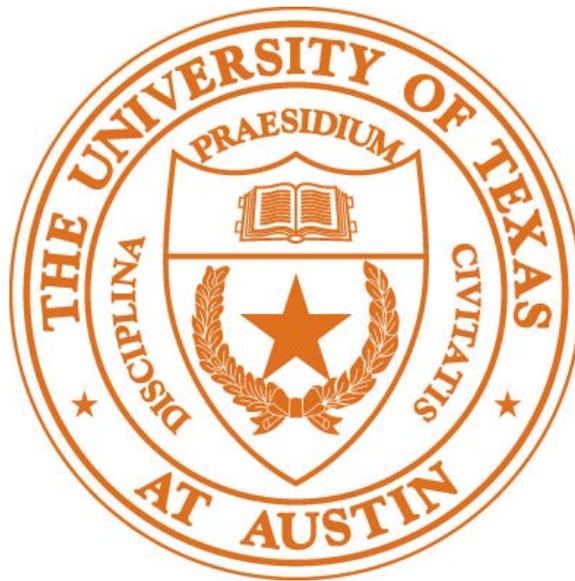


# **Financial Account Reconciliation and Segregation of Duties**

*Accounting and Financial Management  
February 2020*



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**The University of Texas at Austin  
Office of Internal Audits  
UTA 2.302  
(512) 471-7117**

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**OFFICE OF INTERNAL AUDITS**  
THE UNIVERSITY OF TEXAS AT AUSTIN

1616 Guadalupe St. Suite 2.302 · Austin, Texas 78701 · (512) 471-7117 · FAX (512) 471-8099  
[audit.utexas.edu](http://audit.utexas.edu) · [internal.audits@austin.utexas.edu](mailto:internal.audits@austin.utexas.edu)

February 26, 2020

President Gregory L. Fenves  
The University of Texas at Austin  
Office of the President  
P.O. Box T  
Austin, TX 78713

Dear President Fenves,

We have completed our audit of financial account reconciliation and segregation of duties, as part of our fiscal year 2019 Audit Plan. The objective of the audit was to determine whether accounts are reconciled as required and separation of duties is present throughout campus. The report is attached for your review.

We concluded that the monitoring plan for segregation of duties and reconciliation of accounts is not functioning as intended. Not all Colleges, Schools, and Units' (CSU) accounts are reconciled timely and segregation of duties is present but could be improved. Management has agreed with three opportunities to enhance controls and provided their action plans and implementation dates.

We appreciate the cooperation and assistance of the Office of Accounting and Financial Management during this audit.

Sincerely,

A handwritten signature in blue ink that reads "Sandy Jansen".

Sandy Jansen, CIA, CCSA, CRMA  
Chief Audit Executive

cc: Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer  
Mr. Carlos Martinez, Chief of Staff, Office of the President  
Ms. Lori Peterson, Interim Assistant VP for Accounting and Financial Management  
Ms. Amy Reyna, Assistant to Senior Vice President and Chief Financial Officer  
Ms. Tara Trower, Chief of Staff, Financial and Administrative Services  
Mr. John Walker, Director III, Office of Accounting



## OFFICE OF INTERNAL AUDITS REPORT: RECONCILIATIONS AND SEGREGATION

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# Executive Summary

## Financial Account Reconciliation and Segregation of Duties

Accounting and Financial Management

Project Number: 19.010

### Audit Objectives

The objectives of this audit were to determine whether:

- Accounts are reconciled as required
- Segregation of duties is present within Colleges, Schools, and Units (CSU)

### Conclusion

The monitoring plan for segregation of duties and reconciliation of accounts is not functioning as intended. Not all CSU accounts are reconciled timely and segregation of duties is present but could be improved.

### Audit Observations<sup>1</sup>

Recommendation	Risk Level	Estimated Implementation Date
Update the monitoring plan	High	04/01/2020
Educate university business officers	High	05/01/2020
Provide account reconciliation training and guidance	Medium	05/01/2020

### Engagement Team

Mr. Robert Castillo, CGAP, Auditor III

Mr. Harry Lauhon, Auditor I

Ms. Erika Lobsinger, Auditor I

Mr. Brandon Morales, CISA, CGAP, Audit Manager

<sup>1</sup> Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



## Audit Results

The University of Texas at Austin’s (UT Austin) monitoring plan for segregation of duties and reconciliation of accounts is not functioning as intended. University business officers and reconcilers are not aware of the monitoring plan, and are not meeting with departments to review reconciliation processes and ensure segregation of duties when conducting the annual sub-certification. As a result, departmental reconciliation processes are not documented, financial segregation of duties is present but could be improved, and administrative staff are assigned as reconcilers without training.

On August 14, 2019, 632 of 36,199 accounts had not been reconciled in more than one month. These accounts represented 101 responsible reconcilers and unreconciled transactions totaling \$143,122,837.

The following three recommendations will improve the account reconciliation processes and segregation of duties across the university.

### Observation #1 Monitoring Plan

#### Audit Issue Ranking: High

The university is required to have a monitoring plan for segregation of duties and account reconciliations; however, the monitoring plan does not provide guidance on how often and how timely reconciliations should be completed, and the monitoring plan is not available to departments. In 2015, UT System discontinued the annual requirement to submit an updated monitoring plan. Since that date, the plan has not been updated to reflect changes in business practices or risks. As a result, the monitoring plan is out of date. In addition, the monitoring plan does not define monitoring responsibilities (i.e., who has responsibilities and how monitoring should occur) or provide guidance on segregation of duties.

Section 5 of *UTS Policy 142.1*<sup>2</sup> states, “The 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 and establish the minimum requirements for the institution.”

**Recommendation:** The Office of Accounting and Financial Management should update the monitoring plan. As part of the update, management should clarify key points, including:

- How often and how timely reconciliations should be completed
- Who will monitor reconciliations and segregation of duties
- How monitoring will be completed
- How to implement segregation of duties

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<sup>2</sup> UTS 142.1: <https://www.utsystem.edu/sites/policy-library/policies/uts-1421-policy-annual-financial-report>



**Management’s Corrective Action Plan:** The Office of Accounting and Financial Management agrees the monitoring plan needs to be updated and the new plan published.

Key points to be clarified:

- Reconciliations should be performed monthly and completed within 30 days after month close
- CSU management/business officers should monitor both reconciliations and segregation of duties
- Risk Management will verify compliance via a rolling schedule of spot audits with CSUs and will continue to verify compliance by tracking reconciliation of expense transactions
- Segregation of duties will be defined

**Responsible Person:** Director of Treasury, Administrative Support, and Risk Management

**Planned Implementation Date:** The monitoring plan will be updated by April 1, 2020. CSU visits will begin on a staggered, multi-year schedule shortly thereafter.

## **Observation #2 University Business Officer Education**

### **Audit Issue Ranking: High**

The monitoring plan requires business officers to determine whether their units have established segregation of duties and have completed required account reconciliations. In addition, the monitoring plan requires the business officers to conduct periodic (at least annual) reviews of reconciliation processes in each unit. Given the size and structure of UT Austin, it is impossible to ensure that each business officer conducts effective reviews; however, each business officer submits an annual sub-certification confirming the review. In the audit sample, only one of the five departments interviewed affirmed that the business officer monitors the reconciliation process.

Without proper oversight, incorrect account reconciliation processes may go unnoticed. In addition, the lack of oversight establishes a weak control environment and may provide an opportunity for fraud.

Section 5 of *UTS Policy 142.1* states, “The 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 and establish the minimum requirements for the institution.”

**Recommendation:** Along with Observation #1, the Office of Accounting and Financial Management should widely communicate the updated plan to the campus community, including education and reminders to the Council of University Business Officers (CUBO) and through online availability.

**Management’s Corrective Action Plan:** The Risk Management website will be updated to include the monitoring plan. The Office of Accounting and Financial Management will schedule an annual communication with CUBO, either by attending CUBO meetings and reviewing the



requirements or by providing materials for distribution to the members that will include links to the Risk Management website and monitoring plan.

**Responsible Person:** Director of Treasury, Administrative Support, and Risk Management

**Planned Implementation Date:** Initial CUBO communication and website updates by May 1, 2020.

### Observation #3 Account Reconciliation Training and Guidance

#### Audit Issue Ranking: Medium

In the sampled departments, account reconcilers lacked an understanding of the reconciliation process and minimal guidance is available. For example, Section 2.5 of the *Handbook of Business Procedures* on Account Reconciliation is not an active link with any information or guidance. Without training and guidance, there is an increased risk that account reconciliations will not be performed correctly and errors may occur.

**Recommendation:** The Office of Accounting and Financial Management should develop training and guidance to assist individuals conducting account reconciliations and make those available online.

**Management's Corrective Action Plan:** The Office of Accounting and Financial Management will develop the *Handbook of Business Procedures* section on Account Reconciliation with expectations and resources. Instructions will include which transactions are covered by the Expense Account Certification (EAC) system and which ones must be reconciled by other methods, for example the LMM reconciliation process. Risk Management will need to review and approve alternate reconciliation methods. Training resources for \*DEFINE<sup>3</sup> LMM Reconciliation will be included as an available tool.

**Responsible Person:** Director of Treasury, Administrative Support, and Risk Management

**Planned Implementation Date:** May 1, 2020

## Background

In accordance with UTS Policy 142.1, the chief audit executive performs an annual risk assessment of the monitoring plan and certifies whether an audit was performed. The certification for fiscal year 2019 indicated that this audit was in process and that opportunities to enhance monitoring procedures would be addressed.

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<sup>3</sup> \*DEFINE – Mainframe application that allows users to access various accounting information and perform numerous accounting and financial-related tasks.



## Scope, Objectives, and Methodology

The scope of this review included operation activities for fiscal years 2019 and 2020. Specific audit objectives were to:

- Determine whether accounts are reconciled as required
- Determine whether segregation of duties is present within the CSUs

To achieve these objectives, Internal Audits:

- Obtained and reviewed a list of accounts requiring certification
- Conducted a survey and interviews with staff to gain an understanding of reconciliation and segregation of duties processes
- Inquired how business officers review the reconciliation process
- Analyzed a sample of accounts requiring reconciliation
- Reviewed a sample of transactions for segregation of duties



## Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Austin or the UT System as a whole.
High	Considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
Medium	Considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
Low	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.

## Report Distribution

The University of Texas at Austin Institutional Audit Committee

Ms. Elizabeth Yant, External Member, Chair

Dr. Gregory Fenves, President

Dr. Maurie McInnis, Executive Vice President and Provost

Mr. James Davis, Vice President for Legal Affairs

Dr. Daniel Jaffe, Vice President for Research

Dr. Soncia Reagins-Lilly, Vice President for Student Affairs and Dean of Students

Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer

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Mr. Cameron Beasley, University Information Security Officer

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