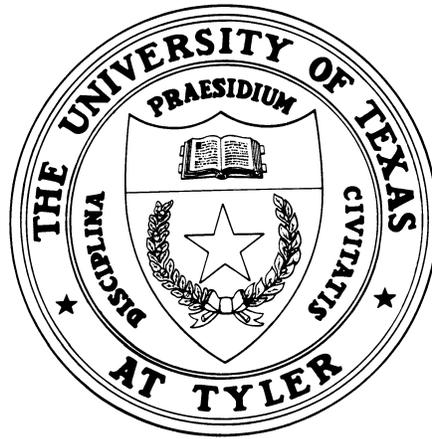


**The University of Texas
at Tyler**

Annual Financial Report Audit

For Fiscal Year Ended August 31, 2013



December 2013

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.

At the February 2012 meeting, the Board of Regents approved the renewal of Deloitte to conduct an independent audit of the Consolidated AFR of the UT System for FY 2012 and FY 2013. Deloitte has audited the Consolidated AFR, which includes the balance sheet as of August 31, 2013, 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, UT Tyler's Office of Auditing and Consulting Services performed financial audit procedures provided by Deloitte. Deloitte will present its opinion on the Consolidated AFR to the Board of Regents at the February 2014 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, 2013, 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 UT 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 Internal Controls Monitoring Plan and certification process are 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 and supervision. 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.

The extent of the work assigned to these institutions, in coordination with work performed and managed by Deloitte at the larger UT institutions and UT System Administration, was limited to procedures necessary for Deloitte to provide an opinion on the Consolidated AFR for the fiscal year ended August 31, 2013. 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, 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.

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 AFR of the UT System is free of material misstatement for the fiscal year ended August 31, 2013, 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:

Procedures (continued)

1. Information Technology

- Obtained responses to a UT 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 explanation of processes used to reconcile bank accounts and reviewed for adequate internal controls.
- Obtained the August 31, 2013 bank account reconciliations for the five UT Tyler bank accounts and noted they were prepared timely by the Asset Manager and were approved timely by the Financial Reports Manager in the Financial Services Department.
- Tested the reconciliations by tracing amounts to the bank statements, the DEFINE accounting system, and supporting documentation for reconciling items.

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 2012 AFR, DEFINE account balances, and Fiscal Year 2013 AFR *Schedules S-11a thru S-11g*.
- Traced two construction and two equipment acquisitions selected by Deloitte to supporting purchasing documentation.
- Examined the two 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 certification process was complete.
- Confirmed a sample of returned letters for completeness.

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, we noted one significant finding. Following is the observation and recommendation we feel will improve future reporting.

Unrecorded Gift Pledge:

Observation: UT System Policy 142.2 states: “A gift pledge is a documented verbal or written commitment of intent by a constituent to make a gift to the U. T. System institution over a specified period, payable according to terms set by the donor. Unconditional gift pledges should be recorded in the general ledger accounts when the U. T. System institution accepts the pledge, is verifiable, measurable and is probable to collect. An unconditional gift pledge is defined as a gift promise that is binding on the donor when the promise is made and depends only upon the passage of time or collection efforts for its performance. When an unconditional gift pledge is received or a conditional gift pledge has been met, the pledge should be communicated and recorded by the office of accounting at the gift pledge’s net present value.” After submission of the AFR to UT System, it was discovered that a gift pledge was not properly recorded due to a miscommunication of the pledge type between the Office of University Advancement and the Financial Services Department. Financial Services also calculated the present value of a separate pledge based on an incorrect receipt schedule. The net effect on the financial statements is “Gift Contributions for Operations” and “Contributions Receivable” are understated by approximately \$4,400,000. This amount was considered immaterial to the UT System Consolidated AFR, therefore a correcting entry will be made in FY 2014.

Recommendation: The Financial Services Department should implement procedures to increase communication with the Office of University Advancement to assure proper recording of pledge receivables in the future.

Response and Implementation Date from Director of Financial Services: Financial Services personnel will work with the Office of University Advancement to obtain a quarterly report of pledges that clearly details the type of pledge. We will also obtain a copy of the entire “Council to Aid Education” (CAE) report from University Advancement each year to assure proper recording of pledges in the AFR. These steps have been added to the AFR procedures checklist and a correcting entry has been made in DEFINE. Implementation Date: December 31, 2013.

The University of Texas at Tyler
Annual Financial Report Audit
For the Fiscal Year Ended August 31, 2013

Conclusion

Based on the audit procedures performed on the FY 2013 AFR, as assigned by Deloitte, there were no material adjustments that needed to be recorded in the UT Tyler AFR for the year ended August 31, 2013, except as noted above.

In addition, we determined that UT Tyler's Monitoring Plan and 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. We hope the information included in this internal audit report is helpful.

Lou Ann Viergever

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