

FY16 Departmental Change in Management Review

Department of Physics



August 2016

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

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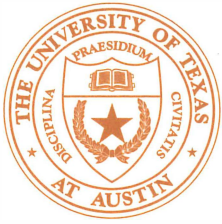
**The University of Texas at Austin
Office of Internal Audits**

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* denotes project members

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.

**FY16 Departmental Change in Management Review: Department of Physics
Project Number: 16.208**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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August 25, 2016

President Gregory L. Fenves
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Fenves,

We have completed our review of the Department of Physics, unit code #0600-000. Our scope included controls and operations in place for fiscal year 2016.

Based on limited procedures performed, we conclude that the Department of Physics has reasonable to strong controls in most of the areas reviewed. However, one opportunity for improvement was noted for Cash and Cash Handling. Our report provides detailed observations for each area under review. Please note that Information Technology results will be reported separately. Suggestions are offered throughout the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of the Department of Physics throughout the 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
Chief Audit Executive

cc: Institutional Audit Committee Members
Ms. Nancy Brazzil, Deputy to the President and Chief of Staff, Office of the President
Dr. Linda Hicke, Dean, College of Natural Sciences
Dr. Jack Ritchie, Department Chair, Department of Physics
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Mr. Jeff Treichel, Associate Director, Office of Internal Audits



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EXECUTIVE SUMMARY

The Office of Internal Audits has completed a review of internal controls and basic operating procedures in the Department of Physics, unit code #0600-000. This unit was chosen as part of our annual audit plan for fiscal year 2016. The review consists principally of an examination of the unit's completed Unit Head Questionnaire. A review is substantially less in scope than an audit which is in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

Conclusion

Based on the limited procedures performed, we conclude that the Physics Department has reasonable to strong controls in most of the areas reviewed. However, one opportunity for improvement was noted for Cash and Cash Handling.

Summary of Recommendations

Each issue found has been ranked according to the University of Texas System Administration Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions. Internal Audits identified one notable issue which led to the following recommendation:

- Cash and Cash Equivalents (Audit Issue Ranking: High)

Information Technology results will be reported on separately.

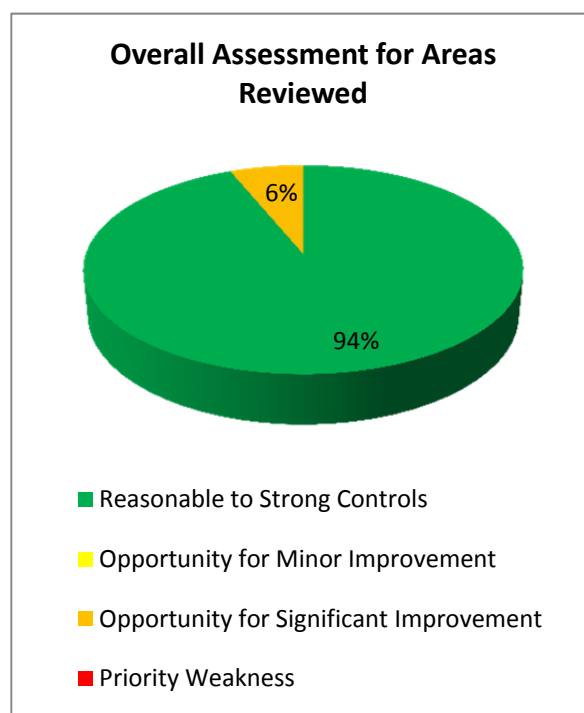
Management agreed with our observation and has provided a corrective action plan that is expected to be implemented on or before November 30, 2016.

Scope and Objective of Limited Review

Departmental Change in Management reviews are conducted annually, and units are chosen based on assessment of risk when a change in management in the period reviewed has occurred. The objective is to evaluate the adequacy and effectiveness of the unit's structure, processes, and internal controls and to determine compliance with relevant policies and procedures.

Background Summary

The Physics Department within the College of Natural Sciences (CNS) is an internationally recognized research institution and ranks well in the National Research Council surveys of research-doctorate programs in the United States. The Physics faculty consists of sixty members split between experimentalists and theorists.¹



¹ <https://ph.utexas.edu/about/department>



PURPOSE OF REVIEW

The Office of Internal Audits (Internal Audits) has completed a review of internal controls and basic operating procedures in the Department of Physics, unit code #0600-000. This unit was chosen as part of our annual audit plan for fiscal year 2016. The review consists principally of an examination of the unit's completed Unit Head Questionnaire. A review is substantially less in scope than an audit which is in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*. The purpose of this review is to inform the department on areas that can be strengthened to improve the overall internal control environment.

BACKGROUND

The Physics Department within the College of Natural Sciences (CNS) is an internationally recognized research institution and ranks well in the National Research Council surveys of research-doctorate programs in the United States. The Physics faculty consists of sixty members split between experimentalists and theorists. The strong support of basic and applied research by the State of Texas through the Advanced Research and Advanced Technology Programs has enabled the development of new research directions in the Physics Department.² The annual budget is \$9.9 million.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this limited review included controls and operations of the department in place during fiscal year 2016. Our objectives were to evaluate the adequacy and effectiveness of the unit's structure, processes, and internal controls and to determine compliance with relevant policies and procedures.

To achieve these objectives, Internal Audits:

- Surveyed the unit via a questionnaire to ascertain reported strength in internal controls and compliance with The University of Texas at Austin (UT Austin) rules;
- Reviewed the department's electronic office structure and employees' appointment statuses;
- Conducted limited testing on account certifications, account reconciliations, payroll/HR, cash and cash equivalent handling, inventory, purchasing, procurement card expenditures, travel expenditures, and entertainment and official occasion expenditures; and
- Clarified follow-up issues through e-mails, meetings, and other correspondence.

² <https://ph.utexas.edu/about/department>



REVIEW RESULTS

We conducted a limited review of internal controls in nineteen areas regarding departmental operations and financial processes of which three areas were not applicable to the Physics department. Information Technology results will be reported separately. The overall assessment for each of the sixteen areas reviewed can be found in Appendix A and is summarized below:

- 15 (75%) areas had reasonable to strong controls in place,
- 0 (0%) areas had overall opportunity for minor improvement,
- 1 (19%) areas had overall opportunity for significant improvement, and
- 0 (0%) areas had a priority weakness.

A recommendation was made in one area where an opportunity for improvement was noted and is detailed in the remainder of this report. Each issue found has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions.

Cash & Cash Equivalent Handling – Documented Policies and Procedures **Issue Ranking: High**

The Department of Physics does not have documented cash handling policies and procedures. The department stated in the initial questionnaire that the effort required to prepare their own procedures manual appears redundant and they currently rely on *The Handbook of Business procedures (HBP)*. Without adequate cash handling policies and procedures that are specific to departmental operations meant to follow the HBP, there is an increased risk of mismanagement of UT Austin funds.

Section 6.1.D of *HBP, Documentation File* states, “Each department accepting cash shall maintain a documentation file. This file shall include: Departmental cash handling procedures. The procedure will be reviewed by the Office of Internal Audits in the normal course of its activities.....check logs, sales receipts, cash transfer logs, coin-operated machine logs, and discount/complimentary sales forms.”

Recommendation 1: Management should document cash handling policies and procedures that are specific to departmental operations and build upon the *HBP*.

Management’s Corrective Action Plan: The Department will develop and document internal cash handling procedures using the Handbook of Business Procedures as a guide. The internal cash handling procedures will be available to all administrative staff in the Department and its associated non-ORU centers

Responsible Person: Assistant Director for Physics Administration, Department of Physics, College of Natural Sciences

Planned Implementation Date: November 30, 2016

Post Review: Internal Audits will follow-up in the second quarter of FY17.



CONCLUSION

Based on the procedures performed, we conclude that the Department of Physics has reasonable to strong controls in most of the areas reviewed. However, one opportunity for improvement was noted for Cash and Cash Handling.

A Unit Head Report Card can be found in Appendix A. The evaluation is based on our understanding of the controls currently in place in Physics. If fully implemented, then the recommendations above would improve the overall evaluation.

In accordance with directives from UT System Board of Regents, Internal Audits will perform follow-up procedures to confirm that recommendations have been implemented.



APPENDIX A UNIT HEAD REPORT CARD*

| Areas Reviewed | Issue Ranking: Priority ^a | Issue Ranking: High | Issue Ranking: Medium | Overall Assessment ^b |
|---|--------------------------------------|---------------------|-----------------------|---------------------------------|
| Electronic Office Structure | 0 | 0 | 0 | |
| General Departmental Information/Organization/Activities | 0 | 0 | 0 | |
| Payroll/HR | 0 | 0 | 0 | |
| Account Reconciliation | 0 | 0 | 0 | |
| Endowed Positions /Gift Administration | 0 | 0 | 0 | |
| Outside Employment/Conflict of Interest | 0 | 0 | 0 | |
| Cash and Cash Equivalent Handling | 0 | 1 | 0 | |
| Cash Registers/Cashiers | NA | NA | NA | |
| Petty Cash | NA | NA | NA | |
| Accounts Receivable | 0 | 0 | 0 | |
| Merchandise for Resale | 0 | 0 | 0 | |
| Inventory | 0 | 0 | 0 | |
| Controlled Items | 0 | 0 | 0 | |
| Purchasing Activities | 0 | 0 | 0 | |
| Authorization for Individual Services | 0 | 0 | 0 | |
| Contracts | NA | NA | NA | |
| Procurement Cards | 0 | 0 | 0 | |
| Travel Expenditures | 0 | 0 | 0 | |
| Entertainment and Official Occasion Expenditures | 0 | 0 | 0 | |
| [a] A priority weakness that significantly impacts UT Austin's operations or finances will be reported to UT System. | | | | |
| [b] Overall assessment is determined by the number of issues in one area or by the highest level ranking across multiple areas. | | | | |
| Overall Assessment | | | | |
| Reasonable to Strong Controls | 15 | | | |
| Opportunity for Minor Improvement | 0 | | | |
| Opportunity for Significant Improvement | 1 | | | |
| Priority Weakness | 0 | | | |
| Not Applicable | 3 | | | |

* The Office of Internal Audits has completed a review of internal controls and basic operating procedures in this department. The review consists principally of an examination of the unit's completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.



APPENDIX B

Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, UT Austin, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Austin or the UT System as a whole.
- **High** – An issue that is considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
- **Low** – An issue that is considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.