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 of management audit of the Department of Mathematics. The objective of the audit was to evaluate the adequacy and effectiveness of the Department of Mathematics’ 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 Mathematics 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 of Mathematics’ (department) mission is to support the College of Science and Mathematics by committing to excellence in instruction, student performance, research, scholarly accomplishment, and professional services. Additionally, the department seeks to provide math students an environment of academic freedom that will ensure the exchange of ideas and the dissemination of knowledge and the appreciation of mathematics; and to provide students analytical foundations empowering them to pursue chosen courses of study where they can apply mathematics meaningfully for the purpose of contributing the current and future societal needs. The interim chair assumed responsibility for the department in June of 2011.

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 Mathematics established an adequate system of financial and administrative internal controls. We observed the following during the course of the audit.

- The department did not have a policy and procedures manual or risk assessment;
- Not all required training and nepotism certifications were completed;
- The account reconciliations balances did not agree to the statement of accounts and there was no evidence to support that the project manager completed a timely review of the reconciliations.
BACKGROUND

The department’s goals are characterized by three major areas: excellence in instruction and student performance, research and scholarly accomplishments, and professional service. Their action plan is done both formal and informally. Formal periodic planning include: Southern Association of Colleges and Schools Accreditation (SACS), Academic Program Review (APR), Strategic Planning, and the Annual Departmental Retreat. Their goal is to make sure that they follow both their departmental and University mission statement. The department consists of three (3) staff members, 48 faculty members, 13 graduate teaching assistants, and six (6) visiting professors.

The department chair was responsible for 11 project accounts, 10 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>
</tr>
</thead>
<tbody>
<tr>
<td>140MATH000</td>
<td>$4,155,692</td>
<td>$9,027</td>
<td>$4,146,665</td>
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<td>21MATH000</td>
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</tr>
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<td>21MATH008</td>
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</tr>
<tr>
<td>45MATH008</td>
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<td>$0</td>
<td>$6,930</td>
<td>$70</td>
</tr>
<tr>
<td>81MATH000</td>
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<td>$0</td>
<td>$100</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,240,210</strong></td>
<td><strong>$32,855</strong></td>
<td><strong>$4,168,106</strong></td>
<td><strong>$39,250</strong></td>
</tr>
</tbody>
</table>

AUDIT OBJECTIVE

The objective of the audit was to evaluate the adequacy and effectiveness of the department’s system of internal controls with an emphasis on financial and administrative controls.

AUDIT SCOPE & METHODOLOGY

We evaluated the department’s internal controls related to approval and authorization, segregation of duties, safeguarding of assets, as well as monitoring and information technology. Our scope included activity from fiscal year 2012 (September 1, 2011 through August 31, 2012). To accomplish the audit objective, we performed the following procedures:

- We interviewed the department chair and discussed responses to an internal control questionnaire to obtain an understanding of department operations and related 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 February through December 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 23 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:

- 5 out of 23 (22%) employees did not complete their compliance acknowledgment training
- 3 out of 23 (13%) employees did not complete their information security training
2 out of 23 (9%) employees did not complete their sexual harassment training
2 out of 23 (9%) employees did not complete their standards of conduct training
11 out of 23 (48%) employees did not complete their annual nepotism certifications
2 out of 2 (100%) employees completed an annual performance evaluation.

The department had outside employment/financial disclosure forms for those employees engaged in outside affiliations. However, the department did not have a written policy and procedures manual or a risk assessment. The manual is an essential part of an organization that gives specific guidance on department operations and University policies and the risk assessment identifies high risks that could prevent the department from achieving its objectives.

**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.

**Management Response:**

1. The chair will immediately inform faculty and staff once their delinquency with trainings has been brought to light, and will continue to work with faculty and staff to ensure that all employees are up to date with required trainings.

**Implementation Date:**

December 16, 2013

2. The department chair should develop a 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, complaint procedures, information on security controls, and other relevant information.

**Management Response:**

2. The chair will begin working on developing a departmental policies and procedures manual that includes sections on the procedures identified by the audit recommendation as well as additional sections unique to the Mathematics department’s internal procedures.
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 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 begin immediately working on developing a risk assessment for the department by obtaining input from faculty and staff and by utilizing the risk assessment template provided as a starting point.

Implementation Date:

June 1, 2014

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During FY 2012, the department chair was account manager for 11 project accounts, with the administrative assistant II listed as the project reviewer, and a professor listed as the 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 department did not have a procurement card.

Operating and Travel Expenses

We randomly selected a sample of 20 operating and four (4) travel transactions representing 2% and 5% 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 nine (9) 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 requests to the official timecard of the University, and ensured that timecards were properly approved by the employee’s supervisor. In order to request leave employees are required to complete and submit a ‘Leave Approval Request’ form to the department chair. Based on our employee leave test, we did not identify any discrepancies between employees’ approved leave and the leave reported on their official University timecards. We also determined that all employee timecards were approved by their supervisor. We concluded that adequate controls were in place and working as intended.

**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 revenue and funds handling, purchases, timecards and statement of account reconciliations to evaluate segregation of duties.

The department chair had signature/approval authority over the department’s accounts, which included account reconciliations, purchases, and timecards. We determined that the department did not handle any funds such as 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 that are recorded in the Oracle Fixed Assets system.

We judgmentally selected a sample of 10 assets to test for existence. We were able to account for all of the assets. In addition, the department maintained a list of high risk asset items not included on the Oracle Fixed Assets system. 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 reviewed two (2) months of account reconciliations to evaluate whether the accounts were accurate, performed timely and monitored by the account manager. In evaluating the accuracy of these reconciliations, we noticed that the project reviewer recapped the account’s activity; however, the recapped transactions were not balanced to the statement of accounts. Additionally, there was no evidence to support that the department chair reviewed the account reconciliations.

We also reviewed the department’s process for handling complaints. The department follows HOP policy in addressing all types of complaints. We identified one (1) complaint that took place during the audit scope. We evaluated the process taken by the department to address the complaint and noted that the department complied with University policy.

**Recommendation:**

4. The department chair should document his review of account reconciliations and ensure that the reconciliation balances agree to the statement of account balances.

**Management Response:**

4. Beginning in the fall of 2013 semester the department chair began verifying that reconciled balances agreed to the statement of account balances and documented this review by signing off on the account reconciliations.

**Implementation Date:**

September 1, 2013

**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 to Oracle and verified whether employees received appropriate access based on 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. Department faculty utilize portable storage devices to back up data files. The department has taken steps to ensure that sensitive data is safeguarded by issuing faculty encrypted thumb drives. Upon receipt of the encrypted thumb drive the faculty member was required to sign a document stating that they were aware that the device was the property of the University and that sensitive data should be stored on encrypted devices only. We determined that the department established adequate information technology controls.

CONCLUSION

Overall, we concluded that the department established an adequate system of financial and administrative internal controls. While adequate controls were in place related to approvals and authorizations of expenditures; segregation of duties; safeguarding of assets; and information technology controls, we determined that opportunities for improvement related to control conscious environment and monitoring exists. These controls include developing a policy and procedures manual and risk assessment, ensuring that employees complete all required trainings, ensuring completeness of account reconciliations and documented evidence of account reconciliations review.

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Khalil Abdullah, CIA, CGAP
Internal Auditor I