UNIVERSITY OF TEXAS ARLINGTON

AUDIT REPORT

FY 2023 UTS 142 Assurance Audit

March 2024

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Executive Summary – FY 2023 UTS 142 Assurance Audit

Observations	Report Rating
4	Medium

We recently completed an audit of UTS 142, Financial Accounting and Reporting, at UTA to determine whether the monitoring and certification processes associated with the Segregation of Duties and Account Reconciliations Monitoring Plan are effective and efficient. The scope of the audit included FY 2023. Overall, the audit identified opportunities to improve both processes associated with the Monitoring Plan. These opportunities are outlined below and addressed in this report.

Importantly, Accounting Services is currently making substantial process changes that are anticipated to positively impact compliance and financial statement approval percentages, as well as improve the efficiency and effectiveness of the monthly and annual financial review processes through notification automation. These changes were being planned and developed before and during the audit. Several of the opportunities identified in this report will be addressed to a great extent by these changes. We believe it is important to recognize the considerable and positive changes and employee efforts that are underway in this area.

OBSERVATIONS	RECOMMENDATIONS	RATING	PAGE
1. Certification Process	We recommend Accounting Services implement a system control that requires certifiers with unapproved or unreconciled statements to leave a note to explain the reason for the exception.	Medium	4
2. Monitoring Process & Procedures	We recommend Accounting Services complete implementation of the bots to notify reconcilers and approvers of all unreconciled and unapproved statements. Until then, the monitoring process should be risk-based to prioritize which departments receive notifications. Other factors to consider in sending notifications include number of statements remaining unapproved after the deadline; number of months of non-compliance; and dollar amount of unapproved statements. Additionally, notifications should appropriately escalate in sender, recipient, and messaging.	Medium	6

OBSERVATIONS	RECOMMENDATIONS	RATING	PAGE
3. The Monitoring Plan	We recommend Accounting Services review and update the Monitoring Plan prior to the upcoming fiscal year. If no substantive changes are needed, a review of the Plan should be documented noting no changes are necessary, and the Plan should be updated with the current year. Additionally, the Plan should be updated for any substantial changes to the process during the year.	Medium	9
4. University Compliance Services	During the closing conference for this audit, University Compliance Services opted out of the duties described in UTA's FY 2023 Monitoring Plan, citing several concerns. To address University Compliance opting out, a new UTS 142 monitoring plan should be developed to help ensure compliance going forward. UTS 142 requires the Financial Reporting Officer to develop a monitoring plan for the segregation of duties and reconciliation of accounts. As described in UTS 142, the monitoring plan should be risk-based and establish the minimum requirements for the institutions. Based on this guidance, we recommend the continuation of the development of an automated monthly notification plan, which informs reconcilers and approvers if they have failed to perform their duties on a timely basis. If the reconcilers and/or approvers fail to perform their duties on a timely basis, it is recommended that an automated system make the approver's manager aware of the situation, after a suitable period of time. If this escalation fails, further escalation and/or disciplinary action should be considered. This process should be documented in the monitoring plan. Additionally, risk-based and timely reviews should be continued by the Division of Business Affairs. This centralized detailed review process should be documented in the new monitoring plan.	Medium	10

Further details can be found on the following pages. Other less significant opportunities were communicated to management separately.

Observation 1 Certification Process

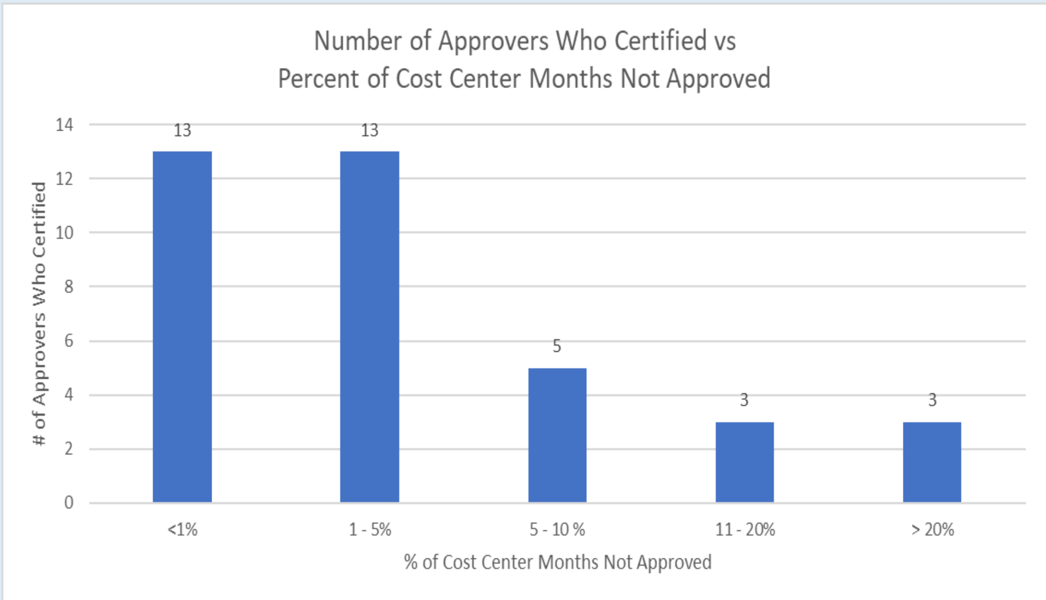
Every month, departments must reconcile and approve the Statement of Accounts (SOA) for each cost center or project. At the end of the year, each account owner certifies that all cost centers and projects have been reconciled on a timely basis for each month plus a close-out period (total of 13 periods or cost center months).

Owners are also certifying they are responsible for, and have established, internal controls over this process. Any exceptions to the controls or account reconciliations are to be noted in the comments.

However, there is no control in place to prevent an account owner who has unreconciled or unapproved statements from signing the annual certification.

Of the 160 account owners who certified, 37 account owners (23.1%) had unapproved statements (please see chart on the right). Although a pop-up message stating this will appear, the notification may be by-passed, without requiring SOA approval or an explanatory note. We noted that 5 of 37 certifiers with unapproved statements made a comment on their certification; however, only one included a substantive note with their certification detailing outstanding cost centers.

For certifiers with any unapproved statements, regardless of whether accounts were reconciled, we determined that there was an average of 5.8% cost center months unapproved, totaling approximately $4 million dollars. Although this amount only represents approximately .51% of all operating expenses university-wide, the potential could be much higher.



For the 37 account owners with unapproved statements, there was an average of 5.8% cost center months unapproved, ranging from 0.1% to 30.8% per account owner. Eleven account owners (or 29.7%) had more than 5% of cost centers unapproved.

Observation 1 — Certification Process

Recommendation:

We recommend Accounting Services implement a system control that requires certifiers with unapproved or unreconciled statements to leave a note to explain the reason for the exception.

Management Response:

The Controller and AVP of Business Services and Accounting Services will research the possibility of adding a control to the SAHARA system to require certifiers with unapproved or unreconciled statement to note the reason for exception. However, because this system is administered by UTSIS and is subject to the governance rules in place for UTShare and its components, this may or may not get approved through that governance process. If approved, it will be prioritized along with other approved requests and will be scheduled based on that approved prioritization and may not fall within a targeted implementation date.

Target Implementation Date: August 31, 2024

Responsible Party: Controller and Associate VP of Business Affairs

Observation 2

The Monitoring Plan requires Accounting Services to periodically review the status of the SOA reconciliations to verify that all financial statements are being reconciled and approved on a timely basis. To do this, the department would (1) perform annual reviews for selected departments and (2) run a status report showing all departments with unreconciled or unapproved financial statements. Notices of non-compliance were sent to (1) all departments who were selected for an annual review and had instances of non-compliance and notices were sent to (2) any department with 30 or more unreconciled or unapproved financial statements. Ideally, escalation should involve the sender, recipient, and messaging.

Although the process varied during the audit period, generally, the first notifications will be sent by an Accounting Services representative to the reconciler, manager, and/or owner being monitored; the second notifications will be sent by the Executive Director of Accounting Services to the department head; and the third notifications will be sent by the Assistant Vice President of Business Affairs to the department head and copied to the Chief Compliance Officer.

However, we found that the escalation process varied because Accounting Services was transitioning from only using the annual review process for selected departments to also incorporating a status report of all departments with unapproved financial statements. We selected a sample of five departments from each quarter (for a total of twenty departments) based on the number of reconciliations and approvals completed after the deadline or missing altogether. Specifically:

- For three of eight applicable departments, third notifications of repeat instances of non-compliance were not sent on a timely basis to University Compliance Services. For two of the three departments, no notification was sent to University Compliance Services and for one department, notification was sent to University Compliance 93 days after the third notification was sent to the department head. The first notification was sent to the department head on May 2, 2023; however, University Compliance Services was not notified until September 29, 2023.

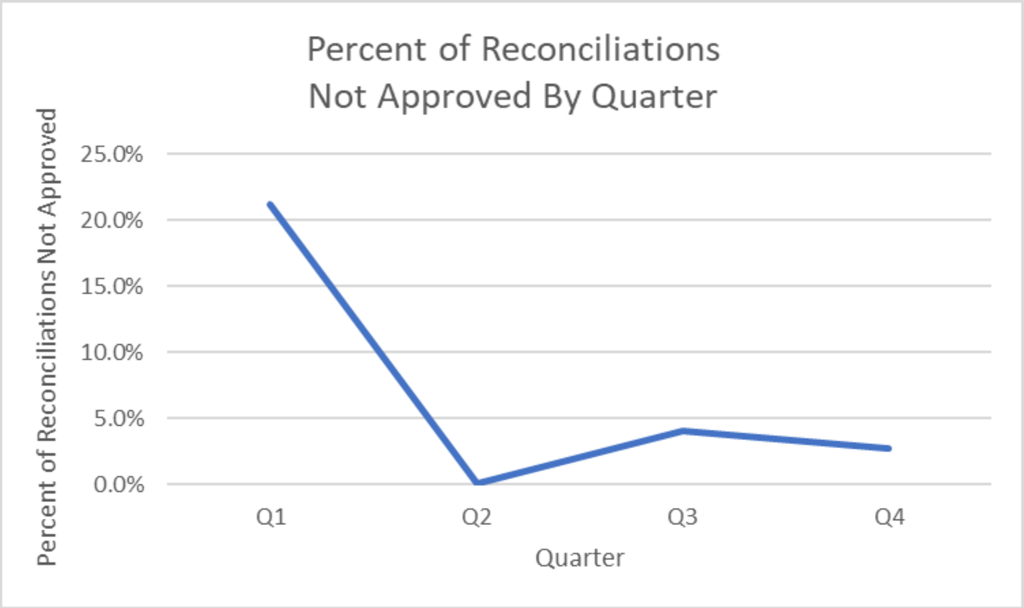
- The language and timing of notifications did not clearly convey which instance of non-compliance it represented or whether it was an escalation since the last notification. Although emails are sent almost monthly to departments, in some cases multiple emails are sent reflecting the same time frame of non-compliance.

- When the approver or account owner is the department head, all three notifications of non-compliance will be sent to the same individual and the only escalation is to University Compliance Services on the third instance.

- For 1 of 17 applicable departments, a first notification for non-compliance was not sent to the department. This position was vacant for approximately eight months during the fiscal year. Although the former employee's supervisor was assigned as the approver, the notification was possibly overlooked due to it being a manual process. Additionally, we noted instances where second notifications were sent by the Staff Accountant rather than the Executive Director.

During 2023, Accounting Services' monitoring processes were updated in order to improve compliance with the SOA reconciliation process. Although Accounting's monitoring procedures identified 10.9% of reconciliations were not approved during FY 2023, the majority of non-compliance occurred during the first quarter of 2023, prior to the changes in the process (please see graph below). Additionally, this manual process is expected to be phased out, as Accounting Services is working to implement automated notifications that will be sent to all account owners with unreconciled or unapproved statements.

Based on discussion, the timing of the process is designed to give account owners time to react between review and notification. However, when departments with repeat instances of non-compliance are not reported to University Compliance Services on a timely basis, if at all, there is a missed opportunity to escalate the current situation, and to deter future non-compliance. Additionally, sending multiple notifications for the same period, or without appropriate escalation, may cause confusion for the account owner and may be an inefficient use of limited resources.



Although the overall non-compliance identified was 10.9%, as monitoring processes were updated, there was a significant decrease in non-compliance identified, averaging 2.2% for the last three quarters.

Recommendation:

We recommend Accounting Services complete implementation of the bots to notify reconcilers and approvers of all unreconciled and unapproved statements. Until then, the monitoring process should be risk-based to prioritize which departments receive notifications. Other factors to consider in sending notifications include number of statements remaining unapproved after the deadline; number of months of non-compliance; and dollar amount of unapproved statements. Additionally, notifications should appropriately escalate in sender, recipient, and messaging.

Management Response:

The automated email notification project should be completed by end of FY24. Until the automation is fully implemented, we will continue sending manual notifications to departments with a significant number of unapproved statements and when those departments continue to have issues of non-compliance. We will consider whether notifications should also be based on a dollar amount of unapproved statements. We have designed the automated notifications to escalate in sender, recipient and messaging as the statements move further out of compliance.

Target Implementation Date: August 31, 2024

Responsible Party: Executive Director of Accounting Services

The Monitoring Plan

The UT System regulation (UTS) 142, Financial Accounting and Reporting, requires the Financial Reporting Officer to develop or update a risk-based monitoring plan for the segregation of duties and reconciliation of accounts. The Financial Statement Certification Letter, which is signed by the President, Chief Financial Officer, and Controller, attests that the Monitoring Plan has been prepared/updated by the Financial Reporting Officer for the fiscal year.

The current process required that the Monitoring Plan be sent to University Compliance Services for review and approval, prior to being implemented. However, we found there was no FY 2023 Monitoring Plan submitted and the current monitoring process observed during the audit varied from the FY 2022 Monitoring Plan. Although the current monitoring process for FY 2023 varied from the FY 2022 Monitoring Plan, the process did include recommended changes outlined in the FY 2022 audit. In addition, these changes were included in the FY 2024 Monitoring Plan, which was submitted to Compliance on August 30, 2023, and approved by Compliance on September 5, 2023.

Recommendation:

We recommend Accounting Services review and update the Monitoring Plan prior to the upcoming fiscal year. If no substantive changes are needed, a review of the Plan should be documented noting no changes are necessary, and the Plan should be updated with the current year. Additionally, the Plan should be updated for any substantial changes to the process during the year.

Management Response:

Historically, we have worked with Compliance to update the monitoring plan annually within the first quarter of the current fiscal year. However, for FY23, because there were significant recommended changes resulting from the FY22 audit, we were unable to have an updated plan ready within the first quarter. Although there was no updated monitoring plan in place for FY23, we had been communicating with Compliance about the changes throughout the fiscal year and we did see a decrease in the overall number of unapproved statements resulting from the changes implemented during the fiscal year. An updated monitoring plan including the recommended changes was submitted to Compliance for FY24 and approved on 9/5/23. Planned changes to the process are expected to be completed in FY24. Once completed an updated FY24 monitoring plan will be prepared to reflect the new process.

An updated monitoring plan for FY25 will be prepared prior to the beginning of the fiscal year.

Target Implementation Date: August 31, 2024

Responsible Party: Controller and Associate VP of Business Affairs

University Compliance Services

The Monitoring Plan requires University Compliance Services to perform a review of the department’s reconciliations after multiple instances of non-compliance. Additionally, the Plan requires University Compliance Services to present the results from the quarterly monitoring to the Compliance, Accountability, Risk and Ethics (CARE) Committee.

Accounting created a Teams site to share Monitoring Plans, financial statement reviews, financial statement review details, follow-up review details, unapproved status reports, and any emails from Accounting (with Compliance being copied) involving multiple instances of non-compliance. However, when University Compliance Services received notifications of repeat instances of non-compliance, they did not perform a review of the department's reconciliations or otherwise follow-up on statements. Additionally, the results from monitoring were not presented to the CARE Committee.

During this time, the Chief Compliance Officer position was vacant until the last quarter of the fiscal year. The Interim Chief Compliance Officer (CCO) met with the Vice President, Administration & Economic Development, to discuss how to perform a review of the reconciliations, who suggested contacting Accounting to understand which accounts pose the highest risk based on dollar amount (i.e., top 10). The Interim CCO stated that Accounting was unable to prioritize departments in this manner, so Compliance requested that the Chief Financial Officer present information on non-compliance with reconciliations at the quarterly CARE Committee meetings.

The March 2023 meeting minutes indicate that Accounting and Compliance are working together to address non-compliance in reconciliations and determining how to present such information at CARE Committee meetings. The numbers of unreconciled and/or unapproved account reconciliations were presented during the September 2023 meeting.

Recommendation:

During the closing conference for this audit, University Compliance Services opted out of the duties described in UTA's FY 2023 Monitoring Plan, citing several concerns. To address University Compliance opting out, a new UTS 142 monitoring plan should be developed to help ensure compliance going forward. UTS 142 requires the Financial Reporting Officer to develop a monitoring plan for the segregation of duties and reconciliation of accounts. As described in UTS 142, the monitoring plan should be risk-based and establish the minimum requirements for the institutions.

Based on this guidance, we recommend the continuation of the development of an automated monthly notification plan, which informs reconcilers and approvers if they have failed to perform their duties on a timely basis. If the reconcilers and/or approvers fail to perform their duties on a timely basis, it is recommended that an automated system make the approver's manager aware of the situation, after a suitable period of time. If this escalation fails, further escalation and/or disciplinary action should be considered. This process should be documented in the monitoring plan. Additionally, risk-based and timely reviews should be continued by the Division of Business Affairs. This centralized detailed review process should be documented in the new monitoring plan.

Management Response:

As stated earlier in the report, the Division of Business Affairs is in the process of developing an automated notification and escalation process for reconciliation and approval for monthly financials. Additionally, Business Affairs is working to strengthen the risk-based centralized review process and communication of results. These two processes will be outlined in a new UTS 142 monitoring plan, which is currently under development.

Target Implementation Date: August 31, 2024

Responsible Party: Executive Director of Accounting Services

Background, Audit Objective, Scope and Methodology

Background

UTS 142, Financial Accounting and Reporting, provides financial reporting requirements and duties related to those responsible for financial reporting. Section 5 of the policy requires the Financial Reporting Officer develop or update a monitoring plan for the segregation of duties and reconciliation of accounts. The monitoring plan should be risk-based and establish the minimum requirements for the institution. Section 6 requires the University of Texas at Arlington (UTA) Chief Administrative Officer and Financial Reporting Officer to attest to the accuracy of the institution's financial statements in an annual certification to the Financial Reporting Officer of UT System Administration. In addition, a certification of compliance with the UT System Financial Code of Ethics is required, as well as an attestation related to whether any violations of the Financial Code of Ethics were known. Finally, Section 7 of the policy requires the institutional Chief Audit Executive (CAE) perform an annual risk assessment of the Monitoring Plan.

Audit Objective

The objective of this audit was to determine whether UTA's Monitoring Plan is in place and functioning as intended. This included determining whether account reconciliations are being performed and whether appropriate segregation of duties were being administered by management.

Audit Scope and Methodology

The scope of the audit was FY 2023. We tested the current Monitoring Plan process to help ensure management's assertions on segregation of duties were valid and statement of accounts were being reconciled. We relied on the results of the on-site reviews/inspections conducted by Accounting Services throughout the year. In addition, we reviewed the certification process that management relies upon to submit the annual certification to UT System.

Audit methodology included interviewing key personnel, reviewing processes, performing analytical procedures and testing of supporting documentation.

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 in both standards for internal auditors.

We appreciate the outstanding courtesy and cooperation received from Accounting Services, Financial Reporting, and Compliance Services during this audit.

Ranking Criteria

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for these rankings are as follows:

Priority	An issue identified by an internal audit that, if not addressed on a timely basis, could directly impact achievement of a strategic or important operational objective of UTA or the UT System as a whole.
High	A finding identified by an internal audit that is considered to have a medium to high probability of adverse effects to UTA either as a whole or to a significant college/school/unit level.
Medium	A finding identified by an internal audit that is considered to have a low to medium probability of adverse effects to UTA either as a whole or to a college/school/unit level.
Low	A finding identified by an internal audit that is considered to have minimal probability of adverse effects to UTA either as a whole or to a college/school/unit level.

None of the findings from this review are deemed as a "Priority" finding.

To:	Jennifer Cowley	*President, UTA*
	Helen Dickey	*Audit Committee Chairman/Partner, Harris & Dickey LLC*

Audit Committee:

Salma Adem	*Vice President for Planning and Chief of Staff, UTA*
Shelby Boseman	*University Attorney and Chief Legal Officer, UTA*
Tamara Brown	*Provost and Senior Vice President for Academic Affairs, UTA*
John Davidson	*Vice President for Business and Finance and Chief Financial Officer, UTA*
Harry Dombroski	*Dean, College of Business, UTA*
John Hall	*Vice President for Administration and Economic Development, UTA*
Janya Kieffer	*Chief Information Officer, Austin Industries*
Andrew Milson	*FY 2024 Faculty Senate Chair (Professor, History), UTA*
Chris Mitchell	*Mitchell Vitacca Consulting*
Jewel Washington	*Vice President for Talent, Culture and Engagement, UTA*

From:	David Price	*Chief Audit Executive, UTA*

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	Tanya Lowery	*Chief Compliance Officer, UTA*
	Stephanie Scott	*Associate Vice President and Controller, Accounting Services, UTA*
	Andrea Wright	*Executive Director, Accounting Services, UTA*

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