May 13, 2014

Dr. Robert S. Nelsen, President
The University of Texas-Pan American
1201 W. University Drive
Edinburg, TX 78539

Dear Dr. Nelsen,

As part of our fiscal year 2013 Audit Plan, we completed a change in management audit of the Department of Biology. The objective of the audit was to evaluate the adequacy and effectiveness of the Department of Biology’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 FY 2012 (September 1, 2011 through August 31, 2012).

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 Biology had established a moderate system of internal controls in the areas evaluated. We identified areas where improvements to internal controls are necessary, and management will 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
Executive Director of Audits, Compliance & Consulting Services
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EXECUTIVE SUMMARY

The Department of Biology (department) is committed to excellence in instruction, student performance, research, scholarly accomplishment, and professional service, and promoting the expansion of national and international emphasis in all major areas of institutional endeavor. The department strives to provide its students and faculty an environment of academic freedom that will ensure the exchange of ideas and the dissemination of knowledge. The department chair was hired on January 1, 2013.

As required by The University of Texas System’s (System) 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 system of internal controls with an emphasis on administrative and financial controls. The specific internal control areas we focused on included the department’s control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring, and information technology. Our scope encompassed activity from September 1, 2011 through December 31, 2012. 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 of Biology established a moderate system of internal controls and we observed the following:

- A risk assessment was not completed.
- Discrepancies were identified between the time reported on employees’ timecards and the leave approved by their supervisor.
- The department did not follow the University’s policy on cash handling, including lack of proper segregation of duties.
- Project account reconciliations were not conducted properly or reviewed by the project manager.
BACKGROUND

The department offers majors in biology and environmental science leading to a bachelor of science degree and a minor in biology. Biology students may elect a curriculum for a major in biology, pre-medical, pre-dental, pre-optometry, or teaching certification (elementary or secondary). There are currently 26 faculty members who actively engage in integrative and organismal biology research as well as research in cellular and molecular biology. The department also offers study beyond the bachelor's degree leading to a master of science in biology.

The former chair was responsible for 10 project accounts during FY 2012. The following table summarizes the department’s accounts as of August 31, 2012.

<table>
<thead>
<tr>
<th>Project Account</th>
<th>Budget</th>
<th>Encumbrances</th>
<th>Actual</th>
<th>Funds Available</th>
</tr>
</thead>
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<tr>
<td>140BIOL00</td>
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<td>$7,675</td>
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<td><strong>$159,262</strong></td>
<td><strong>$2,470,718</strong></td>
<td><strong>$156,229</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 establishing a control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring, and information technology. Our scope included activity from September 1, 2011 through December 31, 2012. To accomplish the audit objective, we performed the following procedures:

- We interviewed the new department chair and discussed an internal control questionnaire to obtain an understanding of department operations and related internal controls.
- We interviewed department employees for additional input on internal controls.
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- We determined whether the former chair had established a control conscious environment, whether goals and objectives for the department had been developed, and whether a risk assessment and implementation plan had been developed.
- We selected account reconciliations to determine whether the reconciliations had been performed and approved on a timely basis and whether segregation of duties existed.
- We determined whether the department had established adequate procedures and segregation of duties over funds handling.
- We examined operating and financial information for reliability.
- We tested a sample of expenditures and examined supporting documentation for proper approval and authorization from the department’s accounts with the most activity.
- We reviewed employee leave and tested timecards for proper approval and authorization.
- We 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.
- We reviewed controls for personal computers and portable drives to evaluate physical and data security.
- We verified the department’s compliance with University 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. The audit was conducted during the months of February 2013 through February 2014.

AUDIT RESULTS

Control Conscious Environment

A control conscious environment encompasses technical competence and ethical commitment, and it is an important factor for the establishment of effective internal controls. In order to establish an adequate control conscious environment, a department should have the following: goals and objectives, a mission statement, a risk assessment and implementation plan, and a policies and procedures manual. These items should be updated on a regular basis. Additionally, employees should receive adequate training, performance evaluations should be conducted regularly and any conflicts of interest should be identified and addressed.

Based on testing, we found that the department established an adequate control conscious environment. We selected 25 employees to test for completion of annual trainings and nepotism certification. Additionally, we tested three employees to determine whether annual performance evaluations were performed. The results of our tests are as follows:

- 5 out of 25 (20%) employees did not complete their annual compliance training acknowledgement
- 6 out of 25 (24%) employees did not complete their annual nepotism certification
1 out of 25 (4%) employees did not complete their annual sexual harassment training
2 out of 25 (4%) employees did not complete their standards of conduct training
25 out of 25 (100%) employee completed their annual information technology training
3 out of 3 (100%) employees completed an annual performance evaluations

Although the department was not fully compliant with the mandatory trainings, the majority of the faculty and staff completed those requirements. The chair continues to work with the faculty and staff towards full compliance.

The department’s administrative assistant II provided us with a copy of their policies and procedures manual. The manual included general guidelines, expectations, and faculty recruitment and employment policies as well as other topics. We determined that this manual was adequate for the department. We noted that the department had not completed an assessment of their risks.

**Recommendation:**

1. 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 department chair should utilize this document as a starting point towards developing a department risk assessment. This risk assessment should be evaluated annually and an action plan should be developed to mitigate high risks.

**Management Response:**

1. The Biology Department will develop a risk assessment and action plan using materials provided by the auditor. After development, the risk assessment will be evaluated annually.

**Implementation Date:**

August 31, 2014

**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 10 project accounts, with the administrative assistant II listed as the project reviewer, and a faculty member as 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 Office did not have a procurement card.

**Operating and Travel Expenditures**

We randomly selected a sample of 22 operating and four (4) travel transactions representing 4% and 5% of the total dollar value of the population, respectively. We found that expenditures were properly approved, appropriate, and supported with adequate documentation. No exceptions were noted.

**Payroll and Employee Leave**

We judgmentally selected eight (8) employees and selected the months of November 2011 and September 2012 to test for payroll accuracy. We verified that the employees’ compensation agreed with their memoranda of employment. 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 timecard of the University, and ensured that timecards were properly approved by the employee’s supervisor. The department uses a ‘Leave Approval Request’ form to document employee leave. We determined that all employee timecards were approved by their supervisor; however, we identified several discrepancies between employee leave support documentation and the leave reported on the employee’s official University timecard. Specifically, we found two (2) instances where the leave reported on the ‘Leave Approval Request’ did not agree with the hours of leave reported on the employee’s timecard. Conversely, we also found one (1) instance where the hours of leave reported on the employee’s timecard was not supported by leave documentation. According to HOP Section: 7.6.3 Annual Vacation Leave and HOP Section: 7.6.4 Sick Leave, the supervisor is responsible for reviewing and approving annual vacation leave requests, maintaining accurate records of employees’ use of annual vacation leave, maintaining accurate records of employee sick leave usage, and verifying monthly timecards for accuracy.

Based on testing we determined that there were inadequate controls in place related to ensuring the accurate recording of employee leave.

**Recommendation:**

2. The chair should ensure that employee leave requests are accurately documented and reconciliations of leave requests to official timecards should be conducted on a monthly basis in accordance with University policy.
Management Response:

2. Leave requests will be submitted in a timely manner and will be reviewed on monthly basis. The leave request forms will be inputted monthly into the department chair’s calendar and will be reviewed at the time when time cards are submitted to make sure the staff has accounted for any days that were taken. Leave request documentation will be maintained in the staff office files.

Implementation Date:

April 30, 2014

Segregation of Duties

Adequate segregation of duties should be maintained between the people who authorize transactions, record transactions, and 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. The department’s accounts were set up with separate individuals listed as the project manager, project reviewer, and alternate approver. The department’s administrative assistant II maintained the accounting records and was responsible for preparing the account reconciliations.

We determined that the department receives royalty payments from a publishing company for sales of a lab manual developed by the department. The administrative assistant II was responsible for preparing the royalty check deposits as well as preparing the department’s account reconciliations as mentioned above. The administrative assistant II had incompatible duties that are contrary to proper segregation of duties.

We concluded that the department had inadequate segregation of duties over funds handling.

Recommendation:

3. The chair should ensure that incompatible job duties are appropriately segregated or compensating controls are in place to address the royalty checks received.

Management Response:

3. The department will ensure that the person making deposits does not also prepare the monthly account reconciliations. Appropriate segregation of duties will be
maintained until a process is developed for royalty checks to be deposited directly into the department’s project account.

**Implementation Date:**

August 31, 2014

**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 on the Oracle Fixed Assets system.

We judgmentally selected a sample of 10 assets with a historical cost greater than $1,000 to test for existence. The total selected sample represented 40 percent of the department’s total inventory value. We were able to account for 100% of the assets in testing for existence. In addition, we selected five (5) assets in the department to verify inclusion in the assets management system. We were able to trace all five (5) assets back to the inventory records.

We noted that the department received checks during the audit scope totaling $9,702 related to royalty payments from the sale of lab manuals. For each manual sold, the department receives a $5 royalty. We verified that each of the deposits made to the department’s accounts were supported by adequate documentation. However, we were unable to test for completeness since there is no set amount expected to be received from the publishing company. The checks were deposited under the object code 43199 other revenue and services and not to object code 44201 royalty income. In addition, we determined that the checks were paid to the order of the dept., the University and included the chair’s name on the check. We determined that the department was not following the University’s policy 8.6.6 Handling of University Funds as follows:

- The department had not received authorization from the vice president for business affairs to collect cash;
- Procedures for handling and securing cash were not documented;
- A copy of HOP 8.6.6 was not maintained by the department;
- The department employees designated to accept payment have not completed training on cash handling;
- Checks were not restrictively endorsed with the University name.

While the department’s process for safeguarding property inventory was adequate, the department’s funds handling process was inadequate.
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**Recommendation:**

4. The chair should consider either having all future royalty payments sent directly to the Payments and Collections Office or ensuring that funds handling is performed in accordance with HOP 8.6.6 *Handling of University Funds*. In addition, the chair should consult with the Accounting Department to verify that the funds are deposited to the correct object code.

**Management Response:**

4. The Biology Department is in the process of contacting publishers – Hayden and Kendall regarding the royalty payments to determine how the amount of $5.00 for each lab manual was established and whether we can negotiate a higher amount. Additionally, the publishers will be notified that future royalty payments must be sent directly to the Payments and Collections Office.

**Implementation Date:**

August 31, 2014

**Monitoring**

Monitoring is the assessment of internal controls over time. We reviewed the department’s procedures for monitoring accounts, off-campus use of University property, and addressing complaints. Account reconciliations should be reviewed timely to ensure that any necessary account corrections are made. In accordance to Handbook of Operating Procedure Section 8.6.1: *University Budget Policy/Fiscal Accountability*, project managers are responsible for providing assurance as to 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.

We selected two (2) months of account reconciliations to review in order to verify that the department was actively monitoring financial account activity. Based on the information provided by the department, we were unable to obtain sufficient evidence to support that the project account reconciliations were completed and reviewed by the former chair. Therefore, we determined that inadequate controls were in place for the department’s financial activity.

Additionally, we reviewed the department’s process for monitoring employee complaints and tracking departmental property checked out to employees, and determined that the department established adequate processes for those activities.
Recommendation:

5. The chair should ensure that the department’s project accounts are reconciled and that timely project manager reviews are conducted.

Management Response:

5. The reconciliation will be reviewed on a monthly basis and will include the Reconciliation Steps & Certification form as well as a checklist with a detailed spreadsheet detailing all of the month’s transactions. The chair and administrative assistant II will meet each month to review the transactions and go over any discrepancies or issues identified during the reconciliation process. Once review of the reconciliation spreadsheet is complete the chair will sign and date the reconciliation and it will be filed for future reference.

Implementation Date:

August 31, 2014

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 employee access levels for Oracle and verified that employees received appropriate level of access for their job responsibilities. We determined that all employees were granted the appropriate level of access to the Oracle system based on their individual job responsibilities.

We also inquired whether the department used portable storage devices such as external hard drives or thumb drives. Department faculty use portable storage devices to back up data files. The department has taken steps to ensure that sensitive data is safeguarded by issuing faculty encrypted thumb drives. Each faculty member receiving an encrypted thumb drive was required to sign a document acknowledging receipt of the drive and that they were aware that the device is the property of the University and that sensitive data should be stored on encrypted devices only. We determined that the department established adequate information technology controls.
CONCLUSION

Overall, we concluded that the department established a moderate system of financial and administrative controls. We identified areas where improvements could be made to internal controls and departmental procedures in the areas of control conscious environment, approval and authorization, segregating duties, safeguarding of assets, and monitoring. These controls include developing a risk assessment, ensuring that employee leave requests are accurately documented and reconciled to their official timecard, adhering to the University’s policy on funds handling, and ensuring that account reconciliations are conducted.

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

Khalil Abdullah, CIA, CGAP
Internal Auditor I