



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

**Office of Research Administration**

**Report No. 13-03**



OFFICE OF INTERNAL AUDITS

THE UNIVERSITY OF TEXAS - PAN AMERICAN

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12-13:027

November 14, 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 Research Administration. The objective of the audit was to evaluate the adequacy and effectiveness of the Office of Research Administration'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 July 1, 2011 through June 31, 2012

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 Research Administration 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,

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

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



## Table of Contents

<i>EXECUTIVE SUMMARY</i>	_____	<i>1</i>
<i>BACKGROUND</i>	_____	<i>2</i>
<i>AUDIT OBJECTIVE</i>	_____	<i>2</i>
<i>AUDIT SCOPE AND METHODOLOGY</i>	_____	<i>2</i>
<i>AUDIT RESULTS</i>	_____	<i>3</i>
<i>CONCLUSION</i>	_____	<i>6</i>



## **EXECUTIVE SUMMARY**

The Office of Research Administration (ORA) is the academic office that oversees the direction and guidance of the University's research mission. It is responsible for policy formation and oversight related to the research process as well as training in the ethical conduct of research. ORA promotes the creation and maintenance of a University environment that maximally encourages and supports research productivity. Additionally, ORA coordinates patents and technology marketing arising from inventories by University Faculty with The University of Texas System.

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. In January of 2012, the former vice provost for research and sponsored projects returned to a full time faculty position and the associate dean of the College of Engineering and Computer Science was appointed to serve as the interim vice provost for research and sponsored projects. A new vice provost for research and sponsored projects was hired and assumed responsibility for ORA on August 1, 2012.

The objective of the audit was to evaluate the adequacy and effectiveness of ORA's system of internal controls with an emphasis on financial and administrative controls. The scope of the audit included activity from July 1, 2011 through June 30, 2012.

Overall, ORA established an adequate system of internal controls. A control conscious environment was evident, duties were appropriately segregated, financial information appeared reliable and accurate and proper approval/authorizations were obtained for expenditures and employee timesheets. However, we observed that ORA did not have a departmental policies and procedures manual. A policies and procedures manual is an essential part of an organization, which gives guidance to its employees on department operations and University policies.



## BACKGROUND

The Office of Research Administration oversees two offices: The Office of Research and Sponsored Projects (ORSP) and the Office of Innovation and Intellectual Property (OIIP). ORSP's staff supports UTPA in the identification and acquisition of external funds and provides oversight for pre and post award administration. ORSP is the central unit within ORA dedicated to advancing the University's mission of packaging, transmitting and leveraging knowledge. ORSP accomplishes its purpose by assisting the University community in obtaining the proper tooling and in the identification, and acquisition of external funds. While ORSP functions in sundry areas, it principally operates in three arenas; contracts and grants administration; information services; and training and development. OIIP manages the disclosure of inventions and discoveries made at UTPA. OIIP seeks to capture intellectual assets of the University and to leverage those assets to increase value.

The interim vice provost maintained six (6) University accounts which included two (2) state funded accounts with a total FY12 budget of \$808,798 and four (4) designated accounts with a total FY12 budget of \$123,209.

## AUDIT OBJECTIVE

The objective of the audit was to evaluate the adequacy and effectiveness of ORA's systems of internal controls with an emphasis on financial and administrative controls.

## AUDIT SCOPE & METHODOLOGY

We conducted a standard change in management audit of ORA. We evaluated ORA's internal controls related to a control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, as well as monitoring and information technology. We interviewed the interim vice provost and discussed an internal control questionnaire to obtain an understanding of office operations and related internal controls. ORA employees provided additional input on internal controls. Our scope included activity from July 1, 2011 to June 30, 2012.

The audit was conducted in accordance with guidelines set forth in The University of Texas System's Policy UTS 129 – Internal Audit Activities and the *Institute of Internal Auditor's' International Standards for the Professional Practice of Internal Auditing*. The audit was conducted during the months of July through September 2012.



## AUDIT RESULTS

### **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. In order to establish an adequate control conscious environment, an office should have the following: 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 receive adequate training, performance evaluations should be conducted regularly and any conflicts of interest should be identified and addressed.

Based on testing, ORA had established an adequate control conscious environment. ORA has developed a mission statement, a set of goals and objectives, and all staff have completed their required compliance and sexual harassment training, their annual nepotism statements, and their employee evaluations. Additionally, ORA was able to support outside employment/financial disclosures for the employees engaged in this activity.

However, ORA did not have a departmental policies and procedures manual. This manual is an essential part of an organization that gives specific guidance on department operations and University policies.

### **Recommendation:**

The vice provost for research and sponsored projects should develop a policies and procedures manual to help guide employees in day-to-day operations. The manual should include information such as employee training requirements, account reconciliation processes, annual inventory certification procedures, procurement card guidelines, complaint procedures, telephone usage, information security controls, and other relevant information.

### **Management's Response:**

The office will attend to documenting policies, procedures and practices in the form of an operating manual.

### **Implementation Date:**

May 31, 2013



### **Approval & Authorization**

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During the audit scope, the interim vice provost was account manager for six (6) Research Administration project accounts, with the director of innovation and intellectual property as the alternate approver.

We reviewed operating, travel, and payroll expenditures to test for compliance with University procedures. We selected a sample of expenditures (i.e., operating, travel, and payroll) and examined supporting documentation for proper approval and accuracy, and verified whether the expenditures were reasonable. We judgmentally selected a sample of twenty (20) operating and five (5) travel transactions. We also selected ten (10) employees and selected the month of November 2011 to test for payroll accuracy. We evaluated the process for leave taken by employees, reconciliations of leave reports to the official timesheets of the University, and ensured that timesheets were properly approved by the employees' supervisor.

We determined that ORA had established adequate approval and authorization controls. Expenditures tested were appropriate and properly approved with supporting documentation, and all employee timesheets tested were approved by the supervisor. Additionally, the Office of Compliance Support Services recently conducted an inspection of procurement card expenditures and found that the ORA followed all procurement card procedures.

### **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 and determined that there was adequate segregation of duties for account reconciliations. The interim vice provost had signature authority over the department's accounts, which included approving account reconciliations, purchases, and timesheets. The administrative coordinator maintains accounting records and prepares the account reconciliations. We determined that ORA was not a funds handling department and had established adequate controls over segregation of duties for the areas evaluated.

### **Safeguarding of Assets**

Tangible assets, vital documents, critical systems, and confidential information 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 seven (7) asset items to test for existence and five (5) inventory items to test for inclusion.



Based on testing, we determined that ORA had adequate controls over safeguarding of assets. All tested items on the inventory list existed and were properly tagged, and assets that were identified as missing were supported with proper documentation.

### **Monitoring**

Monitoring is the assessment of internal controls over time. We reviewed ORA's procedures for monitoring accounts, phone use, off-campus use of State property, and complaints. Account reconciliations should be reviewed timely to ensure that any necessary account corrections are made. Without adequate monitoring of account reconciliations, items that require attention may go unnoticed.

Based on our review of the accounts, we determined that there were procedures in place for account reconciliations, as well as documentation to support that those reconciliations were prepared and reviewed on a monthly basis. Additionally, ORA displayed adequate monitoring controls associated with phone use, off-campus use of State property, and office complaints. We concluded that ORA had effective monitoring procedures.

### **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, and restricting downloads of sensitive information. Another control is encryption software on equipment storing sensitive information. Ensuring employees have appropriate levels of system access helps prevent loss of vital University data and also prevents other abuses of the system.

We reviewed employee access levels for Oracle and verified that employees received appropriate level of access for their job responsibilities. We determined that all employees were granted the appropriate level of access to the Oracle system based on their individual job responsibilities.

We also verified whether ORA maintained sensitive information on any of its portable storage devices, whether proper authorization was granted, and whether adequate safeguards were in place and working as intended. We inspected a few of the employees' portable storage devices and found that none of these portable storage devices contained any sensitive information. Additionally, the department maintains research data on a secured server managed by the Division of Information Technology. We concluded that ORA had established adequate internal controls over information resources.



### CONCLUSION

Overall, we concluded that ORA established an adequate system of financial and administrative internal controls. A control conscious environment was evident, duties were appropriately segregated, assets were properly safeguarded, and financial information appeared reliable and accurate. However, we determined that ORA's internal controls could be enhanced with the creation of a departmental policy and procedures manual.

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

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Internal Auditor I