



Office of Internal Audit

May 5, 2017

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 2016 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*.

For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. We noted significant improvement in Accounting's monitoring and follow-up procedures from the prior year audit. However, many departments are still not completing the reconciliations in a timely manner, if at all.

Consequently, from the results of our work, we conclude that the requirements of UTS 142.1 have been partially implemented. For detailed information regarding the findings and recommendations, we refer you to the attached report.

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

Sincerely,

Glenn Spencer, CPA
Institutional Chief Audit Executive

cc: Dr. W. David Watts, President
Ms. Cuca Franco, Interim Director of Accounting

The University of Texas of the Permian Basin



Segregation of Duties and Reconciliation of Accounts Monitoring Plan – FY 2016 Audit Report

May 5, 2017



**Office of Internal Audit
4901 E. University
Odessa, Texas 79762**

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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 2016 (FY16).

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:

- Not all departments had submitted their subcertifications to Accounting by the close of our fieldwork.
- A significant number of departments are still not reconciling their statements of account in a timely manner and/or are not furnishing fully-completed reconciliations with support documentation.

For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. We noted significant improvement in Accounting's monitoring and follow-up procedures from the prior year audit. However, as indicated above, many departments are still not completing the reconciliations in a timely manner, if at all.

Consequently, from the results of our work, we conclude that the requirements of UTS 142.1 have been partially implemented. 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 2016, which was submitted, as required at that time, 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

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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 2016, which was from September 1, 2015 to August 31, 2016. 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 and results.
- Reviewed the sub-certification process.
- In addition to testing the monitoring conducted by Accounting, we performed additional testing at the department level.

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 found that:

- 7 out of 78 departments (8.97%) did not submit their subcertifications to Accounting, which, at the close of our fieldwork, was following-up with those departments.

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.

Management Response:

We concur. The subcertifications must be submitted to the departments in early September in order to give the departments time to reconcile their August Statement of Accounts and be compliance with the subcertification form. We are currently looking at electronic submission.

Implementation Date:

September 30, 2017

Person Responsible for Implementation

Cuca Franco, Interim Director 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 review of all account reconciliations to determine the base level of knowledge currently in place for departmental. Accounting selected all account reconciliations in February for the review.

For our audit, we further reviewed a sample of 60 monthly reconciliations for 20 different cost centers from 10 departments in 3 different months. Out of this sample, we found the following:

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- 14 out of 60 monthly reconciliations that were requested directly from departments were not received.
- From 46 account reconciliations that were provided by departments, 1 reconciliation was missing supporting documentation for expenses; 4 reconciliations were missing supporting documentation for revenue.
- 17 out of 46 missing signatures and dates for the preparer and/or reviewer.
- 21 out 46 were not reconciled in a timely manner, ranging from 4 weeks to 54 weeks late, which could indicate that many of the reconciliations are not being completed until being requested by either Accounting or the Auditor.

Assessed Level of Risk: Medium

Recommendation:

Department should complete their account reconciliations in a timely manner and retain the supporting documentation. UTPB policy requires reconciliations to be completed within 6 weeks of the end of each month.

Management Response:

We concur. We are currently analyzing the process. We have categorized all departments into levels of reconciliation knowledge. We have given one-on-one training to all classifications in the lower category. We are currently conducting the random audits to departments consisting of department visits.

Implementation Date:

September 30, 2017

Person Responsible for Implementation

Cuca Franco, Interim Director of Accounting

Status of Prior Year Findings and Recommendations

We followed-up on the recommendations from the previous year's audit report. Management has partially implemented both of the recommendations. See *Appendix A* for detailed results.

Conclusion

For the account reconciliations that had been completed and reviewed as part of our audit, there was an adequate level of segregation of duties. We did note significant improvement in Accounting's monitoring and follow-up procedures from the prior year audit. However, many departments are still not completing the reconciliations in a timely manner, if at all.

Consequently, from the results of our work, we conclude that the requirements of UTS 142.1 have been partially implemented.

APPENDIX A

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

No.	Finding	Recommendation	Status
1.	<p><u>Subcertifications</u> 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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Assessed Level of Risk: Medium</p>	<p><u>Recommendation</u> 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.</p> <p>Accounting should review all subcertifications and promptly follow up on those that are incomplete or have not been submitted.</p> <p><u>Management Response</u> 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.</p> <p><u>Implementation Date</u> Start quarterly monitoring December 2016.</p> <p><u>Person Responsible for Implementation</u> Ms. Cuca Franco, Interim Director Office of Accounting</p>	<p>Partially Implemented. See Current Year Finding and Recommendation No.1.</p>
2.	<p><u>Monthly Account Reconciliations</u> 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</p>	<p><u>Recommendation</u> 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</p>	<p>Partially Implemented. See Current Year Finding and Recommendation No. 2.</p>

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No.	Finding	Recommendation	Status
	<p>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.</p> <p>For our audit, we further reviewed a sample of those monthly reconciliations for 14 different accounts. Out of this sample, we found the following:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <ul style="list-style-type: none"> • 4 out of 7 of the accounts had not been reconciled at all for the FY 2015. • Of the 3 accounts that had been 	<p>allow the annual audit to be completed within 60 days of year end, as required by UTS 142.1.</p> <p><u>Management Response:</u> 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.</p> <p><u>Implementation Date</u> Quarterly monitoring will begin in December 2016 and continue on a quarterly basis thereafter.</p> <p><u>Person Responsible for Implementation</u> Ms. Cuca Franco, Interim Director Office of Accounting</p>	

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No.	Finding	Recommendation	Status
	<p>reconciled, 2 accounts were reconciled before the close of the 2015 fiscal year. The other account had been reconciled in December 2015.</p> <p>Assessed Level of Risk: Medium</p>		