



**THE UNIVERSITY OF TEXAS-PAN AMERICAN
OFFICE OF AUDITS & CONSULTING SERVICES**

Community and Economic Development Audit

Report No. 15-09



OFFICE OF INTERNAL AUDITS

THE UNIVERSITY OF TEXAS - PAN AMERICAN

1201 West University Drive • Edinburg, Texas 78539-2999 • Office (956) 665-2110

July 27, 2015

Dr. Havidán Rodríguez, Interim President
The University of Texas-Pan American
1201 W. University Drive
Edinburg, TX 78539

Dear Dr. Rodríguez,

As part of our fiscal year 2015 Audit Plan, we completed a financial audit of the Community and Economic Development office. Community and Economic Development is one of three major components of the Department of Community Engagement under the Division of Business Affairs. There are five development programs under the Community and Economic Development area with the two major programs being the Hispanic Engineering, Science, & Technology (HESTEC) and Festival of International Books & Arts (FESTIBA).

The objective of the audit was to evaluate the financial and administrative controls over the HESTEC and FESTIBA programs. The scope of the audit included the Community and Economic Development activity for fiscal year (FY) 2013 and the first seven months of FY 2014, which included September 1, 2012 through March 31, 2014. We performed audit procedures to accomplish the audit objective.

Based on the work performed, we determined that financial and administrative controls over the HESTEC and FESTIBA programs were adequate. However, controls over expenditures and account reconciliations should be strengthened.

We appreciate the courtesy and cooperation received from management and staff during our audit.

Sincerely,

A handwritten signature in black ink that reads "Eloy R. Alaniz, Jr." in a cursive script.

Eloy R. Alaniz, Jr., CPA, CIA, CISA
Executive Director of Audits & Consulting Services



Table of Contents

<i>EXECUTIVE SUMMARY</i>	_____	1
<i>BACKGROUND</i>	_____	2
<i>AUDIT OBJECTIVE</i>	_____	2
<i>AUDIT SCOPE AND METHODOLOGY</i>	_____	3
<i>AUDIT RESULTS</i>	_____	3
<i>CONCLUSION</i>	_____	7



EXECUTIVE SUMMARY

The Community and Economic Development Office (Office) is one of three major components of the Department of Community Engagement under the Division of Business Affairs. There are five development programs under the Community and Economic Development area with the two major programs being the Hispanic Engineering, Science, & Technology (HESTEC) and Festival of International Books & Arts (FESTIBA). HESTEC is an annual week-long event held at The University of Texas - Pan American (UTPA) during the fall to increase awareness of Science, Technology, Engineering, and Mathematics (STEM) career fields and to increase participation rates of Hispanics in these fields by boosting high school graduation rates and postsecondary education. The annual FESTIBA program is also a week-long event held at UTPA during the spring to increase interest in reading, help improve success in secondary and postsecondary education, and provide an educational opportunity for at-risk youth in rural communities.

The objective of the audit was to evaluate the financial and administrative controls over the HESTEC and FESTIBA programs. The scope of the audit included the Community and Economic Development activity for fiscal year (FY) 2013 and the first seven months of FY 2014, which included September 1, 2012 through March 31, 2014.

Overall, we concluded that financial and administrative controls over the HESTEC and FESTIBA programs were adequate. However, we observed the following during the course of the audit:

- The Office's corporate sponsorship list excluded a \$10k corporate gift received.
- A duplicate payment of \$6k was made for a HESTEC performance in September 2013 and was not discovered until August 2014.
- A total of 4 project accounts were maintained for the HESTEC program, including accounts set up for events held in 2010, 2011 and 2012.
- In FY 2013, the Office overspent its budget by \$14K.

Beginning on September 1, 2015, The University of Texas at Brownsville and The University of Texas – Pan American will consolidate to create The University of Texas Rio Grande Valley (UTRGV). The Office of Internal Audits will follow-up with the UTRGV responsible party for this area to ensure that the issues identified in this audit are addressed and mitigated.



BACKGROUND

The Community and Economic Development Office is one of three major components of the Department of Community Engagement under the Division of Business Affairs. As the "outreach" arm of UTPA, the Department of Community Engagement works strategically with students and faculty, government, corporate, and community partners to promote community and economic development, business development and innovation, and rural enterprise development in South Texas. The Community and Economic Development Office component of Community Engagement serves to provide not only logistical support but valuable resources to our community by hosting educational initiatives and by providing educational training sessions and workshops. There are five development programs under the Community and Economic Development area with two major programs being HESTEC and FESTIBA.

HESTEC is an annual week-long event held and organized by UTPA in conjunction with the Office of Congressman Ruben Hinojosa. The innovative program was created in 2001 to increase awareness of science, technology, engineering, and math (STEM) career fields among South Texas students, parents, educators and community members, and to increase participation rates of Hispanics in these fields by boosting high school graduation rates and postsecondary education. The event consists of Educator Day, Student Leadership Day, Latina Day, Robotics Day, Career Expo and Community Day. HESTEC 2013 was held in October with the theme of "Launching the Future" and brought more than 50,000 students, educators and families to the UTPA campus. Companies sponsor the event, participate in the different activities, and are listed in promotional materials.

The annual FESTIBA program is an initiative of The Department of Community Engagement and the College of Arts and Humanities created in 2006. The purpose of FESTIBA is to increase interest in reading, help improve success in secondary and postsecondary education, and provide an educational opportunity for at-risk youth in rural communities. FESTIBA 2013 was a week-long event held during March with the theme of "Literacy: Inspiring Healthy Minds and Healthy Bodies". Sessions and exhibitions were free and open to students and the general public. A total of 1,030 teachers, librarians, students and parents attended the event.

The executive director for community and economic development was the project manager for 23 project accounts with a net budget of \$1,153,635, net expenses of \$755,021 and remaining funds available of \$398,614 at August 31, 2013.

AUDIT OBJECTIVE

The objective of the audit was to evaluate the financial and administrative controls over the HESTEC and FESTIBA programs.



AUDIT SCOPE & METHODOLOGY

The scope of the audit included the Community and Economic development activity for fiscal year (FY) 2013 and the first seven months of FY 2014, which included September 1, 2012 through March 31, 2014.

To perform this audit we conducted the following procedures:

- Interviewed the executive director and the staff of community and economic development
- Determined compliance with the university cash handling policy
- Verified that revenue for 2013 HESTEC and FESTIBA agreed to Corporate Sponsorships, donors and grants list
- Verified subsequent collections of 2013 HESTEC and FESTIBA accounts receivable
- Reviewed and tested a sample of operating expenditures, including grant expenditures, and examined supporting documentation for proper approval and authorization.
- Reviewed a sample of payroll expenditures and tested timecards for proper approval and authorization
- Determined whether account reconciliations had been performed and approved on a timely basis and whether segregation of duties existed
- Verified completion of applicable disclosure statements

We conducted this audit in accordance with the guidelines set forth in The University of Texas System's Policy 129 and the *Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing*.

AUDIT RESULTS

Revenues

We reviewed the process and procedures for generating and collecting revenues for the HESTEC and FESTIBA events. The Office received its revenues from private corporate sponsorships and grants. Private sponsor checks received by the Office are sent to the University's Development Office for processing. Federal sponsors are processed by the Office of Sponsored Projects and set up as grant accounts by the Office of Grants and Contracts. There were five (5) federal sponsors for the 2013 HESTEC event, including the U.S. Navy, U.S. Army and NASA.

To evaluate the safeguarding of revenue, we tested the 2013 HESTEC and FESTIBA revenue by comparing the corporate sponsorships list maintained by the Office, to the list of gift income processed by the University's Development Office, the accounts receivable report and the Oracle system revenue transactions. We reviewed the revenues received for the HESTEC event grants and determined that the revenues received were appropriate based on the expenditures made through March 31, 2014.



The 2013 HESTEC and FESTIBA events received 21 and two (2) gifts, respectively from corporate sponsors. We tested all of these gifts and selected five (5) of the sales revenue processed for the event. We verified that the gift income recorded in the Oracle system agreed to the amount recorded in the Raiser’s Edge system used by the Development Office. We verified that the revenue was recorded to the appropriate account and object code. We traced the sales revenue to the accounts receivable report and verified that the revenue was collected.

Based on testing, we determined that all gift income processed by the Development Office was appropriately deposited into the HESTEC and FESTIBA accounts and recorded in the Oracle system. In addition, all sales revenues tested were collected and recorded appropriately in the Oracle system. However, we noted that the HESTEC corporate sponsorships list maintained by the Office excluded one 2013 corporate gift received for \$10K.

Expenditures

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During the audit period, the executive director was account manager for 23 project accounts with financial activity, with the associate director for GEAR UP and/or event coordinator listed as the project reviewer. Nine (9) of those projects were for HESTEC and one (1) was for FESTIBA project accounts. We reviewed the 2013 HESTEC and FESTIBA operating, travel, and payroll expenditures to test for compliance with grant regulations and university requirements. In addition, our review of operating expenditures included transactions from two (2) procurement cards. We tested a sample of expenditures in each category and examined supporting documentation for proper approval, accuracy, and reasonableness. Procurement cards were issued to the Office during the summer of 2013 and were only used for the HESTEC event.

HESTEC Expenditures

Operating

We randomly selected a sample of 27 operating transactions representing 27% of the total dollar value of the population. We noted one (1) accounts payable voucher was a duplicate expenditure recorded in September 2013 for a HESTEC performance. The total cost of the performance was \$13,500 and was to be paid in two payments of \$6,750; however, three (3) payments were made. The first payment was a deposit paid on September 5, 2013 and the second and third payments were paid on September 19, 2013. The error occurred due to the preparation of a second purchase order for the remaining balance from the first purchase order. The Accounts Payable Office determined that the duplicate payment was outstanding and had not cleared the bank as of August 2014 and a stop payment was placed on the check. The Community and Economic Development Office was not aware of the duplicate payment until we inquired about the expenditure. The 2013 HESTEC project account reconciliation included the duplicate payment in the transactions.



We noted there were multiple HESTEC project accounts with activity for the prior HESTEC events held in 2010, 2011 and 2012. Project accounts for the HESTEC event overlapped two fiscal years since the HESTEC event occurred in the fall, project accounts were set up in the prior year to collect sponsorships and prepare for the event. However, we observed that the transactions posted to those accounts included expenditures for the current 2013 HESTEC event. The purpose for maintaining the separate accounts was to keep each year's events activity separate for the two overlapping years. However, the accounts for the 2010 and 2011 event included current expenditures of \$198,492.

Overall, we determined that the operating expenditures were properly approved, appropriate, and supported with adequate documentation. However, we identified weaknesses in the accounting and reconciliation of expenditures for the HESTEC event.

Travel

We randomly selected a sample of five (5) travel transactions representing 21% of the total dollar value of the population. No exceptions were noted.

Payroll

We judgmentally selected five (5) of the full time salaried employees and two (2) of the direct waged employees for testing. To test for payroll accuracy and timecard approvals, we selected the months of August and November 2013 for the salaried employees and the months of June, August and September 2013 for the direct waged employees. No exceptions were noted.

Procurement Card

The Office was issued two (2) procurement cards during FY 2013. We randomly selected a sample of two (2) procurement card transactions, one from each card, representing 24% of the total dollar value of the population. We verified that reconciliations were performed timely, reviewed and approved by the executive director for community and economic development, and were supported with adequate documentation. We confirmed with the procurement card program specialist that all card holders, including the reconciler completed the required training for procurement cards.

Based on testing, we determined that travel, payroll, and procurement card expenditures were properly approved, appropriate, and supported with adequate documentation. Therefore, adequate controls were in place.

FESTIBA Expenditures

Operating

We randomly selected a sample of 16 operating transactions representing 59% of the total dollar value of the population for testing. No exceptions were noted.



Travel

We randomly selected a sample of four (4) travel transactions representing 40% of the total dollar value of the population. No exceptions were noted.

Payroll

We judgmentally selected one (1) full time salaried employee and one (1) direct waged employee for testing. To test for payroll accuracy and timecard approvals, we selected the months of February and March 2013 for the employees tested.

Based on testing, we determined that the operating, travel and payroll expenditures were properly approved, appropriate, and supported with adequate documentation. Therefore, adequate controls were in place.

Account Reconciliations

Adequate segregation of duties should be maintained between the individuals who authorize transactions, record transactions, and who have custody of assets. We evaluated the segregation of duties over statement of account reconciliations and whether the accounts were properly reconciled.

The executive director for community and economic development had signature/approval authority over the Office's accounts, including account reconciliations, purchases, and timecards. Project accounts were set up with separate individuals listed as the project manager, project reviewer, and alternate approver. The associate director for GEAR Up maintained accounting records and was responsible for preparing account reconciliations. We determined that there were adequate segregation of duties established between the approver, reviewer and preparer of the account reconciliations.

The Office had a total of 23 project accounts with financial activity. We selected two (2) monthly reconciliations for testing, one each for the HESTEC and FESTIBA events. We selected the account reconciliations for the months of October 2013 for HESTEC and March 2013 for FESTIBA, the months the events were held. We verified that the statements of accounts were reconciled on a monthly basis, signed off by preparer and reviewed and signed off by the executive director for community and economic development.

Based on testing of the HESTEC and FESTIBA project accounts, we determined that there were adequate controls over account reconciliations. However, during the review of the monthly statements of account for the Office, we noted that the operating account was overspent from the budgeted amounts by \$14,689 for FY 2013. The executive director for community and economic development stated the excess expenditures were for two (2) students who should have been paid from the local accounts.



Cash Handling

Adequate segregation of duties should be maintained between the individuals who authorize transactions, record transactions, and who have custody of assets. We evaluated segregation of duties over the funds handling process for revenues and cash receipts for the Community and Economic Development Office.

We determined that no cash was handled during the HESTEC event. However, the Office handled cash during the Science Bowl event held in the spring. The events coordinator handled the cash collections and the office assistant prepared the deposit forms. The associate director for GEAR UP is the project reviewer in charge of account reconciliations for the majority of the Office project accounts. We verified that the Office was authorized by the vice president of business affairs to collect cash and appropriate documentation was maintained.

We determined that the Office had established adequate segregation of duties for cash handling and account reconciliations.

Disclosure Statements

We verified whether Community and Economic Development was in compliance with university requirements for employee disclosures. The test included all employees paid from the project accounts managed by the executive director for community and economic development. We reviewed a list of 32 employees and inquired of the executive director of any employees with required disclosures and determined no employees required disclosures for compliance assurance, outside employment or conflict of interest. In addition, we reviewed the list of employees and inquired if there were any employees that were related and required completion of the annual nepotism certification statement. We determined that two (2) employees for FESTIBA appropriately completed the applicable disclosures for nepotism.

CONCLUSION

Based on the work performed, we determined that financial and administrative controls over the HESTEC and FESTIBA programs were adequate. However, controls over expenditures and account reconciliations should be strengthened.

Isabel Benavides CIA, CGAP, CFE
Director, Audits and Consulting Services

Lilia St. Clair CPA
Internal Auditor III