Office of Internal Audit
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February 26, 2016

Dr. Hobson Wildenthal, President *ad interim*
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the School of Engineering and Computer Science as part of our fiscal year 2015 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing.* The objective of our audit was to evaluate financial and accounting processes, internal control systems, and the effectiveness and efficiency of operations and controls related to budget management, financial governance, and segregation of duties.

Overall, we found that processes and controls are generally adequate to ensure the effectiveness and efficiency of operations and controls. The attached report details recommendations that will improve timesheet approvals and policies and procedures.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:
  Dr. Mark Spong, Dean of Erik Jonsson School of Engineering & Computer Science
  Rochelle Pena, School Fiscal Officer

Members of the UT Dallas Institutional Audit Committee:
  External Members:
    Mr. Bill Keffler
    Mr. Ed Montgomery
    Ms. Julie Knecht
  Dr. Inga Musselman, Acting Provost
  Dr. Calvin Jamison, Vice President for Administration
  Mr. Terry Pankratz, Vice President for Budget and Finance
  Mr. David Crain, Vice President and Chief Information Officer
  Dr. Bruce Gnade, Vice President for Research
  Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
  Dr. Gene Fitch, Vice President for Student Affairs
  Mr. Timothy Shaw, University Attorney

The University of Texas System:
  System Audit Office

State of Texas Agencies:
  Legislative Budget Board
  Governor's Office
  State Auditor's Office
  Sunset Advisory Commission

Executive Summary

School of Engineering and Computer Science, Report No. 1618

Audit Objective and Scope: The objective of this audit was to evaluate financial and accounting processes, internal control systems and the effectiveness and efficiency of operations and controls related to budget management, financial governance, and segregation of duties. Audit scope was FY 2015 to date, including current operations.

The following is a summary of the audit recommendations by risk level. See the Appendix for additional details.

Recommendation	Risk Level	Estimated Implementation Date
(1) Ensure Timesheets Are Approved In Accordance with University Deadlines	**Medium**	August 31, 2016
(2) Document Business Office Process and Procedures	**Medium**	August 31, 2016

Responsible Vice President: Dr. Inga Musselman, Acting Provost	**Responsible Party:** Dr. Mark Spong, Dean of the School of Engineering and Computer Science

Staff Assigned to Audit:
Project Leader: Polly Atchison, CPA, CIA, Audit Manager
Staff: Hiba Ijaz, CIA, Staff Auditor; Ashley Mathew, Staff Auditor

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Background

The Erik Jonsson School of Engineering and Computer Science (ECS) opened in 1986 and is named in honor of one of the three founders of Texas Instruments, Inc. and the University of Texas at Dallas. Today, ECS features state-of-the-art classrooms and labs located in the 330,000 square-foot Engineering and Computer Science Complex, the 192,000 square-foot Natural Science and Engineering Research Laboratory building, and the 220,000 square-foot Bioengineering Science building slated to open in the spring of 2016. The vision is "To become one of the top schools of engineering and computer science in the United States and one of the great research engineering schools of the world." [1] The school comprises six departments with 228 faculty members. Departments include:

- Bioengineering
- Computer Science
- Electrical Engineering
- Materials Science & Engineering
- Mechanical Engineering
- Systems Engineering

U.S. News & World Report ranked the Jonsson School's undergraduate programs 59th and graduate programs 44th among the nation's public schools of engineering. During 2015, fall enrollment totaled 6,281 students and 1,343 degrees were granted.[2]

FY 15 revenues totaled almost $31 million. As shown below, the primary source of funding was federal contracts and grants and private gifts.

FY 15 FUNDING

State Funds 1%
Designated Funds 12%
Private Gifts 43%
Federal Contracts and Grants 44%

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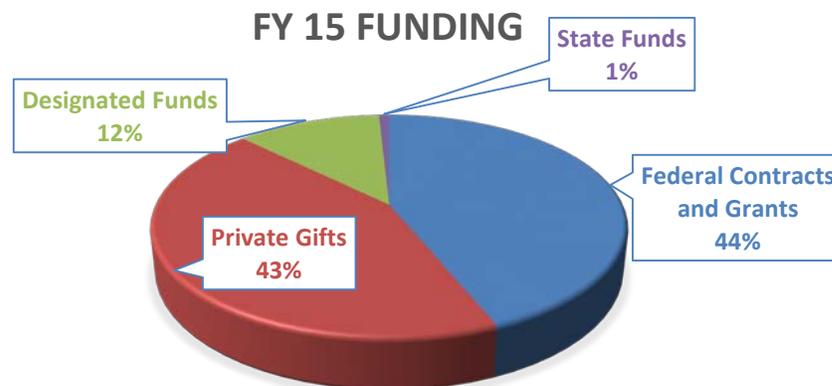
[1] http://ecs.utdallas.edu/about/about/Jonsson%20School%20Strategic%20Plan%202010_2020.pdf

[2] http://ecs.utdallas.edu/about/index.html

During FY15, there were 1,583 employees in the School, including teaching and research assistants. Fiscal operations are housed within the Office of the Dean with six employees performing all aspects of finance and accounting for ECS.

Audit Objective

To evaluate financial and accounting processes, internal control systems and the effectiveness and efficiency of operations and controls related to budget management, financial governance, and segregation of duties.

Scope and Methodology

The scope of this audit was fiscal year 2015 through end of fieldwork, concluded on December, 9, 2015. This audit focused on fiscal operations in the Dean's Office. To satisfy our objectives, we performed the following:

- Interviewed staff and observed documentation to gain an understanding of current operations and processes in the School Fiscal Office.
- Examined the account reconciliation and monitoring processes.
- Identified financial reports provided to and reviewed by the Dean.
- Assessed adequacy of segregation of duties and PeopleSoft access.
- Reviewed the ECS strategic plan and budget presentation documents.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing.* The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management's Responses

Controls
Our audit work indicated that the following controls currently exist:
- Duties appear to be adequately segregated for manual processes.
- ECS fiscal operations has written reconciliation instructions and provides training to reconcilers in ECS as needed.
- Cost Center deficit reports are monitored regularly by the School Fiscal Officer.
- Cash depositing and billing are being centralized within ECS fiscal operations.

Audit Recommendations

Priority Findings – UT System: A UT System priority finding is defined by the UT System Audit Office as: "*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.*"[3] We have **no UT System Priority Findings** resulting from this audit.

However, although the above controls are in place, opportunities exist to enhance controls by implementing the recommendations outlined below.

(1)   *Ensure Timesheets Are Approved In Accordance with University Guidelines*
Risk Rating: **Medium** ☆

We tested time reporting for semi-monthly employees for compliance with time and labor guidelines, including timeliness and proper approvals.

Approximately 5,000 of 26,000 (20%) timesheets tested were not approved in a timely manner. The average was 12.5 days past the due date. Payroll cannot process a paycheck for semi-monthly employees until the associated timesheets are approved, resulting in delayed payments to those employees.

Also, one employee is a designated approver for 100 employees not under her supervision. A designated approver should be someone with knowledge of the employees' hours worked. If the designated approver is not the employee's supervisor, timesheet errors may not be detected and corrected in a timely manner.

Recommendation: Timesheet approval deadlines should be strictly enforced. Also, ECS should evaluate the assignment of approvers to employees and ensure that designated approvers are supervisors with knowledge of an employee's hours worked.

Management's Response: *We have identified where the problems are and we will be working to assure that designated approvers are the individuals' supervisors.*

Estimated Date of Implementation: *Starting immediately; completion by end of summer*

Person Responsible for Implementation: *Mark Spong, ECS Dean*

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[3] The appendix defines the risk levels for all internal audit recommendations.

(2)   Document Fiscal Office Policies and Procedures
Risk Rating: **Medium** ☆

The ECS Fiscal Office operating policies and procedures are not fully documented. Without documented operational policies and procedures, employees may not understand their responsibilities, and knowledge may not be transferred when turnover occurs. The School Fiscal Officer reported that her plan is to have them complete by the end of calendar year 2016.

Recommendation: Management should ensure the plan to document policies and procedures in the next year is executed.

Management's Response: Procedures are known and communicated to everyone but they are not documented in a central location. The School Fiscal Officer is preparing an operational manual to collect all the information in one place.

Estimated Date of Implementation: 8/31/2016

Person Responsible for Implementation: Rochelle Pena, ECS School Fiscal Officer

Conclusion

Based on the audit work performed, we conclude that overall processes and controls are adequate.   Implementation of the recommendations will assist with enhancing operations.

We appreciate the courtesy and cooperation received from the management and staff of the Erik Jonsson School of Engineering and Computer Science as part of this audit.

Appendix: Priority Findings and Risk Matrix

Definition of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as "*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.*"
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.