March 12, 2015

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

Dear Dr. Rodriguez,

As part of our fiscal year 2015 Audit Plan, we completed a change in management audit of the Department of Public Affairs & Security Studies. The objective of the audit was to evaluate the adequacy and effectiveness of the Department of Public Affairs & Security Studies’ system of internal controls with an emphasis on financial and administrative controls. The specific internal control areas we focused on included the control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring and information technology. Our scope encompassed activity from FY 2013 (September 1, 2012 through August 31, 2013).

We performed audit procedures that included completion of an internal control questionnaire; interviews with staff; testing controls related to compliance with University policies and procedures; and performing substantive testing, on a sample basis, related to proper approvals of expenditures; time reporting; assets management; and segregation of duties.

Overall, we concluded that the Department of Public Affairs & Security Studies had established a moderate system of financial and administrative internal controls in the areas evaluated. We identified areas where improvements to internal controls are necessary and management has agreed to take corrective action. The detailed report is attached for your review.

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

Sincerely,

Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Executive
Table of Contents

**EXECUTIVE SUMMARY**  ............................................................................... 1

**BACKGROUND**  .................................................................................. 2

**AUDIT OBJECTIVE**  ............................................................................. 2

**AUDIT SCOPE AND METHODOLOGY**  ............................................. 2

**AUDIT RESULTS**  ................................................................................ 3

**CONCLUSION**  ..................................................................................... 9
EXECUTIVE SUMMARY

The Department of Public Affairs & Security Studies (department) offers a Master of Public Administration degree. The Master of Public Administration is a graduate level of study intended to serve as preparation for public service in governmental agencies at the federal, state, regional, and local levels. Public Administration, both as a scholarly study and a professional program, is interdisciplinary in substance and methodology, borrowing from economics, sociology, psychology, business, industrial engineering, political science, and law. The interim chair assumed her duties on September 1, 2013.

As required by The University of Texas System’s 1996 Action Plan to Enhance Internal Controls, a change in management audit is performed when a department undergoes a change in management or a significant change in reporting lines. The objective of the audit was to evaluate the adequacy and effectiveness of the department’s system of internal controls with an emphasis on financial and administrative controls. The specific internal control areas we focused on included the control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring and information technology. Our scope encompassed activity from September 1, 2012 through August 31, 2013. The audit was conducted in accordance with 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.

Overall, the department established a moderate system of financial and administrative internal controls. During the course of the audit we observed the following:

- A departmental policy and procedures manual was not developed;
- A risk assessment was not developed;
- Employees did not complete their annual nepotism certifications;
- Employee sick leave documentation was not maintained;
- Funds related to a student organization were handled by a department employee rather than an officer of the student organization;
- Project account reconciliation documentation was not maintained for the period under review;
- The department used an unencrypted external hard drive and unencrypted personal laptops to conduct university business. No sensitive or confidential information was found on the devices tested.
BACKGROUND

The University of Texas Pan American offers a program leading to the degree of Master of Public Administration (MPA). The MPA program is located in the College of Social and Behavioral Sciences and is an interdisciplinary program designed to provide students with the basic administrative concepts and competencies that can be utilized in a variety of administrative careers in public and nonprofit agencies. The program is moving towards applying for accreditation by the National Association of Schools of Public Affairs and Administration.

The former chair was responsible for two (2) project accounts during FY 2013. A summary of the former chair’s project account’s financial activity is summarized below.

<table>
<thead>
<tr>
<th>Project Account</th>
<th>Budget</th>
<th>Encumbrances</th>
<th>Actual</th>
<th>Funds Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>140MPAP00</td>
<td>$614,455</td>
<td>$1,642</td>
<td>$607,846</td>
<td>$4,967</td>
</tr>
<tr>
<td>21MPAP000</td>
<td>$1,693</td>
<td>$1,867</td>
<td>$5,607</td>
<td>($5,781.00)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$616,148</strong></td>
<td><strong>$3,509</strong></td>
<td><strong>$613,453</strong></td>
<td><strong>($814.00)</strong></td>
</tr>
</tbody>
</table>

AUDIT OBJECTIVE

The objective of the audit was to evaluate the adequacy and effectiveness of the department’s system of internal controls with an emphasis on financial and administrative controls.

AUDIT SCOPE & METHODOLOGY

We evaluated the department’s internal controls related to a control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring, and information technology. Our scope included activity from FY2013 (September 1, 2012 through August 31, 2013). To accomplish the audit objective, we:

- Interviewed the interim chair and discussed an internal control questionnaire to obtain an understanding of the department’s operations and related internal controls.
- Interviewed employees for additional input on internal controls.
- Determined whether a control conscious environment was established, whether goals and objectives had been developed, and whether a risk assessment and implementation plan had been developed.
- Determined whether account reconciliations had been performed and approved on a timely basis and whether segregation of duties existed.
- Examined operating and financial information for reliability.
- Tested a sample of expenditures and examined supporting documentation for proper approval and authorization.
Reviewed employee leave and tested timecards for proper approval and authorization.
Performed property inventory testing for the existence of selected assets, and determined whether selected assets were properly recorded on the university’s assets management system.
Reviewed information security controls for portable drives.
Verified compliance with the university’s policies and procedures.

The audit was conducted in accordance with guidelines set forth in The University of Texas System’s Policy UTS 129 – Internal Audit Activities and the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing.

AUDIT RESULTS

Control Conscious Environment

A control conscious environment encompasses technical competence and ethical commitment, and is necessary for the establishment of effective internal controls. To establish an adequate control conscious environment, a department should have goals and objectives, a mission statement, a risk assessment and implementation plan, and a policies and procedures manual. These items should be reviewed regularly and updated as needed. Additionally, adequate training should be provided, performance evaluations should be conducted regularly, and any conflicts of interest should be identified and addressed.

We tested eight (8) employees for completion of annual trainings and nepotism certification.

- 1 out of 8 (13%) employees did not complete their information security training;
- 1 out of 8 (13%) employees did not complete the annual sexual harassment training;
- 1 out of 8 (13%) employees did not complete the annual standards of conduct training;
- 7 out of 8 (88%) employees did not complete their annual nepotism certification;

None of the employees tested were required to complete the staff performance appraisal program during the audit period. We found that the department did not develop a policies and procedures manual to help guide employees in their daily operations. In addition, an assessment of the department’s risk was not conducted.

Based on testing, we found that the department established a moderate control conscious environment.
Recommendations:

1. The interim chair should develop a departmental policies and procedures manual to help guide employees in the day-to-day operations. This manual should include information such as employee training requirements, account reconciliations processes, annual inventory certification procedures, information on security controls, and other relevant information.

Management Response:

1. The department is going through a transition phase due to the new university and it will be working with the Brownsville campus to draft the required policies and procedures for a better management system for the department.

Implementation Date:

September 1, 2015

2. As part of our audit procedures, we identified areas of risk and assessed its impact and probability of occurrence and produced a risk assessment. The interim chair should utilize this document and annually evaluate it for any changes in the department’s risk profile. An action plan should be developed to mitigate high risks.

Management Response:

2. The department will create a risk assessment using the guidelines received from the Audit department as a framework to initiate the process.

Implementation Date:

February 28, 2015

3. The interim chair should request a list of employees who are delinquent with their nepotism certifications from the Human Resources Office.

Management Response:

3. The compliance office has been monitoring completion of mandatory annual trainings. The department and the compliance office frequently communicate to ensure that employees who are delinquent are promptly notified.
Implementation Date:

February 28, 2015

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During the audit period, the former chair was account manager for two (2) project accounts with financial activity, the administrative assistant was listed as the project reviewer, and a lecturer from the Public Administration Program was listed as the alternate approver.

We reviewed operating, travel, and payroll expenditures to test for compliance with university procedures. We tested a sample of expenditures in each category and examined supporting documentation for proper approval, accuracy, and whether the expenditures were reasonable. The department did not have a procurement card.

Operating and Travel Expenditures

We judgmentally selected a sample of 15 operating and 10 travel transactions representing 52% and 41% of the total dollar value of the populations, respectively. The expenditures were properly approved, appropriate, and supported with adequate documentation. No exceptions were noted.

Payroll and Employee Leave

We judgmentally selected five (5) employees and selected one (1) month from FY13 to test payroll accuracy. We verified that the employees’ compensation agreed with their memorandum of employment, and we determined that the payroll for employees tested was accurate.

We also evaluated the process for leave taken by employees, reconciliations of leave reports to the official university timecards, and whether timecards were properly approved. The department uses a ‘Leave Approval Request’ form to document employee leave. The department’s administrative assistant was the only employee required to submit leave documentation to the supervisor for approval. We tested the month of June 2013. Based on the employee leave test, we determined that the administrative assistant’s timecard was approved by the supervisor; however, the department was unable to provide supporting documentation related to the administrative assistant’s sick leave absence. According to HOP section: HOP section: 7.6.4 Sick Leave, the supervisor is responsible for reviewing and approving annual vacation leave requests, maintaining accurate records of employee sick leave, and verifying monthly timecards for accuracy.

Based on testing, we concluded that the department established moderate controls over maintaining documentation for approval and authorization of employee leave.
**Recommendation:**

4. The interim chair should ensure all employee leave records are maintained in accordance with the Texas State Records Retention Schedule, which states that these documents must be retained for a period of four (4) years.

**Management Response:**

4. The department will develop a system for retaining employee leave documentation in accordance with the Texas State Records Retention Schedule.

**Implementation Date:**

February 28, 2015

**Safeguarding of Assets**

Tangible assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposal. We performed property inventory testing to determine the existence of assets and whether assets were properly recorded in the Oracle Fixed Assets system. Additionally, we evaluated the department’s controls related with handling university funds.

We tested 11 of the assets from the department’s inventory records and verified their existence. In addition, we selected three (3) assets within the department and verified that they were accurately recorded in inventory records. Based on testing, we determined that the fixed asset inventory was complete and accurate.

The department chair was the acting faculty advisor for the Association of Public Administrators (APA), a student organization. The department was collecting Pi Alpha Alpha Honor Society membership dues on its behalf. We discovered that the department’s administrative assistant was occasionally responsible for handling funds such as making copies of checks/money orders. We determined that university cash handling controls were not in place to mitigate the risk of misappropriations by allowing the department’s administrative assistant to handle checks/money orders related to the student organization activities.

**Recommendation:**

5. The interim chair should ensure that the Pi Alpha Alpha Honor Society membership dues are handled by the student organization. For proper financial management, these
funds should be deposited directly to the bank account and the bank statements should be reconciled by the officers of the student organization.

Management Response:

5. Changes will be made to ensure that all student organization activities are segregated from the department’s administrative assistant. The student organization will use its mail box for checks and letters of application.

Implementation Date:

February 28, 2015

Segregation of Duties

Adequate segregation of duties should be maintained between the individuals who authorize transactions, record transactions, and who have custody of assets. We reviewed areas such as revenues and funds handling, purchases, timecards, and statement of account reconciliations to evaluate segregation of duties.

The chair had signature/approval authority over the department’s accounts, including account reconciliations, purchases, and timecards. Project accounts were set up with separate individuals listed as the project manager, project reviewer, and alternate approver. The Administrative Assistant maintained accounting records and was responsible for preparing account reconciliations. We found that adequate controls over segregation of duties for the areas evaluated were in place.

Monitoring

In accordance to the Handbook of Operating Procedure Section 8.6.4: Fiscal Accountability Policy, project managers are responsible for providing assurance for the accuracy of their accounts by certifying that the account has been reconciled for the fiscal year and that all reconciling items have been satisfactorily resolved. Without adequate monitoring of project account reconciliations, items that require attention may go unnoticed. Additionally, monitoring of personal electronic equipment (e.g. laptops, tablets, portable storage devices, etc.) should be conducted to ensure that proper safeguards are in place to prevent loss of mission critical data.

We inquired as to whether the department maintains information on employees that use personal laptops and unencrypted portable storage devices to conduct university business. All university laptops, including personally owned computers must be encrypted. Employees are responsible
for contacting the Office of Privacy and Security about their use of personally owned laptops to conduct university business. They must encrypt their laptops or request assistance from the University Help Desk. We found that no list was available for identifying and monitoring such equipment; however, the interim chair indicated that she was aware of who uses what equipment and that she was able to do this because she has a small staff. We concluded that the department had adequate monitoring controls over the use of personal laptops and unencrypted portable storage devices.

The department had a total of two (2) project accounts with financial activity. We requested account reconciliations for July and August of 2013 for the DOE/FS MA Public Admin project account and determined that documentation to support those account reconciliations was not maintained. The administrative assistant stated that those reconciliations were prepared by the former administrative assistant who was no longer with the university. The administrative assistant began reconciliations starting with September of 2013. We evaluated September of 2013 and determined that the account reconciliation was completed; however we noted that there was no indication that the project manager reviewed it.

We concluded that there were moderate monitoring controls over account reconciliations.

**Recommendation:**

6. The interim chair should ensure that project account reconciliation documentation is maintained and that evidence to support that a review of completed account reconciliations is conducted.

**Management Response:**

6. The interim chair will ensure that account reconciliations are completed, and reviewed by the project manager. Documentation of completed account reconciliations will be reviewed by the chair and retained in our records.

**Implementation Date:**

February 28, 2015

**Information Technology**

Adequately established information technology controls help to protect sensitive information entrusted to the department. These controls include limited access to the university’s computer systems and restricting downloads of sensitive information. Another control is encryption software on equipment storing sensitive information. Ensuring employees have appropriate levels of system access helps prevent loss of vital university data and also prevents other abuses of the system.
We reviewed a sample of employee access levels for Oracle and verified that these employees received appropriate access given their job responsibilities. We determined that all employees tested were granted the appropriate level of access to Oracle.

In addition, we inquired whether the department used portable storage devices such as external hard drives or thumb drives. We found that the interim chair was aware that employees were using unencrypted laptops. We tested one (1) un-encrypted external hard drive and found that it did not have any sensitive data stored. Employees were provided encrypted portable storage devices from the University’s Office of Privacy and Security; however, the interim chair indicated that the employees were not using the encrypted devices. We determined the department established moderate information technology controls.

**Recommendation:**

7. The interim chair should notify all employees that they should cease using unencrypted storage devices. In addition, the department should notify the Office of Privacy and Security about the use of personally owned laptops to conduct university business.

**Management Response:**

7. All department faculty and staff will be instructed to cease using unencrypted portable storage devices. The interim chair will contact the Chief Information Security Officer for alternatives that are in compliance with university guidelines if necessary.

**Implementation Date:**

May 31, 2015

**CONCLUSION**

Overall, the department established a moderate system of financial and administrative internal controls. We identified opportunities to improve internal controls related to developing a policies and procedures manual and a risk assessment; ensuring that employees complete their required annual nepotism certification; maintaining employee leave and account reconciliation documentation; ensuring that student organizations handle its own funds; and ensuring that only encrypted portable devices are used.
Isabel Benavides CIA, CGAP, CFE          Khalil Abdullah, CIA, CGAP
Director, Audits and Consulting Services   Internal Auditor I