



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

Office of the Vice President for University Advancement

Report No. 13-07



OFFICE OF INTERNAL AUDITS

THE UNIVERSITY OF TEXAS - PAN AMERICAN

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January 22, 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 2012 Audit Plan, we completed a change in management audit of the Office of the Vice President for University Advancement (VPUA). The objective of the audit was to evaluate the adequacy and effectiveness of the VPUA'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, 2010 through August 31, 2011.

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 Office of the Vice President for University Advancement had established an adequate system of internal controls in the areas evaluated. However, we identified an opportunity to strengthen its control environment. 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 University of Texas - Pan American Division of University Advancement's mission is to support the University's many instructional, research and public service programs through successful fundraising, communications, marketing, creative services, special events, and alumni activities. Some of the Division's goals include fostering relationships with University alumni, increase engagement of the donor community, promote and brand a positive image of the University, fund raising, and assisting in the placement of University students, alumni and graduates in full-time internship/cooperative education positions.

The UT System 1996 Action Plan to Enhance Internal Controls requires a departmental audit when a department undergoes a change in management or a significant change in reporting lines. The former vice president of the Division of University Advancement retired on August 31, 2011. The associate vice president for development and advancement services and the associate vice president for university marketing and communications were appointed to oversee the Division of University Advancement while a search was conducted for a new vice president.

The objective of the audit was to evaluate the adequacy and effectiveness of the system of internal controls with an emphasis on administrative and financial controls within the Office of the Vice President for University Advancement. 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, 2010 through August 31, 2011. 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, we concluded that the Office of the Vice President for University Advancement established an adequate system of internal controls in the areas of monitoring, segregation of duties, safeguarding of assets, information technology, control conscious environment, and approvals/authorizations. However, we identified an opportunity to strengthen the control environment. We observed that a written department policy and procedures manual and a risk assessment were not developed.



BACKGROUND

The Division of University Advancement consists of the following areas: Development and Advancement Services, and University Marketing and Communications. In addition to these areas, the vice president for university advancement serves as a liaison to the UTPA Foundation, a tax exempt non-profit corporation.

Development and Advancement Services and University Marketing and Communications consist of the following offices:

1. Development Office – develops relationships with donors for the purpose of raising funds to benefit UTPA. The office helps provide scholarships and educational opportunities for UTPA students.
2. Marketing & Creative Services (Studio Twelve01) – examines the current marketing efforts, determines areas that need to be strengthened and provides the University with an integrated marketing plan based on its vision and mission.
3. University Relations Office – increases public awareness of the University’s many academic programs, research initiatives, student and faculty achievements and major events, both internally and externally. This is achieved by building positive, mutually beneficial relationships with news media outlets throughout the region, state and nation.
4. Alumni Relations Office – develops programs and activities, in association with the UTPA Alumni Association, that encourage former students to stay involved and to give back to their alma mater.

The Office of the Vice President for University Advancement (VPUA) consists of the vice president and a senior administrative associate. The associate vice president for development and advancement services and the associate vice president for university marketing and communications report directly to the vice president.

AUDIT OBJECTIVE

The objective of the audit was to evaluate the adequacy and effectiveness of the system of internal controls with an emphasis on administration and financial controls within the Office of the Vice President for University Advancement.



AUDIT SCOPE & METHODOLOGY

We conducted a departmental audit of the VPUA, which included a request of the associate vice president for development and advancement services to complete an Internal Control Questionnaire, providing valuable information regarding the department's operations. Our scope included activity from September 1, 2010 to August 31, 2011. We evaluated internal controls related to a control conscious environment, approval and authorization, segregation of duties, safeguarding of assets, monitoring and information technology.

To accomplish the audit objective, we performed the following procedures:

- We scheduled an entrance conference meeting to discuss nature, timing and scope of audit.
- We requested that the associate vice president complete an Internal Control Questionnaire to obtain an understanding of VPUA operations and controls.
- We determined whether the VPUA had established a control conscious environment and whether a risk assessment and implementation plan had been developed.
- We randomly selected one month's reconciliation for eight (8) accounts under the VPUA's purview to determine whether procedures for account reconciliations had been established, including segregation of duties.
- We also determined whether the VPUA had established adequate procedures and segregation of duties over cash handling.
- We examined their operating and financial information for reliability.
- We tested a sample of expenditures and examined supporting documentation for proper approval and authorization from the VPUA's accounts.
- We reviewed personnel files, times sheets, and employee leave and tested timesheets 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 VPUA's compliance with University policies and procedures.

The audit was conducted in accordance with the guidelines set forth in The University of Texas System Policy 129 – Internal Audit Activities and the *Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing*.



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. An adequate control conscious environment consists of the following items: goals and objectives, a mission statement, a risk assessment and implementation plan, a business continuity plan, and a policies and procedures manual. These items should be updated on a regular basis. Additionally, employees should receive adequate training, and performance evaluations should be conducted regularly.

The VPUA had established an adequate control conscious environment. The VPUA has developed a mission statement, a set of goals and objectives, and a business continuity plan. All of VPUA's employees completed their trainings in accordance with University policy. Additionally, none of the VPUA's employees were engaged in any outside employment that conflicted with their duties at UTPA. However, we observed that the VPUA did not have a policy and procedures manual and had not developed a risk assessment and implementation plan.

Recommendations:

1. The VPUA should create a written policy and procedures manual.
2. The VPUA should conduct a risk assessment of its operations and develop an implementation plan to mitigate the high risks identified.

Management's Responses:

1. A written policy and procedures manual will be created no later than May 2013.
2. A risk assessment and implementation plan to mitigate high risks in the division will be conducted no later than May 2013.

Approval & Authorization

Adequately established approval and authorization controls help ensure that expenditures are allowable and appropriate. The vice president was responsible for eight (8) accounts during FY 2011. We tested a sample of expenditures (i.e., travel, operating and payroll) and examined supporting documentation for proper approval and authorization, accuracy, and whether the expenditures were reasonable. We judgmentally selected a sample of thirty-five (35) operating



and travel transactions representing about 10% of the population. Five (5) of those expenditures were incurred with a procurement card. We also selected four (4) employees within our scope and selected the month of July 2011 to test for payroll accuracy. We evaluated the process for leave taken by employees, reconciliation of leave reports to the official timesheet of the University, and the supervisor approvals.

We noted no discrepancies in our tests and determined that the VPUA had established adequate controls over approval and authorization of operating, travel and payroll expenditures.

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, inventory, and statement of account reconciliations within the VPUA to evaluate controls.

We determined that the VPUA was not a funds handling department and had established adequate controls over segregation of duties for the other areas evaluated.

Safeguarding of Assets

Tangible assets, vital documents, and critical systems must be safeguarded against unauthorized acquisition, use, or disposal. We performed property inventory testing to determine the existence of assets and whether the assets were properly recorded on the Oracle Fixed Assets system. We judgmentally selected a sample of ten (10) items to test for existence and three (3) items to test for inclusion.

Overall, the VPUA maintained adequate controls over the safeguarding of its inventory. All items tested on the inventory list existed and were properly tagged. All assets in the department were included on the most recent inventory list.

Monitoring

Monitoring is the assessment of internal controls over time. We reviewed the VPUA's procedures for monitoring accounts, personal use of office property, and complaints. Account reconciliations should be reviewed soon after completion to ensure that any necessary account corrections are made. Without adequate monitoring of account reconciliations, items that require attention may go unnoticed. We evaluated account reconciliation documentation to determine whether they were prepared and reviewed on a monthly basis. We selected the month of July 2011 to test.

We determined that the VPUA had established adequate monitoring controls for complaint procedures, the personal use of office property and account activity. We reviewed the statement



of account reconciliations and determined that the account manager signed and dated the reconciliations for the selected month. The VPUA had established a process in place to evaluate the personal use of office property as well as procedures to address employee/customer complaints. Complaints are handled at the department level depending on the nature of the complaint and are communicated in writing.

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, restricting downloads of sensitive information, and encryption software on equipment storing sensitive information.

We reviewed employee access levels for Oracle verifying that employees received appropriate level of access for their job responsibilities and access was disabled for recently terminated employees. Ensuring employees have appropriate levels of system access helps prevent loss of vital University data as well as helps prevent other abuses of the system.

We concluded that all of the VPUA's employees had appropriate levels of access given their job responsibilities. Additionally, we found that computer access was terminated for all of the departmental employees that separated from the University. No exceptions were noted.

We also verified whether the VPUA maintained sensitive information on any of its computers or memory storage devices, whether proper authorization was granted, and whether adequate safeguards were in place and working as intended. We determined that the VPUA did not have portable storage devices.

CONCLUSION

Overall, management within the Office of the Vice President for University Advancement established an adequate and effective system of internal controls over financial reporting and administration. While financial information appeared reliable and accurate, we found that improvements could be made to strengthen internal controls, such as developing a departmental policy and procedures manual and a risk assessment.

A handwritten signature in black ink that reads "Eloy R. Alaniz, Jr." with a horizontal line underneath.

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