



Revenues

Audit Report No. R2401 | *October 26, 2023*



Executive Summary

Audit Objective

To assess the effectiveness of internal controls over internal (service departments) and external sales revenues, as well as unrelated business income taxes on the external sales revenues, and ensure the reliability and integrity of financial and operational information, process efficiency, and compliance with policies and procedures.

Controls and Strengths

- Job descriptions, departmental procedures, and university-wide policies exist to ensure employees handling internal and external revenues are aware of their responsibilities.
- Employees within the Receivables and Sponsored Accounting area receive training, such as cash handling training, to further their job performance.

Overall Conclusion

Opportunities exist to enhance controls over internal and external sales revenues as well as unrelated business income tax procedures to ensure the reliability and integrity of financial and operational information, process efficiency, and compliance with policies and procedures.

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.

Recommendations	Risk Level	Management's Implementation Date
1. Ensure Compliance with External Sales Policy	Medium	August 31, 2024
2. Ensure Compliance with Internal Sales Policy	Medium	August 31, 2024
3. Improve Review of Unrelated Business Income Tax Activities	Medium	August 31, 2024
4. Review Centralized Benefit Cost Centers	Low	August 31, 2024

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
1. <i>Ensure Compliance with External Sales Policy</i>		Medium
<p>External sales policies and procedures are outlined on the Office of Budget and Finance website at https://finance.utdallas.edu/selling-goods-services/external-sales/. To ensure compliance with the policies and procedures and the reliability and integrity of financial information, we reviewed and tested a sample of external sales cost centers, noting the following:</p> <ul style="list-style-type: none"> a. Accounting and Financial Reporting, per policy, will conduct annual reviews of all external sales units. However, the annual review process is not being performed. In addition, we tested 15 external sales costs centers and found that none had a rate study or documented approvals. b. According to the policy, "All costs associated with providing goods and services to external parties must exceed \$10,000 annually in order to 	<p>Without annual reviews, approvals, rate studies, and monitoring of external sales cost centers for compliance with existing policies, external sales may not be properly accounted for, and the risk of misuse of revenues could be increased.</p>	<p>Ensure compliance with the external sales policy by conducting annual reviews of all cost centers. For cost centers created prior to the policy, require having them go through the approval process to ensure they are an appropriate external sales cost center. Consider granting access to the contract system for accounting employees that handle revenue contracts.</p>

¹ See Appendix B on page 13 for definitions of observation risk rankings. Minimal risk observations were communicated to management separately.



Observation	Risk Level/Effect	Recommendation ¹
<p>engage in external sales activity." Of the 183 external sales cost centers in FY22, 121 of the cost centers did not have expenses that exceeded \$10K, and in FY23 there were 106 of 169 that did not exceed \$10K as of July 2023.</p> <p>c. There also needs to be more coordination with the Office of Contract Administration with the creation of external sales units that have a contract associated with them. Accounting and Financial Reporting does not have direct access to the contracting system, and having access would help facilitate reviews when the revenues are tied to a contract.</p> <p>d. The policy was created in 2019 and requires written requests to establish an external sales unit that must be approved by the Vice President for Budget and Finance/Chief Financial Officer or his/her designee. The request must also be approved by a school's dean, or appropriate vice president.</p>		



Observation	Risk Level/Effect	Recommendation ¹
<p>The cost centers that were created prior to the creation of the policy were not required to be approved, and certain cost centers reviewed did not appear to meet the definition of an external sales cost center based on the information provided by the cost center manager. It may be a good business practice to have the cost centers created before the policy was implemented to go through the approval process to determine if they should continue as an external sales cost center.</p> <p>e. In testing expenses, some cost centers had expenses that were not properly documented and did not appear to be related to the purpose of the cost center, because there was no approved plan for the use of the funds generated from the external sales. Also, in interviewing the external sales cost center owners, many do not have internal procedures governing the management and collection of the funds. Improving internal procedures as well as periodic reviews and monitoring may help ensure expenses</p>		



Observation	Risk Level/Effect	Recommendation ¹
<p>are appropriate to the cost center purpose.</p>		
<p>Management’s Action Plan: In FY24, the receivables and sponsored accounting department will enhance the external sales cost center review process. Reviews will include cost centers established prior to the external sales policy. Due to the number of prior cost centers, completion of necessary updates will vary by the campus department responsible for the external sales activity.</p> <p>Responsible Party Name and Title: Tracy Lederer, Director of Receivables and Sponsored Accounting</p> <p>Estimated Date of Implementation: 8/31/24</p>		
<p>2. Ensure Compliance with Internal Sales Policy</p>		<p>Medium</p>
<p>Service Centers are set up when one department wishes to sell goods or services to other university departments. policies and procedures are outlined on the Office of Budget and Finance website at https://finance.utdallas.edu/selling-goods-services/service-centers/. To ensure compliance with the policies and procedures and the reliability and integrity of financial information, we reviewed and tested a sample of internal sales cost centers, noting the following:</p> <p>a. We tested 10 service center cost centers, and rate studies were not approved for any of the cost</p>	<p>Without rate study approvals and monitoring for compliance with the policy, internal sales may not be properly accounted for, the risk of misuse of revenues could be increased, and the university may not comply with federal guidelines that require consistent rate calculations.</p>	<p>Ensure that the annual review process is completed for the service center cost centers to ensure that rate studies were performed, approved by the appropriate personnel, and cost centers that have less than \$10K in costs are monitored and to determine their viability.</p>



Observation	Risk Level/Effect	Recommendation ¹
<p>centers, and one did not have a rate study.</p> <p>b. We tested a sample of expenses from internal sales cost centers and noted some minor opportunities to improve account coding, documentation, and compliance. These instances have been brought to the respective department's attention.</p> <p>c. We tested a sample of revenues from various cost centers to ensure that revenues were accurately billed per the established rates and in a timely manner. We found opportunities to improve billing processes, and these were communicated to the affected departments.</p> <p>d. The service center policy states that goods and services provided by internal service providers must be consistent with the University's mission and exceed \$10k in annual cost. We noted that there were 16 cost centers out of 38 in</p>		



Observation	Risk Level/Effect	Recommendation ¹
<p>FY22, and 13 out of 35 in July of FY23, that had less than \$10K in expenses.</p>		
<p>Management’s Action Plan: The receivables and sponsored accounting department will improve the documentation retained for service centers rate study approvals and justifications for services centers that don’t meet the minimum expenditure threshold. Centers without justification for activity below the expenditure threshold will be discussed with responsible departments to either close or combine appropriate activities.</p> <p>Responsible Party Name and Title: Tracy Lederer, Director of Receivables and Sponsored Accounting</p> <p>Estimated Date of Implementation: 8/31/2024</p>		
<p>3. Improve Review of Unrelated Business Income Tax Activities</p>		<p>Medium</p>
<p>Nonfinancial questionnaires (NFQs) are completed for activities that may possibly generate unrelated business income tax (UBIT) per UT System policy. NFQs are typically completed when a new revenue-generating activity occurs, or the activity has changed its mode or scope of operations subsequent to the original submission. The NFQs must be reviewed for tax determination by the UT System Office of General Counsel and also submitted to the UT System Controller’s office.</p> <p>The NFQ for Recreational Sports was prepared in 2008; however, it has not</p>	<p>Noncompliance with IRS regulations or miscalculation of UBIT revenues and taxes could occur if NFQs are not calculated accurately and periodically reviewed.</p>	<p>Develop procedures to ensure that NFQs are periodically reviewed. Prepare a new NFQ for review and approval for Recreational Sports.</p>



Observation	Risk Level/Effect	Recommendation ¹
<p>been reviewed since then, despite the enrollment growth of the University. The same percentages detailed as activity in 2008 are being used to allocate UBIT revenues to Recreational Sports.</p>		
<p>Management’s Action Plan: The payroll and tax services department will request an updated nonfinancial questionnaire from recreational sports and ensure that updated questionnaires are requested at least every three years.</p> <p>Responsible Party Name and Title: Nancy Barganier, Director of Payroll and Tax Services</p> <p>Estimated Date of Implementation: 8/31/2024</p>		
<p>4. Review Centralized Benefits Costs Centers</p>		<p>Low</p>
<p>UT Dallas established centralized cost centers to pay for benefits when employees leave the university. The retiree premium sharing cost center, with FY22 revenues totaling \$7.5 million, was established to pay the costs for retiree insurance. The leave benefit revolving fund, with FY22 revenues totaling \$2.2 million, was established to pay for lump sum vacation and sick leave payouts when employees terminate employment.</p> <p>In accordance with the Internal Service Provider Policy, a rate study was prepared for these cost centers; however, the rate studies were not</p>	<p>Without proper reviews and approvals and compliance with the internal service provider policy, UT Dallas may not comply with system, state, and/or federal regulations.</p>	<p>Ensure documentation exists regarding reviews, approvals, and documentation for the centralized benefits cost centers.</p>



Observation	Risk Level/Effect	Recommendation ¹
<p>signed by the Budget Office nor approved by Accounting and Financial Reporting. A small percentage of payroll cost is allocated to these cost centers each month (2.5% for the retiree premium sharing and 1.7% for leave benefits); however, there is no documentation within the rate studies to determine how the rates were calculated.</p>		
<p>Management’s Action Plan: The receivables and sponsored accounting department will ensure that central benefits cost center reviews are appropriately documented and include record of the rate calculation as well as approvals.</p> <p>Responsible Party Name and Title: Tracy Lederer, Director of Receivables and Sponsored Accounting</p> <p>Estimated Date of Implementation: 8/31/2024</p>		

Overall Conclusion

Opportunities exist to enhance controls over internal and external sales revenues as well as unrelated business income tax procedures to ensure the reliability and integrity of financial and operational information, process efficiency, and compliance with policies and procedures as outlined in the detailed audit results.



Appendix A: Information Related to the Audit

Background

UT Dallas operating revenues for FY22 totaled over \$562 million. Revenues consisted of student tuition and fees, revenues from contracts, grants, and gifts, revenues from auxiliary enterprises, and other revenues such as internal and external sales. This audit focused on the revenues from internal and external sales. [The Office of the Vice President of Budget and Finance](#) is responsible for the accounting of revenues, and internal and external sales are handled by Receivables and Sponsored Accounting personnel within Accounting, Financial Reporting, and Payroll. UT Dallas has established policies over these types of revenues, and the following outlines the policies and financial information for FY22.

1. [UTDBP 3033, Internal Service Providers](#). “An Internal Service Provider (ISP) is an organizational unit established to offer goods and services to University of Texas at Dallas (University) customers.” ISPs can either be a service center, providing goods and services via interdepartmental invoicing to university departments, or recharge centers, who exist to re-distribute the original cost of goods and services within the university, with transactions netting to zero on a monthly basis. Rate calculations for service centers must adhere to federal guidelines, and billing rates are designed to fully recover current operating costs.

In FY22, there were 30 ISPs with internal revenue that totaled over \$13.8 million.

2. [UTDBP 3114, External Sales](#). Departments selling goods or service, consistent with the mission of the University and their department’s operations, to individuals or entities outside the university may collect external revenues. Departments charge established rates based on calculations that are required to be reviewed by Accounting and Financial Reporting, and no University resources may be used in the generation of these revenues as costs incurred must be recorded to the cost center generating the revenue.

In FY22 there were over 85 external sales units with external revenue that totaled over \$8.6 million.



3. Certain external revenues are subject to unrelated business income tax ([UBIT](#)). Such revenues are not substantially related to the University's exempt purposes of education and research. Although UT System is responsible for filing UBIT taxes, UT Dallas is responsible for monitoring external sales and providing information to UT System to ensure compliance with Internal Revenue System (IR) regulations and the UT System policy, [UTS 103, Unrelated Business Income Tax](#). The Payroll and Tax department is responsible for UBIT.

Objective

To assess the effectiveness of internal controls over internal (service departments) and external sales revenues and ensure the reliability and integrity of financial and operational information, process efficiency, and compliance with policies and procedures.

Scope

The scope of the audit was FY22-23, through June 2023. Fieldwork was conducted from March 2023, and the audit concluded on August 17, 2023.

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 controls².

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.

² <http://www.coso.org>



Audit Area	Methodology	Observations Related to the Audit Area
Gaining an Understanding of Operations	Gained an understanding of operations by reviewing service center, external sales, and UTBIT policies, procedures, and regulations; conducting interviews with staff members within Receivables and Sponsored Accounting; reviewing financial information and related documentation.	Not Applicable
Service Centers	Tested selected cost centers for financial accuracy and compliance with the internal sales policy at UTDBP 3033 - Internal Service Providers .	Recommendations #2 and #4
External Sales	Tested selected cost centers for financial accuracy and compliance with the external sales policy at UTDBP 3114 – External Sales .	Recommendation #1
Unrelated Business Income Tax (UBIT)	<ul style="list-style-type: none">• Reviewed university UBIT procedures as well as the UT System UBIT policy and tested for compliance with the policy.• Reviewed the process for determining UBIT-related income at UTD and assessed for financial accuracy and reasonableness.	Recommendation #3

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.

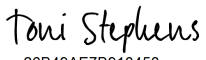
Risk Level	Definition
Priority	If not addressed immediately, a priority observation has a significant probability to directly impact the achievement of a strategic or important operational objective of UT Dallas or the UT System as a whole. These observations are reported to and tracked by the UT System 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,

DocuSigned by:

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

Distribution List

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

Responsible Vice President

Mr. Terry Pankratz, Vice President of Budget and Finance

Persons Responsible for Implementing Recommendations:

Ms. Tracy Lederer, Director, Receivables and Sponsored Accounting

Ms. Nancy Barganier, Director of Payroll Services

Other Interested Parties

Mr. Greg Argueta, Assistant Vice President, 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

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