

Accounts Receivable

Audit Report # 21-100

January 25, 2021



The University of Texas at El Paso
Office of Auditing and Consulting

"Committed to Service, Independence, and Quality"



The University of Texas at El Paso
Office of Auditing and Consulting Services

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January 25, 2021

Dr. Heather Wilson
President, The University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Wilson:

The Office of Auditing and Consulting Services has completed a limited-scope audit of Accounts Receivable. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. Our recommendations are intended to assist the department in strengthening controls and help ensure that the University's mission, goals, and objectives are achieved.

We appreciate the cooperation and assistance provided by Student Business Services (SBS), Financial Services, and Enterprise Computing staff during our audit.

Sincerely,

A handwritten signature in blue ink that reads 'Lori Wertz'. The signature is written in a cursive, flowing style.

Lori Wertz
Chief Audit Executive

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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of The University of Texas at El Paso (UTEP) student accounts receivable to determine adherence to state regulations, UT System and UTEP policies and procedures. During the audit we noted the following observations:

- **Ongoing student accounts receivable collection efforts are not always followed, including:**
 - past due accounts are not sent, or are not sent on a timely manner to collection agencies,
 - students with past due account balances were able to register for subsequent semesters, and
 - three students were charged late fees and/or loan interest after the ongoing collection efforts stopped due to COVID-19.
- **There are no formal policies and procedures for the following processes:**
 - administrative write-offs of individual student accounts,
 - placement and removal of student financial holds,
 - student repayment agreements, and
 - manual adjustments for uncollectible accounts and collections processes.
- **Banner Student Information System (Banner) Access Control:**
 - there are segregation of duties issues within the Student Business Service (SBS) Office, and
 - some Banner users outside of SBS may have greater access than is required to perform job responsibilities.
- **Allowance for student accounts:**
 - two reconciling balances were excluded from the allowance calculation, and
 - the bad debt policy needs to be updated to reflect the current practices of the University.
- **The University lost over \$17,000 in approved fee revenue as the fees were not properly assigned to courses in Banner.**
- **The fee approval process is organized and functioning effectively.**
- **The following system issues were noted:**
 - system script for student financial holds is not functioning as intended,
 - information from a certain Banner report changes when exported, and
 - some past due account balances by term were incorrect in two reports used by SBS. However, the total past due balances were correct.

BACKGROUND

The University-wide campus risk assessment ranked student accounts receivable as a high-risk audit area. The Student Business Services (SBS) Office administers student accounts receivable. Their responsibilities include:

- overseeing student billing and payments,
- monitoring of student past due accounts,
- collection follow-up activities (including referrals to collection agencies), and
- annual write-offs of student accounts (in coordination with Financial Services).

Institutional student loans are available for students to help pay for tuition and fees on an as-needed basis. Students are responsible for making payments according to due dates published by SBS.

Consequences for non-payment on student past due accounts, include the following: late fee charges, withdrawal from courses, and holds on transcripts, diplomas, grades, and registration. Many of these activities are recorded in the student account in the Banner Student Information System (Banner) by automated system scripts based on relevant criteria.

SBS primarily uses information from Banner to perform its' student account monitoring activities. Furthermore, SBS works together with Enterprise Computing to pull reports from Banner and to run the automated system scripts to place holds and assess fees on student accounts.

To properly reflect the collectability of student accounts receivable, Financial Services performs an annual allowance for doubtful accounts calculation for student accounts receivable. The table below depicts the four-year student accounts receivable balances.

FY	Number of students *	Student Accounts Receivable **	Allowance **	Write-offs ***
2016-17	23,922	\$32,024,329	\$1,415,678	\$1,828,437
2017-18	25,078	\$36,622,964	\$1,900,462	\$1,949,114
2018-19	25,151	\$37,248,953	\$2,374,032	\$1,499,965
2019-20	25,177	\$39,346,200	\$2,458,539	\$1,927,027

Information obtained from the following sources:

* Center for Institutional Evaluation, Research, and Planning Administration

** Annual Financial Reports

*** General Ledger

AUDIT OBJECTIVES

The objective of this audit was to determine whether the University has controls and procedures in place to ensure the following:

- student accounts receivable are properly recorded,
- the allowance for doubtful accounts is appropriately calculated,
- collection and write-off processes are adequately managed, and
- employee access for billing, payment collection and write-off processes is properly restricted.

SCOPE AND METHODOLOGY

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the authoritative guidelines of the *International Professional Practice Framework* issued by the Institute of Internal Auditors. The scope of the audit is limited to student accounts receivable, including transactions and student records, for the period of September 1, 2018, through August 31, 2020.

Audit methodology included:

- interviewed staff and observed documentation to gain an understanding of current operations and processes over student accounts receivable, and
- reviewed policies and procedures for student accounts receivable, allowance, and write-off processes:

Areas	Purpose
Past Due Accounts	Verify ongoing collections efforts and actions taken by the University for non-payment
Allowance	Verify valuation supporting documentation
Manual Adjustments	Verify supporting documentation and proper authorization
Administrative Write-offs	Verify supporting documentation and proper authorization
Banner Access report	Verify proper access and segregation of duties
Student Tuition and Fees	Verify that new and increased fees are assessed timely and accurately

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 the rankings are as follows:

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

AUDIT RESULTS

A. Past Due Accounts

We tested a sample of 60 past due accounts from 57 students to verify ongoing collection efforts and actions taken by the University.

Population	Past Due Accounts	Number of Students	Total Past Due Balance
Total	10,769	8,651	\$8,991,688
Sample Breakdown	Past Due Accounts	Number of Students	Total Past Due Balance
Pre COVID-19 (201910-202010 terms)	38 **	36***	\$273,668
Post COVID-19 * (202020 & 202030 terms)	22	22***	\$147,409
Total			\$421,077
* Transactions after 4/1/2020			
** Two students had past due accounts from more than one term			
*** One student was tested for Pre and Post COVID-19 terms			

Testing criteria included UT System Rules and Regulations, Board of Regents Rule 50303, UTEP 2019-2020 Tuition and Fees Catalog, and SBS internal business practices.

A.1. Ongoing Student Accounts Receivable Collection Efforts are Not Always Followed	High Risk
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Pre COVID-19

- twelve of 36 (33%) students with past due account balances totaling \$88,441, did not have an AR hold (Account in Collections) as required by SBS practices,
- five of 36 (14%) students with past due account balances totaling \$26,484, were not sent to collections by the following semester as required by SBS practices, and

- twenty-eight of 36 (78%) students with past due account balances totaling \$193,187, were able to register for a subsequent semester.

Post COVID-19

- three of 22 (14%) students tested for the COVID-19 approach, were charged late fees and/or loan interest totaling \$45.

Management does not have formal policies and procedures to monitor the collection of student past due accounts. Several departments are frequently involved in the decision to let students with past due account balances register for subsequent semesters. These practices could lead to increases in delinquency rates, which could eventually become losses for the University.

Recommendation:

Management should establish a formal monitoring process and related policies and procedures for student past due accounts to ensure collection procedures are applied in a timely manner. Also, existing internal guidelines related to the registration of students with past due balances from prior semesters should be strengthened to reduce the delinquency rates.

Management Response:

Management agrees with the recommendation. We will reengineer processes to identify student accounts at collections without an AR hold on their accounts & identify student accounts that need to be referred to collections.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

B. Administrative Write-Offs

B.1 No Formal Administrative Write-off Policies and Procedures for Student Accounts Receivable	High Risk
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We selected 10 of 20 (50%) administrative write-offs totaling \$22,565, to verify proper supporting documentation and approval. Based on the testing results, all 10 write-offs were supported by email requests and email approvals from upper management. However, there was no consistency in the determination for the approval process and the University does not have formal policies and procedures that address administrative write-offs for individual student accounts outside of the annual write-off process.

The University is at risk of not serving all the students equitably by not establishing policies and procedures for the approval of individual student account write-offs. Additionally, a lack of formal procedures could result in overriding of controls and potential fraud.

Recommendation:

Management should develop comprehensive policies and procedures to serve all students that could be eligible for student account write-offs. The following should be established by the University:

- *define eligibility requirements,*
- *establish supporting documentation needed for approval,*
- *define and document approval methodology, and*
- *consider publishing eligibility information in UTEP Tuition and Fees Catalog.*

Management Response:

Management will develop policies and procedures that address the administrative write-offs process.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

C. Employee Access

C.1 Banner Access Control Issues	High Risk
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Segregation of Duties Conflicts – Student Business Services

The following Banner segregation of duties conflicts were noted:

- three SBS customer service representatives have access to the following functions: billing, payment posting, collections, and write-offs, and
- one SBS accountant has access to billing and write-off functions.

Banner Users May Have Greater Access than Required to Perform Job Responsibilities

Five Enterprise Computing employees (three programmers and two specialists) have access to the following accounts receivable Banner Forms (front-end):

- student Billing Statement Process Form, and
- student Auto Refund Credit Amount Form

Enterprise Computing employees run special reports for SBS directly from the Banner database (back-end) and not the Banner user interface (front-end). As such, modify access to Banner Forms may not be required.

Users with segregation of duties conflicts and/or with access not consistent with their job responsibilities could perform intentional or unintentional unauthorized transactions. Without proper oversight, these transactions could go undetected.

Recommendation:

We recommend management perform the following:

- *review the access for the four SBS employees identified to ensure proper segregation of duties,*
- *on a periodic basis, review the transactions of the four SBS employees to ensure they were appropriate,*
- *include a review of the User Profile Definition form (TGAUPRF) in the quarterly Banner access review process that is currently performed by the SBS Director. This will assist in identifying inappropriate access, and*
- *review the Enterprise Computing employees' access and determine if the access is necessary, and modify/remove access when appropriate.*

Management Response:

Access is monitored, and adjusted by staff member's duties. We will continue to conduct periodic reviews.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

D. Policies and Procedures

D.1 No Formal Student Accounts Receivable Processes	High Risk
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The following student accounts receivable processes have no formal policies and procedures for:

- placement and removal of student financial holds, including
 - TR (Grades/Transcript/Diploma Hold)
 - BD (Balance Due)
 - AR (Accounts Receivable)

- student repayment agreements,
- manual adjustments (including timing for processing credit refunds), and
- uncollectible accounts and collections processes

SBS has departmental practices to process student financial holds, manual adjustments, repayment agreements, and collections processes. However, these practices have not been formally documented. Without written policies and procedures, there is a higher risk of errors, omissions, inefficiencies, and risk of not being in alignment with state requirements and the University's mission.

Recommendation:

Management should develop comprehensive policies and procedures for student financial holds, manual adjustments collections, uncollectible accounts, and student repayment agreements that reflect the current departmental operations.

Management Response:

Management will document current policies and procedures to address audit recommendations.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

E. Allowance

E.1 Old/Unknown Student Accounts Receivable Balances Excluded from Allowance Calculation	Medium Risk
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Per review of the August 31, 2020 allowance calculation, we noted two old past due/unknown accounts receivable reconciling balances totaling \$664,090 that were excluded from the allowance calculation.

Per inquiry with SBS Management, the following are the potential causes for the balances:

1. \$342,480; older past due accounts that most likely are uncollectible.
2. \$321,610; unknown potential difference from the transition from legacy (Define) system to PeopleSoft.

These balances represent a potential understatement of \$664,090 in accounts receivable write-offs and overstatement of accounts receivable balance for the same amount.

Recommendation:

Management should review the student accounts receivable reconciling balances to determine if they are valid receivables.

Management Response:

Reconciling balances will be reviewed to determine validity.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

E.2 Current Bad Debt Policy is Not Reflective of Actual Process	Medium Risk
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The current process related to the calculation of the reserve for bad debt for accounts receivable appears reasonable and appropriate. However, Management does not take credit for this process in the current policy, as it needs to be updated.

While the current bad debt policy is focused on an adjustment of the year to year increases or decreases in cumulative receivables, the actual process takes into account multiple factors that give a better reflection of past, current, and future events that impact the allowance calculation.

As the allowance calculation process is complex and involves management judgment, without appropriate written established guidance, the risk of errors increases.

Recommendation:

Management should update the current Calculating Reserve for Bad Debt for Accounts Receivable policy to reflect current practices.

Management Response:

We are in agreement. The current policy will be updated to reflect current practices.

Responsible Party:

Daniel Dominguez, Director, Accounting and Financial Reporting

Implementation Date:

May 31, 2021

F. Student Fees

F.1. The fee approval process is organized and functioning effectively

The UT System Regents' Rule 40401 delegates the authority to Presidents to set rates for several non-mandatory fees, including course and lab fees, conditioned on prior review and approval by The UT System Executive Vice-Chancellor.

The Director of Business and Operations for the Vice-President for Student Affairs handles the administrative aspects of this process. The audit reviewed all fee requests and approvals for Fall 2018 and Fall 2019 to ensure all incidental fees are appropriately approved prior to implementation. The process is organized and functioning effectively as intended.

No exceptions were noted.

F.2 The University lost over \$17,000 in Approved Fee Revenue	Medium Risk
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The University did not invoice students for two new course fees in Fall 2018. Since the fees were not properly assigned to courses in Banner, the University did not receive the approved fee revenue. Students were not invoiced for these fees for over two years.

The Office of the Registrar added the fees to the Spring 2021 courses in Banner during audit fieldwork.

New and increased fees are not effectively monitored to ensure all approved fees are invoiced to students. The process to enter the approved course and lab fees into the Banner Student Information System involves input from several departments. A final review to ensure all fees are assigned to the appropriate courses is not performed.

Although this issue has been resolved, we do recommend that new fees are monitored to ensure students are invoiced timely and revenue is not lost due to Banner data entry errors. A report should be developed to verify all tuition, incidental, major, and minor

fees have been appropriately assessed to students prior to invoicing students for the term.

G. System Issues

G.1 System Script Does Not Function as Intended	High Risk
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In general, registration, grade, transcript, and diploma holds are placed in Banner by an automated system script for students with past due account balances. Refer to the table below for more information related to these holds:

HOLD	Description	Purpose	Applies to Past due Account Balances
BD HOLD	Balance Due	Bars against registration	> \$500
TR HOLD	Grades/Transcript/Diploma	Withholds grades, official transcripts, and diplomas	> \$0

The following was noted:

- six of 57 (11%) and 54 of 57 (95%) of students tested during the scope period and after this period, respectively, had their holds deleted by the system script when there was no change in the student past due account balances. Additionally, the script did not reinsert the holds in a timely manner, and
- two of 57 (4%) students had manual updates, resulting in their holds expiring on 8/14/2019 and 1/23/2020. The script did not reinsert the holds after these expiration dates.

The system script has several factors it considers as part of its process before adding/removing holds. It works similar to an Excel “if” function. The more complex it is and the more factors it has to consider, the higher the risk of errors that could exist within the script. This could lead to the incorrect and/or untimely placement of holds. Consequently, students with past due account balances would be able to register and obtain transcripts, grades, and diplomas.

Recommendation:

Management should work with Enterprise Computing to review the holds system script to:

- *Determine if updates need to be made*
- *Determine if there are opportunities to simplify the process*
- *Determine if there are any additional factors that it should consider*
- *Ensure that holds are accurately and timely applied*

Management Response:

SBS management will continue working with Enterprise Computing to simplify and streamline this process.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

G.2 Banner Information Changes When Exported	High Risk
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Information from a certain Banner report changes when exported. Enterprise Computing confirmed the information in the Banner database is correct. Also, it appears to be a Banner system functionality issue, which is controlled by the Banner vendor (not the University). Although this issue was noted in only one Banner report used during the audit, this issue might affect other Banner reports as well.

Note: SBS does not use this report as part of their department processes, therefore, it does not interfere with their day-to-day activities. Also, SBS typically obtains Banner information from Enterprise Computing, which pulls reports from the Banner database.

Recommendation:

Management should report this export issue to the vendor (Ellucian) to determine if it can be fixed.

Management Response:

Enterprise Computing reported this functionality issue to Ellucian during the audit.

G.3 Some Past Due Account Balances by Term were Incorrect	Medium Risk
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Twelve of 60 (20%) semester past due account balances from reports used by SBS to monitor student past due balances were incorrect. However, the total past due balances were correct. All of these differences were timing issues related to reversals. This could lead to Management using the wrong information by semester as part of their past due account balance monitoring process.

Recommendation:

Management should work with Enterprise Computing to update the BURR0311 report and Banner TSAAREV report to correct the timing issues and ensure semester past due balances are correct.

Management Response:

SBS management will coordinate efforts with Enterprise Computing to validate correctness of report information.

Responsible Party:

Juan Gonzalez, Director for Student Business Services

Implementation Date:

July 31, 2021

CONCLUSION

Based on the results of audit procedures performed, we recommend SBS strengthen their internal controls over student accounts receivable by:

- implementing comprehensive policies and procedures for student financial holds, administrative write-offs, manual adjustments, collections, uncollectible accounts, and student repayment agreements,
- reviewing the accounts receivable reconciling balances for the allowance calculation,
- updating the bad debt policy,
- monitoring new fees to ensure students are invoiced accurately and timely, and
- working with Enterprise Computing to resolve all the related system issues.

We wish to thank the management and staff of SBS, Financial Services, and Enterprise Computing for their assistance and cooperation provided throughout the audit.