

Departmental Change in Management Audit Fiscal Year 2013



November 2013

**The University of Texas at Austin
Office of Internal Audits
UTA 2.302
(512) 471-7117**

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This report has been distributed to Internal Audit Committee members, the Legislative Budget Board, the State Auditor's Office, the Sunset Advisory Commission, the Governor's Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**Departmental Change in Management Audit
Project Number: 805.13**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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November 18, 2013

President William C. Powers, Jr.
University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Powers,

We have completed two additional audits of departmental units at the University. Our scope included 8 units selected based on a risk assessment and changes in departmental management as part of our Fiscal Year 2013 Audit Plan. Our audit process included surveying department heads by questionnaire, interviewing management and staff in each unit, reviewing electronic office structure, and transaction testing.

Due to the nature of each review, we have attached the following reports for your information:

1120-000 Department of Kinesiology and Health Education
1425-000 Nuclear Engineering Teaching Laboratory

We appreciated the cooperation and assistance of all University personnel involved in this review and hope that the information presented herein is beneficial.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael W. Vandervort".

Michael W. Vandervort, CPA
Director

cc: Internal Audit Committee Members




OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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MEMORANDUM

To: Dr. Jayathi Murthy, Department Chair
Department of Mechanical Engineering

From: Mr. Michael Vandervort, CPA 
Director

Subject: Final Report – Change in Management Audit, Fiscal Year 2013
Unit #1425-000: Nuclear Engineering Teaching Laboratory (Project #
805.13)

Date: November 18, 2013

We have completed our audit of your compliance with and awareness of certain policies and procedures of The University of Texas at Austin (UT Austin).

We reviewed internal controls in the following areas:

- Electronic Office Structure,
- General Departmental Information/Organization/Activities,
- Account Reconciliation,
- Outside Employment/Conflict of Interest,
- Cash and Cash Equivalent Handling,
- Accounts Receivable,
- Inventory,
- Controlled Items,
- Purchasing Activities,
- Procurement Cards,
- Travel Expenditures,
- Entertainment and Official Occasion Expenditures,
- Authorization for Individual Services,
- Time Reporting, and
- Information Systems Security.

We performed the following procedures to complete this audit:

- Surveyed via questionnaire to ascertain your reported strength in internal controls and compliance with UT Austin rules;
- Tested account certifications, entertainment and official occasion expenditures, travel expenditures, Procard expenditures, annual physical inventory completion, account reconciliation, and information systems security;
- Reviewed your electronic office structure and employees' appointment statuses; and
- Clarified follow-up issues with you and your staff.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

Based on the above procedures, the Nuclear Engineering Teaching Laboratory (NETL) appears to have reasonable to strong controls in most areas. Seven opportunities for improvement were noted.

Because of NETL's special security considerations, we have requested that the Information Security Office (ISO) perform an assessment of the department's FACnet.¹ At this time, the ISO is working to attain clearance for a proper review. The final report from the ISO will be included in the follow-up for this department.

Information Systems Security – Administrative Access

NETL users operate with administrator privileges at all times. As a standard practice, NETL computers are configured to allow users to operate with administrator privileges. When users operate with administrative rights at all times, it is difficult to protect against unauthorized access to data, software installations, and system configuration changes to workstations.

According to Section 5.4.1 of UT Austin's *Information Resources Use and Security Policy*, "Individuals who use accounts with special privileges (for example System Administrators) must use these accounts only for their intended administrative purposes."

Recommendation 1: Management should ensure users do not operate workstations with administrative rights unless required for a specific business function. If determined necessary, a new user account with administrative rights should be created and used to perform administrative functions apart from their day-to-day activities.

Management Response: NETL computer users have administrative logons which they should be using for administrative purposes only and not for normal operating. Larry Welch, our ITS contact for NETL, will be responsible for ensuring that users are trained in the appropriate use of the administrative logon.

Implementation Date: September 30, 2013

Information Systems Security - Position of Special Trust Form

A Position of Special Trust (PoST) form had not been completed by one of three employees whose position is designated as having access to Category I data. If the form is not completed, employees may not be aware of their responsibilities for handling Category I data. This could lead to a loss or misuse of the data.

According to Section 5.4.4 of UT Austin's *Information Resources Use and Security Policy*, "All individuals whose accounts have special privileges must complete a UT Austin Security Sensitive form. Additionally, all individuals assigned special privileges

¹ The Facilities Network (FACnet) is a secure, internal UT Austin network with highly restricted access.

should acknowledge their responsibilities by signing a form such as a Position of Special Trust form.”

Recommendation 2: Management should ensure that all individuals with access to Category I data complete a PoST form annually.

Management Response: Steven Biegalski, NETL Director, is notified quarterly of NETL staff and their status for PoST form completion. He will ensure that this is done annually.

Implementation Date: September 30, 2013

Inventory – Interagency Equipment Transfer

The department reported two inventory items as missing during the annual physical inventory count for fiscal year 2012. Internal Audits learned that the department’s associate director approved the transfer of the missing equipment to another state institution around 2003. The required Property Transfer Receipt-Outgoing form was not sent to Inventory Services to properly remove the equipment from the department’s inventory list. If the proper documentation is not completed for the transfer and removal of equipment from inventory, then the record of inventory is inaccurate, and a monetary penalty could be charged if the department reports more than 2% of their inventory missing.

According to Section 16.3.1.C of UT Austin’s *Handbook of Business Procedures*, “Approval of the property manager or designee must be obtained prior to the transfer of any University equipment to another state agency or institution. A written explanation for the transfer, along with any charges that will be assessed for the equipment, must accompany a Property Transfer Receipt-Outgoing form and sent to Inventory Services.”

Recommendation 3: Management should ensure that a Property Transfer Receipt-Outgoing form is completed and approved before equipment is transferred to another state agency or institution.

Management Response: Property Transfer Receipt-Outgoing forms will be completed and approved prior to transferring. Regarding the 2 items mentioned in the finding, Michael Krause, NETL’s inventory contact, has made contact with the 2 institutions and is expecting resolution on getting these items tagged by Oct. 15.

Implementation Date: September 1, 2013

Inventory – New Computers

Faculty and staff do not always inform IT staff of new computers purchased on a Procard until after annual physical inventory is complete. If IT staff is not notified when a new capitalized or controlled item (including computers) is acquired, then the device may not be tagged and included in inventory within the 10-30 days required by Inventory Services.

According to Section 16.2.A of UT Austin's *Handbook of Business Procedures*, "Inventory Services or self-tagging departments affix a barcode numbered property control plate to the property (or assign an inventory number) within 30 days of acquiring the capitalized or controlled item. If the property is U.S. Government-owned, then it must be tagged within 10 days. Inventory Services then enters appropriate data on the university's computerized inventory system."

Recommendation 4: Management should ensure faculty and staff inform IT staff of all newly-purchased capitalized or controlled items to be sure they are tagged and included in inventory within 10-30 days of receipt.

Management Response: NETL computers are purchased either with a procard or via UT Market. Dana Judson, Sr. Admin. Assoc., is aware of all computer purchases since she makes the UT Market purchases and she reconciles the procards. She keeps a log of all computers purchased, as well as other capital equipment, and enters notes on procard vouchers as to owner, location and tag number. She works closely with Larry Welch, NETL's ITS support person, to be sure that all new computers are encrypted and tagged before they are released to the student, faculty member or staff member. She sends emails to those who purchase by procard to instruct the purchaser to bring the computer in for encryption and tagging. Dana will email a copy of the log to Michael Krause and Larry Welch each time that a new computer is added to ensure that updates to inventory records are made in a timely manner.

Implementation Date: September 1, 2013

Inventory – Annual Physical Inventory

Annual physical inventory for fiscal year 2012 was not completed by the extended deadline. If inventory is not completed on time, the department may be moved to Cycle 1 (Cycle 1 is the first cycle of inventory season) until inventory certification has been completed in a timely manner. The department may also be charged a penalty if over 2% of inventory is reported as missing.

According to Section 16.4.F of UT Austin's *Handbook of Business Procedures*, "Departments failing to submit completed Physical Inventory Services to Inventory Services in the Office of Accounting by the established deadline will be considered non-compliant. Non-compliant departments' inventory will be considered lost or stolen as defined in Part 16.3.F of this Handbook and will be accounted for as such."

Recommendation 5: Management should ensure that the annual physical inventory is completed by the established due date listed in *DEFINE.

Management Response: Inventory reporting status will be a regular agenda item during the bi-weekly NETL group staff meeting beginning 4 months prior to the annual due date. Michael Krause, who is the NETL inventory contact, will report each staff meeting as to the status of the

annual inventory reporting process, with specific information on missing items.

Implementation Date: July 30, 2013

Inventory – Equipment Check-Out Log

When inventory items, such as UT Austin-owned personal computers, are removed from campus, employees do not sign documentation indicating that they have taken custody of the items. If inventory items are not properly documented when they are taken off campus, then they are not properly accounted for and this could result in a loss or misuse of the inventory items.

According to Section 16.4.B of UT Austin's *Handbook of Business Procedures*, "For removal of personal computers, logs must be maintained and should include the name of the employee who will have custody of the equipment, description of the equipment, inventory number(s), dated checked out, estimated date to be returned, the signature of the department head, and the signature of the employee who checks out the equipment. These logs must be maintained in the department office and shall be made available for inspection by representatives of the Office of Internal Audits, and Inventory Services."

Recommendation 6: Management should ensure that when UT Austin-owned computers are removed from campus, a log is maintained including signatures from the department head and the individual removing the computer.

Management Response: NETL will begin to use the Inventory Located Off Campus form as a blanket checkout process for laptops. Each individual who is issued a UT-owned laptop will fill out the form when the laptop is issued to them and the forms will be kept by the administrative associate. The form will be updated with date returned when the faculty or staff member or student leaves the university.

Implementation Date: October 14, 2013 for new and retroactively for existing laptops in possession of faculty, staff and students.

Entertainment and Official Occasion Expenditures – Proper Approval

One of 21 entertainment transactions tested did not have proper approval obtained from the dean or official delegate for an entertainment expenditure. Without the submission of an OOEF or complete information in the Notes section with proper routing in *DEFINE, the dean or official delegate for approving these entertainment expenses may not be aware of these types of expenditures.

According to Section 9.1.1.D of UT Austin's *Handbook of Business Procedures*, "Oversight of entertainment expenditures is required at the senior administrative level, i.e., by vice presidents and deans" and, "Departments may enter the required information in the Notes section of the *DEFINE document instead of supplying an OOEF. However, the dean/vice president or official delegate must be included in the electronic routing of the document in order for Notes to be accepted."

Recommendation 7: Management should ensure that all entertainment expenditures are approved by the dean or official delegate and supporting documentation is available.

Management Response: Entertainment and Official Occasion Expenditures are routed through the CSE Dean's office for approval.

Implementation Date: September 1, 2013

Attached you will find a Change in Management Report Card, which is based on our understanding of the controls in place in your unit at the time of our review. If fully implemented, the recommendations above would improve your overall evaluation.

We appreciate the assistance and cooperation of you and your staff in this audit and hope that the information presented herein is beneficial. If you have any questions, please contact Miranda Pruett at 512-471-8975 or via email at miranda.pruett@austin.utexas.edu.

MV: mp

Attachment

cc: Dr. Gregory Fenves, Executive Vice-President and Provost
Dr. Sharon Wood, Dean, Cockrell School of Engineering
Dr. Charles A. Roeckle, Deputy to the President

Change in Management Report Card
 Nuclear Engineering Teaching Laboratory (NETL), Unit # 1425-000

Areas Reviewed	Reasonable to Strong Controls in Place	Opportunity for Improvements	Significant Deficiencies	Material Weaknesses ²	Not Applicable to the Unit
Electronic Office Structure					
General Departmental Information/Organization/Activities					
Account Reconciliation					
Endowed /Gift Administration					
Outside Employment/Conflict of Interest					
Cash Registers/Cashiers					
Cash and Cash Equivalent Handling					
Accounts Receivable					
Petty Cash					
Merchandise for Resale					
Inventory					
Controlled Items					
Purchasing Activities					
Procurement Cards					
Travel Expenditures					
Entertainment and Official Occasion Expenditures					
Authorization for Individual Services					
Contracts					
Time Reporting					
Information Systems Security					

² A weakness that significantly impacts the UT Austin's operations or finances