Department Change in Management Audits Fiscal Year 2012

February 2013

The University of Texas at Austin
Office of Internal Audits
UTA 2.302
471-7117
The University of Texas at Austin
Internal Audit Committee

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The University of Texas at Austin
Office of Internal Audits

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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.

Departmental Change in Management Audits
Project Number 779.12
February 26, 2013

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 two additional audits of departmental units at the University. Our scope included 16 units selected based on a risk assessment and changes in departmental management as part of our Fiscal Year 2012 Audit Plan. Our audit process included surveying department heads by questionnaire, interviewing management and staff in each unit, reviewing electronic office structures, and transaction testing.

Due to the individual nature of each review, we have attached the following reports for your information:

3590-000 Petroleum Extension Services
0680-000 Department of Sociology

We appreciated the cooperation and assistance of all University personnel involved in this review and hope that the information presented herein is beneficial.

Sincerely,

Michael W. Vandervort, CPA
Director

cc: Internal Audit Committee Members
MEMORANDUM

To: Mr. Zahid Yoosufani, Interim Director
   Petroleum Extension Services

From: Mr. Michael Vandervort, CPA
      Director

Subject: Final Report – Change in Management Audit, Fiscal Year 2012
         Unit #3590-000: Petroleum Extension Services (PETEX)

Date: February 25, 2013

We have completed our audit of your compliance with and awareness of certain policies
and procedures of The University of Texas at Austin (UT Austin).

We reviewed internal controls in the following areas:

- Electronic Office Structure,
- General Departmental
  Information/Organization/Activities,
- Account Reconciliation,
- Outside Employment/Conflict of
  Interest,
- Cash and Cash Equivalent Handling,
- Accounts Receivable,
- Petty Cash,
- Merchandise for Resale,
- Inventory,
- Controlled Items,
- Purchasing Activities,
- Procurement Cards,
- Travel Expenditures,
- Entertainment and Official
  Occasion Expenditures,
- Authorization for Individual
  Services,
- Contracts,
- Time Reporting, and
- Information System Security.

We performed the following procedures to complete this audit:

- Surveyed via a questionnaire to ascertain your reported strength in internal
  controls and compliance with UT Austin rules;
- Tested information system security, entertainment and official occasion
  transactions, endowment transactions, and annual physical inventory completion;
- Reviewed your electronic office structure and employees’ appointment statuses;
  and
- Clarified follow-up issues with you and your staff.
This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

Based on the above procedures, PETEX appears to have reasonable to strong controls in most areas. Three opportunities for improvement were noted.

**Information Systems Security – Disaster Recovery Plan (DRP)**

A DRP has not been created. Without a documented DRP in place, PETEX administrators may not be able to adequately recover critical systems and data in the event of a disaster.

According to Rule 5.5.2 of UT Austin’s *Information Resources Use and Security Policy*, “each college, school, or unit responsible for a system(s) should maintain a disaster recovery plan.” The recovery plan should include the following:

- Procedures for recovering data and applications in case an unexpected event occurs such as a natural disaster, power or system disk failure, espionage, data entry error, human error, or other systems operation errors;
- Assignments of operational responsibility for backup of all systems connected to the respective network;
- Requirements for off-site storage needs;
- Physical and network access controls for on-site and off-site storage; and
- Processes to ensure backups are viable and can be recovered.

**Recommendation 1:** Management should ensure that a comprehensive documented DRP exists within UT Austin’s Restarting Texas DRP application.\(^1\) This plan should be regularly reviewed, updated, and tested annually.

**Management Response:** A Disaster Recovery Plan has been created and will be reviewed and updated annually. All key staff members who have a need to know about the DRP have been given access to the DRP documentation.

**Implementation Date:** Implemented (12/17/2012).

**Information Systems Security – Securing Unattended Devices**

Five of five computers tested indicated that the password-protected screensaver setting was not enabled. Unauthorized access to unattended devices may result in harmful or fraudulent disclosure, modification, or deletion of sensitive electronic data. In addition, it may lead to the misuse of critical applications or email accounts.

According to Section 5.18.5 of UT Austin’s *Information Resources Use and Security Policy*, “unattended computing devices must be secured from unauthorized access.

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\(^1\) Restarting Texas is an application provided by the Information Security Office and is designed for departmental disaster recovery planning.
Logical security options include screen saver passwords and automatic session time-outs.”

As a best practice, password-protected screensavers should activate after 15 minutes of idle time.

**Recommendation 2:** Management should ensure that the password-protected screensaver settings are enabled and activate after 15 minutes of idle time.

**Management Response:** Password protection “after 15 minutes of idle time” has been implemented on PETEX servers, which control all the desktops/laptops being used at PETEX.

**Implementation Date:** Implemented (1/7/2013).

**Merchandise for Resale**
The warehouse manager receives merchandise orders and also conducts the physical inventory count of the merchandise. Without proper separation of duties, there is an increased risk of lost or misuse of inventory.

As a best practice, the receipt of merchandise and the physical inventory count should be delegated to two different employees.

**Recommendation 3:** Management should ensure that someone other than the employee responsible for receiving goods conducts the annual physical inventory. If the office is small, and separation of duties is impracticable, supervisory personnel should perform specific verification that provides for reasonable and sound internal controls.

**Management Response:** The process of conducting inventory for merchandise resale has been changed to separate duties. The person performing the physical inventory of the merchandise is no longer able to make entries in the system to adjust inventory. His access to do this has been revoked. The process now involves reporting on the receipt of merchandise by the accounts receivable manager or his/her designee, as well as the authority to enter the quantity in the system as received. The inventory is conducted by the warehouse manager and certified by his supervisor.

**Implementation Date:** Implemented (10/30/2012).

Attached you will find a Change in Management Report Card, which is based on our understanding of the controls in place in your unit at the time of our review. If fully implemented, the recommendations above would improve your overall evaluation.
We appreciate the assistance and cooperation of you and your staff in this audit and hope that the information presented herein is beneficial. If you have any questions, please contact Brenda Guerrero at 471-9256 or brenda.guerrero@austin.utexas.edu.

MV: bg

Attachment

cc: Mr. Jeffery Treichel, Interim Senior Director, Continuing and Innovative Education
Dr. Steven Leslie, Executive Vice President and Provost
Dr. Charles A. Roeckle, Deputy to the President
Change in Management Report Card  
PETEX, Unit # 3590-000

<table>
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<th>Areas Reviewed</th>
<th>Reasonable to Strong Controls in Place</th>
<th>Opportunity for Improvements</th>
<th>Significant Deficiencies</th>
<th>Material Weaknesses$^2$</th>
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$^2$ A weakness that significantly impacts the UT Austin’s operations or finances