November 8, 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 Educational Leadership. The objective of the audit was to evaluate the adequacy and effectiveness of the Department of Educational Leadership’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 Educational Leadership had established an adequate system of internal controls in the areas evaluated. However, we identified areas where improvements could be made to enhance internal controls. 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 Educational Leadership (department) supports the mission of the University by providing academic leadership for the College of Education (college). The department offers doctoral and master’s degrees as well as credentialing opportunities for individuals with earned master’s degrees from other disciplines or accredited universities. The new department chair (chair) assumed responsibility on January 3, 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 department’s control conscious environment, approval and authorizations, segregation of duties, safeguarding of assets, monitoring, and information technology. Our scope encompassed activity for fiscal year (FY) 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 established moderate financial and administrative internal controls. During the course of the audit we observed the following:

- The written policy and procedures manual was not comprehensive and it did not include guidance for performing procedures critical to running the department’s day-to-day operations. Additionally, they had not completed a risk assessment.

- Not all required trainings or nepotism certifications were completed.

- Discrepancies were identified between the time reported on employees’ time cards and the leave approved by their supervisor. Additionally, records to support Employee leave were not 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.

- Project account reconciliations were not conducted properly or reviewed by the project manager.
BACKGROUND

The mission of the department is to continuously improve the development of educational leaders for a culturally and linguistically diverse society through teaching, research, and service. The department offers a doctoral degree (Ed.D.) in educational leadership, a master of education (M.Ed.) in school administration, a principal’s credential program, and a superintendent’s credential program. All students pursuing a M.Ed. degree or a credential program in the department must meet University, college, and department graduate admission requirements, successfully pass all course requirements, and pass a comprehensive written examination at the end of the program.

The chair was responsible for four (4) project accounts, three (3) of which had financial activity during FY 2012. The project account’s financial activity during FY 2012 is summarized below.

<table>
<thead>
<tr>
<th>Project Account</th>
<th>Budget</th>
<th>Encumbrances</th>
<th>Actual</th>
<th>Funds Available</th>
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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 FY 2012 (September 1, 2011 through August 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.
- 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 current and former department chair’s purview to determine whether account 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, if applicable.

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 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 through September 2013.

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 a moderate control conscious environment. We selected 17 employees to test for completion of annual trainings and nepotism certification. Additionally, we tested two (2) employees to determine whether an annual performance evaluation had been performed. The results of our tests are as follows:

- 7 out of 17 (41%) employees did not complete their annual compliance training
- 4 out of 17 (24%) employees did not complete their information security training
- 4 out of 17 (24%) employees did not complete their annual standards of conduct training
- 3 out of 17 (18%) employees did not complete their sexual harassment training
7 out of 17 (41%) employees did not complete their annual nepotism certifications
2 out of 2 (100%) employees had annual performance evaluations.

The current chair provided us with a copy of the department guidelines. We reviewed the manual and determined that it was not comprehensive. The department’s manual included general guidelines, expectations, and responsibilities. However, the department’s manual did not include policies and procedures related to conducting account reconciliations, performing annual inventory, documenting vacation and sick leave, removal of laptops from campus or handling complaints. Additionally, we noted that the department had not completed an assessment of their risks.

**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 frequently and lists all employees who are out of compliance with their required trainings as well as supervisors who are delinquent in evaluating employees. The chair should utilize the Supervisor Accountability Report to ensure that all employees are up to date with required trainings and employee evaluations.

**Management Response:**

1. The chair will retrieve the Supervisors Accountability Report to determine which faculty has not completed the required trainings and are not in compliance. The faculty will be reminded via email to complete the required trainings.

**Implementation Date:**

November 1, 2013

2. The department chair should update the department’s policy and procedures manual to help guide employees in the day-to-day operations. This manual should include information such as employee training requirements, account reconciliation processes, annual inventory certification procedures, complaint procedures, telephone usage, information on security controls, and other relevant information.

**Management Response:**

2. The chair met with a Human Resources representative in the summer of 2012 to develop office guidelines for the staff. The chair will now expand on those guidelines to create the department’s policy & procedures manual.
Implementation Date:

June 1, 2014

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 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:

3. The chair will utilize the risk assessment document from the auditor’s office as a guide to develop a risk assessment. The department’s risk assessment will be evaluated and updated on an annual basis.

Implementation Date:

February 1, 2014

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During the audit period, the chair was account manager for four (4) project accounts, with the administrative assistant II listed as the project reviewer, and the former chair as an 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 17 operating and five (5) travel transactions representing 4% and 13% 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 seven (7) employees and selected the month of November 2011 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 chair purchased a time clock and requires the staff employees to clock in upon arrival and clock out at the end of the day. Additionally, the department uses a ‘Leave Approval Request’ form to document employee leave. We selected February and March of 2012 to test employee leave. We expanded our test to include February and March of 2013 because the department was unable to provide the ‘Leave Approval Request’ forms for some of 2012. Based on our employee leave test, we determined that all employee timecards were approved by their supervisor; however, we identified several discrepancies between the employee ‘Leave Approval Request’ forms and the University timecards. The approved vacation and sick leave requests did not agree with any of the four (4) approved timecards tested. In addition, we noted that the time clock records were not used in evaluating the accuracy of the timecards. 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.

Therefore, we concluded that controls over reconciling employee leave to timecards were inadequate.

**Recommendations:**

4. The chair should ensure that employee leave requests and time clock records are reconciled to employee timecards on a monthly basis in accordance with University policy.

**Management Response:**

4. The chair will implement a new procedure to ensure that the employee leave requests are reconciled. The use of the time clock presented some challenges with reconciling to the timecards. Beginning September 1, 2013, the time clock will no longer be used. Immediately, support staff will submit their leave requests when having to be absent. In case of an emergency, they will submit the leave request as soon as they return to the office. The leave requests will be filed in their personal binders which will be categorized by months and years. When completing the monthly employee leave, the chair will use the leave request forms to reconcile with the employee timecards.
Implementing Date:
November 1, 2013

5. The chair should ensure that 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:

5. The chair will develop a procedure to ensure that the employee leave records are maintained in accordance with the Texas State Records Retention Schedule.

Implementing Date:
November 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.

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 prepared requisitions, maintained the accounting records, and was responsible for preparing the account reconciliations. While these duties are incompatible, the chair’s review and approval of the requisitions and the statement of account reconciliations serves as a compensating control. We determined that the department did not handle any cash. We concluded that adequate controls over segregation of duties for the areas evaluated were in place.

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 14 assets with a historical cost greater than $1,000 to test for existence. We were able to account for 100 percent of the assets. In addition, we selected...
four (4) assets in the department to verify inclusion of the assets in the assets management system. We were able to trace all four (4) assets back to the inventory records to satisfy our inclusion test. Based on our test of inventory, we determined that the department established adequate safeguarding of asset controls.

**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 requested two months of account reconciliations to evaluate whether the accounts were performed timely and monitored by the account manager. While the project reviewer recapped the account’s activity, we could not determine whether monthly account reconciliations were being completed. There was no evidence to support that the recapped transactions balanced to the statements of account. Additionally, no evidence such as project manager initials was available to support that the department’s financial activity was monitored by the project manager. We determined that the department established inadequate monitoring controls over account reconciliations.

We also reviewed the department’s process for handling complaints. The process is an informal one that is addressed by the chair. We evaluated whether the department had a process for tracking University laptops removed from campus. We determined that the department has adequate controls for removal of University property from campus.

**Recommendation:**

6. Project account reconciliations should be conducted, reviewed, and signed off by the project manager on a monthly basis.

**Management Response:**

6. The chair will ensure that the department’s administrative assistant receives training on how to reconcile the accounts so that the recapped transactions are balanced to the statement of accounts. Reconciliations will be monitored by the chair.
Implementation Date:

January 1, 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. Additionally, we inquired whether the department used portable storage devices such as external hard drives or thumb drives. We found that the department staff did not use any portable storage devices. No exceptions were noted.

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. These controls include updating its policies and procedures manual, conducting a risk assessment, ensuring that employees complete training, conduct a reconciliation of employee leave, and conducting monthly project account reconciliations.

Khalil Abdullah, CIA, CGAP
Internal Auditor I