FY 2014 Departmental Change in Management Audit

Molecular Biosciences

May 2015

The University of Texas at Austin
Office of Internal Audits
UTA 2.302
(512) 471-7117
The University of Texas at Austin
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This report has been distributed to Internal Audit Committee members, the Legislative Budget Board, the State Auditor’s Office, the Sunset Advisory Commission, the Governor’s Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

FY 2014 Departmental Change in Management Audit: Molecular Biosciences
Project Number: 14.106
May 29, 2015

President William C. Powers, Jr.
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Powers,

We have completed our audit of Molecular Biosciences (MBS). Our scope included the controls and operations in place for fiscal year 2014.

Based on the audit procedures performed, we conclude that Molecular Biosciences (MBS) has reasonable to strong controls in most of the areas reviewed. However, opportunities for improvement were noted for general departmental information/organization/activities, account reconciliation, entertainment and official occasion expense, outside employment/conflict of interest, purchasing, procurement cards, and travel expenditures. Our audit report provides detailed observations for the areas under review. Suggestions are offered in the report for improvements in the existing control structures.

We appreciate the cooperation and assistance of MBS throughout the audit and hope that the information presented herein is beneficial.

Sincerely,

Michael W. Vandervort, CPA
Director

cc: Internal Audit Committee Members
Ms. Nancy Brazzil, Deputy to the President and Chief of Staff
Dr. Linda Hicke, Dean, College of Natural Sciences
Dr. Jon Huibregtse, Department Chair (Interim), Molecular Biosciences
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EXECUTIVE SUMMARY

Conclusion
Based on the audit procedures performed, we conclude that Molecular Biosciences (MBS) has reasonable to strong controls in most of the areas reviewed. However, opportunities for improvement were noted for general departmental information/organization/activities, account reconciliation, entertainment and official occasion expense, outside employment/conflict of interest, purchasing, procurement cards, and travel expenditures.

Summary of Recommendations
Internal Audits identified three notable issues which led to the following recommendations:

- Ensure a departmental records retention plan is created and maintained;
- Ensure that all reconciliations are reviewed by the unit head or designated person; and
- Ensure that reimbursements do not include amounts over allowable limits.

Six additional recommendations are also provided, but are considered minor in significance.

Management agrees with our observations and has provided corrective action plans which are expected to be implemented on or before August 31, 2015.

Audit Scope and Objective
Departmental Change in Management audits are conducted annually and units are chosen based on a risk assessment. The objective is to evaluate the adequacy and effectiveness of the unit’s structure, processes, and internal controls and to determine compliance with relevant policies and procedures for fiscal year 2014. The Information Systems Security portion of this audit was not conducted because this unit is currently being reviewed for the IT General Controls audit (Project: #14.301).

Background Summary
MBS is a new department, established in September 2013 and is composed of 67 faculty members studying molecular, microbial, cellular, developmental, chemical, and systems biology. The department also has responsibility for undergraduate and graduate level teaching in several majors. MBS has a budget of approximately $7.5 million and is part of the College of Natural Sciences.
BACKGROUND

The Department of Molecular Biosciences (MBS) is a new department established in September 2013 and is composed of 67 faculty members studying molecular, microbial, cellular, developmental, chemical, and systems biology. The faculty members are developing novel approaches to biological problems and offer unique perspectives to students at both the undergraduate and graduate levels.

The department is dedicated to its core disciplines, but is also constantly adapting to the fast-paced change that accompanies modern biological sciences. MBS has close associations with a number of interdisciplinary institutes, centers, and facilities at The University of Texas at Austin (UT Austin), including the Institute for Cell and Molecular Biology, the Center for Systems and Synthetic Biology, the Center for Infectious Disease, the Center for Computational Biology and Bioinformatics, and the Genome Sequencing and Analysis Facility. These intellectual and technological drivers provide bridges between the faculty and broader clinical and commercial communities, while also enhancing the productivity of the faculty, and enlivening educational and outreach efforts.

MBS also has responsibility for undergraduate teaching in several majors, including Biochemistry, Microbiology, Cell and Molecular Biology, Plant Biology, Public Health and Medical Laboratory Science. At the graduate level, faculty members participate in the Cell and Molecular Biology, Microbiology, Biochemistry, and Plant Biology Graduate Programs. MBS has a budget of approximately $7.5 million and is part of the College of Natural Sciences.

For management of IT resources, MBS uses College of Natural Sciences' Office of Information Technology.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this review includes controls and operations of the department currently in place for fiscal year 2014. Our objectives were to evaluate the adequacy and effectiveness of the unit’s structure, processes, and internal controls and to determine compliance with relevant policies and procedures. The Information Systems Security portion of this audit was not conducted because this unit is currently being reviewed for the IT General Controls audit (Project: #14.301).

To achieve these objectives, Internal Audits:

- Surveyed the unit via a questionnaire to ascertain reported strength in internal controls and compliance with UT Austin rules;
- Reviewed the department’s electronic office structure and employees’ appointment statuses;
Conducted limited testing on payroll, account certifications, account reconciliations, cash and cash equivalent handling, inventory, purchasing, procurement card expenditures, travel expenditures, and entertainment and official occasion expenditures; and

Clarified follow-up issues through e-mails, meetings, and other correspondence.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

**AUDIT RESULTS**

We reviewed internal controls in 20 areas regarding departmental operations and financial processes, of which five areas were not applicable to MBS. The appendix provides information on the specific areas reviewed. The following were the results:

- 8 (53%) areas had reasonable to strong controls in place,
- 4 (27%) areas had opportunities for minor improvements,
- 3 (20%) area had an opportunity for significant improvement, and
- 0 (0%) areas have priority weaknesses.

Recommendations were made in areas where opportunities for improvement were noted and are detailed in the remainder of this report.

**General Departmental Information/Organization/Activities – Records Management Plan**

The unit currently does not have a records management plan. The unit was aware of the retention policy, but it does not have its own documented policy for the retention of files. Without having a records management plan in place, there is an increased risk that the department is not following UT Austin’s records management policy.

According to Section 20.4.3 of UT Austin’s *Handbook of Business Procedures*, “Each departmental records management contact (DRMC) at The University of Texas at Austin is responsible for creating a records management plan to provide information about how the department will enact university records management policy.”

**Recommendation 1:** Management should ensure that a records management plan is developed and maintained on file.

**Management’s Corrective Action Plan:** The department will develop a management plan and implement it.

**Responsible Person:** Associate Chair for Administration
Account Reconciliation – Proper Review

Although consistently performed, account reconciliations are not reviewed by the unit head. The unit’s current practice is to reconcile transactions through *DEFINE and then file the reconciliations in the respective account folders. Financial records may be incorrect without an adequate review process.

According to subcertification letter requirements for The University of Texas System Policy 142.1, the department head should review and approve all reconciliations, or delegate such review and approval, for the departmental accounts.

Recommendation 2: Management should ensure that all reconciliations are reviewed by the unit head or a designated person. In addition, the unit head or designated person should sign and date the reconciliation documentation for evidence of review.

Management’s Corrective Action Plan: The department office will send sub-unit heads the electronic links to their account reconciliations quarterly and request that the sub-unit heads review the reconciliations and report any errors. The Associate Chair for Administration will certify that the reconciliation notices have been sent quarterly.

Responsible Person: Associate Chair for Administration
Planned Implementation Date: August 31, 2015
Post Audit Review: Internal Audits will perform follow-up work once the implementation date has passed.

Entertainment and Official Occasion Expense – Gratuity Allowable Limit

One (20%) out of five transactions tested had gratuity paid that was over the 20% limit. The unit’s current practice relies on the dean’s office to catch errors. Without a process to review gratuities paid, there is an increased risk that gratuities paid will exceed UT Austin’s specified limit.

According to Section 9.1.1.M.1.h in UT Austin’s Handbook of Business Procedures, “Gratuities are allowed within reasonable limits. Gratuities should not exceed 20 percent of the bill subtotal before sales tax. An explanation must be provided in the NOTES section of the *DEFINE payment voucher if tips exceed this amount; such incidents could be the result of a restaurant gratuity limit of more than 20 percent.”
**Recommendation 3:** Management should ensure that gratuities do not exceed 20% of the bill subtotal before sales tax for entertainment and official occasion expenses. Exceptions should be noted and appropriately approved.

**Management’s Corrective Action Plan:** We will update departmental documents to explicitly state the rule and disseminate the information to faculty and staff by email. The staff submitting the reimbursements will check that reimbursement requests are compliant before submitting them.

**Responsible Person:** Assistant Director MBS  
**Planned Implementation Date:** August 31, 2015

**Post Audit Review:** Internal Audits will perform follow-up work once the implementation date has passed.

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### Entertainment and Official Occasion Expense – Adequate Supporting Documentation

One (20%) out of five transactions tested did not have an Official Occasion Expense Form (OOEF) included with the paperwork. The current review process did not catch that the OOEF form was not included with the receipts. Without the submission of an OOEF, the department cannot provide evidence of proper approval for the expense.

According to Section 9.1.1.M.1.a in UT Austin’s *Handbook of Business Procedures*:

An Official Occasion Expense Form (OOEF) should be submitted with corresponding itemized receipts at the time a voucher is submitted for payment. The form must include the date of the activity, location, participants and/or group attending with estimated or actual number of people attending, purpose, benefit, funding source to charge, and required approval(s). Departments may use a form of their own design as long as it includes the same information as the Official Occasion Expense Form.

Departments may enter the required information in the NOTes section of the *DEFINE document instead of supplying an OOEF. However, the dean/vice president or official delegate must be included in the electronic routing of the document in order for Notes to be accepted.

**Recommendation 4:** Management should ensure that OOEFs are created and filed for all entertainment and official occasions. In addition, all OOEFs should be approved by the dean or by the designated person with signature authority.

**Management’s Corrective Action Plan:** We will develop and internal best practices document that will explicitly state the requirement to submit approved OOEFs together with vouchers.
Outside Employment/Conflict of Interest — Approval Process
Supervisors are not designated as the approvers for all outside employment requests. The unit indicated that there is not a designated person for approving outside employment requests. Without proper approval for outside employment requests, there is an increased risk for conflicts of interest, as well as outside employment that interferes with the completion of UT Austin duties.

According to Section 5-2010.VII.C of UT Austin’s Handbook of Operating Procedures, “Any outside employment, including self-employment or employment by another state agency, must first be approved by the employee’s supervisor and as otherwise provided in outside employment policies of the University.”

Recommendation 5: Management should ensure that all supervisors are approving outside employment requests for assigned employees.

Management’s Corrective Action Plan: We designate the following staff as approvers of outside employment requests:
- Department Chair for all tenure-track faculty
- Associate Chair for Instruction for all lecturer faculty
- Associate Chair for Administration for research and office staff

Procurement Cards — Allowable Limit
A flower purchase for a faculty member exceeded the allowable limit. The review process for approving these purchases did not catch the expense and it was allowed. Without a process to approve Procurement card purchases over allowable limits, there is an increased risk that the unit could lose the procurement card and necessitate a reimbursement to UT Austin.

According to the Entertainment and Official Occasion Expenditure Policy Chart cited in section 9.1.1.C of UT Austin’s Handbook of Business Procedures, “Flowers or other perishable items will not exceed $100.00, including taxes and delivery fees.”
Recommendation 6: Management should ensure that procard purchases of flowers do not exceed allowable limits.

Management's Corrective Action Plan: MBS office staff will be reminded of procurement card purchase rules, including the rule that purchases for “Flowers or other perishable items will not exceed $100.00, including taxes and delivery fees.”

Responsible Person: Assistant Director MBS
Planned Implementation Date: August 31, 2015

Post Audit Review: Internal Audits will perform follow-up work once the implementation date has passed.

Procurement Cards – SDN List
The unit’s procurement card holders do not verify that a vendor is not on the Specially Designated Nationals (SDN) list prior to making purchases. The unit’s current practice is not to review this information. Without checking to see whether vendors are on the SDN list or that a hold record is not in place, there is an increased risk the unit may jeopardize UT Austin’s reputation and be held responsible for reimbursing the funds spent.

According to Section 7.8 of UT Austin’s Handbook of Business Procedures, Procurement Card Program, “For all purchases, the cardholder is responsible for verifying that a potential vendor does not appear on the list of Specially Designated Nationals (SDN) issued by the United States Treasury’s Office of Foreign Assets Control (OFAC). Under Executive Order (EO) 13224 issued by the President of the United States, all government entities are prohibited from doing business of any kind with people, organizations, businesses, countries or other entities that appear on this list.”

Recommendation 7: Management should ensure that all procurement card holders consistently verify that vendors are not on the SDN list prior to all purchases.

Management's Corrective Action Plan: We will update departmental documents to explicitly state the rule and disseminate the information to faculty and staff.

Responsible Person: Assistant Director MBS
Planned Implementation Date: July 31, 2015

Post Audit Review: Internal Audits will perform follow-up work once the implementation date has passed.
Procurement Cards and Purchasing — Goods/Services Received

All of the nine procard transactions (100%) and one (11%) of the nine purchasing transactions tested, did not have documentation providing the verification of receipt of goods. The unit does not currently have a consistent practice in place to ensure that procurement card purchases and other purchases have documentation verifying receipt of goods. Without reviewing and marking receipts as goods received, there is an increased risk that goods purchased with University funds may not actually be received or used to conduct UT Austin business.

According to Section 7.8 of UT Austin’s *Handbook of Business Procedures, Procurement Card Program*, “In order to maintain internal controls, an employee other than the cardholder (but in the same department) is responsible for verifying the receipt of the goods or services purchased. Receipt of goods and services must be documented—some examples of acceptable documentation are noting the date on the associated receipt or retaining the packing slip.”

Additionally, Section 7.4.4 of UT Austin’s *Handbook of Business Procedures* states, “The individual (receiver) receiving the shipment must be different than the buyer. The receiver is responsible for signing and dating all invoices and/or packing slips. If the receiver verifies a shipment via email, a digital certificate must be attached to the email.”

**Recommendation 8:** Management should ensure that evidence of goods/services received is documented with a signature and date of the responsible individual.

**Management’s Corrective Action Plan:** We will establish internal procedures to ensure that the office obtains evidence that goods or services have been received before vouchers are submitted.

**Responsible Person:** Assistant Director MBS

**Planned Implementation Date:** August 31, 2015

**Post Audit Review:** Internal Audits will perform follow-up work once the implementation date has passed.

Travel — Proper Documentation

One (20%) of the five transactions tested did not have adequate supporting documentation. The unit did not review travel voucher documentation to ensure that mileage reimbursements have a point to point map included with the documentation. Without a point to point map of the mileage driven, there is an increased risk that University funds will be used to incorrectly reimburse mileage.

According to Section 11.5.1.B.1 of UT Austin’s *Handbook of Business Procedures*, “For official point-to-point mileage you may use odometer readings or mileage computed by
an online mapping tool. For travel paid with local funds, any online mapping tool may be used while travel paid with state funds can only be calculated using Mapquest.”

**Recommendation 9:** Management should ensure that reimbursements for mileage are accompanied by an appropriate point to point map.

**Management’s Corrective Action Plan:** We will update departmental documents to explicitly state the rule. Staff submitting the reimbursements will check that reimbursements requests are compliant before submitting them.

**Responsible Person:** Assistant Director MBS

**Planned Implementation Date:** August 31, 2015

**Post audit review:** Internal Audits will perform follow-up work once the implementation date has passed.

**CONCLUSION**

Based on the audit procedures performed, we conclude that MBS has reasonable to strong controls in most of the areas reviewed. However, opportunities were noted for account reconciliation, entertainment and official occasion expense, outside employment/conflict of interest, inventory, and procurement cards.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.
### APPENDIX

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[1] A priority weakness, if not addressed timely, could directly impact achievement of a strategic or important operation objective of a UT institution or the UT System as a whole. These findings will be reported to UT System Administration.