

**The University of Texas
at Tyler**

Annual Financial Report Audit

For Fiscal Year Ended August 31, 2015



December 2015

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

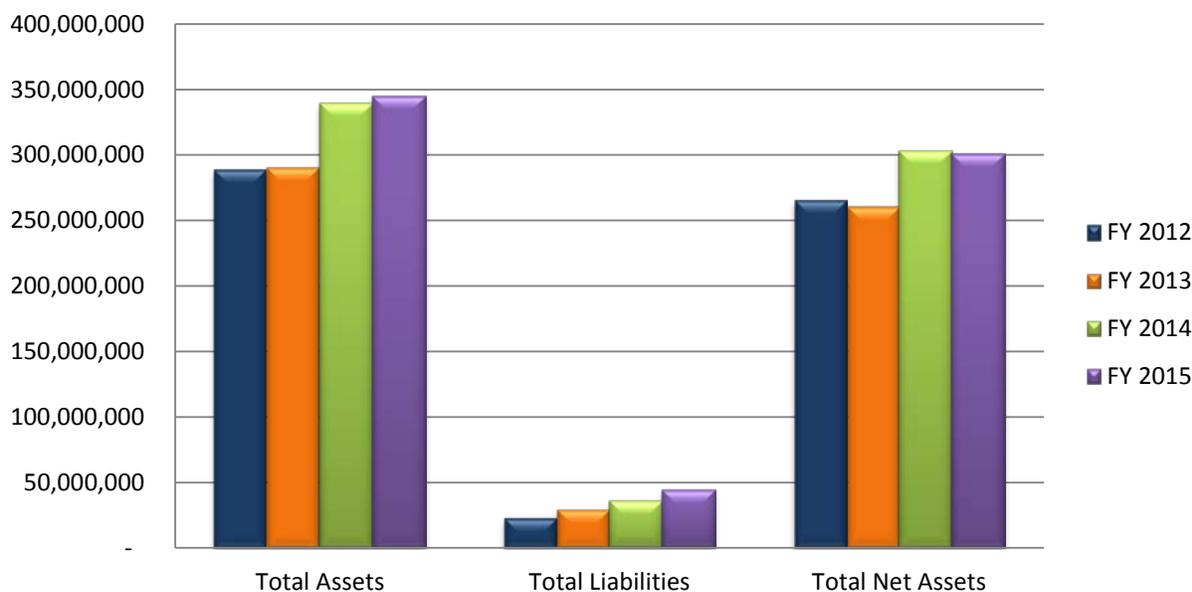
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BACKGROUND

The University of Texas System (UT System) is composed of fourteen 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.

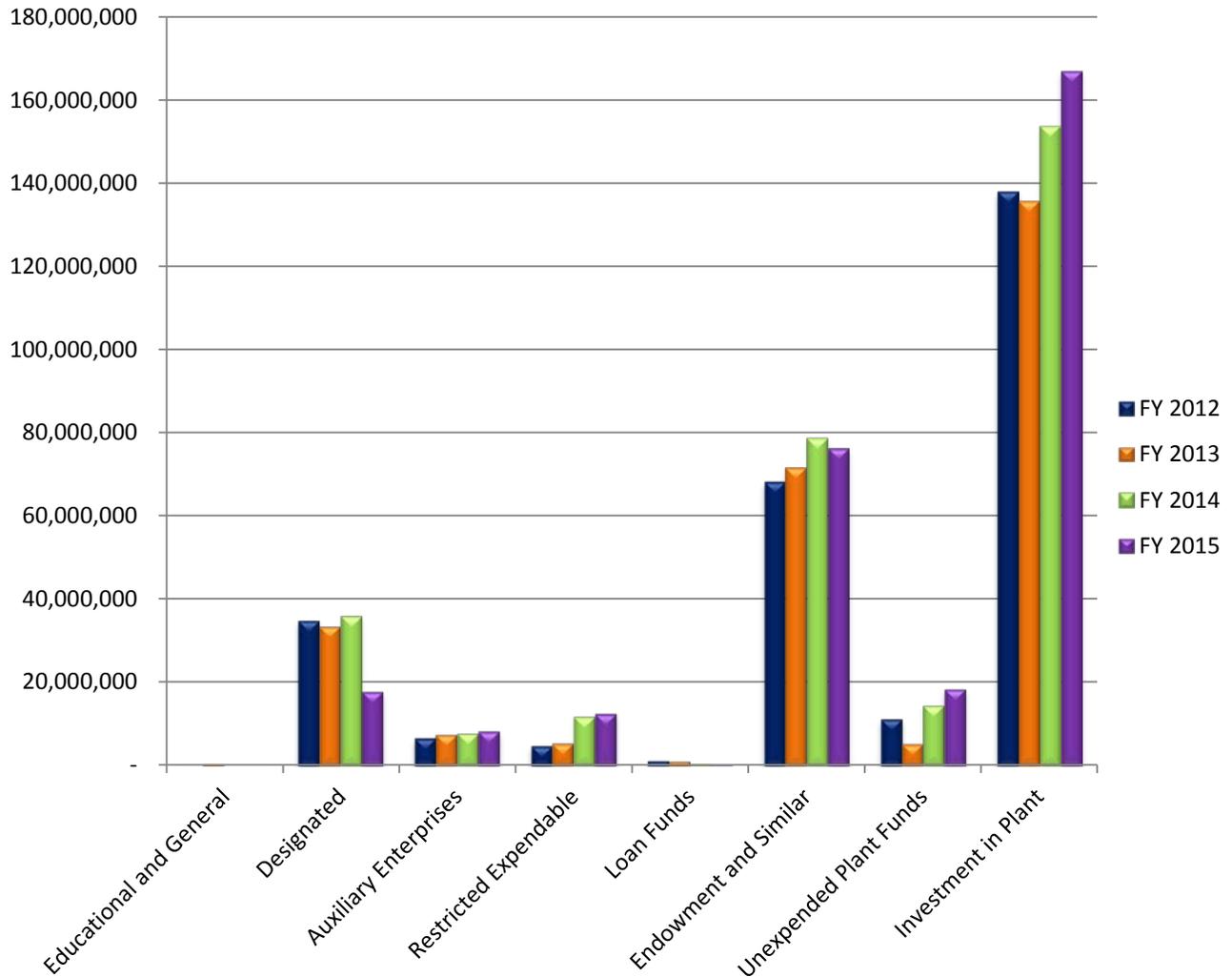
Deloitte has audited the Consolidated AFR, which includes the balance sheet as of August 31, 2015, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. As part of the external financial audit, UT Tyler’s Office of Auditing and Consulting Services performed audit procedures requested by Deloitte for the Fiscal Year (FY) 2015. Deloitte is expected to issue their report to UT System Administration on December 18, 2015.

UT Tyler Balance Sheet Amounts FY 2012 - 2015



Balance Sheet	FY 2012	FY 2013	FY 2014	FY 2015
Total Assets	\$ 289,008,173	\$ 290,617,738	\$ 339,623,790	\$ 345,459,545
Total Liabilities	\$ 23,354,795	\$ 29,940,125	\$ 36,244,708	\$ 44,454,309
Total Net Assets	\$ 265,653,378	\$ 260,677,613	\$ 303,379,082	\$ 301,005,236

UT Tyler Net Assets FY 2012-2015



Description	Net Assets FY 2012	Net Assets FY 2013	Net Assets FY 2014	Net Assets FY 2015
Educational and General	\$ 58,851	\$ 381,343	\$ 12,331	\$ 98,148
Designated	34,964,854	33,540,146	36,092,440	17,937,218
Auxiliary Enterprises	6,749,160	7,540,985	7,800,293	8,330,194
Restricted Expendable	4,862,659	5,459,577	11,881,802	12,588,204
Loan Funds	1,270,108	1,107,178	372,831	181,791
Endowment and Similar	68,337,423	71,690,776	78,886,486	76,376,283
Unexpended Plant Funds	11,352,844	5,259,181	14,525,641	18,499,055
Investment in Plant	138,057,478	135,698,428	153,807,258	166,994,343
	\$ 265,653,378	\$ 260,677,613	\$ 303,379,082	\$ 301,005,235

AUDIT OBJECTIVE

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, 2015, 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 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 the Consolidated AFR.

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

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*.

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 the size of the institution and financial statement line items. 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, 2015. As requested by Deloitte, we obtained and submitted information including:

- Information Technology Control Questionnaire responses,
- Status of prior year deficiencies, and
- Variance analysis for specified financial statement line items.

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As required by UT System Policy (UTS) 142.1, *Policy on the Annual Financial Report*, we also tested implementation of the UT Tyler Internal Controls Monitoring Plan and validated management's assertions on segregation of duties, account reconciliations, and the annual certification process. We tested implementation of the UT Tyler Internal Controls Monitoring Plan as follows:

- Reviewed the Internal Controls Monitoring Plan and obtained evidence of oversight controls.
- Tested a judgmental and random sample of supporting documentation to verify segregation of duties on 46 transactions including expenditures, payroll changes, procurement card, travel card, employee reimbursements and journal entries.
- Verified the certification process was complete, noting that 100% of the budget authorities submitted subcertification letters.
- Reviewed the Budget and Financial Reporting Office plans for addressing budget authority subcertification letter responses.

AUDIT RESULTS

According to The University of Texas System Audit Office, "A *Priority Finding* is 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. *Non-Priority Findings* are ranked as *High, Medium, or Low*, with the level of significance based on an assessment of applicable *Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated*. This audit resulted in three Medium-level findings.

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Based on the audit procedures performed on the FY 2015 AFR, Deloitte noted no material adjustments that needed to be recorded in the UT Tyler AFR for the year ended August 31, 2015.

Internal Controls Monitoring Plan

During our review of the Internal Controls Monitoring Plan, we noted three findings.

#1 Bank Account Reconciliations

According to UTS142.1, *Policy on the Annual Financial Report*, "Each Financial Reporting Officer shall develop or update a monitoring plan for the segregation of duties and reconciliation of accounts. The monitoring plan should be risk-based but also include random monitoring of low risk departments for the fiscal year." The University of Texas System external audit of the Fiscal Year 2014 Annual Financial Report performed by Deloitte, reported significant control deficiencies related to the PeopleSoft implementation due to the lack of adequate control activities for monthly bank reconciliations and journal entry approval. In response to the audit finding, UT System is developing a PeopleSoft Book to Bank Reconciliation tool. UT System required an alternate method of preparing bank reconciliations be used until the tool is available to assure accurate and timely reconciliations are performed and documented. Each institution was requested to update their UTS 142.1 Monitoring Plan to include controls for these

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issues. UT Tyler updated the Internal Controls Monitoring Plan in February 2015 and submitted it to UT System. The Monitoring Plan includes controls for journal entry approval but does not include controls related to bank account reconciliations.

Recommendation: We recommend the monitoring plan be updated to include controls related to monthly bank reconciliations.

Financial Reporting Officer Response and Implementation Date: Procedures have been developed for all five bank accounts which include review by the Cash Manager and approval by an appropriate supervisor. Four of the accounts are being reconciled monthly by the Cash Manager with subsequent review by an appropriate supervisor. Consultants are working to resolve conversion data issues that remain in one account. Until the conversion issues are resolved, activity in this account is reviewed monthly by the Cash manager with a subsequent review by an appropriate supervisor. The Monitoring Plan will be updated by January 31, 2016 to reflect these procedures.

#2 Quality Assurance Reviews

Quality Assurance Reviews (QARs) are included in UT Tyler's Internal Controls Monitoring Plan to verify segregation of duties and account reconciliations. QARs are reviews of budget authority responsibilities and departmental transactions to verify compliance with institutional and state policies and procedures for financial and other responsibilities and are to be conducted on a risk-based, rotating basis across campus. During FY 2015, there were only four QARs completed on 140 budget authorities and only three QARs have been completed through November 30 of FY 2016. Lack of monitoring departmental transactions and activities could allow weak internal controls to go unnoticed which could result in undiscovered errors, omissions, fraud, and/or inaccurate financial statements.

Recommendation: We recommend the QAR process be completed on at least 25% of the departments annually.

Director of Compliance Response and Implementation Plan: The Office of Compliance will complete Quality Assurance Reviews (QARs) for 25% of all departmental Budget Authorities for FY 2016 by August 31, 2016.

#3 Departmental Cash Procedures Reviews

The Internal Controls Monitoring plan includes an oversight control for segregation of duties for cash procedures stating: "Financial Services conducts cash procedures reviews annually". These reviews were not conducted in Fiscal Year 2014 or 2015 due to personnel being assigned other PeopleSoft responsibilities. Inadequate monitoring of cash procedures could allow weak internal controls, including segregation of duties, to go unnoticed which could result in loss of revenue, undiscovered errors, omissions, fraud, and/or inaccurate financial statements.

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Recommendation: We recommend the cash procedures reviews be completed in accordance with the monitoring plan.

Director of Financial Services and Director of Student Business Services Response and Implementation Dates: The responsibility of cash procedures reviews is transitioning from the Financial Services Department to the Student Business Services Department with the transition expected to be complete by February 29, 2016. Student Business Services plans to conduct cash procedures reviews on all required departments by June 30, 2016.

Conclusion

During our examination, we found the records to be well organized with information provided as requested. Based on the procedures performed, we found no adjustments needed to the Annual Financial Report. We have made recommendations to update the Internal Controls Monitoring Plan, conduct Quality Assurance Reviews and Departmental Cash Procedures Reviews. We appreciate the assistance provided to us by the Office of the Vice President of Business Affairs and the Budget and Financial Reporting Office. We hope the information included in this report is helpful.