



Office of Internal Audit

June 13, 2016

Mr. Mark McGurk, CPA
Vice President for Business Affairs
The University of Texas of the Permian Basin
4901 E. University Boulevard
Odessa, Texas 79762

Dear Mr. McGurk:

We have completed our audit of the University of Texas of the Permian Basin (UTPB) *Segregation of Duties and Reconciliation of Accounts Monitoring Plan* for the fiscal year 2015 as required by University of Texas System (UT System) Policy UTS142.1.

The objective of this audit was to perform testing of the Monitoring Plan and subcertification process and to validate the assertions on segregation of duties and account reconciliations. Our audit was conducted in accordance with guidelines set forth in the UT System Policy UTS129 and the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*.

Overall, we found that the Monitoring Plan was only partially implemented. UTPB did submit its 2015 Monitoring Plan to UT System in a timely manner in February 2015. For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties.

However, the overall result of our audit indicates that the execution of the Monitoring Plan, along with the Monitoring Plan procedures, is ineffective and does not comply with the requirements of UTS 1421.1. Additional information, along with our recommendations, is detailed in the attached report.

We wish to express our appreciation to management and staff of UTPB for the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Glenn Spencer", with a long horizontal flourish extending to the right.

Glenn Spencer, CPA
Institutional Chief Audit Executive

cc: Dr. W. David Watts, President
Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs
Cuca Franco, Interim Director of Accounting

The University of Texas of the Permian Basin



Segregation of Duties and Reconciliation of Accounts Monitoring Plan – FY 2015 Audit Report

June 2016



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4901 E. University
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Executive Summary

The University of Texas System's Policy (UTS) 142.1 requires that the internal audit department of The University of Texas of the Permian Basin (UTPB) perform annual testing, within 60 days of the fiscal year end, of the Monitoring Plan and the subcertification process and validate the assertions on segregation of duties and account reconciliations. This audit was conducted in accordance with guidelines set forth in UTS129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit encompassed UTPB's subcertification and account reconciliations completed in fiscal year 2015 (FY15).

The purpose of our audit was to validate the assertions on segregation of duties and account reconciliations as they applied to the UTPB's subcertification and account reconciliation Monitoring Plan.

We found that the Monitoring Plan was only partially implemented. We reviewed its procedures along with a sample of subcertifications and account reconciliations and noted the following exceptions:

- The execution of the Monitoring Plan did not occur in a timely manner. The UTPB Accounting Office did not start the monitoring process until approximately 90 days after fiscal year end. UTS 142.1 requires that the entire monitoring process, along with our audit, be completed within 60 days of the end of the fiscal year.
- When requested to do so by Accounting, as part of its monitoring efforts, most departments did not submit account reconciliations. Other departments submitted reconciliations, but without sufficient support.
- Accounting did not follow up with those departments that failed to submit subcertification letters, account reconciliations, or sufficient documentation.
- Additional testing, along with the results of Accounting's monitoring efforts, indicates that most departments did not perform account reconciliations for the 2015 fiscal year.

UTPB did submit its 2015 Monitoring Plan to UT System in a timely manner in February 2015, as required. For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. However, the overall result of our audit indicates that the execution of the Monitoring Plan, along with the Monitoring Plan procedures, is ineffective and does not comply with the requirements of UTS 142.1. Additional information, along with our recommendations, is detailed in the section entitled "Current Year Audit Results".

Background

UTS142.1 requires the creation and submission of a Monitoring Plan to strengthen the practice of segregation of duties and reconciliation of accounts. UTPB developed its Monitoring Plan for FY

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2015, which was submitted, as required, to the UT System Financial Reporting officer by February 28, 2015.

UTS142.1 also requires that account owners are to annually submit a subcertification to certify that the account owners have been performing monthly reconciliations and submit the subcertification to the Accounting Office annually. The Office of Internal Audit must also perform annual testing of the subcertification and account reconciliation Monitoring Plan within 60 days of the fiscal year end. This audit also verifies Management's assertions regarding segregation of duties.

Audit Objectives

The purpose of our audit was to perform testing of the Monitoring Plan and Subcertification process and validate the assertions on segregation of duties and account reconciliations.

Scope and Methodology

The scope of the audit was FY 2015, which was from September 1, 2014 to August 31, 2015. Our audit included the following procedures:

- Gained an understanding of the monitoring process through interviews
- Reviewed prior audit findings and recommendations
- Reviewed the account reconciliation process
- Reviewed the account reconciliation process and results
- Reviewed the sub-certification process
-

The audit was conducted in accordance with the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

Ranking Criteria

All findings in this report are ranked based on an assessment of risk factors, as well as the probability of a negative occurrence if the risk is not adequately mitigated. The criteria for the rankings are as follows:

Priority – An issue identified by an internal audit, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.

High - A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

Medium – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

Low – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

Current Year Audit Results

1. Subcertifications

Subcertifications are certifications by account owners that all revenues and expenses under their budget authority are appropriate and have been reconciled to the official financial records on a monthly basis. These subcertifications are part of the internal control system and are used as a basis for the certifying of the Annual Financial Report to the UT System Controller.

Under UTS 142.1 and the Monitoring Plan procedures, all account owners (departments) are to submit annual subcertifications to Accounting. For verification purposes, we selected a sample of 10 departments to review. We found that:

- One subcertification had not been received.
- No follow-up effort had been made to obtain the missing subcertification.
- Accounting was not timely in executing its Monitoring Plan. Departments were notified on November 17, 2015 to submit subcertifications by December 1, 2015.

Assessed Level of Risk: Medium

Recommendation:

Subcertifications from all departments should be fully completed and submitted to Accounting not later than September 30th in order to allow the annual audit to be completed within 60 days after fiscal year end, as required by UTS 142.1.

Accounting should review all subcertifications and promptly follow up on those that are incomplete or have not been submitted.

Management Response:

We concur. To improve the monitoring process, the Office of Accounting will move to a quarterly review. This will allow for the required follow-up and enable the Office of Accounting to have a timely monitoring plan as they will only need to request a single quarter of account reconciliations for review on a sample basis.

Implementation Date:

Start quarterly monitoring December 2016.

Person Responsible for Implementation

Ms. Cuca Franco, Interim Director Office of Accounting

2. Monthly Account Reconciliations

According to UTS 142.1, all departments are to complete a reconciliation of the Statement of Accounts on a monthly basis for each account under its responsibility. This important internal control is used to identify any errors in a timely fashion as well as to reduce the risk of misappropriation of assets. Under the Monitoring Plan, Accounting will select and test a sample of reconciliations on a quarterly basis in order to ensure their timely and accurate completion. Consequently, Accounting requested account reconciliations, for three separate months, for 141 different accounts from various departments.

For our audit, we further reviewed a sample of those monthly reconciliations for 14 different accounts. Out of this sample, we found the following:

- 9 out of 14 account reconciliations had not been received from the department.
- Of the 5 reconciliations that were submitted to Accounting, 2 lacked supporting documentation; the other 3 lacked either the signature of the secondary reviewer (at the department level) or the date reviewed.
- No follow-up efforts were made by Accounting.
- Accounting was not timely in executing its Monitoring Plan. Departments were notified on February 2, 2016 to submit the requested account reconciliations by February 3, 2016. Per the requirements of the Monitoring Plan, all account reconciliations are to occur on a monthly basis, and Accounting will perform monitoring activities on a quarterly basis.

To supplement the testing we performed above, we also selected 7 additional accounts (ones not selected by Accounting for monitoring), one from each of 7 different departments, to assist in determining the extent to which departments are performing monthly reconciliations of accounts. We found that:

- 4 out of 7 of the accounts had not been reconciled at all for the FY 2015.
- Of the 3 accounts that had been reconciled, 2 accounts were reconciled before the close of the 2015 fiscal year. The other account had been reconciled in December 2015.

Assessed Level of Risk: Medium

Recommendation:

Statements of Accounts should be reconciled by all account owners (departments) on a monthly basis, within 4-6 weeks after the close of the month. Accounting should perform periodic monitoring of the reconciliations on at least a quarterly basis. Accounting should complete its monitoring efforts, including follow-up actions on those not submitted or incomplete, not later than 30 days after the close of the fiscal year in order to allow the annual audit to be completed within 60 days of year end, as required by UTS 142.1.

Management Response:

We concur. To improve the monitoring process, the Office of Accounting will move to a quarterly review. This will allow for the required follow-up and enable the Office of Accounting to have a timely monitoring plan as they will only need to request a single quarter of account reconciliations for review on a sample basis.

Implementation Date:

Quarterly monitoring will begin in December 2016 and continue on a quarterly basis thereafter.

Person Responsible for Implementation

Ms. Cuca Franco, Interim Director Office of Accounting

Status of Prior Year Findings and Recommendations

We followed-up on the recommendations from the previous year's audit report. Management has fully implemented one of the recommendations, and has partially implemented two of the remaining recommendations. See *Appendix A* for detailed results. For updated management responses and implementation dates, please refer to *Current Year Audit Results*.

Conclusion

UTPB submitted its 2015 Monitoring Plan to UT System in a timely manner in February 2015, as required. For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. However, the overall result of our audit indicates that the execution of the Monitoring Plan, along with the Monitoring Plan procedures, is ineffective and does not comply with the requirements of UTS 1421.1.

APPENDIX A

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

No.	Finding	Recommendation	Status
1.	<p><u>Monitoring Plan Submittal</u> Accounting could not confirm that a Monitoring Plan for 2014 was submitted to the UT System Financial Reporting Officer by February 28, 2014, as required by UTS142.1.</p>	<p>Recommendation: Accounting should submit an annual Monitoring Plan to the UT System Financial Reporting Officer as required by UTS142.1. The Monitoring Plan should be risk-based but should also include random monitoring of low risk departments for the fiscal year.</p> <p>Management Response: We concur. UTPB recently changed leadership in the Business Affairs office and the FY15 Monitoring Plan was submitted timely.</p> <p>Implementation Date: Submission of the Monitoring Plan for 2015 was completed in February 2015 and confirmed received at UT System.</p>	Implemented
2.	<p><u>Monitoring</u> Accounting Services did not conduct any monitoring during FY 2014, as required by UTS142.1.</p>	<p>Recommendation: Accounting should monitor accounts as outlined in its Monitoring Plan in order to strengthen the practice of segregation of duties and reconciliation of accounts, and to ensure the accuracy of the annual financial report.</p> <p>Management Response: We concur. A current statement of account reconciliation process is being disseminated to campus. The implementation of PeopleSoft financials coupled with the significant turnover in the Accounting Department prevented the timely review of account reconciliations. This will be corrected in FY15 and the process to conduct monitoring is being implemented and will be complete by August 31, 2015.</p> <p>Implementation Date: The final introduction and review implementation date is scheduled for August 31, 2015.</p> <p>Revised Implementation Date: February 28, 2016</p>	Partially Implemented. See Current Year Audit Results.

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No.	Finding	Recommendation	Status
3.	<p><u>Subcertification Letters</u> Accounting did not request any sub-certification letters from account owners for FY 2014 as required by UTS 142.1.</p>	<p>Recommendation: As part of the monitoring process, Accounting should request sub-certification letters from all account owners to verify that the account owners have been performing monthly reconciliations.</p> <p>Management Response: We concur. Currently, a review of queries is being done to run the cost center associated with each budget head. This will be used to generate the sub-certifications as required by UTS 142.1.</p> <p>Implementation Date: The implementation date for the subcertification is scheduled also for the end of August 2015.</p> <p>Revised Implementation Date: February 28, 2016</p>	<p>Partially Implemented. See Current Year Audit Results.</p>