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

# Office of Undergraduate Education

**Report No. 13-01**

**UTPA**

12-13:025

October 16, 2012

Dr. Robert S. Nelsen, President
The University of Texas-Pan American
1201 W. University Drive
Edinburg, TX 78539

Dear Dr. Nelsen,

As part of our fiscal year 2013 Audit Plan, we completed a change in management audit of the Office of Undergraduate Education. The objective of the audit was to evaluate the adequacy and effectiveness of the Office of Undergraduate Education's system of internal controls with an emphasis on financial and administrative controls. The specific internal control areas we focused on included the control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring and information technology. Our scope encompassed activity from September 1, 2010 through December 31, 2011.

We performed audit procedures that included completion of an internal control questionnaire; interviews with staff; testing controls related to compliance with University policies and procedures; and performing substantive testing, on a sample basis, related to proper approvals of expenditures; time reporting; assets management; and segregation of duties.

Overall, we concluded that the Office of Undergraduate Education had established an adequate system of internal controls in the areas evaluated. However, we identified areas where improvements could be made to enhance internal controls. The detailed report is attached for your review.

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

Sincerely,

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

**The University of Texas – Pan American**
**Office of Undergraduate Education**
**Change in Management/Departmental**

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## EXECUTIVE SUMMARY

In January of 2011, UTPA's provost and vice president for academic affairs reorganized within the Division of Academic Affairs.  The reorganization included integrating all academic advisement and retention offices under the purview of the vice provost for undergraduate education with one central location.  With the senior vice provost for undergraduate education retiring on August 31, 2011, a faculty member was appointed as the vice provost for undergraduate education beginning on September 1, 2011.

As required by the 1996 Action Plan to Enhance Internal Controls, a departmental audit is performed when a department undergoes a change in management or a significant change in reporting lines.  The objective of the audit was to evaluate the adequacy and effectiveness of the system of internal controls with an emphasis on administrative and financial controls within the Office of Undergraduate Education (Office).  The specific internal control areas we focused on included the control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring and information technology.  The scope of the audit included activity from September 1, 2010 through December 31, 2011.  The audit was conducted in accordance with 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*.

Overall, we concluded that the vice provost for undergraduate education established an adequate system of internal controls over financial reporting and administration; however, we identified several opportunities to strengthen controls.

During the course of the audit, we observed the following:

- The department did not have a written policies and procedures manual or risk assessment.
- We identified discrepancies in the time reported on employee's vacation/sick leave request forms to the leave reported on their timecards.
- Sensitive information was stored on an unencrypted portable storage device.

## BACKGROUND

The Office of Undergraduate Education supports the mission of the University and the Division of Academic Affairs by focusing on undergraduate education that emphasizes student-centered learning. The primary purpose of the Office is to help provide intellectually stimulating and challenging experiences for students that broaden and deepen their perspective and awareness.

The Office oversees the following centers/units: University Retention Advisement Program, University Writing Center, Starr County Upper Level Center, Academic Advisement and Mentoring Center, The R. David & Edna Guerra Student Success Center, Developmental Education Demonstration Project, and Academic Assessment.

The Office consists of seven (7) employees as follows: the vice provost, two (2) associate vice provosts, a research analyst, an administrative services officer (ASO), an administrative associate, and an administrative assistant. The operating budget for FY 2011 was $330,113. The vice provost manages 32 project accounts.

## AUDIT OBJECTIVE

The objective of the audit was to evaluate the adequacy and effectiveness of the system of internal controls with an emphasis on administration and financial controls within the Office of Undergraduate Education.

## AUDIT SCOPE & METHODOLOGY

We conducted a standard change in management audit of the Office, which included a request of the vice provost to complete an Internal Control Questionnaire. The questionnaire provided valuable information regarding the department's operations. We also requested documents from the ASO. This audit included activity from September 1, 2010 to December 31, 2011. To accomplish the audit objective, we performed the following procedures:

- We interviewed the vice provost for undergraduate education and administrative services officer through an Internal Control Questionnaire to obtain an understanding of the Office operations and controls.
- We determined whether the vice provost had established a control conscious environment, whether goals and objectives for the Office had been developed, and whether a risk assessment and implementation plan had been developed.
- We selected two (2) months reconciliations for three (3) accounts under the dean's purview to determine whether account reconciliations had been performed and approved in a timely basis and whether segregation of duties existed.
- We determined whether the Office had established adequate procedures and segregation of duties over funds handling.
- We examined operating and financial information for reliability.

- We tested a sample of expenditures and examined supporting documentation for proper approval and authorization from the Office's accounts with the most activity.
- We reviewed employee leave and tested timesheets for five (5) employees for proper approval and authorization.
- We performed property inventory testing for the existence of selected assets, and determined whether selected assets were properly recorded on the University's assets management system.
- We reviewed controls for personal computers and portable drives to evaluate physical and data security.
- We verified the Office's compliance with University policies and procedures.

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

<p align="center">**AUDIT RESULTS**</p>

## Control Conscious Environment

A control conscious environment encompasses technical competence and ethical commitment, and it is an important factor for the establishment of effective internal controls. An adequate control conscious environment consists of the following items: goals and objectives, a mission statement, a risk assessment and implementation plan, a business continuity plan, and a policies and procedures manual. These items should be updated on a regular basis. Additionally, employees should be adequately trained, and performance evaluations should be conducted regularly.

The vice provost for undergraduate education developed a mission statement, and a set of goals and objectives. We found that the department staff had completed all of their required trainings and that the one department employee engaged in outside employment completed the required disclosure statement and received approval. However, we discovered that the department did not have written policies and procedures, and had not developed a risk assessment. The policies and procedures manual is an essential part of an organization, which gives specific guidance on operations and knowledge of University policies. In accordance to The University of Texas System 1996 Action Plan to Enhance Internal Controls and 1998 Action Plan to Ensure Institutional Compliance, all Departments should develop a Risk Assessment and Implementation Plan of action that addresses operational, financial, and compliance risks in order to achieve their goals and minimize risks.

### Recommendation:

1. The vice provost should develop a written policies and procedures manual and develop a risk assessment.

### Management's Response:

1.  A policies and procedures manual is in process of being developed and a risk
    assessment will also be developed.

    **Implementation Date:  October 31, 2012**


### Approval & Authorization

Adequately established approval and authorization controls help ensure that expenditures are
allowable and appropriate.  We randomly selected a sample of thirty (30) operating and travel
transactions representing 4% of the population.  None of those expenditures were incurred with a
procurement card.  We also selected a sample of five (5) employees within our scope and
selected the months of March, June, September and December of 2011 to test for payroll
accuracy.  We evaluated the process for leave taken by employees, reconciliation of leave reports
to the official timesheet of the University, and the supervisor approvals.

We noted no discrepancies in our tests and determined that the Office had established adequate
controls over approval and authorization of operating, travel and payroll expenditures.

While all employee time sheets were approved by their supervisors, we found inaccuracies in the
Office's method of documenting and reporting vacation and sick leave.  We found discrepancies
in the sick leave hours reported on three (3) out of five (5) or 60% of the employees tested and a
discrepancy in the vacation leave of one (1) out of five (5) or 20% of the employees tested.
Specifically, the vacation/sick leave reported on the leave request form did not agree with the
vacation/sick leave hours reported on the employees' official timecards maintained in Oracle.
According to HOP Section: 7.6.3 *Annual Vacation Leave* and HOP Section: 7.6.4 *Sick Leave,* the
supervisor is responsible for reviewing and approving annual vacation leave requests,
maintaining accurate records of employees' use of annual vacation leave, and verifying monthly
timecards for accuracy… maintaining accurate records of employee sick leave usage, verifying
monthly timecards for accuracy.

### Recommendation:

2.  The vice provost should ensure that leave requests are reconciled to employee time
    cards by supervisors in accordance with University policy.

### Management Response:

2.  After reviewing the audit finding and comparing the sick leave and vacation request
    forms and timesheets submitted that did not match, we found that unplanned sick
    leave, approved either verbally or by e-mail by the Vice Provost for Undergraduate
    Education, was not reported in the electronic sick leave request system. We also

found that vacation requests may have been submitted, but the time requested may have not been taken. Overall, the electronic leave request system was not updated accurately to reflect actual time taken off. A staff meeting was held to share the audit finding with all staff, examine the current practice and determine the best practice. All staff agreed that the electronic leave request was the best format for requesting leave. The Vice Provost will continue to accept unplanned sick leave requests preferably by e-mail or verbally. However, an electronic sick leave request will be submitted as soon as the employee returns to work to accurately reflect the time taken off. A comment will be added on the electronic request regarding prior written or verbal approval. Vacation requests must be requested in advance. If a vacation requested is not taken, the leave request system will be updated accordingly. All staff agreed with this procedure and will ensure absences recorded in the electronic leave request system reflect all approved requests and actual time taken. Timesheets will reflect only approved leave via the electronic system. In addition, the Vice Provost will continue to ensure staff follows H.O.P. policies 7.6.3 and 7.6.4.

**Implementation Date: Effective immediately.**

## Segregation of Duties

Adequate segregation of duties should be maintained between the people who authorize transactions, record transactions, and have custody of assets. We reviewed statement of account reconciliations in order to evaluate controls. The Office demonstrated adequate segregation of duties with respect to statement of account reconciliations. No exceptions were noted.

## Safeguarding of Assets

Tangible assets and vital documents must be safeguarded against unauthorized acquisition, use, or disposal. We performed property inventory testing to determine the existence of assets and whether assets were properly recorded on the Oracle Fixed Assets system. We judgmentally selected a sample of six (6) items to test for existence and five (5) items to test for inclusion.

Overall, the Office had adequate controls over safeguarding of assets. All tested items on the inventory list existed and were properly tagged. All assets in the Office were included on the most recent inventory list.

## Monitoring

Monitoring is the assessment of internal controls over time. Account reconciliations should be reviewed soon after completion to ensure that any necessary account corrections are made. Without adequate monitoring of account reconciliations, items that require attention may go

unnoticed. We reviewed the Office's procedures for monitoring accounts, phone use, and office complaints and concluded that the Office had effective monitoring procedures.

We determined whether there were procedures for account reconciliations and whether documentation of these reconciliations were prepared and reviewed on a monthly basis. Based on our review of the department account reconciliations, we determined that project account reconciliations were conducted timely and phone use was monitored. In addition, we determined that the Office had adequate procedures in dealing with complaints.

## Information Technology

Adequately established information technology controls help to protect sensitive information entrusted to the department. These controls include limited access to the University's computer systems, restricting downloads of sensitive information, and encryption software on equipment storing sensitive information.

We reviewed employee's level of Oracle access in order to determine whether each employee had an appropriate level of computer access based on their job responsibilities. We concluded that the employees tested were granted the appropriate level of access to the University's information system. Additionally, we reviewed data stored on a sample of employees' portable devices. We determined that one (1) out of three (3) external storage devices tested contained confidential information. Moreover, none of these storage devices were encrypted.

### Recommendation:

3. The vice provost should work with the Information Security Office to ensure that all sensitive information is secured according to the University's information security program.

### Management Response:

3. The storage device that was found with confidential information and unencrypted was taken to the Chief Information Security Officer. All files were deleted permanently. The device was not encrypted as that would require an additional software package. A staff meeting was held to review the audit report and findings. Staff was instructed to discontinue the use of external storage devices for storage of files containing confidential/personal information. Staff was encouraged to use portable storage devices for temporary, non-confidential storage filing only. In the future, external storage devices that are already encrypted will be purchased if needed.

### Implementation Date:  Effective immediately.

## CONCLUSION

Overall, the Office of Undergraduate Education established an adequate system of internal controls. A control conscious environment was evident, duties were appropriately segregated, and financial information appeared reliable and accurate. However, we have identified areas where opportunities for improvements exist such as ensuring that steps are taken to secure confidential information, ensuring that leave requests are reconciled to employee time cards by supervisors in accordance with University policy, and the development of a written policies and procedures manual and a risk assessment.


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