AUDIT REPORT

TO: Dr. Gerard Long, Assistant Vice President for Business Affairs
FROM: Ms. Angela D'Anna, Chief Audit Executive, Internal Audit and Consulting Services
DATE: November 21, 2014
SUBJECT: Review of Sub-certification Process and Monitoring of Key Controls

EXECUTIVE SUMMARY

Internal Audit and Consulting Services has reviewed the sub-certification process and monitoring of key controls at UT Health Science Center San Antonio for the year ended August 31, 2014. This review was performed at the request of the UT System Audit Office as required by policy. The objectives of the review were to determine whether sub-certifications were completed on a timely basis, to evaluate management assertions relating to segregation of duties and account reconciliations, and to ascertain compliance with the institutional monitoring plan.

The internal controls surrounding the sub-certification process and execution of the institutional monitoring plan were in place and operating as intended to ensure compliance with policy and that the financial statements were free of material misstatements. One opportunity for internal control enhancement was noted as attached. This audit identified no issues considered priority to the institution.

DETAILED REPORT

See attached.

AUDIT TEAM

Anujani Aluwihare, Internal Controls Analyst

AUDITING STANDARDS

This review was conducted in accordance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing.

DISTRIBUTION

Mr. Michael Black, Senior Executive VP and Chief Operating Officer
Dr. William Henrich, President
Mr. Ralph Kaster, Director, Office of Accounting
Ms. Andrea Marks, Vice President and Chief Financial Officer
Mr. Michael Peppers, Chief Audit Executive, UT System
Detailed Audit Report

Purpose and Scope

Internal Audit and Consulting Services has reviewed the year-end sub-certification process and monitoring of key controls at UT Health Science Center San Antonio. This review was performed at the request of the UT System Audit Office as required by policy. We reviewed the certification letters signed by the executive account owners for fiscal year 2014 and the revised institutional monitoring plan. The major objectives of the review were as follows:

- Determine whether executive account owners submitted year-end certifications on a timely basis.
- Evaluate management assertions regarding segregation of duties and account reconciliations.
- Ascertain whether the institution monitored segregation of duties and reconciliation of accounts in accordance with the revised institutional monitoring plan.

Background

Segregation of duties and account reconciliations are key financial internal controls to help ensure the accuracy of financial reports. UT System Policy 142.1 requires each institution to develop a plan to monitor account reconciliations and segregation of duties on a regular basis. The monitoring plan is reviewed annually and updated as needed by the Chief Financial Officer.

Additionally, this policy requires that the Chief Administrative Officer, Financial Reporting Officer, and Internal Audit Officer certify that the financial statements are fairly presented and that any deficiencies in the design of internal controls are properly addressed to ensure financial statements contain no false information or omission of information that would materially affect their accuracy. Also, each executive account owner (Vice Presidents and Deans) must provide an annual certification letter (referred to as sub-certification) to the Financial Reporting Officer certifying that the accounts are free of material misstatements and that the internal controls are effective in their areas of responsibility. Furthermore, the policy requires that Internal Audit Services perform an annual review of the year-end sub-certifications, as well as the monitoring plan to validate management assertions regarding segregation of duties and account reconciliations.

Results

Based on our review, we determined that the executive account owners signed the certifications for their areas of responsibility on a timely basis and that any exceptions disclosed on the forms would not result in material misstatements to the financial statements for the year ended August 31, 2014. Additionally, the Office of Business Affairs executed the institutional monitoring plan for segregation of duties and account reconciliations.

This audit identified no issues considered priority to the institution. According to UT System Policy 129 - Internal Audit Activities, a priority audit issue is one that is material to the operation, financial reporting, or legal compliance of the institution.

One opportunity for improvement to further enhance internal control was noted. Attached is the recommendation, management action plan, responsible party, and anticipated completion date. This matter is offered for management's consideration in the spirit of continuously improving processes and reducing risks in the organization.
Monitoring of Segregation of Duties

Opportunity for Improvement:

The process in place to identify improper segregation of duties related to electronic transactions as part of the monitoring plan did not include a review of user system access.

Our review of PeopleSoft user access for the preparers and reviewers of account reconciliations revealed the following:

- 3 of 20 (15%) reconcilers had the ability to both request and approve (both at the project and department level) electronic transactions.
- 4 of 20 (20%) reconcilers were designated as the Access Control Executives (ACE) for their respective departments enabling these individuals to inappropriately change their own access to request and approve transactions.

In accordance with the monitoring plan, the preparer and the approver of electronic transactions should not be the same individual. Improper segregation of duties may result in errors and irregularities.

Recommendation:

The departments identified during this audit should be contacted for justification or corrective action regarding the account reconcilers with inappropriate user access. Also, it is strongly suggested that the ACE and reconciling duties be separated to help ensure proper segregation of duties.

Furthermore, consideration should be given to revising the monitoring plan for segregation of duties to include a review of departmental user access to identify employees with the ability to enter electronic transactions and approve both as the project and the department approver.

Management's Action Plan:

Responsible Party(s): Dr. Long

Estimated Completion Date(s): February 2015

Management concurs. The departments will be contacted to determine the reasons for granting certain employees computer access to both request and approve electronic transactions and will be requested to revise the access levels if feasible. Otherwise, they will be requested to describe existing mitigating controls, or to implement such controls. Additionally, the departments will be advised to assign the ACE duties to employees who are independent of other incompatible duties.

The monitoring plan will be reviewed with the CFO and consideration will be given to revising it to include examining user access levels on an annual basis for the employees responsible for preparing and reviewing account reconciliations.