

UT Southwestern
Medical Center

**Change in Management Audit -
Graduate School of Biomedical Sciences**

Internal Audit Report 21:14

February 25, 2021

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Executive Summary

Background

The UT Southwestern Graduate School of Biomedical Sciences (Graduate School) provides students with opportunities to interact with internationally recognized faculty members, use state-of-the-art equipment in advanced labs, and participate in the discovery and transmission of knowledge to solve complex health challenges.

The Graduate School Ph.D. degrees are focused in basic and clinical sciences including: Biological Chemistry, Biomedical Engineering, Cancer Biology, Cell and Molecular Biology, Clinical Psychology, Genetics, Development and Disease, Immunology, Molecular Biophysics, Molecular Microbiology, Neuroscience, and Organic Chemistry. A new Health Informatics program will be added, effective September 2021. The Graduate School also administers the Medical Scientist Training Program. Students and postdoctoral scholars have access to more than 35 core facilities to support their research on the UT Southwestern campus. These core labs utilize state-of-the-art equipment and provide the support services necessary to help scientists effectively and efficiently conduct their research.

The Graduate School is led by the Dean, UT Southwestern Graduate School of Biomedical Sciences with Assistant Deans who oversee the recruitment, retention, and the professional development of the students in the Ph.D. programs. The Deans collectively perform scientific community outreach and cultivate a diverse student and postdoctoral population.

The Graduate and Post Doctoral Affairs Director was hired in the third quarter of FY2020, reports to the Dean and is responsible for overseeing the Dean's Office and Graduate School program financial, operational and administrative components. The prior Director retired in mid year FY2020.

Executive Summary

Scope and Objectives

The Office of Internal Audit Services has completed its Change in Management Audit – Graduate School of Biomedical Sciences. This was a risk based audit and part of the fiscal year (FY) 2021 Audit Plan. The audit scope was FY2018 through FY2020 and focused on assessing the adequacy and effectiveness of processes and internal controls, oversight, and monitoring controls to ensure:

- Effective key department administrative processes and controls are in place and operating as designed
- Adequate financial controls are in place to ensure accuracy of financial reporting
- Adequate monitoring and oversight controls to ensure compliance with policies and procedures and safeguarding of assets

Audit procedures included interviews with stakeholders, review of policies and procedures, review of other supporting documentation, substantive testing to validate adequate controls were in place, and data analytics. We conducted our examination according to guidelines set forth by The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Conclusion

There are opportunities to improve overall financial budgeting procedures and routine monitoring controls. Improving the process will aid in identifying and resolving, in a timely manner, financial accounting discrepancies and will ensure accurate Graduate School financial analysis and reporting. The current annual budgeting process is incomplete as the approved budget is managed under one entity and is not allocated to individual expense groups and project specific fund balances. This process does not allow for appropriate financial analysis to identify errors or misstatements. In addition, specific budgets are not established for Graduate School programs which does not allow for analysis of program performance. Projects are not routinely reviewed to identify projects that are ready to be closed or projects that require funding or expense adjustments. The recently hired Director has reorganized the Graduate School financial functions and is dedicating additional resources to improve financial analysis, monitoring, reporting and to improve compliance with institutional policies and procedures.

Executive Summary

Included in the table below is a summary of the observations along with the respective disposition of these observations within the UT Southwestern internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions. Observations identified are listed below.

Priority (0)	High (0)	Medium (3)	Low (0)	Total (3)
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- **#1 Improve Annual Budgeting Process** – The annual budgeting process is incomplete and does not provide detailed budget breakdown by key program and expense categories, increasing the risk of inaccurate financial reporting and delays in identification of errors and misstatements. In addition, project specific budgets and fund balances are not categorized together under the specific programs they support to allow for consolidated program assessment.
- **#2 Enhance Financial Review and Analysis Procedures** – The Graduate School monthly and annual financial review and analysis procedures are not consistently performed to ensure transactions are adequately supported and financial transaction variances or discrepancies are identified and resolved in a timely manner. The current process is not in compliance with the University of Texas System *UTS 142.1 Policy on the Annual Financial Report*, which increases the risk of inaccurate financial reporting and delays in identification of errors and misstatements.
- **#3 Improve Asset Custodian Monitoring** – Asset custodian monitoring processes are incomplete resulting in an increased risk of theft or loss and noncompliance with institutional procedures. 75% of total portable assets (cameras, laptops, iPads, etc.) were unassigned in the asset records or were assigned to Graduate School employees who were no longer employed by the institution.

We would like to take the opportunity to thank the individuals who participated in this audit for the courtesies extended to us and for their cooperation during our review.

Sincerely,

Valla F. Wilson, Vice President for Office of Internal Audit Services, and Chief Audit Executive

Executive Summary

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Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>1. Improve Annual Budgeting Process</p> <p>The annual budgeting process is not comprehensive and does not provide detailed budget breakdown by key program and expense categories. The Graduate School's approved budgets in FY2019 and FY2020 were managed under one entity and project specific fund balances were not grouped under the specific programs they supported to allow for consolidated assessment of program results. This increases the risk of inaccurate financial reporting and delays in identification of errors and misstatements.</p> <ul style="list-style-type: none"> - Annual budgeted revenues for individual Graduate School programs by source (State Appropriations, Student Fees, Private Grants and Endowments) were managed under one single department ID rather than separate IDs. - Annual budgeted expenses for Faculty and non-faculty salaries and fringe benefits were based on prior year budget to actual analysis only with no detailed supporting schedule to allow for comparison to actual expense amounts. In FY2020, actual expenses exceeded the budget by \$340,000. 	<ol style="list-style-type: none"> 1. Update annual budget processes and instructions to include requiring budgeting by detailed line items with supporting details to allow for detailed monthly financial analysis. 2. Coordinate with the Provost Finance Office to ensure the Graduate School budgeting process is in line with Medical Center requirements. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. The new Director made updates to the FY2021 budget to break out lump sum amounts into individual programs/units. In addition a new Financial Analyst was hired in February 2021 to improve monthly budget to actual monitoring. The FY2022 budgeting process will include additional improvement to align with the institutional procedures and will include budgets by key line item and program to aid in detailed monthly financial analysis. 2. FY2022 budget process will include review and verification of alignment with institutional procedures. <p><u>Action Plan Owners:</u></p> <p>Director, Graduate and Post Doctoral Affairs</p> <p>Director of Finance, Office of the Provost Office, Academic Affairs</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. July 31, 2021 2. August 31, 2021

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> - Annual operating expenses are budgeted in one category and was based on analysis of prior year activities instead of allocating amounts to specific accounts supported by detailed analysis. FY2020 operating expenses were \$800,000 in excess of the budgeted amount of \$300,000. - Detailed budgets were not available for the individual programs to track estimated number of graduate students and associated costs to administer the program to aid in identification of actual to budget variances. 		

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>2. Enhance Financial Review and Analysis Procedures</p> <p>The monthly general ledger account reconciliation and review and analysis processes were not consistently performed to ensure transactions are adequately supported or financial transaction variances and discrepancies are identified and resolved in a timely manner. The current processes are not in compliance with the University of Texas System <i>UTS 142.1 Policy on the Annual Financial Report</i>, which requires each department to complete a monthly financial activity evaluation to ensure appropriateness of reported financial results. Noncompliance with this policy increases the risk of inaccurate financial reporting and delays in identification of errors and misstatements.</p> <p>In addition, project/specific purpose expenses are not routinely reviewed and are carried over from year to year resulting in inaccurate annual reporting. Examples include:</p> <ul style="list-style-type: none"> - Eight open projects with a prior year net excess funding balance of \$280,000 have been carried over to the current year and were not closed in a timely manner. 	<ol style="list-style-type: none"> 1. Complete review of open project/accounts and make adjusting entries to close out prior year amounts. 2. Improve reporting and analysis instructions for Graduate School monthly financial review and analysis. 3. Improve program activity monitoring to aid in the development of accurate annual budgets and monthly financial analysis. 4. Conduct training for key financial team members on the updated reporting and analysis instructions to ensure understanding of the updated processes. 5. Implement monitoring procedures to ensure established financial review procedures are occurring as intended. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. The new Director created and implemented unique department/program IDs and purpose codes beginning in November 2020 to improve the review and analysis of monthly activities. The review and identification of adjusting entries to close out the prior year projects/units are in process. 2. New process has been implemented and includes specific instructions for monthly review and analysis as well as approval sign off by leaders. 3. Program reporting is also included in the new process and includes specific instructions for monthly review and analysis as well as approval sign off by leaders. 4. A new Financial Analyst hired in February 2021 to assist in improving the financial processes. Administrative team training is in process to provide guidance on new requirements to increase knowledge, skills and abilities for these areas. New process has been implemented and includes specific instructions for monthly review and analysis and sign off.

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<ul style="list-style-type: none"> - Thirteen federal and private grant awards with a total deficit balance of \$55,000 that were not reviewed and resolved in a timely manner. - Three projects with expenses and no identified funding source had a deficit balance of \$47,000. - Three projects with the name listed as "N/A" had a deficit balance of \$89,000. <p>Program Coordinators do not routinely provide financial reporting results to Program Chairs. Standard financial reporting, trending results, and reporting of remaining available budget is not consistently performed and communicated to Program Chairs. This information is provided on an ad hoc basis only.</p>		<p>5. The Graduate School Director reviewing monthly and signing off and providing guidance as needed for team members.</p> <p><u>Action Plan Owners:</u> Director, Graduate and Post Doctoral Affairs</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. May 31, 2021 2. Completed 3. Completed 4. Completed and ongoing 5. Completed

Detailed Observation and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>3. Improve Asset Custodian Monitoring</p> <p>Asset custodian monitoring processes are incomplete as asset custodian records were not routinely reviewed and updated resulting in an increased risk of theft or loss and noncompliance with institutional procedures.</p> <p>75 (approximately 75% of total assets) portable assets (cameras, laptops, iPads, etc.) were unassigned in the asset records or were assigned to Graduate School employees who were no longer employed by the institution.</p>	<ol style="list-style-type: none"> 1. Update the Department Asset Management records to reflect current asset custodians and conduct routine monitoring to ensure asset custodians are keeping records current. 2. Report any lost/stolen/missing assets to the Medical Center's Police as applicable and in accordance with Policy FSS-152 <i>Acquisition, Management, and Disposal of UT Southwestern Property</i>. 3. Update Graduate School monitoring procedures to include review of key Orbit monitoring reports to identify asset custodian updates. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. The Asset Custodian responsibility has been reassigned and a full review is in process to assign Graduate School assets to the correct assigned custodian. 2. For any assets that are identified as lost/missing, reporting will be made as outlined in the policy. 3. The Graduate School asset management procedures will be updated to ensure ongoing review of asset records and timely updates. <p><u>Action Plan Owners:</u></p> <p>Director, Graduate and Post Doctoral Affairs</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. April 30, 2021 2. April 30, 2021 3. April 30, 2021

Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

Risk Definition- The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	Degree of Risk and Priority of Action	
	Priority	An issue identified by Internal Audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	High	A finding identified by Internal Audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	Medium	A finding identified by Internal Audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action is needed by management in order to address the noted concern and reduce the risk to a more desirable level.
	Low	A finding identified by Internal Audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.