



Accounts Receivable

Audit Report No. R2202 | *January 20, 2022*



Executive Summary

Audit Objective

To provide assurance that effective controls exist over accounts receivable processes to ensure the reliability and integrity of financial and operational information, process efficiency, and compliance with policies and procedures.

Controls and Strengths

- Segregation of duties exists within the processing of receivables.
- Departmental receivables coordinators appreciate the customer service received from Accounting and Financial Reporting staff within the Receivables and Sponsored Accounting department.

Overall Conclusion

Overall, effective controls exist over accounts receivable processes; however, improving and updating monitoring and other procedures will help ensure the processes are more efficient and financial reporting is accurate and reliable.

Observations by Risk Level

Management has reviewed the observations and has provided responses and anticipated implementation dates. Detailed information is included in the attached report.

Observation	Risk Level	Management's Implementation Date
1. Implement Procedures to Improve Monitoring of Accounts Receivables in Departments	Medium	August 31, 2022
2. Improve Policies and Procedures	Medium	August 31, 2022

For details about the audit and methodology, explanation of risk levels, and report distribution, please see Appendices A, B, and C, respectively, in the attached report.



Detailed Audit Results

Observation	Risk Level/Effect	Recommendation ¹
<p>1. <i>Implement Procedures to Improve Monitoring of Accounts Receivables in Departments</i></p>		<p><i>Medium Risk</i></p>
<p>Training and monitoring procedures are not always being conducted to ensure compliance with policies and procedures over accounts receivables (UTDBP3113 Accounts Receivable).</p> <p>University departments that provide goods or services to customers external to the University are required to assign a Receivables Coordinator (RC) to manage receivables. In testing for compliance with the policy and interviewing the employees handling the departmental receivables, we noted a lack of monitoring and guidance as outlined below.</p> <p>a. We tested departmental accounts receivable to ensure the calculations and processes for compliance with UTDBP1331 Accounts Receivable. Our testing results indicated that invoices were not always billed or paid within a timely manner.</p>	<p>Accounts receivable balances may be inaccurate, and monies owed to UTD may not be collected in a timely manner.</p>	<p>Accounting and Financial Reporting should provide additional guidance related to the receivables policy to the receivable coordinators and other staff members involved in the process, and then conduct periodic monitoring to ensure the policies are being followed.</p>

¹ See Appendix B on page 9 for definitions of observation risk rankings. Minimal risk observations were communicated to management separately.



Observation	Risk Level/Effect	Recommendation ¹
<p>b. Within these departments, the employees that handle receivables are not fully aware of their roles or responsibilities. They rely on faculty or program managers to coordinate with the third-party customers and to create a contract, and there is little involvement of the staff until the billing procedures are performed.</p> <p>Billing information is usually handled by faculty or program managers, then the billing information is passed to the staff to process the bill. This process is not always done in a timely manner. When discussing procedures with the departmental RC's, the majority of the staff were not aware that the following procedures were their responsibility:</p> <ul style="list-style-type: none">• Conducting an appropriate credit review prior to doing business with external customers.• Ensuring that no conflicts of interest exist between the University, the external customer, or its owners/managers/directors.• Establishing the shortest payment terms possible to maximize the University's cash		



Observation	Risk Level/Effect	Recommendation ¹
<p>position, generally no more than 30 days.</p> <ul style="list-style-type: none"> Reconciling aging report balances to the general ledger quarterly. 		
<p>Management's Action Plan: Receivables and Sponsored Accounting will work with departments to identify receivable coordinators and target training to individuals annually. Training information and documentation will be made available via the Office of Budget and Finance webpage or similar channels.</p> <p>Responsible Party Name and Title: Tracy Lederer, Assistant Director, Receivables and Sponsored Accounting</p> <p>Estimated Date of Implementation: 08/31/2022</p>		
<p>2. Improve Policies and Procedures</p>		<p>Medium Risk</p>
<p>UTDBP3113 - Accounts Receivable is the policy used by UT Dallas to establish accounts receivable standards, provide guidance to departments, minimize the cost of collections for accounts receivable, maximize the University's cash flow, and ensure accounts receivable balances are complete and accurate. The policy has not been revised since July 2019 and references services and titles no longer used.</p> <p>In addition, there are currently no formal procedures for the annual, monthly, or daily accounts receivable processes within the Accounting and Financial Reporting</p>	<p>When policies are not updated, and procedures are not formally documented, inefficiencies could occur in operations, employees may not be aware of their responsibilities, especially in the event of turnover, and receivables may not be accurate or collected in a timely manner.</p>	<p>Update the policy and document the internal accounting and financial report procedures regarding receivables.</p>



Observation	Risk Level/Effect	Recommendation ¹
Department. Documented procedures describe the specific activities to be done and outline who performs and approves them.		
<p>Management's Action Plan: Receivables and Sponsored Accounting will review the Accounts Receivable policy for updates and document related internal processes, including daily, monthly, and quarterly activities. The procedure will also include annual financial reporting processes in agreement with the policy.</p> <p>Responsible Party Name and Title: Tracy Lederer, Assistant Director, Receivables and Sponsored Accounting</p> <p>Estimated Date of Implementation: 08/31/2022</p>		

Overall Conclusion

Overall, effective controls exist over accounts receivable processes; however, improving and updating monitoring and other procedures will help ensure the processes are more efficient and financial reporting is accurate and reliable.



Appendix A: Information Related to the Audit

Background

Accounts receivable are any balances owed to the University of Texas at Dallas (University) from unaffiliated, external organizations or individuals in exchange for goods or services provided by the University. These balances represent uncollected revenue, deferred revenue, or deferred inflows to the University. [UTDBP3113 Accounts Receivable](#) sets forth guidelines for the establishment and management of accounts receivable at UT Dallas.

There are several types of receivables; however, the scope of this audit focused on FY20 “Other Receivables” and their respective allowances which are created at the departmental level. Other receivables represented 18% of total receivables and is composed of sponsored receivables (contracts and grants), Callier Center receivables (medical billing), and non-sponsor receivables (departmental level). All receivable categories as of August 31, 2020, are listed in the table below².

	Current YearTotals	Prior YearTotals
Accounts Receivable, Net:		
Federal (allow. \$0.00 in 2020 & \$0.00 in 2019)	14,680,421.26	11,255,098.18
Other Intergov. (allow. \$0.00 in 2020 & \$0.00 in 2019)	280,374.10	448,877.56
Student (allow. \$2,438,925.65 in 2020 & \$2,521,425.82 in 2019)	36,716,811.44	34,483,960.81
Interest and Dividend Receivables	615,103.64	655,365.37
Contributions (allow. \$448,554.48 in 2020 & \$502,374.05 in 2019)	8,522,534.99	9,545,107.03
Other (allow. \$1,926,692.15 in 2020 & \$1,536,530.43 in 2019)	13,546,975.82	7,040,152.19
Total Receivables	<u>74,362,221.25</u>	<u>63,428,561.14</u>

Objective

To provide assurance that effective controls exist over accounts receivable processes to ensure the reliability and integrity of financial and operational information, process efficiency, and compliance with policies and procedures.

² [FY20 Financial Statements](#), Exhibit A of the Financial Statements



Scope

The scope of the audit was FY20. Fieldwork was conducted from June – October 2021, and the audit concluded on November 30, 2021.

Methodology

The audit was conducted in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Both standards are required by the Texas Internal Auditing Act, and they require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The Office of Audit and Consulting Services is independent per both standards for internal auditors.

GAGAS also requires that auditors assess internal control when it is significant to the audit objectives. We used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework in assessing internal controls³.

Our audit methodology included interviews, observations of processes, reviews of documentation, and testing. The following table outlines our audit procedures and overall controls assessment for each of the audit area objectives performed.

Audit Area	Methodology	Observations Related to the Audit Area
Accuracy of accounts receivable reporting	Tested a sample of receivables to ensure accurate reporting.	Observation #1
Monitoring accounts receivables within departments	Interviewed several departments with receivables to understand the departmental processes for monitoring.	Observation #1
Timely accounts receivable collection efforts	Reviewed a sample of receivables to test for timely collection efforts	Observation #1, #2

³ <https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf>



Audit Area	Methodology	Observations Related to the Audit Area
Timely billing and recording of external revenue sources	Analyzed processes for billing and recording external revenue.	Observation #1, #2
Compliance with receivables policy	Reviewed the receivables policy and compared to current processes.	Observation #2
Accuracy of accounts receivable and allowance for doubtful accounts	Reviewed the aging summary and compared the amounts reported in the financial statements to the accounting system and reconciliations provide by Accounting and Financial Reporting.	None

Follow-up Procedures

Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. Requests for extension to the implementation dates may require approval from the UT Dallas Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.



Appendix B: Observation Risk Rankings

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

Risk Level	Definition
Priority	If not addressed immediately, a priority observation has a significant probability to directly impact the achievement of a strategic or important operational objective of UT Dallas or the UT System as a whole. These observations are reported to and tracked by the UT System Audit, Compliance, and Risk Management Committee (ACRMC).
High	High-risk observations are considered to be substantially undesirable and pose a high probability of adverse effects to UT Dallas either as a whole or to a division/school/department level.
Medium	Medium-risk observations are considered to have a moderate probability of adverse effects to UT Dallas either as a whole or to a division/school/department level.
Low	Low-risk observations are considered to have a low probability of adverse effects to UT Dallas either as a whole or to a division/school/department level.
Minimal	Some recommendations made during an audit are considered of minimal risk, and the observations are verbally shared with management during the audit or at the concluding meeting.



Appendix C: Report Submission and Distribution

We thank the Office of Budget and Finance management and staff for their support, courtesy, and cooperation provided throughout this audit.

Respectfully Submitted,

Toni Stephens, CPA, CIA, CRMA, Chief Audit Executive

Distribution List

Members and ex-officio members of the UT Dallas Institutional Audit Committee

Responsible Vice President

- Mr. Terry Pankratz, Vice President for Budget and Finance

Persons Responsible for Implementing Recommendations:

- Ms. Tracy Lederer, Assistant Director, Receivables and Sponsored Accounting

Other Interested Parties

- Mr. Greg Argueta, Assistant Vice President for Accounting and Financial Reporting
- Ms. Jennifer Mayes, Financial Compliance Manager

External Parties

- The University of Texas System Audit Office
- Legislative Budget Board
- Governor's Office
- State Auditor's Office

Engagement Team

Project Leader: Caitlin Cummins, Auditor III