THE UNIVERSITY OF TEXAS-PAN AMERICAN
OFFICE OF AUDITS & CONSULTING SERVICES

Department of Modern Languages & Literature

Report No. 14-14
July 7, 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 2014 Audit Plan, we completed a change in management audit of the Department of Modern Languages & Literature. The objective of the audit was to evaluate the adequacy and effectiveness of the Department of Modern Languages & Literature’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 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 Modern Languages & Literature had established an inadequate 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
Executive Director of Audits, Compliance & Consulting Services
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EXECUTIVE SUMMARY

The Department of Modern Languages & Literature (department) exists to achieve excellence in research, teaching and public service related to the languages, literatures and cultures taught in the department. The department strives to maintain effective programs of undergraduate and graduate instruction whose quality is sustained by the constant intellectual and professional development of the department’s faculty, as well as by their strong commitment to service. Consistent with the mission statement of the University, the department is committed to providing an environment of academic freedom in which faculty engages in teaching, research, and service. The current interim chair assumed his duties on July 15, 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 an inadequate system of financial and administrative internal controls, and we observed the following:

- A departmental policy and procedures manual was not developed;
- A risk assessment was not developed;
- Not all training and nepotism certifications were completed;
- No supporting documentation for foreign travel meal reimbursements;
- No supporting documentation maintained for vacation/sick leave;
- Removal of state property from campus without obtaining proper authorization;
- The department did not follow the University’s policy on funds handling, including lack of proper segregation of duties.
- Lack of monitoring personal laptops and unencrypted portable storage devices;
- The department used unencrypted portable storage devices. No sensitive or confidential information was found on the tested devices.
BACKGROUND

The Department of Modern Languages & Literature consists of the subject areas of Spanish, and French. A major, leading to a Bachelor of Arts Degree is offered in French, and Spanish, and a minor is offered in French, Spanish Latin American Studies, and Medical Spanish. Beginning courses are offered in Portuguese and Chinese. The department also offers a graduate program with a major in Spanish leading to the Master of Arts degree and the Co-operative PhD program in Spanish.

The former chair was responsible for 11 project accounts during FY 2013. The following table summarizes the department’s accounts as of August 31, 2013.

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<tr>
<th>Project Account</th>
<th>Budget</th>
<th>Encumbrances</th>
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<th>Funds Available</th>
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</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 current 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.
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 January through May 2014.

**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.

Based on testing, we found that the department established an inadequate control conscious environment. We selected 25 employees to test for completion of annual trainings and nepotism certifications. Additionally, we tested two (2) employees to determine whether an annual performance evaluation had been performed. The results of our tests are as follows:

- 20 out of 25 (80%) employees tested did not complete their sexual harassment training
- 19 out of 25 (76%) employees tested did not complete their standards of conduct training
- 21 out of 25 (84%) employees tested did not complete their information security training
- 21 out of 25 (84%) employees tested did not complete their nepotism certifications
- 2 out of 2 (100%) employees had completed annual performance evaluations
The former chair did not have a policies and procedures manual to help guide employees in their daily operations. Additionally, a risk assessment to identify high risk areas had not been developed.

We concluded that the department had an inadequate control conscious environment.

**Recommendations:**

1. 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. The department chair should utilize the Supervisor Accountability Report to ensure that all employees are up to date with required trainings.

**Management Response:**

1. The chair will use the Supervisor Accountability Report to keep track of faculty and staff who are out of compliance with required trainings. The chair will first email faculty and staff who are out of compliance to alert them and recommend a date to complete trainings. Faculty and staff who are still out of compliance after that date will receive a memo with a second request to complete training. As a final measure, the chair will not approve faculty travel or travel reimbursement for those who are still out of compliance after multiple requests to complete required trainings. This policy will be outlined in the departmental policies and procedures manual.

**Implementation Date:**

September 1, 2014

2. The 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 reconciliation processes, annual inventory certification procedures, information on security controls, and other relevant information.

**Management Response:**

2. The chair will develop a policies and procedures manual that provides information and guidelines that relate to recommendations above. This policies and procedures manual will be available for faculty and staff to view online.
Implementation Date:

September 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 agrees with the audit recommendation and will utilize the auditor’s risk assessment to continue to evaluate and assess the department’s risk. The chair will establish a departmental committee to evaluate annually departmental risks and to create action plans to address high risks. By establishing a departmental committee, the chair hopes to bring more stakeholders into the risk assessment process and to make risk assessment a greater part of the departmental culture.

Implementation Date:

September 1, 2014

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. 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 25 operating and 10 travel transactions representing 65% and 34% of the total dollar value of the populations, respectively. The expenditures tested were properly approved, mathematically accurate and reasonable. However, we found that 2 out of 10 (20%) travel expenditures did not follow Handbook of Operating Procedures (HOP) 8.3.2. Travel Policy. The department did not obtain receipts for meals purchased while on foreign travel. The HOP indicates that actual expenses are to be reimbursed for meals and receipts are required. In these two instances the department reimbursed the employee per diem. This issue was identified in other audits.
Recommendation:

4. The chair should ensure that faculty and staff are aware of the University travel policy requiring that all employees traveling to foreign countries submit meal receipts for reimbursement.

Management Response:

4. The chair will send out a memo to faculty addressing this particular issue about submitting receipts for travel expenses in foreign countries. The chair will announce this at the first departmental meeting in FY 2015 and will include this policy in the department’s policies and procedures manual.

Implementation Date:

September 1, 2014

Payroll and Employee Leave

We judgmentally selected 10 employees and selected one (1) month from FY 2013 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 determined whether timecards were properly approved. We tested two (2) employees’ vacation and sick leave over two (2) months. We were unable to complete testing in this area because the department was unable to provide any support documents related to approved employee leave. However, sick and vacation leave were reported on the University timecards for the individuals selected for testing. 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.

Recommendation:

5. The chair should ensure that employee leave requests are reconciled to employee timecards on a monthly basis in accordance with University policy. Additionally, 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. Beginning in FY 2014, employee leave has been documented on a leave request form. The chair authorizes the leave request form by signing the document. The forms are kept in employees’ personnel file for reference. This policy will be outlined in the departmental policies and procedures manual.

Implementation Date:

September 1, 2013

Segregation of Duties

Adequate segregation of duties should be maintained between the individuals 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 former 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 accounting records and was responsible for preparing the account reconciliations. However, the department’s administrative assistant II was also responsible for collecting conference registration fees (e.g., cash, check, money orders) and preparing those fees for deposit. As a result, the department did not segregate the record keeping function from the custody of assets function. Therefore, the department had inadequate controls over segregation of duties for funds handling. See section on safeguarding of assets for recommendation.

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 judgmentally selected a sample of 15 assets with a historical cost greater than $1,100 from the inventory records and verified their existence. In addition, we selected three (3) assets within the department and verified that they were accurately recorded on the department’s inventory.
records. While conducting inventory testing we found that one (1) of the assets was removed from campus without prior approval from the project manager. That asset was returned to campus and we were able to verify the existence of 100% of the department’s inventory.

**Recommendation:**

6. The chair should ensure that a process to approve and track University equipment removed from campus is in place through submission of the UTPA Asset Removal Approval Workflow in Oracle Fixed Assets.

**Management Response:**

6. Faculty and staff will receive a memo about the asset removal policy and explanation about how to request approval. This policy will also be outlined in the departmental policy and procedures manual.

**Implementation Date:**

July 1, 2014

We found that the department handled funds (e.g., cash, checks, and money orders) during the spring 2013 semester. These funds were collected for the 24th Conference on Spanish in the United States and 9th Conference on Spanish in Contact with Other Languages hosted by the department. The department worked with the University Comptroller’s Office and the Office of Information Technology to develop a website where participants could pay for conference registration and other fees electronically using their credit cards. However, not all participants paid through the website. Many conference participants paid by mailing a check or money order to the department, while other participants paid in cash at the event. The total fees received for hosting the conference totaled $25,080, of which $19,310 was collected from electronic payments and the remaining $5,770 was collected at the department. We were able to obtain documentation to support the existence of the total funds received; however, we were unable to verify the completeness of the total revenue because the department was unable to provide us with a complete list of participants.

We identified the following departures from the University funds handling policy:

- The department was not authorized to collect cash.
- A documentation file was not maintained containing
  - A cash handling procedure for the department,
  - A copy of the institutional cash handling policy,
  - The employee designated to accept payments, as well as, the former chair had not completed funds handling training.
• The employee designated to accept payments was also responsible for depositing funds and reconciling the department’s account. See section on segregation of duties.

We concluded that the department had inadequate controls over funds handling.

**Recommendation:**

7. All future conference registration fees should be either paid electronically or paid in-person at the Office of Payments & Collections unless the department is approved by the Vice President for Business to handle University funds.

**Management Response:**

7. The conference registration issue described above by the auditor was an isolated event. The department does not foresee hosting another conference like this in the near future. If such a conference does arise in the future, however, the department will ensure that all conference fees are paid electronically and will not allow cash payments from conference participants. This policy will be outlined in the departmental policies and procedures manual.

**Implementation Date:**

June 1, 2014

**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 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.

The department had a total of eleven project accounts. We reviewed two (2) months of account reconciliations for one account and determined that the account reconciliations were completed and reviewed.

We inquired as to whether the department maintains information on employees that use personal laptops and unencrypted portable storage devices to conduct University business and found that the department did not have a procedure in place for monitoring such equipment. All University
laptops, including personally owned computers used for University business 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 on their own or request assistance from the University Help Desk.

**Recommendation:**

8. The chair should develop a procedure to identify individuals that utilize personal equipment to conduct University business. The chair should notify the Office of Privacy and Security about the use of these personally owned laptops, if any.

**Management Response:**

8. The chair will solicit information from faculty and staff about their use of personal equipment to conduct University business. More specifically, the chair will ask all faculty and staff to officially declare whether they use personal equipment to conduct University business. Upon receipt of this information, the chair will forward it to the Office of Privacy and Security. The chair will send out a memo in summer 2014 to faculty describing this process. He will follow up again with faculty at the beginning of the next academic year. This policy will be outlined in the departmental policies and procedures manual.

**Implementation Date:**

July 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 a sample of ten (10) employee access levels for Oracle and verified that these employees received appropriate level of access for their job responsibilities. We determined that all employees tested were granted the appropriate level of access to the Oracle system.
In addition, we inquired whether the department used portable storage devices such as external hard drives or thumb drives. We found that employees utilized unencrypted portable storage devices. We tested three (3) and determined that no sensitive or confidential information was maintained on the devices. Department employees were issued encrypted portable storage devices.

**Recommendation:**

9. The chair should notify all employees that they should cease using unencrypted storage devices and only use University issued encrypted portable storage device.

**Management Response:**

9. The chair will send a memo to faculty and staff that mandates they stop using unencrypted portable storage devices when conducting university business. The memo will also explain that faculty and staff must only use university-issued encrypted portable storage devices. This policy will be outlined in the departmental policies and procedures manual.

**Implementation Date:**

July 1, 2014

**CONCLUSION**

Overall, the department established an inadequate system of financial and administrative internal controls. We identified opportunities to improve the department’s internal controls related to developing a written policy and procedures manual and risk assessment; ensuring that employees complete their required annual trainings and nepotism certifications; maintaining employee leave documentation; ensuring procedures are in place for obtaining approval to remove fixed assets from campus; monitoring employees’ personally owned devices used to conduct University business; ensuring that only encrypted portable devices are used; and ensuring that proper University funds handling procedures are in place.

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

Khalil Abdullah, CIA, CGAP
Internal Auditor I