December 18, 2014

Dr. Daniel, President
Ms. Lisa Choate, Chair of the Internal Audit Committee,

We have completed an audit of Bioengineering as part of our Fiscal Year 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objectives of the audit were to provide a consulting service to the new manager by reviewing the existing internal controls in the department and providing the information necessary to assist the new manager in developing an adequate system of internal controls which will provide reasonable assurance of sound management.

Overall, we found that internal controls can be strengthened and operational processes could be enhanced to ensure compliance with applicable policies and procedures. The department head has already begun this process. The attached report details recommendations that would enhance controls, compliance and efficiency.

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
Institutional Chief Audit Executive

*UT Dallas Responsible Parties:*

- Dr. Mark Spong, Dean of the Erik Jonsson School of Engineering & Computer Science
- Dr. Robert Rennaker, Department Head of Bioengineering

*Members of the UT Dallas Audit Committee:*

- External Members:
  - Mr. Bill Keffler
  - Mr. Ed Montgomery
  - Ms. Cynthia Trochu
- Dr. Hobson Wildenthal, Executive Vice President and Provost
- Dr. Calvin Jamison, Vice President for Administration
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
- Dr. Bruce Gnade, Vice President for Research
- Dr. Darrelene Rachavong, Vice President for Student Affairs
- Mr. Timothy Shaw, University Attorney

*The University of Texas System:*

- Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs
  - Alan Marks, Assistant Vice Chancellor of Academic Affairs and Athletics Counsel
- Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
- Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

*State of Texas Agencies:*

- Legislative Budget Board
- Governor's Office
- State Auditor's Office
- Sunset Advisory Commission

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION UNIVERSITY
Executive Summary

**Bioengineering, Report No. 1508**

**Audit Objective and Scope:** The objective of this audit is to provide a consulting service to the new manager by reviewing the existing internal controls in the department and provide the information necessary to assist them in developing an adequate system of internal controls which will provide reasonable assurance of sound management.

**Audit Results:**
The audit resulted in no recommendations considered significant to University Operations. However, we offer the following recommendations to enhance controls within Bioengineering.

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<td>(2) Safeguard Sensitive Information</td>
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**Conclusion:** Controls within the department of Bioengineering can be strengthened. Implementation of the recommendations outlined in this report will help to enhance controls and the efficiency of existing processes.

**Responsible Vice President:**
Dr. Hobson Wildenthal, Executive Vice President and Provost

**Responsible Parties:**
- Dr. Mark Spong, Dean of the Erik Jonsson School of Engineering & Computer Sciences
- Dr. Robert Rennaker, Department Head of Bioengineering

**Staff Assigned to Audit:**
Brandon Bergman, CFE, Senior Auditor; and Student Interns from the Internal Auditing Education Partnership Program at the Naveen Jindal School of Management: Brandon Parson and Vinita Rana.
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Background

Created in 2010, the Department of Bioengineering offers an undergraduate degree in Biomedical Engineering and graduate degrees in Biomedical Engineering and Bioengineering in collaboration with The University of Texas Southwestern Medical Center (UTSW) and the University of Texas at Arlington (UTA). The program emphasizes an interdisciplinary approach, combining expertise in electrical, mechanical and materials engineering, coupled with the life sciences. In September 2013, The Board of Regents of the University of Texas System approved design plans for a new 220,000 square-foot Bioengineering and Sciences Building to house research and teaching space for the department.

A change in leadership occurred in July 2013 when a new department head was appointed. The department head reports to the Dean of the Erik Jonsson School of Engineering and Computer Sciences. The department has approximately 51 employees and had an operating budget of $3.9 million in fiscal year 2014.

Audit Objective

To provide a consulting service to the new manager by reviewing the existing internal controls in the department and providing the information necessary to assist the new manager in developing an adequate system of internal controls which will provide reasonable assurance of sound management.

Scope and Methodology

The scope of this audit was January 1, 2013 to date, and our fieldwork concluded on November 7, 2014. To satisfy our objectives, we performed the following:

- Interviewed staff and obtained documentation to gain an understanding of departmental operations.
- Reviewed documentation and records regarding purchasing cards, expenses, payroll, and account reconciliations to ensure compliance with policies and procedures and the adequacy of internal controls.
- Reviewed information security controls over access and sensitive and confidential information.
- Tested for compliance with FERPA training and conflicts of interest monitoring.
- Determined if the updated Bioengineering portion of the UT Dallas Graduate Catalog is compliant with applicable UT Dallas Academic Affairs Policies.
Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

**Audit Results and Management’s Responses**

Overall, we found that internal controls can be strengthened and operational process enhanced. However, our audit work indicated that the following controls currently exist:

- Segregation of duties is maintained for purchasing card, expenses and account reconciliations.
- The department has begun saving monthly Cardholder Activity Reports for each department administrator to the department’s information server for document retention and account reconciliation review.
- The Bioengineering portion of the new UT Dallas Graduate Catalog is compliant with applicable UT Dallas Academic Affairs Policies.
- PeopleSoft access roles for departmental administrative staff appear adequate per their job functions.
- Payroll is being charged to the correct cost centers.

A priority finding is defined by the UT System Audit Office 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.” We have no priority findings resulting from this audit; however, the following recommendations will help enhance existing internal controls and improve operational processes.

**Audit Recommendations**

(1) **Document Joint Program Tuition Liabilities**

The Biomedical Engineering MS and PhD degree program is established by a *Substantive Degree Program Proposal* between the University of Texas at Dallas, the University of Texas Southwestern Medical Center, and the University of Texas at Arlington. The agreed upon program proposal does not specifically address tuition liabilities of students enrolling in courses provided by the other two (non-home) program institutions. For Example: There is no clear guidance that states if a UTSW student who registers for a UT Dallas provided course pays the UTSW tuition rate, or if they are obligated to pay the UT Dallas tuition rate.
Currently, all three intuitions participating in the joint program have different tuition rates for provided semester credit hours. Since the program proposal does not adequately address the tuition liabilities for students participating in the program, students and institutional employees may be unaware of what tuition rates should be charged for registered courses provided by non-home institutions.

**Recommendation:** We recommend that the UT Dallas department head consider working with the UT Dallas Provost’s Office and the Bioengineering Department Heads at the other two program institutions (UTSW and UTA) to evaluate the creation of a formal memorandum of understanding documenting the tuition liabilities for students enrolling in courses at the other program institutions as part of the joint Biomedical Engineering graduate degrees.

**Management’s Response:** We have been working with the bursar’s office on this issue for the past 18 months. We are building a website for the joint program to address commonly asked questions. Students will begin receiving a single bill from their home institution by the Fall of 2015 for courses taken at UTD or UTSW. The graduate advisor will explain the implications of enrolling across campuses. This should be completed for the Fall 2015 semester.

**Estimated Date of Implementation:** August 31, 2015

**Person Responsible for Implementation:** Dr. Rennaker

(2) **Safeguard Sensitive Information**

Sensitive electronic departmental data is being secured against improper access; however, a large amount of personal identifiable information was noted, including the potential presence of credit card numbers and user account passwords. An Identity Finder scan of the Bioengineering shared server drives documented the following identity matches:

- Total Identity Matches: 2,880
  - 2,844 Social Security Numbers
  - 25 Credit Card Numbers
  - 11 Account Passwords
Current UT System policy, \textit{UTS 165: Information Resources Use and Security Policy},\(^1\) documents the reduction of use and collection of social security numbers for identification purpose. Additionally, this same policy documents that users shall not share passwords or similar information or devices used for identification and authorization purposes. Rather than exclusively using UTD-ID numbers on student records, it appears the department is also utilizing the use and storage of social security numbers. With the storage of this sensitive data, the potential for improper or fraudulent use of this information via accidental or deliberate disclosure is elevated.

Additionally, Internal Audit noted that one terminated employee was listed as having active access to a departmental server drive location that potentially contains sensitive information. If at any point this employee’s NetID is reactivated and they knew the server mapping location, then this individual would have the ability to view departmental information.

**Recommendation:**
Management should consider the following:

a) Utilizing the Identity Finder program on a regular basis to locate files potentially containing sensitive information and review it to determine if the information housed is still needed for business operations or if it can be redacted or removed.

b) Limiting the use of social security numbers within departmental records. When possible, UTD-ID numbers should be used in place of social security numbers. Information determined to be credit cards and passwords by Identity Finder should be reviewed for authenticity and removed to guard against potential improper or fraudulent use.

c) Implementing a departmental checkout process to ensure internal department user access accounts are being suspended and removed upon the termination of an employee. In addition to the checkout process, the department should consider implementing periodic reviews of user server access to ensure access is only given to authorized individuals.

**Management’s Response:** Staff has been made aware of keeping sensitive information on their computers. They have been asked to run the identity finder on a monthly basis and to remove all non-essential confidential information in accordance with UTD’s policy on document retention schedule. They have been asked to store all confidential information on protected drives. This will be an ongoing process and the department head will verify that it is being done by all staff and faculty members on a monthly basis. It is expected that we will reach 100% compliance by May 1st.

A departmental checkout process will be implemented. A current list of employees will be examined, and those who are no longer employed will be removed to ensure that their internal department user access is no longer valid. A review will be performed after each semester to confirm that the list is up-to-date.

\(^1\) http://www.utsystem.edu/bor/procedures/policy/policies/uts165.html
**Estimated Date of Implementation:** May 1, 2015

**Person Responsible for Implementation:** Dr. Rennaker

(3) **Enhance Semimonthly Payroll Process**

Bioengineering hourly employees complete paper timesheets to track their hours worked. The employee is responsible for obtaining their supervisor’s signature approval and submitting it to a departmental administrative assistant for processing. The administrative assistant enters the hours into the semimonthly payroll spreadsheet and submits it to Payroll for processing. We noted the following when testing time reporting:

- After the supervisor approves the timesheet, it is returned to the employee and not the administrative assistant. This increases the risk of an approved timesheet being altered by an employee.
- The payroll spreadsheet is not reviewed by an additional departmental employee to ensure the accuracy of submitted hourly information. Without an additional review, the administrative assistant completing the spreadsheet could accidentally make changes or enter the information incorrectly.
- Internal Audit was unable to accurately test 40% of semimonthly payroll transactions included in the sample because no timesheets for the tested pay period were located within the department’s personnel records.
- 30% of testable payroll transactions were not properly authorized by the employee’s supervisor.
- 53% of testable payroll transactions did not have an adequate supporting timesheet. Additionally, in 11% of these transactions, the payroll expenses made were not supported by the hours listed on the supporting timesheet.
- 11 paychecks were issued that contained more than a standard two week pay period.

**Recommendation:** The department should implement the use of the Time and Labor web-based PeopleSoft application for hourly employees. Until the department is able to implement this application, we recommend that the department implement the following controls:

- Once an hourly employee completes their timesheet, it should be submitted to their supervisor for review.
- Once the supervisor reviews and approves the timesheet, the supervisor should directly submit the employee’s timesheet to the administrative assistant for processing.
- Once the administrative assistant enters all hourly information in the payroll spreadsheet for a pay period, another departmental employee should compare the entered information with the supporting timesheet to ensure accuracy.
Management’s Response: The faculty was informed at our November faculty meeting to directly submit hourly timesheets to the appropriate staff member. We will be moving to the electronic timesheets on March 1st.

Estimated Date of Implementation: March 1, 2015

Person Responsible for Implementation: Dr. Rennaker

(4) Reevaluate Building Master Key

Internal Audit learned and confirmed that a Bioengineering departmental administrative assistant has in their possession a building master key to the South Engineering and Computer Sciences (ECSS) building. Per UT Dallas Administrative Policies and Procedures Manual: G3-150.1 KEYS², building master keys are not normally issued to faculty or staff personnel due to the exceeded level of access to the building is allows. With this building master key, the administrative assistant has unrestricted access to all offices, labs, and lecture halls located within the ECSS building.

Recommendation: Management should reconsider the administrative assistant’s need for a building master key. If the administrative assistant requires door access to multiple departmental areas, then individual keys specific to those areas should be issued in place of a building master key.

Management’s Response: The key was returned to the UTD key shop on 11/13/14.

Estimated Date of Implementation: November 13, 2014

Person Responsible for Implementation: Dr. Rennaker

(5) Enhance Controls over Purchasing Cards and Account Codes

UT Dallas purchasing card guidelines³ as well as overall university expense guidelines require that:

- The cardholder ensures that accounts charged accurately describe the expense. The Office of Budget and Finance provides account codes and descriptions for all items of expense⁴. Without the correct account coding, management does not receive an accurate reporting of expense types and where resources are being applied.
- The cardholder is responsible for maintaining records of every transaction made with the purchasing card. These records should be reconciled to the “Activity Report” each billing cycle.

² http://www.utdallas.edu/utdgeneral/business/admin_manual/download/g3150012.pdf
We tested expenses, including purchasing cards, to ensure compliance with the guidelines and noted the following:

(a) The purchasing cardholder (reconciler) does not review and change department default account codes as necessary when reconciling transactions to the cardholder activity report.

(b) One cardholder is not completing their monthly activity report in a timely manner. Without a timely reconciliation, errors or fraudulent transactions could occur.

(c) Purchasers do not always use the correct account code on other expense transactions, such as vouchers, journal entries, and expense reimbursement transactions. This review of account codes should also be performed as part of the monthly cost center reconciliation process.

**Recommendation:** We recommend that cardholder activity reports be reconciled and approved in a timely manner with proper supporting documentation as prescribed by Procurement Management. Also, account codes for both purchasing cards and other expense transactions should be reviewed for accuracy and any changes to accounts should be noted and appropriate steps to correct followed.

**Management’s Response:** All faculty and staff have been notified that having a purchasing card is a privilege that can be taken away if they do not adhere to the university policies on its use. The faculty was asked to provide information about the use/description of purchases so an appropriate account code can be used. The staff were given the link to all of UTD’s account codes. All faculty at the November faculty meeting were asked to approve their reconciled accounts by the due date. The department head is requesting a monthly report from the ASO on these accounts.

**Estimated Date of Implementation:** December 1, 2014

**Person Responsible for Implementation:** Dr. Rennaker

(6) **Develop a Business Continuity Plan**

The UT Dallas Department of Environmental Health and Safety website states:\(^5\):

"Business Continuity Planning is the process whereby organizations ensure the maintenance of critical operations when confronted with adverse events such as natural disasters, technology failures, human errors, or terrorism. The objectives of a business continuity plan are to minimize loss to the organization, continue to serve customers, and maintain administrative operations."

\(^5\) [http://www.utdallas.edu/ehs/BCP/whatisbcp.html](http://www.utdallas.edu/ehs/BCP/whatisbcp.html)
Bioengineering currently has no Business Continuity Plan (BCP) in place. Without a clear business continuity plan, Bioengineering may have difficulty recovering from disasters and resuming normal operations. The process of creating a BCP involves assessing risks, finding ways to mitigate these risks, developing a clear plan and evolving desk procedures for critical functions or operational areas so that operations are minimally impacted.

**Recommendation:** The department should work with the Office of Business Services within the Department of Environmental Health and Safety to create a Business Continuity Plan using the online UT Dallas Business Continuity Planning Tool\(^6\).

**Management’s Response:** The department head will work to create a plan.

**Estimated Date of Implementation:** June 1, 2015

**Person Responsible for Implementation:** Dr. Rennaker

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(7) **Develop at Property Inventory**

Bioengineering currently has no internal property inventory of departmental assets. UT Dallas Property Administration – UTDBP3066\(^7\) states that each department head is responsible for the proper custody, maintenance and safekeeping of UT Dallas property assigned to their department. Additionally, State Law\(^8\) requires that a physical inventory of all property be conducted once each fiscal year. If a current property inventory is not completed and updated on a regular bases, portions of the departments assets may be lost, moved, or stolen without the knowledge of the department.

**Recommendation:** A full departmental inventory be taken to track and record the location of all reportable assets. Additionally, procedures should be put into place to ensure annual inventories are conducted and inventory records are updated as assets are relocated.

**Management’s Response:** The ASO has established a procedure for performing an inventory. All staff members have been assigned to faculty members and are responsible for assisting them with completing the inventory. We expect to have the inventory completed by January 1\(^{st}\).

**Estimated Date of Implementation:** January 1, 2015

**Person Responsible for Implementation:** Dr. Rennaker

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\(^6\) [http://www.utdallas.edu/ehs/BCP/howto.html](http://www.utdallas.edu/ehs/BCP/howto.html)

\(^7\) [http://policy.utdallas.edu/utdbp3066](http://policy.utdallas.edu/utdbp3066)

\(^8\) [http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.403.htm](http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.403.htm)
(8) **Develop a Policies and Procedures Manual**

Bioengineering does not have a detailed policies and procedures manual. There is limited documentation that is available detailing certain business processes that are utilized. Departmental policies and procedures provide a clear communication of the responsibilities of departmental personnel. This is especially helpful during periods of turnover. A policies and procedures manual should ideally include areas such as:

- Organizational chart with reporting structure
- Job descriptions documented and updated to reflect current responsibilities for each position
- Inventory tracking and monitoring procedures
- Account reconciliation policy
- Procedures regarding the accumulation and usual of compensatory time
- Time reporting procedures for hourly employees.

If policies and procedures are not documented and communicated personnel, it may lead to departmental inefficiencies and weak internal controls.

**Recommendation:** We recommend the department create a policy and procedure manual and implement a process to periodically review and update the policies as needed.

**Management’s Response:** We have spent the last 18 months working on policies for the department. We are beginning to document these policies and procedures and plan to complete this process by the end of August 2015.

**Estimated Date of Implementation:** August 31, 2015

**Person Responsible for Implementation:** Dr. Rennaker

**Other Issues**

The following minor issues were discussed with management, and they agreed to address them:

- Department Degree Program Proposal External Review
- Travel Vouchers
- Electronic Document Retention Rate
- Purchasing Card Training
- FERPA Training
- Business Meal Expense Reimbursements
- Account Reconciliations
Conclusion

Based on the audit work performed, we conclude that controls within the department of Bioengineering can be strengthened. Implementation of the recommendations outlined in this report will help to enhance controls and the efficiency of existing processes.

We appreciate the courtesy and cooperation received from the management and staff of Bioengineering during this audit.