Internal Controls Monitoring Plan Audit
(UTS 142.1 Assurance)
Fiscal Year 2020

The University of Texas at TYLER

November 2020

OFFICE OF AUDIT AND CONSULTING SERVICES
3900 UNIVERSITY BOULEVARD
TYLER, TEXAS 75799

**The University of Texas at Tyler
Internal Controls Monitoring Plan Audit**

AUDIT OBJECTIVE and CONCLUSION

The objective of this audit was to determine if The University of Texas at Tyler (UT Tyler) Internal Controls Monitoring Plan, which includes oversight of account reconciliations and segregation of duties, was adequate and implemented.

The Internal Controls Monitoring Plan addresses appropriate risks and was implemented. Opportunities to strengthen controls and monitoring were identified as described in this report.

OBSERVATIONS

This audit identified the following opportunities to strengthen internal controls		
1	High	Journal Entries for credit card transactions
2	High	Automatic posting of batch journal entries
3	High	Approvals for batch journal entry corrections
4	High	Journal entry monitoring
5	Medium	Budget Authority training monitoring
6	Medium	Account Reconciliation monitoring follow-up procedures

Strengths:

The following strengths were identified:
 ➢ Bank account reconciliations were complete, approved, and agreed to the Annual Financial Report.
 ➢ Automated workflow procedures were implemented in the PeopleSoft accounting system for recording and approval of employee time and leave. Implementation and employee training occurred from May through August 2020. All entries were approved by an assigned supervisor or other appropriate individual.
 ➢ The Cowan Center developed procedures to document cash handling training for student employees during this audit.

Opportunities for Improvement:

#1: Journal Entries for Credit Card Transactions

> **High:** Journal entries should have appropriate approvals. Entries for credit card transactions did not have appropriate workflow to require needed approvals.

Journal entries are routinely recorded with automatic batch postings or are automatically routed to an appropriate employee for approval. During Fiscal Year (FY) 2020, UT Tyler began interfacing credit card transactions generated by TouchNet, a third-party platform, to the general ledger. A PeopleSoft journal generate process creates a batch journal with a TCN source code. Based on guidance from UT Shared Information Services (UT SIS), the automatic batch posting process was not implemented for these journals due to a programmatic posting error. The automated posting process was not creating the complete journal entry. UT SIS advised UT Tyler to process these batch journals manually until a programmatic resolution could be implemented. The Accounting and Financial Reporting Manager was responsible for processing these journals. In addition, if the journals did not generate properly, another individual in the Accounting and Financial Reporting Office created and posted manual correcting entries using the TCN Source Code. Because UT SIS configured PeopleSoft so that entries using a TCN Source Code would not process automatically, these journals required manual review and posting. Therefore, there are no separate approvals or segregation of duties for these entries. A lack of automatic posting and approvals increases the risk for erroneous or fraudulent transactions to be undetected.

> **Opportunity for Improvement:** Posting TouchNet entries with an automatic batch process and using a source code that requires automatic routing for correcting entries will increase segregation of duties and related controls.

> **Management Response – Vice President for Budget Finance:** _Management concurs with the recommendation. PeopleSoft system-generated source codes will no longer be used to identify manually-created journals. Additionally, to the extent possible, the Office of Accounting and Financial Reporting (AFR) will work with UT System Shared Information Services (UT SIS) to convert the posting of TouchNet journals to automatic batch processing. Toward that end, a service ticket has already been submitted to UT SIS to configure the TouchNet journals to generate and post overnight. Once made, the configuration change will be thoroughly tested and monitored. If the auto generation and posting of the journals yield inaccurate results, as was the case at the onset of the TouchNet/GL interface implementation, compensating controls will be established to ensure appropriate segregation of duties and adequate monitoring for manual processing._

> **Responsible Party:** _Manager, Accounting and Financial Reporting_

> **Anticipated Implementation Date:** _February 1, 2021_

#2: Automatic Posting of Batch Entries

> **High:** Batch journal entries should automatically post to the general ledger. Some batch entries are being posted with a manual process.

Journal entries that originate from a module or other platform should automatically post to the general ledger. Specific codes are used to identify the source of the journal entry data. PeopleSoft configuration dictates if batch entries are posted automatically or manually. Manual posting increases the risk that entries are omitted or not posted timely which could result in inaccurate financial statements.

Opportunity for Improvement: Utilizing source codes that are configured for automatic batch journal entry postings will increase segregation of duties and related controls.

Management Response – Vice President for Budget Finance: *Management concurs with the recommendation. A service ticket has been submitted to UT SIS to auto post all system-generated batch journals. As mentioned previously, any deviation from this practice will be accompanied by compensating controls to ensure appropriate segregation of duties and adequate monitoring for manual processing.*

Responsible Party: *Manager, Accounting and Financial Reporting*

Anticipated Implementation Date: *February 1, 2021*

#3: Approvals for Batch Journal Entry Corrections

> **High:** Batch journal entry corrections should be approved. Currently, batch entries are edited without segregation of duties.

Batch journal entries are "invalid" and unable to post if they do not include correct data codes. Currently, the manager in the Accounting and Financial Reporting Office makes edits to journal entries as needed to correct the data prior to posting the entry. These journal entry corrections do not require a separate approval process. Fewer than forty Student Financial and TouchNet batch entries were edited during the year. These were reviewed and appear appropriate and immaterial. Schedules of these edits have been provided to the Vice President for Budget and Finance for additional review. Allowing manual edits to batch entries without required approval increases risk that errors, misappropriations, or fraud are not detected.

Opportunity for Improvement: Requiring approvals for journal entry edits will increase segregation of duties and related controls.

Management Response – Vice President for Budget Finance: *Management concurs with the recommendation. Because batch entries do not go through workflow, a work around must be established to ensure adequate separation of the duties. For example, we are working to establish a process to address journal errors. This process will require that the Financial Accountant make the correction to the batch journal. The Accounting Manager will be notified of the corrected journal. The AFR Manager will then review the correction and post the journal. All modified batch journal entries will be logged and supporting documentation (including department authorization for the change) will be maintained.*

Responsible Party: *Manager, Accounting and Financial Reporting*

Anticipated Implementation Date: *February 1, 2021*

#4: Journal Entry Monitoring

> **High:** Journal entries should be monitored to strengthen internal controls.

Journal entries should be monitored to verify appropriate segregation of duties. This includes reviewing the source code used and monitoring the posting and edits to batch entries. PeopleSoft and data analytics reports are available to efficiently review entries that do not follow approved procedures. A lack of monitoring increases risk that errors, misappropriations, or fraud are not detected as well as the risk that financial reports are not accurate.

Opportunity for Improvement: Monitoring journal entries increases the identification of incorrect data, accuracy, and internal controls.

Management Response – Vice President for Budget Finance: *Management concurs with the recommendation and appreciates the availability of additional exception-based analytics reports to enhance the journal entry monitoring and review process (which will be improved as described in Item 4 for batch entries).*

Responsible Party: *Manager, Accounting and Financial Reporting*

Anticipated Implementation Date: *February 1, 2021*

#5: Monitoring Budget Authority Training

Medium: Budget Authority training and acknowledgement are important to assure Budget Authorities are aware of their responsibilities. Monitoring of completed training will increase controls for financial transactions and reporting.

Training for new budget authorities should be comprehensive and monitored for completion. Currently, the Accounting and Financial Reporting Office sends an e-mail to employees when they are appointed as a budget authority and copies the Human Resources Department, Purchasing, Travel, Financial Services, Information Technology, and Budget. The email provides a listing of assigned cost centers and/or projects, links to training, and an acknowledgement form to be submitted to the Human Resources Department when the training has been completed. There was no documentation of completed training for four of the ten new budget authorities tested prior to our request for the acknowledgement forms. Internal Audit noted no evidence of consistent monitoring of completion and acknowledgement of the training. Incomplete training and acknowledgement increase the risk that budget authorities are unaware of their responsibilities and could allow erroneous or fraudulent activities and transactions to go unnoticed.

> **Opportunity for Improvement:** Monitoring budget authority training would reduce the risk that budget authorities are unaware of requirements and their responsibilities.
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> **Management Response – Vice President for Budget and Finance:** *Management concurs with the recommendation. AFR will collaborate with Human Resources to establish an effective process for monitoring Budget Authority Training completion. This process will include procedures for communicating non-compliance to the Budget Authority, deadlines for corrective action, and escalation of actions to address failure to comply.*
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> **Responsible Parties:** *Manager, Accounting and Financial Reporting; Director of Human Resources*
>
> **Anticipated Implementation Date:** *March 1, 2021*

#6: Account Reconciliation Monitoring Follow-up Procedures

Medium: Account Reconciliations and related monitoring are necessary to verify transactions. Strong follow-up procedures will strengthen the monitoring process.

Account reconciliations should be completed and approved timely to assure transactions are appropriate and properly recorded. The Accounting and Financial Reporting Office monitors departmental account reconciliations and reviewed 530 of 2,774 (19%) of the cost centers and projects. Documentation for 10 of the 530 was not received according the monitoring spreadsheet. Two of the ten were included in our audit testing and had not provided the documentation at the date of the audit. Inadequate follow-up during the monitoring process allows the continuation of unreconciled and unapproved cost centers and projects.

Opportunity for Improvement: Thorough follow-up procedures will increase compliance with account reconciliation requirements and strengthen the monitoring process.

Management Response – Vice President for Budget and Finance: *Management concurs with the recommendation. Accounting and Financial Reporting will expand its account reconciliation review process to include consistent monitoring and follow-up of exceptions noted during the review. With the implementation of the PeopleSoft-resident SAHARA account reconciliation tool, AFR will be able to monitor reconciliation completion and approval within the application. Follow-up communications of incomplete or unapproved reconciliations will be logged and monitored. This process will also include procedures for communicating non-compliance to the approver, deadlines for corrective action, and escalation of actions to address failure to comply.*

Responsible Party: *Manager, Accounting and Financial Reporting*

Anticipated Implementation Date: *March 1, 2021*

Other Comments:

The Internal Controls Monitoring Plan should be updated to reflect the current sub-certification process for budget authorities.

When reviewing time and leave entries, it was noted that some time entries were recorded and approved prior to the dates of work and some leave entries and related approvals were not posted timely in PeopleSoft. This data has been provided to the Vice President for Budget and Finance. Follow-up inquiry will be made to determine if additional audit assistance is needed.

The Student Business Services department traditionally conducts departmental cash handling reviews from April through June of each year. These reviews did not occur during FY 2020 since most departments were working remotely during that time due to COVID-19.

Additional opportunities to strengthen internal processes were separately communicated to management. None were of such significance to indicate the need for enhanced control procedures.

We appreciate the assistance of the Vice President for Budget and Finance and related departmental management during this project.

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BACKGROUND

UT Tyler is an institution that is part of the University of Texas System (UT System) and is required to follow UT System (UTS) policies. UTS Policy 142.1, *Policy on the Annual Financial Report*, "provides for financial reporting requirements and duties related to those responsible for financial reporting, the approval of accounting records, and responsibilities for establishing internal controls to ensure that funds are expended and recorded appropriately." The policy also 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." (Section 5)
- "The institutional Chief Audit Executive shall perform an annual risk assessment of the Monitoring Plan." (Section 7)

This audit was conducted based on the annual risk assessment and fulfills the UTS 142.1 requirement. This audit was included in the FY 2021 Annual Audit Plan and approved by the Institutional Audit Committee.

STANDARDS

The audit was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*.

SCOPE AND PROCEDURES

The scope of this audit included reviewing the Internal Controls Monitoring Plan and obtaining evidence of oversight controls during FY 2020. Procedures included, but were not limited to:

- ✓ Testing a sample of supporting documentation to verify account reconciliation monitoring;
- ✓ Verifying bank account reconciliations were complete and adequately approved;
- ✓ Verifying employee time and leave was appropriately approved in the new PeopleSoft workflow system using data analytics;
- ✓ Reviewing journal entries to verify appropriate approvals using data analytics; and
- ✓ Testing a sample of documentation of cash handling training and new budget authority training.

Follow up procedures will be conducted on the implementation of management action plans. This process will help enhance accountability and ensure that timely action is taken to address the observations.

OBSERVATION RANKINGS

Internal audit across the U. T. System uses a consistent findings classification process to evaluate audit results to identify Priority, High, Medium, or Low-level reportable findings. All reportable findings are rated based on an assessment of applicable risk factors and the probability of a negative outcome occurring if the risk is not adequately mitigated. The standard risk factors considered are: Qualitative (evaluates the probability and consequences across seven areas), Operational Control (evaluates operational vulnerability to risks by considering the existence of management oversight and effective alignment of operations), and Quantitative (evaluates the level of financial exposure or lost revenue).

Legend	
Priority	*A finding is defined as an issue that if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Tyler.*
High	*A finding that is considered to have a <u>medium to high probability</u> of adverse effects to UT Tyler as a whole or to a significant college or department.*
Medium	*A finding that is considered to have a <u>low to medium probability</u> of adverse effects to UT Tyler as a whole or to a college or department.*
Low	*A finding that is considered to have a <u>minimal probability</u> of adverse effects to UT Tyler as a whole or to a college or department. These findings are communicated separately to management.*