

**1. Title**

Policy on the Annual Financial Report

**2. Policy**

Sec. 1 Requirement and Responsibility. The combined financial statements of The University of Texas System are prepared in accordance with Governmental Accounting Standards Board requirements and in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. The Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report.

Sec. 2 Purpose. This policy 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, and procedures for obtaining services by an external audit firm.

Sec. 3 Designation of Financial Reporting Officer. The Chief Administrative Officer of each institution and U. T. System Administration shall designate a single financial reporting responsible party, known as the Financial Reporting Officer.

3.1 Each institution's Financial Reporting Officer is directly responsible to the respective Chief Administrative Officer for the integrity of the institution's annual financial report.

3.2 The U. T. System Administration Financial Reporting Officer is directly responsible to the Chancellor for the integrity of the U. T. System Administration Annual Financial Report and the consolidated U. T. System Annual Financial Report.

Sec. 4 Duties of Financial Reporting Officer.

4.1 Annual Financial Report Preparation Process. The Financial Reporting Officer has direct responsibility for the establishment of efficient and effective internal controls over the preparation of the annual financial report. This includes:

(a) identification of all sources of information for the annual financial report;

(b) evaluation of the impact of each source of information on the "material" accuracy of the annual financial report;

- (c) identification of opportunities for misstatement of information in those sources that have a “material” impact on the accuracy on the annual financial report; and
    - (d) determining a system of internal controls for opportunities for misstatement of information in those sources that have a “material” impact on annual financial report accuracy.
  - 4.2 Financial Report Data. The Financial Reporting Officer is responsible for establishing appropriate controls over the annual closing of the accounting records and the inclusion of information in the annual financial statements. This includes:
    - (a) ensuring that sources that can have a “material” impact on the annual financial report are included in the proper reporting period;
    - (b) determination of the proper documentation and validity of all adjusting journal entries; and
    - (c) reconciliation of all sub-ledgers to their respective general ledger account and reconciliation from the general ledger to the annual financial report.
  - 4.3 Monitoring Plan. 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.
- Sec. 5 Certification. The Chief Administrative Officer, Financial Reporting Officer, and institutional Chief Audit Executive will certify to the Financial Reporting Officer of U. T. System Administration that the financial statements are fairly presented and that they contain no false information or omissions of information that would materially affect their accuracy. They will certify that significant deficiencies and material weaknesses in the design or operation of internal controls as well as all known frauds have been appropriately reported and addressed. They will also certify compliance with the U. T. System Financial Code of Ethics and to knowledge of any violations of the Financial Code of Ethics.
- 5.1 Certification. The certifying officials will provide a certification according to the format specified in the attached letter in Appendix 1.

- 5.2 Certifications by Account Owners (Subcertifications). Each Account Owner should provide a subcertification annually to the Financial Reporting Officer, either directly or through their Dean or department/division head, as determined appropriate by the institution's Financial Reporting Officer. The Dean or department/division head is responsible for reporting to the Financial Reporting Officer, any Account Owner failing to sub-certify as required. The minimum requirements of the subcertification letter are included in Appendix 2.
  - 5.3 Financial Code of Ethics. The Financial Reporting Officer will certify compliance with the Financial Code of Ethics (UTS134) by those involved in the preparation of the annual financial report and whether, to the Financial Reporting Officer's knowledge, any of those employees violated the Financial Code of Ethics. See Appendix 3 for the Financial Code of Ethics certification form.
- Sec. 6 Internal Audit of the Monitoring Plan. The institutional Chief Audit Executive shall perform annual testing, within 60 days of the fiscal year end, of the Monitoring Plan and the subcertifications, and validate the assertions on segregation of duties and account reconciliations.
- Sec. 7 External Audit of the Financial Statements. An external audit firm may be engaged to express an opinion on the U. T. System financial statements or the financial statements of any of its institutions.
- 7.1 Contracts. The Audit, Compliance, and Management Review Committee of the Board of Regents is responsible for contracting with any external audit firm for the expression of an opinion on the U. T. System financial statements or individual financial statements of any institution. If the contract exceeds \$1 million, it must be approved by the Board of Regents.
  - 7.2 External Audit Results. The results of any external audits that express an opinion on the financial statements of the U. T. System or any of its institutions should be presented to the Audit, Compliance, and Management Review Committee of the Board of Regents.
  - 7.3 Conflicts of Interest. An external audit firm engaged to express an opinion on the U. T. System financial statements or those of any institution must be free of any conflict of interest as prescribed by the requirements indicated in the authoritative guidelines noted in Relevant Federal and State Statutes, and

Relevant System Policies, Procedures, and Forms under Items 4 and 5.

- 7.4 Additional Requirements. See additional requirements of the State Auditor's Office in Section 8.

Sec. 8 Approval Required by the State Auditor's Office.

8.1 *Texas Government Code* Section 321.020(a).

(a) Legislation (HB 905) passed during the 79th Regular Legislative Session expands the circumstances provided in Sec. 321.020, *Texas Government Code*, in which a delegation of authority to contract with a private auditor from the State Auditor is necessary before an agency can contract for private audit services. This change in the law took effect on June 18, 2005.

(b) Such delegation of authority may be subject to certain requirements or contractual language provided by the State Auditor.

(c) The criteria in the *Texas Government Code* requires that the scope of the proposed audit be submitted to the State Auditor for review and comment and the services of the private auditor are procured through a competitive selection process in a manner allowed by law. Therefore, in requesting such approval from the State Auditor's Office, they may require a copy of the original Request for Proposals/Request for Qualifications and the draft contract for their review and comment.

(d) (See "Process to Request Approval by State Auditor" under Item 5.)

8.2 Excerpt from Article IX Rider, General Appropriations Act, 2010-2011 Biennium. General Limitations on Expenditures.

Sec. 6.20. Use of Appropriations to Contract for Audits.

(a) Notwithstanding any other law, or other sections of this Act, none of the funds appropriated in this Act shall be used by the agencies or institutions of higher education to enter into a contract with an independent audit entity for audit services, except as specified by this section.

- (b) An agency or institution appropriated funds in this Act may use funds appropriated in the Act to:
- (1) Enter into an interagency contract with the State Auditor's Office (SAO) for the SAO to provide audit services to the agency or institution. At the discretion of the State Auditor and the Legislative Audit Committee, the SAO may conduct the audit or the SAO may enter into a contract with an independent audit entity to conduct the audit; or
  - (2) Enter into a contract with an independent audit entity for the provision of audit services pursuant to Section 321.020, *Texas Government Code*, if:
    - (A) the SAO has reviewed the scope of the proposed audit and has issued a written approval for the scope of the proposed audit, and
    - (B) the SAO has delegated the authority to enter into the proposed audit to the agency or institution, in the event the agency or institution does not have a specific statutory delegation of authority to enter into a contract for audit services.
- 8.3 Request for Delegation of Authority to Procure Audit Services. To submit a request for a delegation of authority for purchased audit services, complete and submit the information to the State Auditor. In order to review a request for delegation of authority, the State Auditor's Office will be interested in the following sections of the request for proposal (note: the State Auditor's Office will not be reviewing the request for proposal or the procurement for compliance with other statutory requirements):
- scope of services being procured;
  - term of the contract;
  - provision relating to the State Auditor's Office;
  - State Auditor will receive a copy of the contract between the agency and the contractor;
  - State Auditor will receive a copy of the contractor's final report;
  - State Auditor has access to working papers related to procured services; and
  - State Auditor has access to all draft and final reports and memoranda of discussions with agency management.

(See "Process to Request Approval By State Auditor" under Item 5. )

### 3. Definitions

Account Owner - the person with fiscal responsibility and decision making authority for the account. This is typically the department head for non-grant accounts and the principal investigator for grant accounts.

External Audit Firm - a public accounting firm (including its partners, employees, and agents) engaged by the Board of Regents to provide audit services.

Financial Reporting Officer - person directly responsible to the respective Chief Administrative Officer for the integrity of the institution's annual financial report.

### 4. Relevant Federal and State Statutes

[Texas Government Code Section 321.020](#)

Article IX Rider, General Appropriations Act, General Limitations on Expenditures, Section 6.20, Use of Appropriations to Contract for Audits 2010-2011 Biennium

### 5. Relevant System Policies, Procedures, and Forms

[Board of Regents' Rules and Regulations, Rule 20402, Provision of Audit and Non-Audit Services by External Audit Firms](#)

[Board of Regents' Rules and Regulations, Rule 20501, Accounting, Operating Budgets, and Legislative Appropriation Requests, Section 1, Approval of Accounting Records](#)

[UTS134, Code of Ethics for Financial Officers and Employees](#)

Process to Request Approval by State Auditor. The State Auditor's Office has created a web portal that institutions should use to submit requests for delegation of authority. This website also contains additional details on the process, including the type of information required. The Audit Delegation Request can be accessed at <http://www.sao.state.tx.us>. If you have any questions, contact the appropriate contact manager for your institution. The contact manager list can be found at <http://www.sao.state.tx.us/Contact/mgmtart.html>.

Appendix 1

- [Certification Letter – Health Institutions](#)
- [Certification Letter – Academic Institutions](#)

Appendix 2 - [Subcertification Letter](#)

Appendix 3 - [Financial Code of Ethics Certification](#)

**6. System Administration Office(s) Responsible for Policy**

Office of the Controller

**7. Dates Approved or Amended**

February 16, 2004

January 7, 2010

May 19, 2011