MEMORANDUM

TO: Michael R. Shriner  
Vice President, Business Operations and Facilities

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA  
Associate Vice President, Audit Services

DATE: December 12, 2013

SUBJECT: Auxiliary Enterprises Change of Management Audit  
Audit Control Number 2014-014

Attached is the final audit report regarding the Auxiliary Enterprises Change of Management Audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: Significant (S), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachments

c: David L. Callender, MD
Carlos Escobar
The University of Texas Medical Branch
Audit Services

Audit Report
Auxiliary Enterprises Change of Management Audit
Audit Control Number 2014-014
December 2013

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150
Auxiliary Enterprises Change of Management Audit
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Background
Auxiliary Enterprises, a division within Business Operations & Facilities, operates housing, recreation, parking, and retail food outlets for the staff, students, visitors and patients of the University of Texas Medical Branch (UTMB Health). Additionally, Auxiliary Enterprises provides management services for the UTMB Bookstore and Hospitality Shop, Inc. (Bookstore), a separate tax-exempt 501(c) (3) organization. Bookstore revenues totaled approximately $1.6 million for its fiscal year ending June 30, 2013. Fiscal year (FY) 2013 revenues for all Auxiliary Enterprises’ operations, excluding the Bookstore, exceeded $8.6 million. Auxiliary Enterprises has 25 employees, 15 (60%) of which are classified as contractors/non-UTMB employees.

In July 2013, the Associate Vice President (AVP), Business Operations and Facilities, assumed direct supervisory responsibility for Auxiliary Enterprises operations. The AVP requested a change in management audit to assess Auxiliary Enterprises established financial and operational controls within select operational areas. Change in management audits primarily focus on organizational structure, policy and procedures, financial controls such as account reconciliations, and on operational controls such as proper segregation of duties.

Audit Objectives
The objectives of the audit were to assess the current organizational structure and operational controls to determine if the supervision and monitoring of personnel, processes, and controls are in place and functioning as intended for the following areas:

- Bookstore
- Alumni Field House
- Parking Facilities
- Housing

Scope of Work and Methodology
Our scope of work included current operations. The audit methodology included interviews, observations, and limited testing of revenue and non-salary expenditures.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

Audit Results
Organizational Structure
Organizational structure provides the basic framework for authority, supervision, and reporting relationships within an organization. Leading practices indicate roles, responsibilities, and functions should be clearly defined and aligned to achieve organizational objectives.

Audit Services noted Auxiliary Enterprises had a flat organizational structure with leadership comprised of a Director reporting to the AVP and a Business Manager with limited supervisory authority reporting to the Director. The longtime Director’s retirement and contemporaneous departure of the Business Manager created an institutional knowledge and leadership gap impacting the transition of operational leadership to the AVP. Additionally, the operational

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areas reviewed appeared leanly staffed with a significant number of contractors used to fill key roles.

As the AVP continues his review and assessment of the Auxiliary Enterprises organizational structure against leading practices for achieving a high performing department, he should reassess two practices that may not be to the best benefit of the organization. Currently, Auxiliary Enterprises employs its own maintenance and property management staff rather than utilizing BOF’s Property Services and Facilities Portfolio Management divisions and approximately 60% of Auxiliary Enterprises employees are contractors/non-UTMB. The cost benefit of the long-term use of primarily contract employees is unclear and not routinely reassessed.

**Recommendation 2014-014-01-R:**
The Associate Vice President, Business Operations and Facilities, should assess the current organizational structure relative to institutional needs and develop and implement a plan to address and prioritize identified gaps in leadership, actual versus required skill sets, and staff composition to ensure achievement of departmental goals and objectives.

**Management’s Response:**
Concur with the findings and recommendations. The AVP, BOF will assess the current organizational structure relative to institutional needs and develop and implement a plan to address and prioritize identified gaps in:
- leadership,
- actual versus required skill sets,
- and staff composition to ensure achievement of departmental goals and objectives.

**Implementation Date:** May 2014

**Personnel**
Audit Services interviews with individuals staffing the four areas reviewed indicated, overall, they are knowledgeable with the appropriate education and experience to perform their respective job responsibilities. Opportunities for cross-training were identified in multiple areas within Auxiliary Enterprises.

**Recommendation 2014-014-02-R:**
The Associate Vice President, Business Operations and Facilities, should develop and implement a plan to ensure all key activities have an appropriate level of cross trained employees to ensure continued uninterrupted operations.

**Management’s Response:**
Concur with the findings and recommendations. The Associate Vice President, Business Operations and Facilities, in conjunction with the new Director will develop and implement a plan to ensure all key activities have an appropriate level of cross trained employees to ensure continued uninterrupted operations.
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Implementation Date: June 2014

Policies and Procedures
Detailed policies and procedures are effective control activities that provide guidance to staff, provide reasonable assurance that the institution is in compliance with applicable laws and regulations, and help ensure that management directives are followed. Additionally, established, documented policies and procedures help support training and cross-training of departmental personnel.

Interviews with Auxiliary Enterprises personnel and review of available documentation indicate while some formal departmental policies and procedures exist, several employees also maintain informal documentation of current practices. Additionally, employees interviewed noted some formal policies and procedures need updating.

Recommendation 2014-014-03-R:
The Associate Vice President, Business Operations and Facilities, should review existing policies and procedures against current operations to ensure all critical policies and procedures are established, documented, and up-to-date. Once all policies and procedures are documented, they should be appropriately communicated to departmental personnel.

Management’s Response:
Concur with the findings and recommendations. The Associate Vice President, Business Operations and Facilities, will review existing policies and procedures against current operations to ensure all critical policies and procedures are established, documented, and up-to-date. In addition, the AVP BOF, once all policies and procedures are documented, they will be appropriately communicated to departmental personnel.

Implementation Date: November 2014

Internal Controls
Segregation of Duties
Segregation of duties is a key preventive control in which no one person initiates, approves, and records transactions; reconciles balances; handles assets; and reviews reports. Audit Services interviews with Auxiliary Enterprises employees and observation of current processes indicate appropriate segregation of duties was generally lacking in almost all areas reviewed. For example, at both Ferry Road Apartments and Parking Facilities, one individual receives records, reconciles, and deposits the payments. In another example, multiple individuals daily operate the Bookstore’s cash register rendering the potential identification of individual errors or diversion of funds should they occur untraceable.

Recommendation 2014-014-04-R:
The Associate Vice President, Business Operations and Facilities should further review operations in each area to ensure internal controls related to segregation of duties and reconciliations are in place and functioning as intended.
Management’s Response:
Concur with the findings and recommendations. The Associate Vice President, Business Operations and Facilities, in conjunction with the organizational structure assessment and new Director, will further review operations in each area to ensure internal controls related to segregation of duties and reconciliations are in place and functioning as intended.

Implementation Date: September 2014

Monthly Account Reconciliations
Departmental account reconciliations are a detective control that helps ensure financial records are accurate and complete. Reconciliations should be completed timely to ensure potential errors are quickly corrected. Audit Services review of monthly account reconciliations indicated they are being performed for each area within Auxiliary Enterprises.

Contracting with External Organizations
Auxiliary Enterprises contracts with external organizations to provide housing and administrative services; however, it does not maintain a master list of contracts. Additionally, during our review of the available housing and administrative services contracts, we noted many of these contracts were outdated and not always in agreement with current operational activities.

Recommendation 2014-014-05-R:
The Associate Vice President, Business Operations and Facilities should ensure all applicable contracts are updated and distributed to the appropriate parties, and a master list of contracts is appropriately maintained for reference.

Management’s Response:
Concur with the findings and recommendations. The Associate Vice President, Business Operations and Facilities will ensure all applicable contracts are updated and distributed to the appropriate parties, and a master list of contracts is appropriately maintained for reference.

Implementation Date: February 2014 for service contracts and July 2014 for housing contracts

Revenue and Expenditure Testing
Audit Services traced a sample of 59 revenue and 25 expenditure transactions back to supporting documentation. No issues were noted. Additionally, 20 randomly selected daily cash statements tied to the associated cashier reports and deposits with no exceptions. A high-level review of FY 2013 revenue and expenditure transactions did not indicate any unusual or irregular transaction patterns warranting further investigation.

Additional Area Specific Observations
Parking Facilities
Auxiliary Enterprises manages 33 parking areas including a mix of garages and surface lots on and near the main campus. Audit Services interviews and observations of current operations

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indicated several informal and operational practices which may not be in the best interest of the organization from a risk and/or business practice perspective.

**Contract Management** – Cancellation of parking contracts when employees or students separate from the institution is not part of the institutional exit process and some individuals do not cancel their contracts. Audit Services comparison of active contracts listed in the Parking Facilities database with current employees and students indicated 28 terminated employees, 5 retired employees, and 1 deceased individual are still active in the parking contract system. Failure to update the database timely can result in an inaccurate count of available spaces.

**Overselling** – The Parking Facilities Administrative Manager indicated some lots/garages are oversold based on a percentage over the capacity. Although this is a routine business practice for contract parking facilities, the Administrative Manager could not provide documentation describing the process or otherwise articulate the methodology used to derive the percentage or how the process worked.

**Parking Inventory** – Since University Police opens the exit gates if they are not functioning, Parking Facilities counts the open spaces in the Public Garage 1 three days a week to ensure the automated space counter is set correctly. Additionally, Parking Facilities personnel physically count open spaces in all other areas on a monthly basis to determine the number of spaces available for contract. Given the fluidity of parking available throughout any given day and alternative methods for determining space availability, it is unclear how the manual process of counting available spaces provides valuable, meaningful data.

**Payment Overrides** – To exit from two public garages, an appropriately coded employee badge, a parking token, or payment must be presented. Interviews and observations of the parking booth cashiering process indicated Parking Facilities personnel allow UTMB Health volunteers and vehicles with “handicapped” hangtags or license plates to exit the garages without payment of any fees. Currently established internal controls are inadequate to ensure the prevention of the booth attendant from diverting payment or providing “free” parking.

**Official Business Parking Cards** – Parking Facilities personnel indicated the existence of an undocumented practice of issuing “Official Business” parking cards. An employee without paid monthly parking on campus can pay $16 annually for a card, while an employee who has contracted parking and wants/needs to park in another area can request a card for free. Parking Facilities leadership indicated there is no monitoring of card issuance or usage.

**Security/Safety** – Parking Facilities personnel walk unescorted with cash to restock booth attendant drawers for the next day’s business and the panic buttons in the parking booths are not operational.

**Recommendation 2014-014-06-R:**
The Associate Vice President, Business Operations and Facilities, should consider contracting with an individual/vendor experienced in parking facility management to provide a comprehensive assessment and detailed plan to improve current Parking Facilities operations.
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Management's Response:
Concur with the findings and recommendations. The Associate Vice President, Business Operations and Facilities, will consider contracting with an individual/vendor experienced in parking facility management to provide a comprehensive assessment and detailed plan to improve current Parking Facilities operations.

Implementation Date: June 2014

Additional Area Specific Observations
Housing
Dormitories/Apartments – Auxiliary Enterprises manages three apartment complexes and a dormitory. Resident activity appeared to be appropriately tracked in an Access database. Housing personnel indicated security deposits and rent are paid at the Bookstore; however, during Audit Services observation of Parking Facilities processes, an individual in that division indicated they also take rental payments.

Fraternity Houses – Auxiliary Enterprises leases for a monthly fee apartment buildings to two fraternities who in turn subleases individual rooms to fraternity members. The fraternities set their own rental rates and collect rent from their tenants. Audit Services noted the most current contracts available for the fraternities are dated December 2003 although monthly rates have been increased in subsequent years. No supporting documentation for the current rates was unavailable. Utilizing the rental rates charged by the fraternities, Audit Services calculated the fraternities’ monthly revenue and compared it with the rent paid to UTMB Health noting in both instances, the fraternities are realizing a comfortable profit.

Recommendation 2014-014-07-R:
The Associate Vice President, Business Operations and Facilities should assess the cost of maintaining the fraternity houses along with current rental market conditions and update the contracts accordingly.

Management's Response:
Concur with the findings and recommendations. The Associate Vice President, Business Operations and Facilities and new Director will assess the cost of maintaining the fraternity houses along with current rental market conditions and will develop new business plans to support the update of the fraternity contracts accordingly.

Implementation Date: November 2014

Conclusion
Audit Services completed a change in management audit of four areas within Auxiliary Enterprises. Opportunities exist to strengthen the current control environment related to organizational structure, policies and procedures, segregation of duties, monitoring, and contracting.
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We greatly appreciate the assistance provided by Auxiliary Enterprises staff and hope that the information presented in our report is beneficial.

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