queries to identify and research:
  - Journals that skipped an approver
  - Subsystem journals fed from an unidentified user. An integration broker is what feeds information over from the subsystem to the general ledger. Anything falling outside of this process is identified and researched to determine if the journal was appropriate.
  - Subsystem journals line exceeding +/-$5M to verify that appropriate levels of approval were obtained.

**Audit Recommendations**

Although the above controls are in place, opportunities exist to improve controls and enhance the journal entry and interdepartmental transfer process.

**Priority Findings – UT System**

A UT System priority finding is defined by the UT System Audit Office as: "an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole."  

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2 Appendix A defines the priority and risk ranking used for all internal audit recommendations.
We have **no UT System Priority Findings** resulting from this audit. However, we do recommend controls and processes be improved by implementing the recommendations outlined below. See Appendix A for the Priority Findings and Risk Matrix defining the various risk factors and risk levels for each audit recommendation.

(1) **Document Policies and Procedures**  
Risk Factor: **Effectiveness and Efficiency**; Risk Rating: **Medium**

Policies and procedures exist which direct authorized users on how to transfer revenue and expenses from one cost center to another for interdepartmental transfers. However, no procedures exist for routine journal entries, including how users should add descriptions sufficient to explain the journal purpose, or timeliness of journal entry review. In addition, procedures do not exist for Accounting and Financial Reporting’s internal practices to mitigate risks via their monthly query review process, or how PeopleSoft user access is monitored.

We tested journal entries to determine that they were supported by documentation, reviewed timely, properly authorized, and had a business purpose. We noted that many contained incomplete or non-descriptive explanations as to the purpose of the accounting transaction. Without a complete description for what is being processed, the reviewer may not understand why the journal was necessary, i.e. what is being booked, why the original transaction was incorrect, reference to supporting documentation.

In addition, we tested the monthly queries performed by Accounting and Financial Reporting to identify and research non-subsystem journals that skipped an approver, and subsystem journals fed from an unidentified user, or had journal lines exceeding +/-$5M. These queries are performed to verify the appropriateness of the journals, as well as to determine that the appropriate levels of approval were. While we noted that the research had been conducted, signatures provided by the preparer and/or reviewer were not always dated. Signatures should always be accompanied by a date to evidence when the queries were performed and when they were reviewed, as timeliness is central when dealing with significant financial transactions.

A lack of written policies and procedures leads to inefficient and ineffective operations and decreases management’s ability to provide guidance and oversight. In addition, without written policies and procedures, personnel responsible for the monthly queries may not be aware of their roles and responsibilities resulting in an increased risk of errors, omissions, and inefficiencies.

**Recommendation:** We recommend that policies and procedures be developed that includes, but is not limited to, routine journal entries, monthly queries, and PeopleSoft monitoring.
Management’s Response: Procedures will be developed for journals initiated by central administration offices (Accounting and Financial Reporting, Bursar, Treasury, etc.) including journal requirements and workflow, post-close audit queries and how anomalies should be addressed.

Estimated Date of Implementation: 5/31/16

Person Responsible for Implementation: Greg Argueta, Director of Accounting and Financial Reporting

(2) Update PeopleSoft User Access
Risk Factor: Information Security; Risk Rating: Medium☆

We tested user access to identify individuals that currently have the privileges to modify and create journal entries within the PeopleSoft application and found that 1,088 current employees have the capability to create and post journal entries, and select a journal source type, including those that do not have to be routed through an electronic workflow process prior to being posted to the ledger. This is the result of a customization within PeopleSoft, implemented by the Office of Budget and Finance (OBF) that would allow for improved control over the journal entry process; whereby, individuals outside of the OBF could only create/initiate journals with a source type of ‘IDT’. Such journal types are required to go through an electronic workflow process. Individuals outside of the OBF, however, maintained write/update access to the delivered PeopleSoft journal entry page. This page does not allow the capability to implement data security on the journal source type field; therefore, an individual has the ability to select any journal source type that may currently exist within the application, if they are provided write access to the page.

The Accounting and Financial Reporting team has monitoring procedures in place to detect if anyone has attempted to circumvent the approval process after the journal may have already posted to the ledger; however, implementing preventive measures is still essential. Through discussions with Information Technology, we learned that access can be updated to allow users to continue to search on the delivered PeopleSoft page, without requiring write/update access.

Recommendation: We recommend that security access for the identified users be updated for their respective job duties.

Management’s Response: Accounting and Financial Reporting will work with EAS Security to review and test read only access to journal pages (other than IDT) within the accounting system. When testing indicates that access can be removed from campus roles without loss of functionality, Accounting and Financial Reporting will implement security access changes to limit journal entries to only appropriate user roles. Access will then be monitored through the standard review implemented by EAS security.
Estimated Date of Implementation: 5/31/16

Person Responsible for Implementation: Greg Argueta, Director of Accounting and Financial Reporting

Conclusion

Based on the audit work performed, we conclude that controls over journal entries and interdepartmental transfers are generally acceptable, with some exceptions. Implementation of the recommendations will assist with ensuring accounts journal entries and interdepartmental transfers are adequately managed and safeguarded.

We appreciate the courtesy and cooperation received from the management and staff in Accounting and Financial Reporting as part of this audit.
Appendix: Priority Findings and Risk Matrix

### Definition of Risks

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td><strong>High</strong></td>
<td>High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</td>
</tr>
<tr>
<td><strong>High/Medium</strong></td>
<td>Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.</td>
</tr>
</tbody>
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### Risk Factors

- Reputation - damage to the image of UT Dallas and/or UT System
- Information Security - integrity, confidentiality and availability of information
- Compliance – compliance with external legal or regulatory requirements
- Accomplishment of Management’s Objectives – goals being met, projects being successful
- Effectiveness and Efficiency – objectives at risk and/or resources being wasted
- Capital Impact - loss or impairment of the use of assets
- Life Safety – including loss of life, injury, toxins/infectious disease
- Management Oversight
- Operational Alignment – management’s alignment of people, process and technology to efficiently accomplish organization objectives
- Designed Controls – adequacy of controls within critical operations
- Payments/Expenditures – including fines and legal costs
- Lost Revenue – actual and/or opportunities