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

Department of Rehabilitation

Report No. 14-15
August 28, 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 departmental audit of the Department of Rehabilitation. The objective of the audit was to evaluate the adequacy and effectiveness of the Department of Rehabilitation’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 Rehabilitation had established a moderate system of financial and administrative internal controls in the areas evaluated. We identified areas where improvements to internal controls are necessary and management has agreed to take corrective action. The detailed report is attached for your review.

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

Sincerely,

Eloy R. Alaniz, Jr., CPA, CIA, CISA
Executive Director of Audits, Compliance & Consulting Services
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EXECUTIVE SUMMARY

The Department of Rehabilitation (department) is committed to providing quality, comprehensive education to The University of Texas – Pan American students on a variety of topics related to people with disabilities. An underlying philosophy of dignity and respect for all people, including those with disabilities, is taught and modeled. The department is also committed to integrating theory and practice in the classroom. An interim chair was appointed on September 1, 2012.

As required by The University of Texas System’s (System) 1996 Action Plan to Enhance Internal Controls, an audit of departments should be performed every three (3) to five (5) years.

The objective of the audit was to evaluate the adequacy and effectiveness of the department’s system of internal controls with an emphasis on financial and administrative controls. The specific internal control areas we focused on included the control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring and information technology.

Our scope encompassed activity from September 1, 2012 through August 31, 2013. The audit was conducted in accordance with guidelines set forth in The University of Texas System’s Policy 129 and the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing.

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

- The department did not have a risk assessment;
- Not all required information security training and nepotism certifications were completed;
- Employee sick leave did not agree to supporting documentation;
- Lack of monitoring for 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;
- The department did not follow the University’s policy on funds handling;
- Project account reconciliations were not properly conducted.
BACKGROUND

The Department of Rehabilitation currently offers an undergraduate degree that prepares students to assist people with disabilities. In addition to the undergraduate degree the department also offers a Master’s of Science degree in Rehabilitation Counseling as well as a Ph.D. in Rehabilitation Counseling. The department’s Bachelors and Master’s programs are accredited by the Council on Rehabilitation Education through 2021, and 2018 respectively. In FY 2013 the rehabilitation program had approximately 1,128 students. The department was ranked 17th nationally by U.S News & World Report.

The interim chair was responsible for 10 project accounts that had financial activity during FY 2013. The following table summarizes account activity as of August 31, 2013.

<table>
<thead>
<tr>
<th>Project Account</th>
<th>Budget</th>
<th>Encumbrances</th>
<th>Actual</th>
<th>Funds Available</th>
</tr>
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<tbody>
<tr>
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<td>$923</td>
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<td><strong>$10,032</strong></td>
<td><strong>$2,270,425</strong></td>
<td><strong>$94,234</strong></td>
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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 interim chair and discussed an internal control questionnaire to obtain an understanding of the department’s operations and related internal controls.
- Interviewed employees for additional input on internal controls.
- Determined whether a control conscious environment was established, whether goals and objectives had been developed, and whether a risk assessment and implementation plan had been developed.
- Determined whether account reconciliations had been performed and approved on a timely basis and whether segregation of duties existed.
- Examined operating and financial information for reliability.
- Tested a sample of expenditures and examined supporting documentation for proper approval and authorization.
- Reviewed employee leave and tested timecards for proper approval and authorization.
- Performed property inventory testing for the existence of selected assets, and determined whether selected assets were properly recorded on the University’s assets management system.
- Reviewed information security controls for portable drives.
- Verified compliance with the University’s policies and procedures.

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

We tested 10 employees for completion of annual trainings and nepotism certification. Additionally, we tested three (3) employees to determine whether an annual performance evaluation had been performed. The results of our tests are as follows:

- 10 out of 10 (100%) employees tested completed their sexual harassment training;
- 10 out of 10 (100%) employees tested completed their annual standards of conduct training;
- 3 out of 10 (30%) employees tested did not complete their information security training;
7 out of 10 (70%) employees tested did not complete their annual nepotism certification;
3 out of 3 (100%) employees tested completed a performance evaluation.

We found that the department developed a policies and procedures manual to help guide employees in their daily operations. However, an assessment of the department’s risk was not conducted.

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

**Recommendations:**

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

**Management Response:**

1. As indicated a risk assessment was developed during this process. The risk assessment will be reviewed on an annual basis with the department’s leadership team and an action plan will be developed to address identified high risk areas.

**Implementation Date:**

September 30, 2014

2. The Supervisor Accountability Report was made available for management to utilize beginning in June of 2011. The report is issued frequently and lists all employees who are out of compliance with their required trainings. The interim chair should utilize the Supervisor Accountability Report to ensure that all employees are up to date with their required training and nepotism certifications.

**Management Response:**

2. We will utilize the ‘Supervisor Accountability’ report to determine which faculty and staff are out of compliance with required trainings. Faculty/staff that are out of compliance will receive email notifications and a recommended date to complete the trainings. The chair will also discuss training requirements during departmental meetings.
Implementation Date:

September 30, 2014

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During the audit period, the interim chair was account manager for 10 project accounts with financial activity, the former administrative assistant was listed as the project reviewer, and various other individuals were alternate approvers.

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

Operating and Travel Expenditures

We judgmentally selected a sample of 15 operating and 10 travel transactions representing 34% and 15% of the total dollar value of the populations, respectively. The expenditures were properly approved, appropriate, and supported with adequate documentation. No exceptions were noted.

Payroll and Employee Leave

We judgmentally selected 10 employees and selected one (1) month from FY13 to test payroll accuracy. We verified that the employees’ compensation agreed with their memorandum of employment, and we determined that the payroll for employees tested was accurate.

We also evaluated the process for leave taken by employees, reconciliations of leave reports to the official university timecards, and whether timecards were properly approved. The department uses a ‘Leave Approval Request’ form to document employee leave. We tested two (2) employees’ vacation and sick leave over a two month period. Based on the employee leave test, we determined that all employee timecards were approved by their supervisor; however, we found that the department was unable to provide support documentation related to one (1) of the employee’s sick leave absences. 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, and verifying monthly timecards for accuracy.

Based on testing, we concluded that the department established moderate controls over approval and authorization.
Recommendation:

3. The interim chair should ensure that employee leave requests are reconciled to employee timecards on a monthly basis in accordance with University policy. Additionally, the interim 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:

3. Pre-approval of leave requests (e.g., vacation, planned sick leave such as hospital stays) have been handled according to policy. 'After the fact’ sick leave documentation will be properly maintained. Records will be maintained on file in accordance with the Texas State Records Retention Schedule.

Implementation Date:

September 30, 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 in the Oracle Fixed Assets system. Additionally, we evaluated the department’s controls related with handling University funds.

We judgmentally selected a sample of 10 assets with a historical cost greater than $750 from the department’s inventory records and verified their existence. In addition, we selected three (3) assets within the department and verified that they were accurately recorded in inventory records. Based on testing, we determined that the fixed asset inventory was complete and accurate.

We found that the department handled funds (e.g., checks, money orders) in the summer of 2013. These funds were collected for the “Serving the RGV Community Needs” conference.

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
  - Cash handling procedures for the department;
  - A copy of the institutional cash handling policy;
The employee designated to accept payments had not completed funds handling training.

- Checks were not restrictively endorsed upon receipt.

Based on testing, we found that the department established moderate controls over safeguarding of assets.

**Recommendation:**

4. The interim chair should ensure that payments are made directly to the Office of Payments & Collections unless the department is approved by the Vice President for Business Affairs to handle University funds.

**Management Response:**

4. The department is no longer handling cash. All payments are currently (and will continue to be) made directly to the Office of Payments & Collections. On 2/1/2014, the department began working with the University Treasurer and her staff to implement a fully electronic payment system. The electronic payment system was completed June of 2014.

**Implementation Date:**

June 1, 2014

**Segregation of Duties**

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

The interim chair had signature/approval authority over the department’s accounts, including account reconciliations, purchases, and timecards. Project accounts were set up with separate individuals listed as the project manager, project reviewer, and alternate approver. The department’s administrative assistant I opened the mail and maintained a log of checks received from the conference. The administrative assistant I provided these checks to the administrative assistant II who prepared them for deposit. The administrative assistant II is responsible for preparing the account reconciliations. The interim chair reviews and approves the account reconciliations. We found that adequate controls over segregation of duties for the areas evaluated were in place and functioning as intended.
Monitoring

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

The department had a total of 10 project accounts with financial activity. We reviewed two (2) months of account reconciliations for the DOE Rehabilitative Services project account and determined that account reconciliations were not properly conducted. During the scope of the audit, the department had a conference and collected funds for this conference. Receivables due from the conference were not properly managed. Based on a list of participants, the department should have received $3,520 in revenue, but a total of $2,820 was collected. There was $700 in conference fees that were never collected from a grant. The department indicated that the funds would not be collected because the grant period had ended.

We concluded that the department had inadequate monitoring controls over account reconciliations.

**Recommendation:**

5. The interim chair should ensure that project account reconciliations are properly conducted including ensuring accounts receivable are properly managed and collected.

**Management Response:**

5. The current administrative associate was incorrectly trained in account reconciliations and followed the established protocols of her predecessor while closing out FY 2013. Beginning with FY 2014, proper procedures have been followed.

**Implementation Date:**

September 1, 2013

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 procedures were not in place for monitoring such equipment. All University laptops, including personally owned computers must be encrypted. Employees are responsible for contacting the
Office of Privacy and Security about their use of personally owned laptops to conduct University business. They must encrypt their laptops or request assistance from the University Help Desk.

We concluded that the department had inadequate monitoring controls over the use of personal laptops and unencrypted portable storage devices.

**Recommendation:**

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

**Management Response:**

6. A procedure will be developed to identify those individuals that utilize personal equipment to conduct University business.

**Implementation Date:**

September 30, 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 employee access levels for Oracle and verified that these employees received appropriate access given their job responsibilities. We determined that all employees tested were granted the appropriate level of access to Oracle.

In addition, we inquired whether the department used portable storage devices such as external hard drives or thumb drives. We found that the interim chair was aware that employees were using unencrypted portable storage devices; however, the department was not keeping track of which employees were using such devices or what type of information was being stored on them (see section on monitoring). We tested three (3) un-encrypted flash drives and found that none...
of the devices stored sensitive data. Employees were provided encrypted portable storage devices from the University’s Office of Privacy and Security. We determined the department established moderate information technology controls.

**Recommendation:**

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

**Management Response:**

7. Employees will be notified to cease using unencrypted portable storage devices.

**Implementation Date:**

September 1, 2014

**CONCLUSION**

Overall, the department established a moderate system of financial and administrative internal controls. We identified opportunities to improve internal controls related to conducting a risk assessment; ensuring that employees complete their required annual information security training and nepotism certifications; maintaining employee leave documentation; proper account reconciliations; 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