



Child Development Center Audit

Report No. 17-RBA-003

January 5, 2018

Office of Audits & Consulting Services

January 5, 2018

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
1201 West University Drive
Edinburg, Texas 78539

Dear Dr. Bailey,

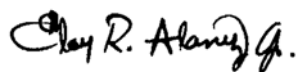
The Office of Audits & Consulting Services has completed the Audit of the Child Development Center as part of our fiscal year 2017 Audit Plan. The audit objectives were to review the internal controls over the Child Development Center regarding the control environment, segregation of duties, approvals and authorizations, safeguarding of assets, and monitoring, to provide reasonable assurance that existing internal controls are adequate. To conduct follow up procedures on recommendations made by Human Resources on March 23, 2016.

Our examination was conducted in accordance with guidelines set forth in The University of Texas System's Policies UTS 129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of internal auditing department. UTS 129 requires that we adhere to the *Standards*.

The recommendations in this report represent, in our judgment, those most likely to provide a greater likelihood that management's objectives are achieved. Implementation of the recommendations will strengthen internal controls over property administration, ensure the safeguarding of assets, increase effectiveness and efficiency of operations and provide reasonable assurance that the University is operating in compliance with applicable laws, policies, procedures, rules and regulations.

We appreciate the assistance provided by UTRGV's management and other personnel. We hope the information and analyses presented in our report are helpful.

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Officer

Office of Audits and Consulting Services
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cc: Mr. Rick Anderson, Executive Vice President for Finance and Administration
Ms. Letty Benavides, Assistant Vice President for Campus Auxiliary Services
UTRGV Internal Audit Committee
UT System Audit Office
Governor's Office of Budget, Planning and Policy
Sunset Advisory Commission
State Auditor's Office
Legislative Budget Board

Office of Audits and Consulting Services

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EXECUTIVE SUMMARY

We completed the Audit of the Child Development Center (CDC) as part of our fiscal year 2017 Audit Plan. The audit objectives were to:

- Review the internal controls over the Child Development Center's control environment, segregation of duties, approvals and authorizations, safeguarding of assets, and monitoring, to provide reasonable assurance that existing internal controls are adequate.
- Conduct follow up procedures on recommendations made by Human Resources on its March 23, 2016 report of employee conduct.

Observations and recommendations for improvements were identified as follows:

- Follow purchasing guidelines for departmental operating expenses
- Comply with State Comptroller of Public Accounts in accordance with Texas Government Code, Sections 2107.008 and 2252.903.
- Comply with UTS 142.1: Policy on the Annual Financial Report, Section 3.2: Certifications by Account Owners (Sub certifications)
- Monitor controls over the revenue function
- Comply with ADM 04-406 Overtime for Non-Exempt Staff

Overall, we concluded that the department has a moderate system of internal controls. We identified opportunities for improvements in internal controls over account reconciliations, departmental expenditures, revenue function, and time reporting in the Child Development Center. Implementation of the above recommendations will help to ensure an adequate system of internal controls exists.

BACKGROUND

The University of Texas Rio Grande Valley (UTRGV) was created by the Texas Legislature in 2013 as the first major public university of the 21st century in Texas. This transformative initiative provided the opportunity to expand educational opportunities in the Rio Grande Valley, including a new School of Medicine, and made it possible for residents of the region to benefit from the Permanent University Fund – a public endowment contributing support to the University of Texas System and other institutions.

UTRGV has campuses and off-campus research and teaching sites throughout the Rio Grande Valley including in Boca Chica Beach, Brownsville (formerly The University of Texas at Brownsville campus), Edinburg (formerly The University of Texas-Pan American campus), Harlingen, McAllen, Port Isabel, Rio Grande City, and South Padre Island. UTRGV, a comprehensive academic institution, enrolled its first class in the fall of 2015, and the School of Medicine welcomed its first class in the summer of 2016.

We commend the Director of the Child Development Center for her role and efforts in providing a high quality learning environment and experience for young children.

The University of Texas Rio Grande Valley Child Development Center is in the self-study program phase of accreditation from the National Accreditation Commission.

National Accreditation Commission (NAC)

Self-Study

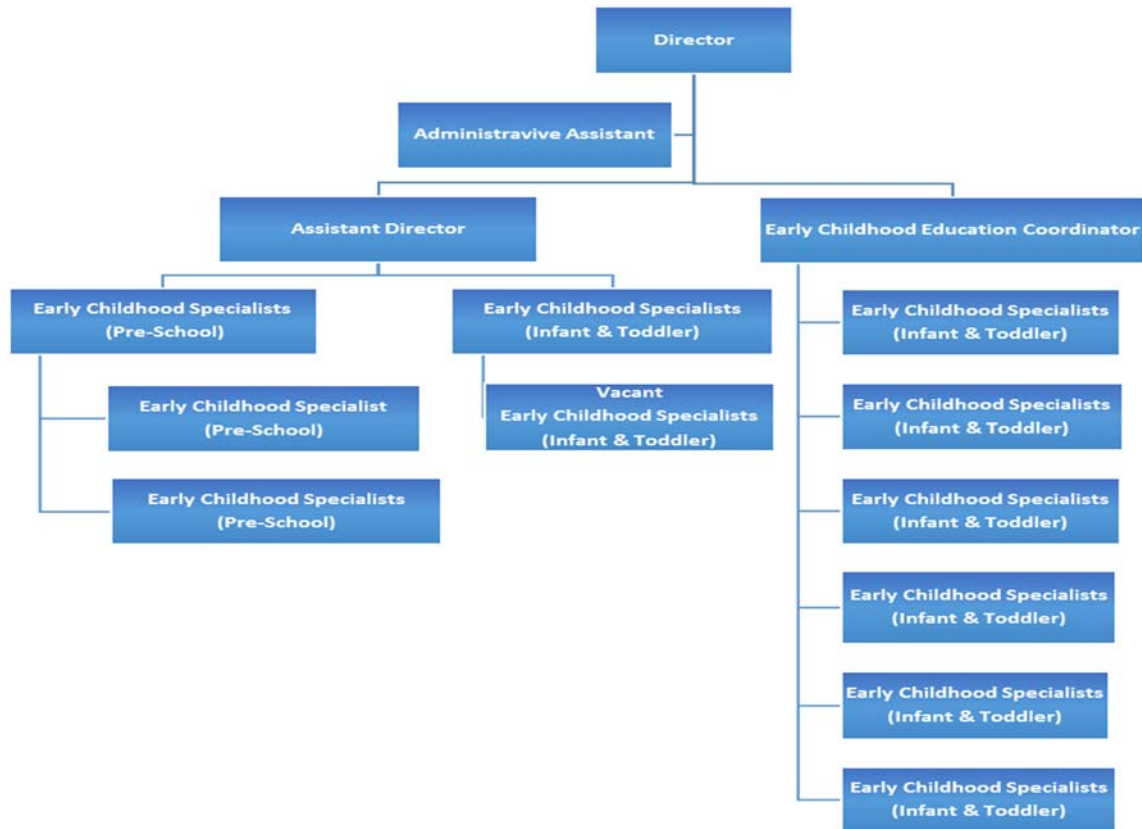
During the self-study phase, parents, staff and administrators evaluate the strengths and weaknesses of the program as they apply to standards of the National Accreditation Commission.

The program has a minimum of six months and a maximum of two years to complete the self-study and to request an onsite visit. Upon enrollment programs receive an Accreditation Manual which they will use throughout the self-study and the first two years of accreditation.



Source: National Accreditation Commission

The Child Development Center reports directly to the Assistant Vice President for Campus Auxiliary Services which falls within the division of Finance and Administration. The Child Development Center is located at the Edinburg campus and has the following structure:



The Child Development Center is dedicated to supporting students in reaching their fullest potential by providing comprehensive services through focus work with children, families, and community partnerships. The CDC goals are as follows:

- To support the recruitment and retention of UTRGV student parents.
- To serve as a resource for, collaborate efforts with, and be accessible to the University’s academic departments by providing opportunities for research, internships, and field study.
- To create strong working relationships with families.
- To respect and respond to cultural diversity.
- To provide the staff with opportunities for professional growth and development.

AUDIT OBJECTIVE

The audit objectives were to:

- Review the internal controls over the Child Development Center's control environment, segregation of duties, approvals and authorizations, safeguarding of assets, and monitoring, to provide reasonable assurance that existing internal controls are adequate.
- Conduct follow up procedures on recommendations made by Human Resources on its March 23, 2016 report on employee conduct.

AUDIT SCOPE & METHODOLOGY

The scope of our testing included FY 2016. See the audit results for the detailed audit steps that were performed. This audit was conducted in accordance with The University of Texas System's (UTS) Policy 129 *Internal Audit Activities*, the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)* and *Generally Accepted Government Auditing Standards (GAGAS)*. The *Standards* and *GAGAS* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of audits. We are required to adhere to these *Standards* and UTS 129.

AUDIT RESULTS

Control Conscious Environment

Based on our review, a control conscious environment exists within the Child Development Center. The office has written goals and objectives that are appropriate to the department and departmental employees have completed the required compliance training.

Departmental Expenditures

We tested a sample of 37 expenditures, including 28 payroll disbursements, by reviewing supporting documentation for appropriateness, validity, and approvals. Although a formal UTRGV Entertainment Policy does not exist, the following business process and attributes were used as we reviewed each purchase of food for business purpose:

- Adequate Supporting Documentation
- Adequate and Appropriate Business Purpose
- Mathematically Accurate
- Properly Recorded
- Within Allowed Limits
- Non-Reimbursement or Direct Payment of Prohibited Items

The absence of a formal policy from management has resulted in weak internal controls in the Child Development Center. We determined internal controls over expenditures need improvement due to the following:

There were 4 instances where a *substantiation documentation form* was not completed to justify the food purchases.

	<i>P.O. Number</i>	<i>Vendor</i>	<i>Amount</i>
1.	12083	Sodexo Services	\$595.00
2.	46639	Citibank – HEB#431	\$37.70
3.	11319	Marta Salinas	\$30.56
4.	16608	Citibank - Walmart	\$28.30
Total:			\$691.56

There were 2 instances where adequate supporting documentation was not submitted.

	<i>P.O. Number</i>	<i>Vendor</i>	<i>Amount</i>
1.	46639	Citibank – Pizza Hut	\$133.96
2.	46639	El Pato	\$29.18
Total:			\$163.14

University Procurement Cards:

The Child Development Center has one procurement card used to purchase office supplies and other items. Based on our review of the administered internal control questionnaire, we determined vendor hold verification is not being completed by the Child Development Center as per Texas Government Code, Sections 2107.008 and 2252.903.

Vendor Hold Status

State agencies and four-year institutions of higher education are required to verify vendors’ hold status for non-emergency payments made with a procurement card. Texas Administrative Code prohibits a state agency from using a payment card or reimbursing an officer or employee for the use of a payment card for a purchase from a vendor if a payment to the vendor is prohibited by a warrant hold statute.

Recommendation #1:

The account manager ensure compliance with proper purchasing procedures and guidelines as it relates to the following:

- For food purchases, a substantiation form must be completed to document business purpose. The business purpose must be clearly defined and specific. The expense must support the mission and purpose of UTRGV and should not be made for a private purpose. Documentation form must accompany any notice announcing event or meeting (flyers, correspondence, brochures, etc.). Original detailed/itemized receipts and information on the business purpose of the expense and the individuals or groups attending the event should be explicitly provided.
- Credit card holders must verify vendor hold status for purchases over \$500 made with a procurement card to comply with Texas Government Code.

Management Response:

Management concurs with recommendation. Prior to April 20, 2017, Director and Administrative Assistant were not aware that *substantiation documentation forms* existed and required to justify food purchases. On April 20, 2017, the CDC Director and Administrative Assistant met with the Financial Manager for Financial Services for a Financial Reconciliations Inspections Meeting. During this meeting, the Financial Manager explained requirements for food purchases. She also provided examples the CDC could use for adequate supporting documentation. Prior to this meeting, no notification or institutional training on this subject had been provided. Upon notification from the Financial Manager, changes to comply with this requirement were immediately put into effect.

Implementation Date:

April 20, 2017

Accounting and Financial Reporting

We obtained the departmental monthly financial reports and monthly reconciliations for the months of December 2015, March 2016, and August 2016. Although there is an established process for reconciling departmental accounting records to the official accounting records of the institution, we determined the reconciliation process is incomplete. We determined internal controls over the account reconciliation process needs improvement due to the following:

- Reconciling items are not properly identified to follow up on resolution.
- Payroll expenses are not reviewed on a monthly basis to determine the validity and accuracy of payroll charges and credits.
- Monthly reconciliation steps & certification form is not being completed for the revenue account.
- Monitoring and oversight controls over the revenue function need improvement as identified in the revenue function area below.

UT 142.1: Policy on the Annual Financial Report, Section 3.2: Certification by Account Owners (sub Certifications) states the following:

- *Account Manager is responsible for the reconciliation of the accounts for the departments and functions under their scope of organizational responsibility;*
- *all account reconciliations are being performed on a monthly basis for each cost center under my responsibility (this includes both revenue and expense accounts);*
- *all revenue and expenses are appropriate and allowable for each month;*
- *all reconciling items have been identified, adjusted or satisfactorily resolved;*
- *reviewed and approval of all reconciliation, for the departmental accounts;*
- *certified that there are no misstatements and omissions in the accounts for which account manager is responsible for; and*
- *there are adequate segregation of duties; no single employee has responsibility for*

Recommendation #2:

The Director of the Child Development Center should ensure compliance with the UTRGV process for monthly account reconciliations and requirements of *UTS 142.1: Policy on the*

Annual Financial Report, Section 3.2: Certifications by Account Owners (Sub certifications).

Management Response:

Management concurs with recommendation. The CDC Director began employment on October 19, 2015 and was delayed in obtaining account authorization for assigned accounts. As a new account manager, the CDC Director was not made aware of UTS 142.1 Policy on the Annual Financial Report, Section 3.2 Certification by Account Owners. On January 23, 2017, Director was made aware by Administrative Assistant that her signature was needed on unsigned reconciliations. Director immediately made her supervisor aware of the situation. CDC Director held a meeting on January 24, 2017 with Administrative Assistant to discuss, establish and implement procedures on monthly reconciliations.

Implementation Date:

February 2017

Revenue Function

We tested revenue recorded on the general ledger for completeness and accuracy of the revenue receipts function. We also tested revenue recorded on departmental records for completeness and timeliness of deposit. We judgmentally selected ten items from the Ledger Revenue accounts and nineteen items from the departmental receipt log. The following attributes were used in our tests:

- Verified that a signed parent agreement was on file
- Verified correct account
- Verified timeliness
- Traced the amount paid to the appropriate E-Pay report
- Traced the amount paid to the general ledger
- Traced amount to Inter-Departmental Transfer Voucher (IDT) when applicable

Based on our review, the following were noted:

- Unable to trace to general ledger and E-Pay report (2 instances)
- Unable to trace to E-Pay report (1 instance)
- IDT billing for awards were not processed timely - December 2015 tuition were processed in May 2016 (5 instances)
- Invoices for outstanding balances owed by Child Development employees were not processed timely – FY 2016; outstanding balances were processed in March 2017
- CDC parent agreement was classified as CCAMPIS and revenue log classified as employee. (1 instance)
- Amount posted to general ledger does not agree to departmental log (1 instance)

Recommendation #3:

The Director of the Child Development Center should enhance controls over the revenue function by ensuring that all money due to the University is received, that all money collected is properly recorded in the accounts, that all money collected is properly and timely deposited, and that a reconciliation be performed.

Management Response:

Management concurs with recommendation. The CDC Director began employment on October 19, 2015. As project manager for the accounts, the former Assistant Director was responsible for many of the items listed above. Within 4 months of Director's employment, she noticed many non-compliance related issues and poor performance associated with the Assistant Director. The Director immediately brought these concerns up to her supervisor and Human Resources department.

The Assistant Director was placed on Administrative Leave on February 26, 2016. On March 28, 2016, Director hand delivered the CDC Assistant Director an "Intent to Terminate Your Employment Notice". The CDC Assistant Director resigned on March 29, 2016. On April 7, 2016, Director was made aware by the Sponsored Program Accountant, that IDT billings had not been completed since June 2015. CDC Director gathered all necessary documentation and billed missing IDT's in May 2016. Director began monthly reconciliations in February 2017. At this time, she noticed the outstanding balances. Invoices were processed in March 2017.

Implementation Date:

Timely processing of IDT billings was implemented June 2016. Timely invoicing for outstanding balances was implemented March 2017. Effective Fall 2017, tuition and charges for child care for student parents are billed to Banner by the Auxiliary Service' Accounting department. Tuition and charges for child care for employees are collected through the ePay portal. CDC will work with Auxiliary Services' Accounting department to improve the revenue reconciliation to the general ledger by November 1, 2017.

Time Reporting

We tested a sample of 28 payroll disbursements by reviewing supporting documentation for appropriateness, validity, and approvals. We determined time cards were adequately computed and approved by supervisory level. Based on the administered Internal Control Questionnaire and review of overtime pay, we determined that the required request for Overtime Authorization form was not completed for overtime worked for non-exempt staff employees as per policy ADM 04-406. For FY 2016, there was a total of \$519.70 in overtime pay for CDC non-exempt staff.

Recommendation #4:

The Child Development Center Director should comply with UTRGV policy ADM 04-406, Overtime for Non-Exempt Staff Employees.

Management Response:

Management concurs with recommendation. CDC Director was not aware of Overtime Authorization form. On May 26, 2017, Director met with Internal Auditors for Exit Conference. At this time, Director was informed about the required form for overtime pay for non-exempt employees. Prior to May 26, 2017, Director had not received any training on this subject matter. The new Oracle time reporting protocol requiring account manager approval of overtime is a positive enhancement.

Implementation Date:

June 2017

Section: ADM 04-406 Overtime For Non-Exempt Staff Employees

D. Policy

Overtime for non-exempt staff employees must be pre-approved in accordance with this policy.

E. Procedure

a. Overtime Accrual.

i. Any overtime anticipated or required of a non-exempt staff employee or group of staff employees must have the prior approval of management.

ii. A Request for Overtime Authorization must be completed by the immediate supervisor and be forwarded through management, up to the appropriate Vice President or designee of the department.

iii. The appropriate Vice President or designee of the department will return the approved or disapproved authorization form to the immediate supervisor. The immediate supervisor must retain the authorization form in the department's employee file in accordance with UTRGV's records retention requirements (see HOP ADM 10-102, *Records Management and Retention*). If the overtime request is approved, the authorization form must be readily available for review or audit upon request. Overtime approved and earned by a staff employee will be certified by the immediate supervisor in UTRGV's official Time Entry System.

Follow-up Procedures

Our office conducted follow-up procedures on recommendations made on March 23, 2016 during a review conducted by Human Resources on employee conduct. Our office verified that the following actions were completed by the department:

- Employee separation procedures were completed
- Child Development Center employees attended the VAQUERO Culture of Service Excellence Training
- Monthly fire drills were conducted from January 2016 to October 2016
- Criminal background checks were completed for new employees

CONCLUSION

Overall, we concluded that the department has a moderate system of internal controls. We identified opportunities for improvements in internal controls over account reconciliations, departmental expenditures, revenue function, and time reporting in the Child Development Center. Implementation of the above recommendations will help to ensure an adequate system of internal controls exists.

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