March 19, 2013

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 Chemistry (Department). 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 for fiscal year 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 Chemistry established an inadequate 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, approvals and authorizations, and monitoring.

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 Chemistry (Department) is committed to the mission of providing quality education in the process of preparing students for graduate work or careers in chemistry and biomedical sciences. Over the past year, the Department has experienced turnover in its department chair. The former department chair managed the Department from September 1, 2009 – August 26, 2012. An interim chair was appointed from August 27 – October 31, 2012. The current department chair assumed responsibility on November 1, 2012.

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 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 for fiscal year (FY) 2012 (September 1, 2011 through August 31, 2012). The audit was conducted in accordance with guidelines set forth in System’s policy 129 and the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing.

Overall, the Department of Chemistry established an inadequate system of internal controls. While we noted that duties were appropriately segregated and inventory was safeguarded, we found internal control weaknesses related to control conscious environment, approvals and authorization, and monitoring of the Department’s project account activity. We observed the following:

- Did not have a written policy and procedures manual;
- Had not completed a risk assessment of its activities;
- Did not provide documentation to support that project accounts were reconciled;
- Could not provide documentation to support that hourly employees were accurately completing their timecards; and
- Did not provide evidence that supervisor approved employee vacation leave requests and sick leave were accurately reported on the employees’ timecards; and
- All faculty and staff did not complete required trainings or certifications;
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BACKGROUND

The Department of Chemistry at UTPA strives to fulfill its mission by offering a program that leads to an undergraduate, graduate, major or minor in chemistry. In addition, the department:

- Prepares students for admission to schools of dentistry, pharmacy, and medicine.
- Offers a program that leads to teacher certification.
- Provides students with undergraduate research opportunities alongside faculty mentors in their research laboratories.
- Offers research support through generous support from the Howard Hughes Medical Institute and the Welch Foundation.

The following table summarizes the Department of Chemistry 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>
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<td>135CHEM02</td>
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<td>24CHEM000</td>
<td></td>
<td></td>
<td>(125.25)</td>
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</tr>
<tr>
<td>24CHEM002</td>
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<tr>
<td><strong>Totals</strong></td>
<td><strong>2,058,187.13</strong></td>
<td><strong>52,929.43</strong></td>
<td><strong>1,901,404.32</strong></td>
<td><strong>103,853.38</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

To accomplish the audit objective, we performed the following procedures:

- We evaluated the Department’s internal controls related to control conscious environment; approval and authorization; segregation of duties; safeguarding of assets; as well as monitoring and information technology.
We interviewed the former department chair as well as the interim department chair and discussed an internal control questionnaire with them to obtain an understanding of Department operations and related internal controls.

We interviewed Department employees to obtain their input on internal controls.

We determined whether the department 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 reconciliations under the department chair’s purview to determine whether account reconciliations had been performed and approved in 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.

Our scope included activity from FY 2012 (September 1, 2011 through August 31, 2012).

The audit was conducted in accordance with guidelines set forth in 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 September through December 2012.

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 policy and procedures manual. These items should be updated regularly. 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 determined that the Department of Chemistry established a moderate control conscious environment. The department developed a mission statement, a set of goals and objectives, and was able to support outside employment/financial disclosures for employees engaged in such activities. However, department faculty and staff did not complete all annual training requirements or certifications. We determined that seven (7) out of twenty-one (21), or 33% of tested employees, had not completed the annual compliance acknowledgment training or the required information security training. We also determined that seven (7) out of twenty-one (21), or 33% of tested employees, did not complete the annual nepotism form. Additionally, the department did not have a written policy and procedures manual or risk assessment.

**Recommendations:**

1. A new tool called the Supervisor Accountability Report was made available for management to utilize beginning in June of 2011. The Supervisor Accountability Report is issued monthly and lists all employees who are out of compliance with their required trainings as well as supervisors who are delinquent in evaluating employees. The department chair should utilize the Supervisor Accountability Report to ensure that all employees are up to date with required trainings and employee evaluations.

2. The department chair should develop a policies and procedures manual to help guide employees in day-to-day operations. The manual should include information such as employee training requirements; account reconciliation processes; annual inventory certification procedures; vacation/sick leave process; telephone usage; information security controls; addressing complaints; and other relevant information.

3. 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 risk assessment 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’s Responses:**

1. The current Chair of the Department of Chemistry will work with the department’s Administrative Assistant to ensure that all faculty and staff and other personnel employed by the Department of Chemistry are current on their required training. The Supervisor Accountability Report will be used to keep the department current and in compliance with these trainings. This applies to supervisors within the department who are responsible for evaluating employees through their Chain of Command.
Implementation Date: March 1, 2013.

2. The Chemistry Department Chair will work with departmental staff and a selected group of faculty members to develop a Chemistry Policy and Procedures Manual and to have it formally approved. Formal preparation of the manual will commence on March 1, 2013 with a projected completion date of May 1, 2013.

Implementation Date: May 1, 2013

3. The risk assessment spreadsheet has been received. The Department Chair will distribute the assessment report to employees within the department and begin the task of developing a risk assessment plan for Chemistry. An action plan will be developed and risk assessment will be evaluated on an annual basis in the future. Faculty and staff will be alerted as to this being a priority at the next departmental meeting, March 19, 2013, and the department will work on developing an assessment plan immediately after that date.

Implementation Date: May 31, 2013

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During FY 2012 the former department chair was account manager for thirteen (13) project accounts, with the administrative associate from the College of Science and Mathematics Dean’s Office listed as the project reviewer for each project account. The Department has experienced recent turnover in the administrative assistant position and has been without an administrative assistant since August 17, 2012. Consequently, the Department has received assistance from the administrative associate from the College of Science and Mathematics Dean’s Office.

We reviewed operating, travel, and payroll expenditures to test for compliance with University procedures. We tested a sample of expenditures (i.e., operating, travel, and payroll) and examined supporting documentation for proper approval and accuracy, and verified whether the expenditures were reasonable. We judgmentally selected a sample of fifteen (15) operating transactions representing approximately 42% of the FY 2012 operating expenditures. Additionally, we judgmentally selected five (5) travel transactions representing approximately 15% of FY 2012 travel expenditures. We also selected eight (8) employees to test for payroll accuracy, and evaluated the process for leave taken by employees; reconciliations of leave
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reports to the official timecard of the University; and ensured that timecards were properly approved by the department chair.

We determined that the department established inadequate controls related to approval and authorization. We found that expenditures were properly approved and recorded correctly; however, expenditures related to payroll did not have adequate supporting documentation. During preliminary interviews, the former department chair stated that there was a process in place to ensure that hourly employees accurately documented their hours worked each month; however, we were unable to obtain a description of the process and it was not documented in a department manual. Therefore, we could not substantiate management’s assertion. Similarly, the former department chair indicated that a form is completed by employees prior to taking vacation leave. However, we were not provided with the vacation/sick leave documentation described to us by the former department chair. This documentation is essential to ensure that employees’ timecards are completed accurately. According to Handbook of Operating Procedure 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, and verifying monthly timecards for accuracy.” The supervisor is also responsible for “maintaining accurate records of employee sick leave usage, verifying monthly timecards for accuracy.”

**Recommendations:**

4. The department chair should ensure that waged employee hours worked are verified by their supervisor and accurately reflected on the employees’ timecards.

5. The department chair should ensure that leave requests are reconciled to employee timecards by supervisors in accordance with University policy.

**Management’s Responses:**

4. This requirement has already been addressed by the current Chemistry administration as of the current date, February 28, 2013. The department chair is working with the administrative assistant to ensure that time cards and Leave request forms are completed and appropriately filed. Training has already been completed for reconciliation of accounts used by the department and the new Chemistry administration has met with COSM Dean’s Office personnel to discuss the importance of reconciliation requirements and how our offices will work together to ensure compliance. The Department of Chemistry has many employees hired as teaching assistants and student assistants to supervise students taking Chemistry laboratory. The Chemistry administration knows the importance of ensuring accurate timecard entries for these teaching assistants and student assistants. This process has already been addressed and careful monitoring of timecards will be continued to ensure compliance.
Implementation Date: February 28, 2013

5. The department chair is working with the administrative assistant to ensure that Leave Requests are reconciled to employee time cards and that the proper forms are completed and appropriately filed.

Implementation Date: February 28, 2013.

Monitoring

Monitoring is the assessment of internal controls over time. We reviewed the Department’s procedures for monitoring project accounts, telephone usage, off-campus use of University property, and addressing complaints. During preliminary interviews, the former department chair stated that he reviewed the telephone statements. He stated that he was aware of the typical phone usage that employees would accumulate each month. We reviewed the telephone expenses made from the Department’s project accounts and nothing came to our attention related to telephone usage. We were unable to identify a documented process to address complaints. The former department chair stated that the Department relies on University policy related to handling complaints. In addition, the former department chair stated that forms are completed to authorize employees to remove University property such as laptops from campus. We requested documentation to support this process, but none was provided.

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 determined that the Department did not conduct monthly account reconciliations. We did not receive any documentation to support that the accounts were reconciled despite all of the accounts having been certified for the year by the former department chair. This was also corroborated by the administrative associate from the College of Science and Mathematics Dean’s Office.

Overall, we concluded that the Department established inadequate monitoring controls.

Recommendations:

6. The department chair should ensure that timely account reconciliations are performed and documentation should be maintained to support those reconciliations.
7. While completing forms for removing University property from campus is acceptable, the department chair should consider completing this process within the Fixed Assets module, thus eliminating the need to maintain authorizing documentation.

Management Responses:
6. Chemistry has already initiated reconciliation work on departmental accounts. The department chair and the recently hired administrative assistant received training from the COSM Dean’s office in reconciliation of accounts and in general office management issues. Timely account reconciliations will be done as required by UTPA policies. Implementation has already been initiated and will continue monthly during this academic year and in future academic years.

Implementation Date: February 15, 2013

7. The department chair will complete forms for removing University property within the Oracle Fixed Assets module. This will eliminate the need to maintain, within the department, authorizing documentation.

Implementation Date: March 1, 2013

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. We were unable to review statement of account reconciliations; however, we were able to verify that the department’s project accounts were set up with separate individuals listed as the project manager, project reviewer, and alternate approver. The former department chair had signature authority over the department’s accounts, which included approving account reconciliations, purchases, and timecards. We determined that the department was not a funds handling office and had established adequate controls over segregation of duties for the areas evaluated.

Safeguarding of Assets
Tangible assets, vital documents, and critical systems 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 tested fifteen (15) assets and traced those assets from the perpetual inventory records to verify their existence in the Department. We also tested an additional five (5) assets observed in the Department and traced back to the perpetual inventory record to test for completeness of the departmental inventory. Our test sample consisted of approximately 71% of the total Department’s inventory historical cost.

Overall, the Department had adequate controls over safeguarding of assets. All tested items on the inventory list existed, and all assets in the department were included on the most recent inventory list.

**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 verified whether the Department maintained sensitive information on any of its computers or memory storage devices, whether proper authorization was granted, and whether adequate safeguards were in place and working as intended. We determined that the Department had appropriate safeguards in place for electronic data. The interim department chair stated that faculty and staff were not issued any portable storage devices (e.g. flash drive, external hard drives, etc.).

**CONCLUSION**

Overall, we concluded that the Department of Chemistry established an inadequate 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, approvals and authorizations, and monitoring.

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

Khalil Abdullah, CIA, CGAP
Internal Auditor I