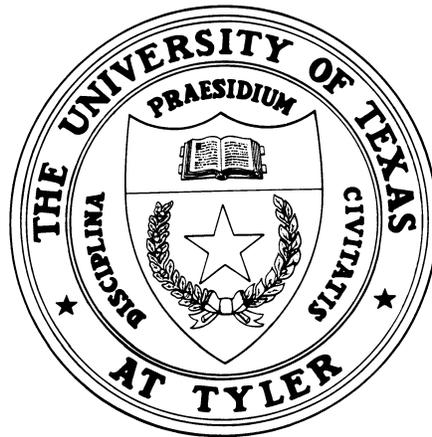


**The University of Texas
at Tyler**

Annual Financial Report Audit

For Fiscal Year Ended August 31, 2012



December 2012

THE UNIVERSITY OF TEXAS AT TYLER
OFFICE OF AUDIT SERVICES
3900 UNIVERSITY BOULEVARD
TYLER, TEXAS 75799

Background

The University of Texas System (UT System) is composed of nine academic and six health-related institutions of higher education as well as UT System Administration. Annual Financial Reports (AFRs) and related footnote information are prepared by the financial reporting officers at each UT institution and UT System Administration in accordance with accounting and financial reporting requirements promulgated by UT System policy and the Texas Comptroller of Public Accounts to be included in the UT System Consolidated AFR. The Office of the Controller at UT System Administration consolidates AFRs from all UT institutions and UT System Administration and prepares footnotes and other related disclosures so that the UT System Consolidated AFR is prepared in accordance with generally accepted accounting principles. The information included in the University of Texas at Tyler (UT Tyler) AFR and related footnote information is the responsibility of UT Tyler management.

The UT System Board of Regents approved the hiring of Deloitte to conduct an independent audit of the Consolidated AFR of the UT System. Deloitte is auditing the Consolidated AFR, which includes the balance sheet as of August 31, 2012, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. As part of the external financial audit, internal audit performed financial audit procedures provided by Deloitte of the UT Tyler AFR. The UT System Office of the Controller anticipates that Deloitte will provide its opinion on the Consolidated AFR on December 20, 2012, and will present the audit opinion to the Board of Regents at the February 2013 meeting.

Engagement Objectives

The overall objective of the external financial audit is to determine whether the Consolidated AFR of the UT System presents fairly, in all material respects, the financial position of the UT System as of August 31, 2012, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The objective of the work we performed for Deloitte was to execute financial audit procedures, in coordination with procedures performed at each UT System institution and System Administration, sufficient for Deloitte to express an opinion on the Consolidated AFR of the UT System. The extent of our procedures is not sufficient to provide an opinion on the AFR of UT Tyler and was limited to determining whether any material adjustments need to be recorded in the UT Tyler AFR and included within the Consolidated AFR for the areas enumerated in the “Procedures” section of this report.

In addition, our objective was to determine whether UT Tyler’s Monitoring Plan and sub-certification process is in place and functioning as intended. This included determining whether account reconciliations are being performed and whether duties are adequately segregated as asserted by management.

Scope and Methodology

The internal audit functions from across the UT System agreed to assist Deloitte in conducting the independent financial audit. All work performed by internal audit was done under Deloitte's direction. The scope of the audit procedures developed by Deloitte and executed across the UT System varied based on size of the institution and financial statement line item. Deloitte performed and managed work at five of the largest health institutions, UT Austin, and System Administration. Internal audit at these institutions and System Administration assisted Deloitte in the performing the independent financial audit.

Deloitte assigned work to the internal audit staff at the remaining institutions, including UT Tyler. The extent of the work assigned to these institutions, in coordination with work performed and managed by Deloitte at the larger UT institutions and System Administration, was limited to procedures necessary for Deloitte to provide an opinion on the Consolidated AFR for the fiscal year ended August 31, 2012. We executed the assigned audit procedures, documented our work in working paper templates provided by Deloitte, and submitted our completed working papers to Deloitte for review.

As required by UTS 142.1, *Policy on the Annual Financial Report*, we also tested UT Tyler's Internal Controls Monitoring Plan, sub-certification of accounts and validated management's assertions on segregation of duties.

Standards

Deloitte is required to perform the audit of the consolidated financial statements of the UT System in conformity with auditing standards generally accepted in the United States of America. Those standards require that Deloitte plan and perform their audits in order to obtain reasonable assurance about whether the consolidated financial statements of the UT System are free of material misstatements. We performed the financial audit procedures under the direction of Deloitte.

Our audit of the UT Tyler monitoring plan was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.

Procedures

We have performed the procedures enumerated below solely to assist Deloitte in providing an opinion on whether the consolidated financial statements of the UT System were free of material misstatement for fiscal year ended August 31, 2012, and in conformity with accounting principles generally accepted in the United States of America. We also tested compliance with the UT Tyler Internal Controls Monitoring Plan. The results of our work are limited to the procedures performed as follows:

1. Information Technology

- Obtained responses to a University of Texas System Information Technology (IT) Control Questionnaire from responsible parties at UT Tyler and presented the combined responses to Deloitte for evaluation. The IT security controls areas reviewed by Deloitte included Data Center and Network Operations, Access Security, and System Change Control.

2. Cash

- Obtained the May 31, 2012 and August 31, 2012 bank account reconciliations for the Operating Bank account, Payroll Bank Account, and Student Wire Account and noted they were prepared timely by the Financial Analyst and were approved timely by the Financial Reports Manager in the Financial Services Department.
- Tested the reconciliations by tracing the book balances to DEFINE, reconciling items to supporting documentation, and bank balances to the bank statements.

3. Property, Plant, and Equipment

- Obtained explanation of processes used to record property, plant, and equipment and reviewed for adequate internal controls.
- Traced balances on AFR Exhibit A: *Balance Sheet*, Schedule B-11: *Schedule of Changes in Investment in Plant*, and on Note 5, *Disclosure of Information about Capital Assets*, to supporting documentation including Fiscal Year 2011 AFR, DEFINE account balances, and Fiscal Year 2012 AFR *Schedules S-11a thru S-11g*.
- Traced two construction and two equipment acquisitions selected by Deloitte to actual invoices and examined equipment items containing the UT Tyler inventory tags.
- Tested two completed construction projects to verify proper recording.
- Performed depreciation reasonableness test using a template provided by Deloitte.
- Inquired of management regarding proper recording of any impaired assets.

4. Monitoring Plan

- Reviewed the Internal Controls Monitoring Plan.
- Tested supporting documentation related to account reconciliations and segregation of duties for expenditures and journal entries.
- Verified the Sub-Certification process was complete and confirmed a sample of letters returned.

Engagement Results

According to The University of Texas System Policy 129, System-wide Internal Audit Charter, “there are two types of audit findings and recommendations: reportable and significant. A “reportable” audit finding/recommendation should be included in an audit report if it is material to the operation, financial reporting, or legal compliance of the audited activity, and the corrective action has not been fully implemented. “Significant” audit findings and recommendations are reportable audit findings and recommendations that are deemed significant at the institutional level. A significant recommendation is 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 reasonably low level.”

Based on the results of the audit procedures conducted, there were no significant or reportable findings.

Conclusion

Based on the audit procedures performed on the FY 2012 AFR, as assigned by Deloitte, there were no material adjustments that needed to be recorded in the UT Tyler AFR and included within the UT System Consolidated AFR for the year ended August 31, 2012.

In addition, we determined the UT Tyler’s Monitoring Plan and sub-certification process is in place and functioning as intended. Account reconciliations are being performed and duties are adequately segregated as asserted by management.

During our examination, we found the records to be well organized with information readily provided as requested. We appreciate the assistance provided to us by the Financial Services Department and the Vice President of Business Affairs Office. We hope the information included in this internal audit report is helpful.



Lou Ann Viergever, CPA, CIA
Executive Director of Audit and Consulting Services