October 31, 2018

Dr. Richard Benson, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Brain Performance Institute, as part of our fiscal year 2018 Audit Plan. The objective of our audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls. The report is attached for your review.

Overall, internal controls within the Brain Performance Institute are generally adequate and functioning as intended; however, opportunities exist to enhance controls around purchasing cards, governance, and conflicts of interest. 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, CPA, CIA, CRMA
Chief Audit Executive

Executive Summary

Audit Objective and Scope

The objective of this audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls.

Conclusion

Overall, internal controls within the Brain Performance Institute are generally adequate and functioning as intended; however, opportunities exist to enhance controls around purchasing cards, governance, and conflicts of interest.

Audit Recommendations by Risk Level

Recommendation	Risk Level	Estimated Implementation Date
(1) Improve Controls over Purchasing Cards	High	**October 31, 2018**
(2) Enhance Governance by Creating Formal, Written Policies, Procedures, and Defined Job Responsibilities	Medium	**January 4, 2019**
(3) Manage Conflicts of Interest	Medium	**October 31, 2018**

Responsible Vice President

Dr. Joseph Pancrazio, Vice President for Research

Responsible Party

- Dr. Sandra Chapman, Founder and Chief Director Center for BrainHealth
- Dr. Leanne Young, Executive Director Brain Performance Institute

Staff Assigned to Audit

Project Manager: Brandon Bergman, CFE, Audit Manager
Project Leader: Melissa Carley, CPA, CIA, Staff Auditor
Staff: Caitlin Cummins, Staff Auditor

Report Distribution

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- Mr. Bill Keffler
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- Dr. Kyle Edgington, Vice President for Development and Alumni Relations
- Mr. Frank Feagans, Vice President and Chief Information Officer
- Dr. Gene Fitch, Vice President for Student Affairs
- Dr. Calvin Jamison, Vice President for Facilities and Economic Development
- Dr. Inga Musselman, Provost and Vice President for Academic Affairs
- Dr. Joseph Pancrazio, Vice President for Research
- Mr. Terry Pankratz, Vice President for Budget and Finance

- Mr. Timothy Shaw, University Attorney, ex-officio

Responsible Parties at UT Dallas
- Dr. Sandra Chapman, Founder and Chief Director Center for BrainHealth
- Dr. Leanne Young, Executive Director Brain Performance Institute
External Agencies
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

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Background

The Brain Performance Institute (BPI) was established at The University of Texas at Dallas in 2013. BPI is a health facility, providing cognitive programs and brain performance strategies that have been translated from research derived at the Center for BrainHealth. The mission of the department is to "deliver brain science innovations to enhance how people think, work and live."[1] BPI is a revenue-generating department, with additional funding from gifts and sponsored programs. The fiscal year 2018 expenses show the fund type breakdowns.
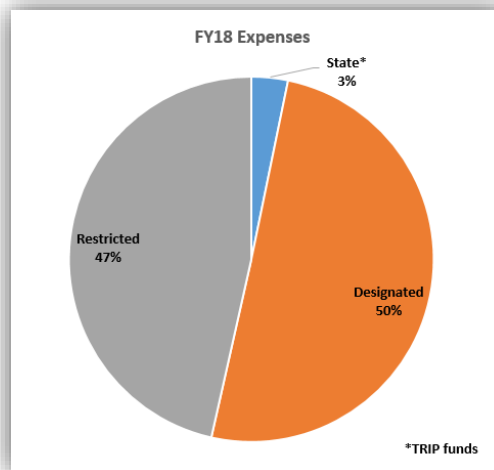
There are currently 15 programs offered at BPI. Programs are designed to strengthen brain health, including improved performance, stress relief, emotional balance, sharpened memory, and better social skills. Some programs are focused on targeted groups such as law enforcement, veterans, and those with Alzheimer's diagnoses. Other programs reach broader populations, such as executives and adolescents.[2] Some participants in the programs pay a flat-rate fee for services, while other programs are paid for by grants, research funds, and gifts. BPI opened its new facility in October 2017 and began accepting fee-based participants at that time.

Overall responsibility for the department lies with the VP Research, whose direct report is the Chief Director at the Center for BrainHealth and then the Executive Director of BPI. The department's operational functions, such as finance, development, communications, marketing, and IT, are provided by Shared Services, who also oversee operations at the Center for BrainHealth. Shared Services reports to the Chief Director.

FY2018 Highlights	
REVENUE	$2,541,775
EXPENSES	$1,388,134
SALARIES & WAGES	$2,025,624
EMPLOYEES	36
ADMINISTRATIVE	34
TEMPORARY/STUDENT WORKERS	2

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[1] Brain Performance Institute strategic plan
[2] https://brainhealth.utdallas.edu/programs/

Audit Objective

To evaluate financial and accounting processes, internal control systems, and the effectiveness and efficiency of related operations and controls.

Scope and Methodology

The scope of this audit was Fiscal Year 2018 and our fieldwork concluded on September 20, 2018. To satisfy our objectives, we performed the following:

- Reviewed the department's control environment to determine:
    - If policies and procedures, including job descriptions, are in place.
    - If organizational structure aligned with management's strategic and operational objectives.
    - If training needs are sufficiently identified, budgeted, offered, and communicated to staff.
- Determined if the department has an effective risk assessment and risk awareness process in place.
- Reviewed control activities to determine if they are adequate and effective.
- Determined if the department's information and internal/external communication methods are effective.
- Reviewed management's monitoring of internal controls.
- Conducted interviews with the Executive Director, Director Finance, and other key personnel within the department.

We conducted our examination in conformance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* are statements of core requirements for the professional practice of internal auditing.

Additionally, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Finally, this review was also conducted based on the integrated framework guidance provided by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO is a joint initiative of five sponsoring organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal controls and fraud deterrence.

Audit Results and Management's Responses

Our audit work indicated that the Brain Performance Institute has the following controls in place:

- ✓ Management has outlined and communicated strategic and operating objectives for the department.
- ✓ The department has effective risk assessment and risk awareness processes in place.
- ✓ Cost center reconciliations are performed in a timely manner.
- ✓ Controls surrounding vouchers and journal expenses are generally adequate and effective.
- ✓ Management monitors operations to verify alignment with strategic initiatives.

We offer the following recommendations to enhance existing controls. Risk levels are outlined at the Appendix.

Observation and Risk Level	Risk/Effect	Recommendation	Management's Response and Action Plan
1. **Improve Controls over Purchasing Cards (One Cards)** *(High Risk)* At the time of our audit, BPI and Shared Services had 24 One Card holders, and during FY18, $108K was spent using One Cards. We tested One Card expenses for compliance with University policies[3], proper authorization, and reasonableness to the mission of the University and found the following: • 21% of the expenses did not comply with applicable UT Dallas policies and procedures. • 5% did not have proper segregation of duties. In those cases, the person who approved the One Card expense also benefitted from the expense.	The department is at a higher risk for overspending, misuse, fraud, and noncompliance to university procedures, gifts, and sponsored projects.	Controls around One Cards need to be strengthened through training, segregation of duties, and purchasing that aligns with UT Dallas' policies and overall mission.	**Management's Response:** We acknowledge internal audit's recommendation to improve controls around One Cards and have established an action plan towards this goal. We sent a reminder to our cardholders highlighting the rules that have higher risk. We have also drafted a department-level One Card Use & Reporting guide to supplement the materials already provided by the Office of Procurement. This updated guidance will be part of the overall update of our department level policies and procedures. We will publish the

[3] https://www.utdallas.edu/procurement/departments/onecard/

Observation and Risk Level	Risk/Effect	Recommendation	Management's Response and Action Plan
• 10% of the expenses do not appear to be in line with the university's mission. Details surrounding the above expenses were provided to management. In addition, we noted that the department had 65 lost receipts during FY18. All of the lost receipts were tested for reasonableness and compliance with policies and procedures. Within these missing receipts: • 41% had lacking information, such as a reason for the missing receipt, or a list of attendees at a meal • 6% did not have proper signatures • 13% were not approved in a timely manner. Details surrounding the above expenses were provided to management.			guide to all BPI employees and address specifically at our next all-staff meeting. It will also reinforce, among other things, the need to have the most senior member of an internal meeting that otherwise meets the criteria for reimbursement to pay for the expense to ensure a supervisor outside of the meeting reviews and approves the expense. The Executive Director has also met individually with the employees expressly mentioned in the audit report to: reinforce One Card policy; ensure there were no improper motivations behind the non-compliance; and establish follow-up to ensure these individuals are in compliance. We have also initiated an evaluation of all One Card holders at BPI to determine whether we can either reduce the number of One Card holders and/or implement other policies to reduce the risks identified in the audit report. By the date noted below, we will

Observation and Risk Level	Risk/Effect	Recommendation	Management's Response and Action Plan
			update the list of authorized One Card users consistent with our updated departmental One Care Use & Reporting policy. **Estimated Implementation Date:** October 31, 2018 **Responsible Party:** Dr. Leanne Young, Executive Director, Brain Performance Institute
2. Enhance Governance by Creating Formal, Written Policies, Procedures, and Defined Job Responsibilities *(Medium Risk)* The department has not formally documented their internal policies and procedures. Additionally, job duties frequently change, repeating and crossing over into others' responsibilities. The organizational lines are also unclear, with job roles that span and repeat over several areas. • Employee survey comments reflected confusion about organizational boundaries. • One employee interviewed said the current reporting structure is not how the department is actually running.	A lack of formal policies and procedures and job responsibilities creates confusion, inconsistency, and inefficiencies within operations.	Create formal, written, department-specific policies and procedures for operations, major functions, and personnel issues. Define job responsibilities, and provide clarity to the organizational boundaries to bring structure, accountability, and efficiency to the operations.	**Management's Response:** As part of our own internal review that the Brain Performance Institute conducted in July and August 2018, we identified the need to update our organizational chart and communicate our operational/functional structure to the team, as well as the need to confirm with HR that reporting lines are clearly articulated. As a result, we announced to the entire BPI team our updated organization chart and have set meetings with all managers and their direct reports to communicate regularly regarding job descriptions and functions and to

Observation and Risk Level	Risk/Effect	Recommendation	Management's Response and Action Plan
When reviewing job descriptions, there appeared to be overlap with business development and operations roles.			annually update job descriptions as a result of those discussions. Based on internal audit's recommendations, we are reviewing our existing policies and procedures, and we will revise or add new ones as appropriate. These policies and procedures will be made available to all staff members, and will be part of our new employee packet. Revisions and updates to those policies and procedures will be communicated to our staff accordingly, and references to our BPI policies and procedures will be part of our annual all-employee meeting each September. **Estimated Implementation Date:** January 4, 2019 **Responsible Party:** Dr. Leanne Young, Executive Director, Brain Performance Institute
3. Manage Conflicts of Interest *(Medium Risk)* The department utilizes a company that is a known conflict of interest. UTD conflict of interest policy is outlined in	By not following proper procedures and not managing a conflict of interest, the department is at	Procedures should be implemented to manage conflicts of interest in accordance with UTD policies.	**Management's Response:** Based on the findings in the audit review, a conflict of interest form was filed and approved by the Office of

Observation and Risk Level	Risk/Effect	Recommendation	Management's Response and Action Plan
UTDPP1102[4]. The department took action to disclose and manage the conflict of interest; however, in reviewing the management of the conflict, the following was found: • The conflict of interest did not have senior approval and was not filed with the Office of Compliance. • The vendor being used is not a UTD preferred vendor. • The employee with the conflict initiated 100% of the purchase requisitions within eProcurement. • For all orders with this vendor, there was a lack of documentation showing an independent party initiated the order with quantity and price approval or best value and competitive pricing.	higher risk for mismanagement of funds or fraud.		Research Compliance's Conflict of Interest Manager, approved by the Chief Director of the Center for BrainHealth, and was submitted to the Office of Institutional Compliance for review and approval. To minimize similar risks in the future, we are adding specific language in our updated policies and procedures to make clear that staff with a potential conflict of interest regarding a vendor or purchases must not be involved with any of those transactions, including the data entry of the procurement requisition. The decision to purchase will be based on best value and competitive offer, which will be gathered independently and approved by the requestor's supervisor. We will attach proper documentation to show this independence and approval going forward. Further, recognizing the need for additional separation of powers in the accounting and approval process, we hired an additional staff accountant.

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[4] https://policy.utdallas.edu/utdpp1102

Observation and Risk Level	Risk/Effect	Recommendation	Management's Response and Action Plan
			Estimated Date of Implementation: October 31, 2018 **Responsible Party:** Dr. Leanne Young, Executive Director, Brain Performance Institute

Conclusion

Based on the audit work performed, we conclude that the internal controls within the Brain Performance Institute are generally adequate and functioning as intended; however, opportunities exist to enhance controls around purchasing cards, governance, and conflicts of interest.

We appreciate the courtesy and cooperation received from the management and staff in the Brain Performance Institute as part of this audit.

Appendix

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 Risk Management Committee (ACRMC). Priority findings reported to the ACRMC 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.

To: Dr. Kyle Edgington, Vice President for Development and Alumni Relations

From: Toni Stephens, Chief Audit Executive

Date: March 4, 2019

Subject: Audit Observation with University-wide Impact: Enhance Procedures
            Surrounding Donor Cultivation (Addendum to Audit Report No. R1905)

As part of our Fiscal Year 2019 Audit Plan, Internal Audit conducted an audit of the Brain Performance Institute (Audit Report No. R1905, dated October 31, 2018). The following information is based on an observation identified while conducting this audit that has the potential for improving university operations. Management has reviewed the recommendation and provided a response and an anticipated implementation date. Though management is responsible for implementing the course of action outlined, we will follow up on the status of implementation subsequent to the anticipated implementation date.

Observation and Risk Level
Enhance Procedures Surrounding Donor Cultivation (Medium Risk)

Donors are often given gifts to recognize personal milestones, such as birthdays or anniversaries, to express condolences, or to give thanks for hosting an event on behalf of the University. The practice of gift giving is seen as an important part of cultivating donor relationships and good stewardship.

Currently, there are no university-wide procedures that provide guidance on giving gifts to donors.

Risk/Effect
As fundraising and development efforts have increased and continue to become more intentional within the schools and departments, giving donor gifts that may not be consistent with the University's strategic objectives over gift giving is increased. Also, reputational risks are increased without guidelines on what types of gifts are given based on donor giving levels.

Recommendation

We propose the Office of Development and Alumni Relations develop a university-wide procedure that sets stewardship standards, such as giving tokens of appreciation, for each giving level.

Management's Responses and Action Plan:
The Donor Cultivation Policy will be included as a section in our overall Donor Engagement Policy.

Estimated Implementation Date:
March 15, 2019

Responsible Party:
Dr. Kyle Edgington, Vice President for Development and Alumni Relations

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