September 19, 2014

Dr. Havidán Rodríguez, Interim President  
The University of Texas-Pan American  
1201 W. University Drive  
Edinburg, TX 78539

Dear Dr. Rodríguez,

As part of our fiscal year 2014 Audit Plan, we completed a compliance audit of the Business and Rural Development office. Business and Rural Development is comprised of two major areas: Business Development & Innovation and Rural Enterprise Development. The objective of the audit was to determine compliance with grant regulations and university requirements. The scope of the audit was limited to rural economic development activity for fiscal year (FY) 2013, with a focus on the project accounts and awards of the executive director for business and rural development.

We performed audit procedures that included an interview with the executive director for business and rural development; reviewed USDA grant agreements and grant conditions; reconciled grant revenues and expenses to agreements and budgets; verified applicable university disclosure statements were completed; reviewed and tested expenditures, and examined supporting documentation for appropriateness and proper approvals; reviewed and tested employee timecards and time and effort reports for proper approvals; verified indirect costs were calculated accurately; and verified applicable financial reports were submitted timely to the USDA.

We determined that all grant expenditures tested were properly approved, appropriate and allowable under the terms and conditions of the grants. However, controls over in-valley travel, part-time temporary employees, and special assignments should be strengthened.

We appreciate the courtesy and cooperation received from management and staff during our audit.

Sincerely,

Eloy R. Alaniz, Jr., CPA, CIA, CISA  
Executive Director of Audits, Compliance & Consulting Services
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EXECUTIVE SUMMARY

The Business and Rural Development Office is one of two major components of the Department of Community Engagement under the Division of Business Affairs. Business and Rural Development is comprised of two major areas: Business Development & Innovation and Rural Enterprise Development. An executive director oversees the Rural Enterprise Development area and was also the project account manager and either the principal investigator or co-principal investigator for two U.S. Department of Agriculture (USDA) grants: Farm Ownership & Rural Growers’ Empowerment (FORGE) and the Beginning Farmers and Ranchers Development Program (BFRDP). Each of these grants is regulated through Title 7 of the Code of Federal Regulations.

The objective of the audit was to determine compliance with grant regulations and university requirements. The scope of the audit was limited to rural economic development activity for fiscal year (FY) 2013 (September 1, 2012 through August 31, 2013) with a focus on the project accounts and awards of the executive director for business and rural development.

We determined that all grant expenditures tested were properly approved, appropriate and allowable under the terms and conditions of the grants. However, we observed the following during the course of the audit.

- Employees of the Business and Rural Development office were allowed to work from a location other than campus without a formal University agreement. In addition, mileage reimbursements were paid to employees for travel from cities they reside in to the Edinburg campus even though the human resource system indicated the employee’s headquarters were in Edinburg.

- Two part-time temporary staff exceeded the 19 hours per week limitation for temporary staff employee assignments and exceeded 50% of a full-time equivalent for employees employed for a period of more than 4 ½ months in a year.

- The executive director for business and rural development was approved for a special assignment to carry out the duties of project director for a USDA program while he was being paid 50% from the grant as the project director/project investigator. The Office of Sponsored Programs and the Grants and Contracts Office were not aware of the special assignment since it was allocated to a non-sponsored project account.
BACKGROUND

Business and Rural Development is one of two major components of the Department of Community Engagement under the Division of Business Affairs. As the "outreach" arm of The University of Texas—Pan American (UTPA), the Department of Community Engagement works strategically to enhance student, faculty and staff learning processes through centers that offer important and diverse services in order to promote the economic and social well-being of the South Texas community. There are eight development programs under the Rural Enterprise Development area. The overall goal of these programs is to “empower the people of South Texas with skills that will enable them to succeed in their education, career and life in general. By partnering with community leaders, government officials and local citizens, we aspire to foster growth in our community, in order to secure the futures of our prosperity.”

The executive director for business and rural development was the project manager for 15 project accounts, 11 of which had a net budget of $843,481 with net expenses of $712,657 and remaining funds available of $130,824 at August 31, 2013.

During fiscal year 2013, the executive director for business and rural development was the project director/principal investigator or co-project director/co-principal investigator for the following two USDA grants:

1. Farm Ownership & Rural Growers’ Empowerment (FORGE)
   FORGE is a project that assists the 16,000 Hispanic Farmers and ranchers-- in its 57 county Texas/New Mexico area--with USDA Programs available through the 2008 Farm Bill. The goal of FORGE is to provide outreach, training, and technical assistance to encourage and assist Hispanic producers of traditional crops and livestock to own and operate farms and ranches and to participate in USDA agricultural programs.

2. Beginning Farmers and Ranchers Development Program (BFRDP)
   The goal of the BFRDP is to enhance the sustainability of beginning farmers and ranchers in a 34-county region of South Texas specifically targeting limited-resource Hispanic producers that are often immigrant and first-generation farm workers by helping them to successfully grow and direct market their agricultural produce and products.

AUDIT OBJECTIVE

The objective of the audit was to determine compliance with grant regulations and university requirements.
AUDIT SCOPE & METHODOLOGY

The scope of the audit was limited to the rural enterprise development activity for fiscal year (FY) 2013 (September 1, 2012 through August 31, 2013) with a focus on the project accounts and awards of the executive director for business and rural development.

To perform this audit we conducted the following procedures:
- Interviewed the executive director for business and rural development.
- Reviewed USDA grant agreements, grant conditions, extensions and restrictions.
- Reconciled grant revenues and expenses to agreements and budgets.
- Verified applicable university disclosure statements were completed.
- Reviewed and tested operating expenditures, including grant expenditures, and examined supporting documentation for appropriateness and proper approvals.
- Reviewed and tested employee timecards and time and effort reports for proper approvals.
- Verified indirect costs were calculated accurately.
- Verified applicable financial reports were submitted timely to the USDA.

We conducted this audit in accordance with the guidelines set forth in The University of Texas System’s Policy 129 and the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. The audit was performed during the months of November 2013 through June 2014.

AUDIT RESULTS

Expenditures Testing

The Office of Management and Budget (OMB) Circulars A-21 and A-110 provide the principles for administering and determining costs applicable to federal grants, contracts, and other agreements with educational institutions. The project director of the grants is responsible for financial reporting and compliance with university requirements and grant regulations. In addition, an accountant from the Grants & Contracts Office ensures that the grant conditions and restrictions are followed throughout the grant period, including approving all expenditure requisitions, and reviewing all memoranda of employment charged to the grant.

We reviewed operating, travel, and payroll expenditures to test for compliance with grant regulations and university requirements. All expenditures tested were paid from the project accounts managed by the executive director for business and rural development. We tested a sample of expenditures in each category and examined supporting documentation for proper approval, accuracy, and whether the expenditures were reasonable. The Business and Rural Development office did not have a procurement card.
Operating Expenditures
We randomly selected a sample of 20 operating transactions representing 65% of the total dollar value of the population. We determined that the expenditures were properly approved, appropriate, and supported with adequate documentation.

Travel Expenditures
We randomly selected a sample of nine (9) travel transactions representing 21% of the total dollar value of the population. Three (3) of the nine (9) travel expenditures tested were reimbursements for in-valley travel.

In accordance to Texas Government Code, Section 660, a state employee is entitled to be reimbursed for mileage incurred to conduct state business. The number of reimbursable miles may not exceed the number of miles of the most cost-effective reasonably safe route between two duty points. The state defines a duty point as the destination, other than a place of employment, to which a state employee travels to conduct official state business.

During FY13, the executive director for business and rural development was reimbursed $7,049.61 for in-valley travel totaling 12,702 miles for the periods of October 1, 2011 through December 31, 2012. The mileage reimbursement included 6,679 miles from Lyford to Edinburg Texas. According to the Human Resources Department (HR), the employee lives in Lyford and his headquarters are in Edinburg, Texas in the Community Engagement and Student Success (CESS) building. The University does not have a written agreement to authorize employees to be headquartered in a place other than the University. We inquired with the Accounts Payable Department to determine the reason the employee was reimbursed for travel to his headquarters as indicated in the accounts payable voucher. The accounts payable financial manager stated that she thought there was an agreement that allowed the employee to be reimbursed for travel to Edinburg from his home city, but did not have any documentation to support it. We were informed that there was some discussion a few years ago related to employee travel in the Community Engagement Department but no final document or decisions were made at the time.

The executive director for business and rural development provided us with a list of nine (9) employees working off-campus in locations not owned by the university, including employees’ homes. We noted the location listed for the executive director was in Raymondville, Texas yet the mileage reimbursement documents listed Lyford, Texas as the starting point. As previously pointed out, the official University records list the executive director’s headquarters in Edinburg, Texas.

Although we determined that the travel expenditures were properly approved and supported with adequate documentation, there were major discrepancies with the headquarters identified in the three (3) reimbursements for in-valley travel. None of these three payments were reimbursed from grant accounts. In the absence of an agreement that authorizes employees to be headquartered off-campus, these reimbursements could potentially be seen as commuting.
Recommendations:

1. The vice president for business affairs should determine if any of the in-valley mileage reimbursements were for commuting, since some of the travel voucher reimbursements had starting points from his home city rather than the off-campus location.

Management Response:

1. The vice president for business affairs will review in-valley mileage reimbursements to ensure no reimbursements were related to commuting.

   **Implementation Date:**

   October 31, 2014

2. The vice president for business affairs should formalize an agreement for those employees working at remote off-campus locations.

Management Response:

2. The vice president for business affairs will formalize an approval process for employees working at remote locations.

   **Implementation Date:**

   November 30, 2014

3. Until an agreement is developed, the executive director for business and rural development should provide the Accounts Payable Department a current list of the employees authorized to work off-campus.

Management Response:

3. Until an agreement is developed, the executive director for business and rural development will provide the Accounts Payable Department with a current list of the employees authorized to work off-campus.

   **Implementation Date:**

   September 15, 2014
Payroll Expenditures
We judgmentally selected five (5) of the full time salaried employees and two (2) of the direct waged employees for testing. For each employee selected for testing, we selected the months of February and August 2013 to test for payroll accuracy and timecard approvals.

We determined that the employees’ compensation agreed with their memorandum of employment (MOE) and timecards were approved. However, we noted the two waged employees tested worked more than the 19 hours per week authorized on their MOE. All temporary staff employee assignments at UTPA are limited to 19 hours per week or to less than 50% Full-time Equivalent (FTE) if employed for a period of more than 4 ½ months in a year. The MOE for one employee was approved for 19 assigned weekly hours at a $16 hourly rate. However, during testing we determined he worked a total of 1,368 hours in FY13 and exceeded the 19 hours per week for 19 of the 50 weeks worked during the year. The employee also worked 40 hours in 14 of the weeks worked during the year.

The MOE for the second employee was approved for 19 assigned weekly hours at a $25 hourly rate. This employee worked a total of 1,107.50 hours in FY13 and exceeded the 19 hours per week in 25 of the 46 weeks worked during the year. This employee is retired and collecting benefits through the Teacher Retirement System of Texas (TRS).

The supervisors for these two employees approved the time sheets for the hours worked but did not ensure that the employees were working only the 19 hours approved in their MOE. The executive director for business and rural development noted that they understood the policy for part-time temporary employees as employees are allowed to work more than the 19 assigned hours as long as the employee did not exceed the 19 hours in a total of 4 ½ months or 19 ½ weeks during a fiscal year. However, these employees were working more than 50% of an FTE since they were employed for a period of more than the 4 ½ months. Therefore these circumstances could change the employee’s employment status and qualify him for employee benefits, including being eligible for TRS.

**Recommendation:**

4. The executive director for business and rural development should contact the Human Resources Department to determine proper employee classification and employee benefits eligibility. In addition, Business and Rural Development supervisors should monitor the hours worked for part-time temporary employees to ensure they only work the maximum allowed hours per their MOE.

**Management Response:**

4. The executive director for business and rural development will contact the Human Resources Department to try and determine the benefits eligibility of direct-wage
employees. Business- and rural-development supervisors will monitor the hours worked by part-time employees to ensure compliance with the determinations developed from the above-referenced contact with the Human Resources Department.

**Implementation Date:**

October 31, 2014

**Special Assignments**

During payroll testing, we noted the executive director for business and rural development had two special assignment MOEs for FY 2013, and the special assignments continued through FY 2014. The HR website defines special assignments as follows:

*A special assignment is defined as an appointment to cover non-recurring extra duties not included in and unrelated to the employee's current regular appointment. Such special assignment must be related to a specific project, emergency or deadline, must be for a definite period of relatively short duration, must be clearly distinguishable from ongoing endeavors, must be performed outside of the employee's regular working hours, must be totally discretionary to the employee insofar as accepting or rejecting the assignment, and cannot be salary base building.*

For FY13, the labor distribution for his full-time MOE was as follows:

<table>
<thead>
<tr>
<th>Project Account</th>
<th>Project Name</th>
<th>Labor Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>100VPCE00</td>
<td>Community Engagement-Non Sponsored Institutional Support</td>
<td>48%</td>
</tr>
<tr>
<td>41BDCN015</td>
<td>09-12 Project FORGE (Farm Ownership &amp; Rural Growers)</td>
<td>2%</td>
</tr>
<tr>
<td>41CENG003</td>
<td>Direct Marketing Initiative for Beginning Farmers (BFRDP)</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
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</table>

The labor distribution for the special assignments for FY13 was for carrying out the duties of project director for the UTPA project funded through USDA’s BFRDP grant as follows:

<table>
<thead>
<tr>
<th>Project Account</th>
<th>Project Name</th>
<th>Labor Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>24VPCE000</td>
<td>IC Initiative CE – Non Sponsored Research</td>
<td>100%</td>
</tr>
</tbody>
</table>

The time and effort for the assignments was calculated based on the total labor distributions for the full-time MOE and the special assignment pro-rated by the amount paid to the employee. The executive director for business and rural development had the role of project director for the
In addition, the grant agreement stated the project director is responsible for the overall performance of the project.

During discussions with the executive director, we noted there were special circumstances for the special assignments. The co-project director that was to assist the project director with managing the day-to-day operations of the project was unable to and was assigned other duties related to overseeing the annual BFRDP conference hosted by UTPA. It appears that the oversight of the grant by the project director is a direct cost to the program yet the labor distribution for the special assignment was allocated to a non-sponsored indirect cost project account. In addition, the executive director’s full-time MOE is already allocating 50% to the BFRDP grant. Time and effort reporting for the grant may be affected by the special assignment since it is being charged to a non-sponsored project account.

**Recommendations:**

5. Since Business and Rural Development is primarily federally funded, the executive director for business and rural development should communicate all special assignments to the Office of Sponsored Projects to ensure that the assignment is allowable under the grant and the appropriate amount of time and effort is accounted for.

**Management Response:**

5. The executive director for business and rural development will communicate all special assignments to the Office of Sponsored Projects.

**Implementation Date:**

September 30, 2014

6. The Office of Research and Sponsored Projects should review the time and effort reporting for the Business and Rural Development sponsored projects to ensure time and effort is reasonable.

**Management Response:**

The Office of Research Compliance will conduct a verification process to review time and effort reporting for the Business and Rural Development sponsored projects. After verification is made, the Office of Sponsored Projects and the Office of Research Compliance will meet with the executive director to discuss the results and proposed plan of action, if any.
Implementation Date:
October 31, 2014

Grant Budget & Revenues

The FORGE grant began on September 1, 2009 and was scheduled to end on August 31, 2012 but was extended until August 31, 2013. We verified that the approval for the extension was obtained. The federal award amount for the 3 year grant was $300,000 with grant expenditures totaling $38,807 for the year ended August 31, 2013. We verified and determined that the actual expenditures were within the allowed budgeted amounts. The FORGE grant ended on August 31, 2013 and was finalized on November 5, 2013. We verified the grant revenue received agreed to the amount in the grant agreement. We compared the total grant amount of $300,000 awarded to the revenues recorded in the Oracle system and the revenues reported in the final financial reports submitted to the USDA. We determined that the grant revenues received agreed to the grant agreement.

The BFRDP grant began on September 1, 2012 and is scheduled to end on August 31, 2015. The federal award amount for the 3 year grant was $678,016 with grant expenditures totaling $204,158 for the year ended August 31, 2013. We determined the actual expenditures were within the allowed budgeted amounts. We verified the grant revenue of $204,158 received for FY 13 agreed to the revenues recorded in the Oracle system and the revenues reported in the final financial reports submitted to the USDA. We determined the grant revenues received agreed to the grant agreement.

Indirect Cost

UTPA has negotiated Indirect Cost (IDC) rates with the Federal Government and these rates are used in preparing all grant/contract proposals, including applications to non-federal agencies. IDC amounts are automatically charged to the project based on the project’s approved rate. The rate used for the FORGE and BFRDP grants for FY13 was the off campus rate of 18.8%. We verified and determined that the indirect cost calculation for the annual reports submitted to the USDA was accurate by recalculating the indirect cost reported on the reports.

Agency Reporting

Federal financial reports for the FORGE grant were required to be submitted on a quarterly basis within 30 days after each reporting period and a final financial report within 90 days after the end of the grant award. We determined the financial reports were submitted timely. In addition, a final technical report was due to the granting agency 90 calendar days after the end of the grant award. Failure to submit an acceptable Final Technical Report within 90 calendar days after the
end of the grant may result in grant funds being withheld for other active USDA grants until the report has been submitted as specified. We determined the final technical report was submitted.

For the BFRDP grant, a federal financial report is due on an annual basis no later than 90 days following the end of the award anniversary date. We determined the financial reports were submitted timely. In addition, annual progress reports are due to the granting agency 90 calendar days after the grant year, including anniversary dates of multiple year awards, as is the case with this grant. Failure to submit an annual Progress Report within 90 calendar days after the award's anniversary date may result in grant funds being withheld until the report has been submitted as specified. We determined the annual progress report was submitted.

**Disclosure Statements**

We verified whether Business and Rural Development was in compliance with university requirements for employee disclosures. The test included all employees paid from the project accounts managed by the executive director for business and rural development. We reviewed the list of 38 employees and determined there were four (4) employees that required disclosures for either outside employment or outside board service. In addition, we reviewed the list of employees and inquired if there were any employees that were related and required completion of the annual nepotism certification statement. We determined that four (4) employees appropriately completed the applicable disclosures for nepotism.

**CONCLUSION**

Based on the work we performed, we determined that grant expenditures tested were properly approved, appropriate and allowable under the terms and conditions of the grants. However, controls over in-valley travel, part-time temporary employees, and special assignments should be strengthened.

Isabel Benavides CIA, CGAP, CFE  
Director, Audits and Consulting Services  

Lilia St. Clair CPA  
Internal Auditor III