September 8, 2015

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

We have completed an audit of Receivables 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 perform a financial review of the receivables process across all departments, including sponsored projects, to determine whether adequate controls and procedures are in place to ensure accounts receivables are properly recorded, allowances for doubtful accounts are appropriately calculated, and collection and write-off processes are adequately managed.

Overall, we found controls are generally adequate, but could be improved. The attached report details recommendations that will enhance controls over receivables processes.

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
Ms. Cheryl Friesenhahn, Director of Student Financial Services

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 Panikratz, Vice President for Budget and Finance
Mr. David Crain, Vice President and Chief Information Officer
Dr. Bruce Gnade, Vice President for Research
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

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION UNIVERSITY
Executive Summary

Receivables, Report No. 1601

Audit Objective and Scope: The objective of the audit was to perform a financial review of the Receivables process across all departments, including sponsored projects, to determine whether adequate controls and procedures are in place to ensure accounts receivables are properly recorded, allowances for doubtful accounts are appropriately calculated, and collection and write-off processes are adequately managed. The scope was fiscal year 2015.

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) Review and Revise User Access to Ensure Separation of Duties</td>
<td>Designed Controls</td>
<td>1/31/16</td>
</tr>
<tr>
<td>(2) Enhance Controls over Cash Receipts and Payment Processing</td>
<td>Compliance</td>
<td>2/29/16</td>
</tr>
<tr>
<td>(3) Update Policies and Procedures</td>
<td>Effectiveness and Efficiency</td>
<td>8/31/16</td>
</tr>
<tr>
<td>(4) Establish and Monitor Deadlines for Reconciliations</td>
<td>Designed Controls</td>
<td>2/29/16</td>
</tr>
<tr>
<td>(5) Require Submission of Aging Reports at Least Quarterly from Departments Billing Outside of PeopleSoft</td>
<td>Lost Revenue</td>
<td>3/31/16</td>
</tr>
</tbody>
</table>

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

Responsible Parties:
- Dr. Kim Laird, Associate Vice President and Controller
- Mr. Greg Argueta, Director of Accounting and Financial Reporting: Recommendations (1) – (5)
- Ms. Cheryl Friesenhahn, Director of Student Financial Services: Recommendation (1)

Staff Assigned to Audit: Polly Atchison, Audit Manager; Dominique DiAndrea, Senior Auditor; Hiba Ijaz and Ashley Mathew, Staff Auditors; Cole Barnard and Samantha Nguyen, Student Interns from the Internal Auditing Education Partnership Program.
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Background

Accounts Receivable (Receivables) at UT Dallas are administered by the Office of Budget and Finance through the Accounting and Financial Reporting department and Student Financial Services (Bursar’s Office).

Situated within Accounting and Financial Reporting, the Accounts Receivable and Sponsored Programs six-member team functions include:

- Providing financial and accounting infrastructure for sponsored programs
- Providing the accounting infrastructure for accounts receivable
- Maintaining the accounts receivable module of PeopleSoft Financial Management System (Gemini) and the University’s customers
- Implementing accounts receivable and billing for departments throughout the campus
- Providing helpdesk support and training to departmental end-users with billing and receivables responsibilities

The Bursar’s Office has a total of 16 employees. The Bursar’s Office’s responsibilities include:

- Overseeing student billing and payments
- Managing student accounts
- Keeping students apprised of outstanding bills, payment histories and other financial issues.

All student financial activity is recorded in PeopleSoft’s Campus Solutions (Orion).

Receivables categories and FY 14 breakdown are as follows:

Excluding Contributions Receivable, total Receivables for FY14 were $51,223,279, of which the majority was Student Receivables.
The chart below depicts the five-year Receivables balances and trend by category. Student Receivables are trending upward, while the other categories remained relatively stable.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Receivables</td>
<td>$6,951,452.00</td>
<td>$8,955,122.00</td>
<td>$9,594,597.00</td>
<td>$7,602,716.00</td>
<td>$6,966,823.00</td>
</tr>
<tr>
<td>Other Intergovernmental Receivables</td>
<td>$1,071,163.00</td>
<td>$2,062,158.00</td>
<td>$1,759,183.00</td>
<td>$1,086,473.00</td>
<td>$1,070,928.00</td>
</tr>
<tr>
<td>Student Receivables</td>
<td>$17,459,520.00</td>
<td>$20,699,307.00</td>
<td>$28,896,172.00</td>
<td>$30,439,670.00</td>
<td>$34,245,099.00</td>
</tr>
<tr>
<td>Interest and Dividends</td>
<td>$357,340.00</td>
<td>$361,891.00</td>
<td>$358,885.00</td>
<td>$429,801.00</td>
<td>$486,707.00</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>$5,905,552.00</td>
<td>$10,061,877.00</td>
<td>$7,729,162.00</td>
<td>$8,516,836.00</td>
<td>$8,453,722.00</td>
</tr>
</tbody>
</table>

**Audit Objective**

The objective of the audit was to perform a financial review of the Receivables process across all departments, including sponsored projects, to determine whether adequate controls and procedures are in place to ensure accounts receivable are properly recorded, related allowances for doubtful accounts are appropriately calculated, and collection and write-off processes are adequately managed.

**Scope and Methodology**

The scope of this audit was fiscal years 2014 and 2015 through the end of our fieldwork that concluded on July 20, 2015. To satisfy our objectives, we performed the following:

- Interviewed staff and observed documentation to gain an understanding of current operations and processes over accounts receivable.
• Tested user access to Receivables-related Orion and Gemini Financials modules to determine review and approval of access.
• Tested billings to determine if they were accurate, matched the general ledger and were processed in a timely manner.
• Reviewed account reconciliations to determine if they were accurate, timely and appropriately approved.
• Reviewed the payment receipt process to determine if payments received matched invoices and the general ledger and were received in a timely manner. In addition, determined if an adequate collection process was in place for late payments.
• Tested the allowance for doubtful accounts for accuracy.
• Reviewed write-off’s to determine if they were appropriate, properly authorized and agreed to the general ledger.
• Examined and documented the Annual Financial Reporting process for Receivables.

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:

Bursar’s Office
• Segregation of duties in cash handling, depositing and posting
• Updated policies and procedures
• Segregation of duties and approval process for write-offs
• Performance of monthly reconciliations of accounts receivable, revenue, Perkin’s loans, and write-off accounts

Accounting and Financial Reporting
• Monthly reconciliations of accounts receivable
• Monthly review of sponsored project expenses
• Monthly review of aging reports and reminders to departments to review their aging reports
• Follow-up with departments on outstanding receivables exceeding 60 days
• Year-end coordination meeting to educate departments on the year-end close process and capture revenues/receivables not recorded in PeopleSoft
Audit Recommendations

Although the above controls are in place, opportunities exist to improve controls and enhance the Receivables 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.”

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) **Review and Revise User Access to Ensure Separation of Duties**
Risk Rating: Medium; Risk Factor: Designed Controls

We identified key functions in PeopleSoft related to receivables to determine user access by position and whether it is appropriately assigned. We reviewed access for 20 employees and found four exceptions:

- Three employees in Accounting and Financial Reporting have write access to the billing and payment posting functions within PeopleSoft Financials. This access allows a person to prepare an invoice, receive the payment for the invoice, record it in the accounting system, and issue credits or make changes to invoices. Two of the three exceptions were for supervisory positions. Those positions performing a control activity, such as account reconciliations and various reviews/approvals, should not also input or process the transactions.

- A Business Process Analyst in the Bursar’s Office has write access to billing, payment posting, reversals, write-off's and waivers in Orion as well as Journal Entry access in Gemini. The Director of Student Financial Services already identified this issue through a quarterly report issued by the Office of Information Resources, PeopleSoft Security group and is working with them to address it.

To reduce the possibility of fraud and errors, no individual position should have control over two or more phases of a transaction or operation such as initiating, recording and approving transactions; reconciling balances; and handling assets without

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1 Appendix A defines the priority and risk ranking used for all internal audit recommendations.
compensating controls. Without segregation of duties, Receivables are subject to undetected errors and irregularities, fraud, and theft.

**Recommendation:** Access for the four employees identified should be reviewed and revised to ensure a proper separation of their duties. Continuing to monitor the quarterly access reports issued by PeopleSoft Security will assist with identifying inappropriate access.

**Management’s Response:** A detailed review of the access report will be performed by the Director of Accounting and Financial Reporting and appropriate updates made to the various roles associated with the receivables function. These roles will continue to be monitored through the quarterly access review process.

A change in roles has been requested for the Business Process Analyst within the Bursar Office. The new role will provide inquiry only access to all of the student financial screens and tables.

**Estimated Date of Implementation:** 1/31/16 – Accounting and Reporting  
9/4/15 – Bursar Office

**Person Responsible for Implementation:** Greg Argueta, Director of Accounting and Financial Reporting and Cheryl Friesenhahn, Director of Student Financial Services.

(2) **Enhance Controls over Cash Receipts and Payment Processing**

Risk Rating: *Medium*; Risk Factor: Compliance

We noted the following opportunities to improve compliance and controls over Accounts Receivable cash receipts and payment processing in Accounting and Financial Reporting:

- **Segregate Duties** – The Grants and Contracts Specialist is responsible for logging checks, preparing the deposit, researching invoices, and applying the payment in the Accounts Receivable office. Payment receipt and processing, deposit preparation, and payment recognition should not be performed by the same individual to reduce the risks of fraud or error occurring and not being detected in a timely manner.

- **Comply with UT Dallas Cash Handling Policy UTDBP3040**
  - Payments are left unsecured until delivered or retrieved from the mail room. And although they are placed in a locked drawer until deposited, the key to the drawer is not always secured. The policy requires that cash (which includes checks) should be stored securely.
Funds are not deposited promptly in accordance with UTDBP3040 due to low volume of checks received or to further research the invoice to which a payment should be applied. The policy requires that cash and checks totaling more than $200 be deposited daily or at a minimum, twice per week.

Checks are restrictively endorsed upon deposit instead of when received, as required by the policy.

**Recommendation:** Controls over cash receipts and payment processing should be enhanced by separating duties of the Grants and Contracts Specialist. Also, the Accounts Receivable office should ensure compliance with UT Dallas cash handling policies by properly securing payments, depositing as required and restrictively endorsing checks upon receipt.

**Management’s Response:** Accounts receivable team members will review and become compliant with the Cash Management Policy by 9/30/15. The Director of Accounting and Financial Reporting will provide training and outline a structure for the process changes to be implemented. A review of the Grants and Contract Specialist duties will be completed and risk areas reassigned as appropriate among other team members and the manager. The Director of Accounting and Financial Reporting and the Receivables Manager will conduct the review and establish a timeline for periodic compliance validation.

**Estimated Date of Implementation:** 2/29/16

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

(3) **Update Policies and Procedures**

Risk Rating: Medium★; Risk Factor: Effectiveness and Efficiency

The Accounts Receivable policy for Accounting and Financial Reporting is neither up to date nor comprehensive and is not available online to the campus community. Without written policies and procedures, personnel responsible for the accounting and management of receivables may not be aware of their roles and responsibilities and increase the risk of errors, omissions, and inefficiencies.

The roles and responsibilities of the department management, receivable creators and the Accounts Receivable team needs to be clearly stated. The Policy should be posted online and made available as guidance to the campus community.

**Recommendation:** The UT Dallas Accounts Receivable policy needs to be updated to include comprehensive guidance for departments and communicated to the campus community. Written internal procedures for receivables management should be improved within Accounting and Financial Reporting.
Management’s Response: The existing policy will be updated to include campus wide accounts receivable and made available online.

Estimated Date of Implementation: 8/31/16

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

(4) Establish and Monitor Deadlines for Reconciliations
Risk Rating: Medium★; Risk Factor: Designed Controls

Account reconciliations between the general ledger and the subsidiary ledger are accurate and prepared in a timely manner but are not reviewed and approved promptly. Delayed preparation and review increase the difficulty of identifying causes of errors or misstatements. In addition, no formal reconciliation between the aging report and the general ledger is performed. This type of reconciliation provides additional assurance of receivable balance accuracy.

We reviewed five quarterly reconciliations between the general and subsidiary ledgers as part of our testing and found that they were reviewed and approved eight to 39 business days after the preparation date. Under normal circumstances, reconciliations should be performed within 20 business days after period end, and should be reviewed no later than 10 business days after preparation. A formal reconciliation between the Aging Report and General Ledger should be performed at least quarterly.

Recommendation:
We recommend establishing deadlines for preparation, review and approval of reconciliations, and formally reconciling aging reports with the general ledger.

Management’s Response: Reconciliations between the accounts receivable module and general ledger will be performed by the Receivables Accountant and reviewed quarterly by the Receivables Manager. In addition, a procedure to outline process, approvals and timing will be completed.

Estimated Date of Implementation: 2/29/16

Person Responsible for Implementation: Greg Argueta, Director of Accounting and Financial Reporting
(5) **Require Submission of Aging Reports at Least Quarterly from Departments Billing Outside of PeopleSoft**

Risk Rating: Low★; Risk Factor: Designed Controls

Not all departments are utilizing PeopleSoft Financials for billing due to limits of functionality. Of the $53 million FY14 Accounts Receivable balance at year end, approximately $2 million or 4% were billed outside of PeopleSoft. Centralized oversight by the Accounting and Financial Reporting Accounts Receivable team for departments not using PeopleSoft Financials consists of an annual confirmation report with no supporting documentation; thus, throughout the year all monitoring efforts for aging and collection are solely the responsibility of the department that generated the receivable.

Without monitoring aging reports, Accounting and Financial Reporting will not be aware of collection delays or accounts that should be written off until year end. In addition, balance errors may not be caught in a timely manner.

**Recommendation:** Aging reports should be prepared at least quarterly by departments not using PeopleSoft Financials for receivables. Accounting and Financial Reporting should review and approve the aging reports.

**Management’s Response:** Accounting and Financial Reporting will work with departments generating material receivables balances as determined by Office of Budget and Finance management to obtain and review aging reports quarterly. These reports will then be included in the quarterly aging review by the Receivables Manager and Director of Accounting and Financial Reporting.

**Estimated Date of Implementation:** 3/31/16

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

**Conclusion**

Based on the audit work performed, we conclude that controls are generally acceptable, with some exceptions. Implementation of the recommendations will assist with ensuring accounts receivables are properly recorded, allowances for doubtful accounts are appropriately calculated, and collection and write-off processes are adequately managed.

We appreciate the courtesy and cooperation received from the management and staff in Accounting and Financial Reporting and the Bursar’s Office 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>
</thead>
<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 &quot;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.&quot;</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>
</table>

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, toxics/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