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

Office of Alumni Relations

Report No. 15-10

July 31, 2015

Dr. Havidán Rodríguez, Interim President
The University of Texas-Pan American
1201 W. University Drive
Edinburg, TX 78539

Dear Dr. Rodríguez,

As part of our fiscal year 2015 Audit Plan, we completed a departmental audit of the Office of Alumni Relations (Office). The objective of the audit was to evaluate the adequacy and effectiveness of the Office'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 February 28, 2014.

Based on the work performed, we concluded that the Office of Alumni Relations had a moderate system of financial and administrative controls. We identified areas where improvements could be made to 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 & Consulting Services

The University of Texas – Pan American
Office of Alumni Relations
Departmental Audit

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EXECUTIVE SUMMARY

The Office of Alumni Relations (Office) is focused on sustaining lifelong relationships between the University and its former students. As stewards of the University's past and stakeholders in its future, engaged alumni are vital to UTPA's success. It is the responsibility of the Office to develop programs and activities, in partnership with the UTPA Alumni Association, that encourage former students to stay involved and to give back to their alma mater. The interim director of Alumni Relations assumed responsibility for the Office in September 2014 after the former director retired.

As required by The University of Texas System's *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 Office'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 February 28, 2014. 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 Office established a moderate system of financial and administrative internal controls. However, we observed the following:

- Reconciliations for the Alumni Association fundraising events' financial activities were not completed timely and segregation of duties was not maintained;

- A risk assessment was not developed;

- Lack of monitoring for personal laptops and unencrypted portable storage devices;

- The Office used unencrypted flash drives. No sensitive or confidential information was found on the devices tested.

Beginning on September 1, 2015, The University of Texas at Brownsville and The University of Texas – Pan American will consolidate to create The University of Texas Rio Grande Valley (UTRGV). The Office of Internal Audits will follow-up with the UTRGV responsible party for this area to ensure that the issues identified in this audit are addressed and mitigated.

BACKGROUND

The director of Alumni Relations oversees two (2) employees and is responsible for one (1) project account. A summary of the Office's project account's FY 2014 financial activity is summarized below.

Project Account	Budget	Encumbrances	Actual	Funds Available
21DARG000	$193,667	$2,282	$191,385	$0
Totals	**$193,667**	**$2,282**	**$191,385**	**$0**

AUDIT OBJECTIVE

The objective of the audit was to evaluate the adequacy and effectiveness of the Office of Alumni Relations' system of internal controls with an emphasis on financial and administrative controls.

AUDIT SCOPE & METHODOLOGY

We evaluated the Office's internal controls related to a control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, as well as monitoring and information technology. Our scope included activity from September 1, 2012 through February 28, 2014. To accomplish the audit objective, we performed the following procedures:

- Discussed an internal control questionnaire to obtain an understanding of the Office'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 asset 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.*

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AUDIT RESULTS

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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, an office 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.

The Office had a mission statement and clearly defined goals and objectives. Additionally, we reviewed the Office's policies and procedures manual and determined that it was adequate. We noted that the Office had not completed a risk assessment; however, a risk assessment was developed during the audit.

We tested three (3) employees for completion of annual trainings, nepotism certification, and completion of an annual performance evaluation. The results of our tests are as follows:

- 3 out of 3 (100%) employees completed their sexual harassment training
- 3 out of 3 (100%) employees completed their annual standards of conduct training
- 3 out of 3 (100%) employees completed their information security training
- 3 out of 3 (100%) employees completed their annual nepotism certifications
- 3 out of 3 (100%) employees had an annual performance evaluation conducted.

Overall, we determined that the Office established an adequate control conscious environment.

Approval & Authorization

Adequately established approval and authorization controls help to ensure that expenditures are allowable and appropriate. During the audit period, the director was account manager for one (1) project account, with the administrative assistant listed as the project reviewer.

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 utilize a procurement card during the audit period.

Operating and Travel Expenditures

We judgmentally selected a sample of four (4) operating and four (4) travel transactions representing 28% and 17% of the total dollar value of the FY 2013 population, respectively. Additionally, we selected a sample of 19 operating and 10 travel expenditures representing 67% and 12% of the total dollar value of the FY 2014 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 five (5) employees to test for payroll accuracy. We verified that the employees' compensation agreed with their memoranda of employment. Based on testing, 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 timecard, and ensured that timecards were properly approved. The Office requests leave approval through e-mail notifications to the director. We tested three (3) employees' vacation and sick leave over a two (2) month period. Based on our employee leave test, we determined that all employee timecards were approved by their supervisor and employee leave documentation agreed to the employee timecards.

Overall, we concluded that the Office's internal controls over payroll and employee leave were adequate.

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 selected a sample of 11 assets with a historical cost greater than $400 to test for existence. We were able to account of 100% of the inventory. Based on testing, we determined that the Office established adequate safeguarding of fixed asset controls.

Additionally, we evaluated the Office's controls related to handling University funds. During FY 2014, the Office handled funds (e.g. cash, checks, credit card payments) as part of their activities of assisting the UT Pan American Alumni Association (Association). The Association is a separate tax-exempt 501(c) 3 organization, and the Association entered into a

memorandum of understanding with the University to provide reasonable use of University equipment and personnel as needed to coordinate its activities. Office staff collects and deposits funds from annual membership dues as well as from other fundraising events. We tested revenue related to the 'Alumni Ball' fundraising event, and we identified several internal controls issues.

- A log of incoming checks was not maintained;
- A reconciliation between the funds collected and the funds deposited was not conducted;
- There was a lack of separation of duties, see section below for more details

We noted that the Office began maintaining a log of incoming checks for FY 2015.

Based on testing, we determined that the Office established inadequate funds handling controls.

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 director had signature/approval authority over the Office'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. We determined that the Office established adequate separation of duties related to project account activity.

We met with the assistant director to obtain a detailed narrative of the funds handling process and we received a flowchart as well. We noted that the narrative and the flowchart had segregation of duties weaknesses. The narrative, which reflected procedures and processes prior to FY 2015, indicated that the director opened mail, prepared deposits and reconciled the bank statement. The flow chart, which was created and implemented in early FY 2015, indicated that the office administrative assistant was responsible for opening the mail and handling Alumni Association funds while also preparing reconciliations of money and receipts to the donor log. Proper segregation of duties dictate that job functions related with the custody of assets and record keeping responsibilities should be kept separate.

Therefore, we determined that the Office established inadequate controls over segregation of duties.

Monitoring

In accordance to Handbook of Operating Procedure Section 8.6.4: *Fiscal Accountability Policy,* 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 and determined that the account reconciliations were performed and reviewed for the month's tested. We concluded that the Office had adequate controls over account reconciliations.

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. 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 or request assistance from the University Help Desk.

We inquired as to whether the Office maintains information on employees that use personal laptops and/or unencrypted portable storage devices to conduct University business. We found that the Office did not have a procedure in place for monitoring such equipment.

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

Information Technology

Adequately established information technology controls help to protect sensitive information entrusted to the office. 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 given their job responsibilities. We determined that all employees were granted the appropriate level of access to the Oracle system.

We inquired whether the Office used portable storage devices such as external hard drives or thumb drives. We found that the Office was using several unencrypted thumb drives to back up electronic data. We tested three (3) of the drives and found that the devices did not contain any

sensitive information. Unencrypted portable storage devices pose a significant risk to the University. Because these devices were not encrypted, there is an increased risk of data loss or potentially malicious software attacking the University's system.

Based on testing, we determined that the Office had moderate controls over information technology.

CONCLUSION

Overall, we concluded that the Office of Alumni Relations had a moderate system of financial and administrative controls. We identified areas where improvements could be made to internal controls such as funds handling and the use of portable storage devices.

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

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Khalil Abdullah CPA, CIA, CGAP
Internal Auditor I