



May 31, 2018

Randy Wallace  
Associate Vice Chancellor – Controller and Chief Budget Officer  
The University of Texas System  
210 West 7<sup>th</sup> Street  
Austin, Texas 78701

Dear Mr. Wallace:

We have completed our audit of Benefits Proportionality by Fund for The University of Texas (UT) System Administration, as required by Rider 8, page III-45, of the *General Appropriations Act* (85<sup>th</sup> Legislature, Conference Committee Report). The rider requires that the audit examine appropriation years (AY) 2015 through 2017. Based on audit procedures performed, the *Benefits Proportionality by Fund Report* (APS 011) for all three appropriation years, as submitted to the State Comptroller, were accurate, and the process in place to prepare the annual report is sufficient to ensure benefits funding proportionality is applied according to the guidelines established in the *General Appropriations Act*.

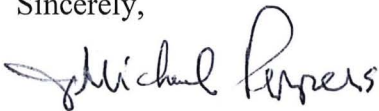
Our audit procedures were consistent with the methodology prescribed by the Texas State Auditor's Office to comply with Rider 8, and included review of source information obtained from the UT System Administration internal accounting system and the State's Uniform Statewide Accounting System (USAS), review of the benefits proportionality reporting process, validation of the accuracy of information and proportional funding calculations reported to the State Comptroller on the APS 011 reports, and testing to verify eligibility of employee benefits paid with appropriated funds. Eligibility testing was performed only for AY 2015; no employees were paid with appropriated funds in AYs 2016 or 2017. In addition, we relied upon work conducted in previous audits by our office, our external audit firm, and the Texas State Auditor's Office to gain assurance about the reliability of data in the internal accounting system and USAS. The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Additionally, Article III of the *General Appropriations Act* allows the UT System to redistribute appropriated funds for employee group insurance (EGI) benefits among UT System institutions. If an institution's proportional need is less than its original appropriation, then the excess can be allocated among the UT System institutions with a shortfall. However, if an institution has a proportional need in excess of its original appropriation, no additional benefits funding is provided by the State. The UT System must submit an annual report to the State summarizing these transfers to reallocate the appropriated funds.

Although not required by Rider 8 to be audited, we reviewed the UT System's report for all three years within scope of this audit and determined that the UT System appropriations transfer reports were complete and mathematically accurate. On a System-wide level, approximately \$10.8 million, \$14.3 million, and \$10.5 million in additional appropriations would have been required in AYs 2015, 2016, and 2017, respectively, to fully fund the General Revenue proportional share of EGI contributions.

We appreciate the assistance from staff in the Office of the Controller.

Sincerely,

A handwritten signature in cursive script that reads "J. Michael Peppers".

J. Michael Peppers, CIA, QIAL, CRMA, CPA  
Chief Audit Executive

cc: Scott Kelley, Ed.D., Executive Vice Chancellor for Business Affairs