

STATEMENT BY THE UNIVERSITY OF NORTH TEXAS SYSTEM SEPTEMBER 25, 2014

This week, the State Auditor's Office (SAO) released its findings (Report No. 15-002) related to the excess funding of employee benefits received by the University of North Texas (UNT) since 2004.

Background

Over the past year, the University of North Texas System (UNT System) discovered, investigated, and disclosed to state officials budget management errors related to state-funded benefits by financial administrators at UNT Denton.

Several senior finance leaders responsible for these errors are no longer employed at the University. The Board of Regents, Chancellor, and new campus Presidents expanded the scope of an aggressive program of fiscal reform already underway throughout the System. UNT System audit and legal representatives met with the State Auditor and State Comptroller's offices, presented preliminary findings, and began a more detailed examination of the state benefits funding issue.

Absent statutory guidance, the UNT System was asked to estimate the excess state benefit funding that may have occurred over a ten year period from 2004 to 2014. Budget flow and sampling methodologies were developed with the assistance of Deloitte LLC, and these methodologies were reviewed and approved as reasonable by the State Auditor's Office. In May 2014, the UNT System provided its preliminary estimate of \$83.5 million in possible imbalances.

SAO Report Findings

The UNT System agrees with the major findings of the SAO Report. They are consistent with our original disclosure that former financial officials at UNT directed a series of practices which resulted in excess state benefit payments to the institution. These activities were persistent over a period of years and had become institutionalized within UNT's financial and budgetary practices. These practices are now changed.

The UNT System will continue its investigation and cooperate with the SAO and other legislative and executive branch officials regarding any necessary future action. We are encouraged that the State Auditor's Report reflects an initial reduction from our own original estimates. We are prepared to present additional comprehensive and detailed findings which, when considered alongside the adjustments already made by the SAO, may cause further reductions in the estimated total values of excess benefits paid to UNT in the past.

Current Activities

In the course of our extensive review of all accounts at UNT, the financial transformation teams have identified several correcting adjustments to the preliminary estimates regarding state benefits we provided in May 2014.

The UNT System is conducting additional accounting and payroll reviews, and will be prepared to present comprehensive and detailed findings to the State Auditor and other state officials. We will request any new findings be considered, as appropriate.

Future State Action

The UNT System will correct and restate, as appropriate, all account values, assets, and liabilities within its control, but the proper resolution of past state funding issues will rely on the guidance and policy direction of the State of Texas. The UNT System is committed to addressing this issue responsibly, at the earliest opportunity, and in a manner consistent with the current and past treatment of other institutions of higher education. We support any fair resolution of this issue that will not curtail the educational opportunities of the current and future students at the University of North Texas, nor add unnecessary additional costs to the financing of campus construction projects.

UNT System Financial Transformation

During 2014, the UNT System has continued a substantial transformation of all major aspects of its financial reporting, accounting, and budgeting procedures. These initiatives are broader in scope than the examination of state benefits funding, but have provided more detailed and validated information through a review of individual accounts and records. This transformation reform includes:

- **Preparation for a FY 2014 External Audit.** In 2013, the UNT System retained Deloitte LLC to perform a thorough review of financial practices in preparation for an external audit for FY 2014. Deloitte has identified 103 financial controls and practices which need improvement across UNT and the UNT System, which are now either implemented or underway.
- **Restatement of Prior Financial Statements.** Separate from its discoveries of errors in the receipt of state-benefits funding, the UNT System has disclosed a major FY 2013 Adjusting Journal Entry which was not appropriately documented. Further investigation by Deloitte has concluded that an adjustment to the FY 2013 UNT System Consolidated Annual Financial Report (CAFR) will be necessary. The UNT System has disclosed a restatement of the FY 2013 CAFR will be made this fall with a significant reduction to the UNT net position. Reviews are nearly completed of 700 accounts at UNT and other accounts across the System. These reviews have identified several other material adjustments that are needed.
- **Unified Controller Office Shared Across the System.** In the past, most financial reporting within the UNT System was performed by the UNT Financial Reporting Office in Denton, with data provided to other campuses and the System through the shared PeopleSoft software system. In 2013, the UNT System Board of Regents approved the development of a single, shared Controller Office at the System level to be responsible for maintaining a uniform general ledger financial records system. Staff consolidation has begun, and the search for a new Unified Controller is currently underway.

- **PeopleSoft and Chart of Accounts Redesign.** One of the most extensive financial reforms approved by the Board of Regents in prior years is a migration to an updated PeopleSoft software system, with full implementation of financial modules that were not previously available. In addition, the UNT System and our campuses have committed to a basic redesign of the fundamental Chart of Accounts on which the accounting and budgeting systems will be based. This will support more automated and real-time reporting and better budget analysis.

The UNT System Board of Regents, staff, and new campus leaders are committed to restoring confidence in the integrity of our financial records, and ensuring mistakes like these are never repeated.