



**THE UNIVERSITY OF TEXAS AT DALLAS**

OFFICE OF AUDIT AND CONSULTING SERVICES  
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May 30, 2019

Dr. Richard Benson, President,  
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Office of Research as part of our fiscal year 2019 Audit Plan. The objective of our audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls. The report is attached for your review.

Overall, internal controls within the Office of Research are generally adequate and functioning as intended; however, the audit resulted in opportunities to improve controls over expenses, lab access, compliance, revenues, and the safeguarding of assets. Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates.

We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens, CPA, CIA, CRMA  
Chief Audit Executive



## Executive Summary

### Audit Objective and Scope

To evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls.

### Conclusion

Overall, internal controls within the Office of Research are generally adequate and functioning as intended; however, the audit resulted in opportunities to improve controls over expenses, lab access, compliance, revenues, and the safeguarding of assets.

### Audit Recommendations by Risk Level

Recommendation	Risk Level	Estimated Implementation Date
(1) Improve Controls over One Cards and Purchasing	High	September 30, 2019
(2) Strengthen Controls over Lab Access	High	September 30, 2019
(3) Improve Existing Procedures to Ensure Compliance with Conflict of Interest and Commitment Policies	High	February 29, 2020
(4) Improve the Cost Center Reconciliation Process	Medium	September 30, 2019
(5) Improve Controls over Revenues at the Venture Development Center	Medium	September 30, 2019
(6) Improve Controls over Cleanroom Revenues	Medium	September 30, 2019
(7) Create Disaster Recovery Plans for the Cleanroom and Core Labs	Medium	September 30, 2019
(8) Improve Controls over Property Inventory	Medium	August 31, 2019
(9) Record Licensing Revenue in the Proper Account	Low	June 30, 2019
(10) Develop Procedures for Centers Requesting Subsidies	Low	September 30, 2019
(11) Ensure Compliance with the UT System Policies Regarding Licensing Agreements	Low	September 30, 2019



<p><b>Responsible Vice President(s)</b>          Dr. Joseph Pancrazio, Vice President for Research</p>	<p><b>Responsible Parties</b>          • Mr. Rafael Martin, Associate Vice President for Research and designated staff</p>
<p><b>Staff Assigned to Audit</b>          Project Leader: Rob Hopkins, CFE, Audit Manager          Staff: Melissa Carley, CPA, CIA, Staff Auditor and Caitlin Cummins, Staff Auditor          Student Intern: Swapna Reddy, CPA</p>	
<p><b>Report Distribution</b></p>	
<p><i>Members of the UT Dallas Institutional Audit Committee</i></p> <p>External Members</p> <ul style="list-style-type: none"> <li>• Ms. Lisa Choate, Chair</li> <li>• Mr. Gurshaman Baweja</li> <li>• Mr. John Cullins</li> <li>• Mr. Bill Keffler</li> <li>• Ms. Julie Knecht</li> </ul> <p>UT Dallas Members</p> <ul style="list-style-type: none"> <li>• Dr. Richard Benson, President</li> <li>• Dr. Hobson Wildenthal, Executive Vice President</li> <li>• Dr. Kyle Edgington, Vice President for Development and Alumni Relations</li> <li>• Mr. Frank Feagans, Vice President and Chief Information Officer</li> <li>• Dr. Gene Fitch, Vice President for Student Affairs</li> <li>• Dr. Calvin Jamison, Vice President for Facilities and Economic Development</li> <li>• Dr. Inga Musselman, Provost and Vice President for Academic Affairs</li> <li>• Ms. Sanaz Okhovat, Assistant Vice President for Research Integrity and Outreach and Chief Compliance Officer <i>ad interim</i></li> <li>• Dr. Joseph Pancrazio, Vice President for Research</li> <li>• Mr. Terry Pankratz, Vice President for Budget and Finance</li> <li>• Mr. Timothy Shaw, University Attorney, ex-officio</li> </ul>	<p>Responsible Parties</p> <ul style="list-style-type: none"> <li>• Mr. Rafael Martin, Associate VP for Research</li> </ul> <p>External Agencies</p> <p><i>The University of Texas System</i></p> <ul style="list-style-type: none"> <li>• System Audit Office</li> </ul> <p><i>State of Texas Agencies</i></p> <ul style="list-style-type: none"> <li>• Legislative Budget Board</li> <li>• Governor’s Office</li> <li>• State Auditor’s Office</li> <li>• Sunset Advisory Commission</li> </ul>



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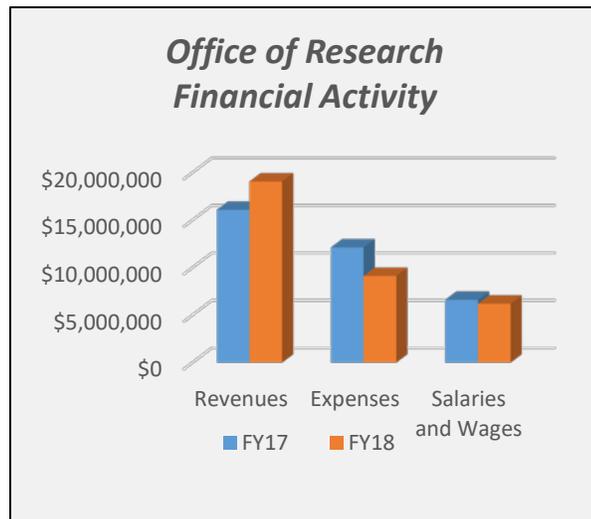


## Background

The Office of Research oversees interdisciplinary research across campus. Essentially, the office provides a full range of resources and support for all aspects of research on campus. The office assists principal investigators in finding and securing funding opportunities, assisting in technology and data management, managing cross-discipline labs, managing the process of taking research to commercialization, and providing oversight for research compliance.

The overall responsibility for the Office of Research lies with the VP of Research, who reports directly to the President. The VP has two direct reports, an Associate VP and an Assistant VP, both of which are responsible for the operations of the department. The Associate VP oversees eight sub-departments, including sponsored programs administration, cleanroom, core labs, information systems, entrepreneur initiatives, and the business office. The business office is responsible for managing financial operations. The Assistant VP is responsible for research compliance, including the Institutional Review Board (IRB), lab safety, the animal lab, and conflicts of interest.

The department is primarily funded from designated funds but also receives licensing revenue from patents, rental income at the Venture Development Center, and external sales from the labs.



<b>Employees (as of FY18)</b>	
Administrative & Professional	17
Classified	79
Student Workers	29
<b>Total</b>	<b>125</b>

## Audit Objective

The objective of this audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls.

## Scope and Methodology

The scope of this audit was FY18 and our fieldwork concluded on February 27, 2019. To satisfy our objectives, we performed the following:

- Reviewed the department’s control environment to determine if:
  - Policies and procedures, including unique job descriptions, are in place.



- The organizational structure aligns with management’s strategic and operational objectives.
- Determined whether the department has an effective risk assessment and awareness process in place.
- Determined whether internal information, communication and reporting methods are effective.
- Reviewed control activities to determine if they are adequate and effective.
- Reviewed management’s monitoring of internal controls.
- Interviewed key personnel to determine processes for monitoring operations and internal controls, and tested controls in the following areas:
  - Financial processes, including expenses, revenues and budget
  - Property inventory
  - Lab disaster recovery plans and lab access controls
  - Payroll and human resources.

We conducted our examination in conformance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* are statements of core requirements for the professional practice of internal auditing.

Additionally, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Finally, this review was also conducted based on the integrated framework guidance provided by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO is a joint initiative of five sponsoring organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal controls and fraud deterrence.

## Audit Results and Management’s Responses

Our audit work indicated that the Office of Research has the following controls in place:

- ✓ The organizational structure aligns with management’s strategic and operational objectives.
- ✓ The department is aware of its risks and has an effective risk awareness process in place.
- ✓ The department effectively monitors its operations.



Although the above strengths and controls were noted, other opportunities to strengthen departmental controls and compliance are recommended below. Risk levels are defined in the Appendix on page 20.

Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<p><b>(1) Improve Controls over One Cards and Purchasing (High)</b></p> <p>The Office of Research One Card expenses for FY18 consisted of 1,277 transactions totaling \$268,727. Internal Audit tested One Card and purchasing expenses for compliance with University policies<sup>1</sup>, proper authorization, and reasonableness to the mission of the University and noted the following:</p> <p>a. One Card transactions did not always comply with UTD policies and procedures, including approvals and proper documentation. For example:</p> <ul style="list-style-type: none"> <li>• 72% of One Card expenses were not properly approved. In FY19, new procedures were implemented requiring supervisor approval for all One Card purchases.</li> <li>• 50% of One Card expenses did not maintain proper segregation of duties throughout the purchasing process.</li> <li>• 34% of One Card expenses did not comply with applicable UT Dallas policies and procedures.</li> <li>• 19% of One Card expenses did not have proper supporting documentation including itemized receipts and an appropriate business purpose.</li> <li>• Five transactions were reimbursed by a single cardholder during FY18 for One Card purchases made in error. Additionally, the amount reimbursed to the university was \$110 but should have been \$141.</li> </ul>	<p>Without appropriate controls over One Cards and purchasing, the risk of error or fraud is increased, and departmental expenses may be higher than necessary resulting in budget overages.</p>	<p><b>Recommendation:</b> Processes should be developed to ensure controls over One Cards and purchases are in place and comply with University policies and procedures.</p> <p><b>Response:</b> The Office of Research concurs with the recommendation that the office should strengthen processes to ensure internal controls over One Cards and purchases are in place and comply with University policies and procedures.</p> <p>The Office of Research has already begun to take corrective action. Two items of note are: (1) effective February 2019 the office reorganized duties of administrative support staff to provide better segregation of duties and accountability for financial and HR responsibilities; and (2) the Lab Animal Resource Center has begun utilizing purchase orders (as opposed to One Card transactions) for lab animal food, bedding, and veterinarian supplies.</p> <p>The Office of Research will strengthen controls over One Card transactions by:</p>

<sup>1</sup> <https://www.utdallas.edu/procurement/departments/onecard/>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<p>b. Purchases were not always reasonable to the mission of the department and were made to repeat vendors that should have been purchased using eProcurement. For example:</p> <ul style="list-style-type: none"> <li>• 28% of One Card expenses did not appear to be reasonable to the mission of the department.</li> <li>• More than 10% of the One Card transactions, totaling \$74,634, were to repeat vendors. These purchases should be made through eProcurement rather than a One Card.</li> </ul> <p>c. Purchases did not always comply with UTD purchasing policies. For example:</p> <ul style="list-style-type: none"> <li>• The Office of Research rented artwork to display in the Administration Building without following competitive bidding procedures.</li> </ul>		<ul style="list-style-type: none"> <li>• Reducing the number of One Card holders to only those that have an approved business need;</li> <li>• Developing and implementing Office of Research One Card guidelines that outline allowability, approval, documentation, and segregation of duties for One Card purchases; and</li> <li>• Performing a quarterly review of One Card purchases with the goal identifying purchases that could be made utilizing eProcurement purchase orders – the frequency of reviews may decrease as an appropriate One Card/eProcurement balance is achieved.</li> </ul> <p>All Office of Research One Card holders will receive a copy of the One Card guidelines and will review them with Cindy Sutton or Kelly McKinney before the One Card Holder is authorized to make One Card purchases.</p> <p>When the Office of Research first sponsored the art exhibition in the AD building, it was not anticipated that the associated expenditures would exceed the Procurement competitive bid threshold. Charges for both the first and second exhibitions sponsored by the Office of Research were well under Procurement's single purchase competitive bid threshold. Only when aggregating the expenditures for sponsorship of the two</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
		<p>exhibitions and the purchase of several art pieces for permanent display in the AD building did the total expenditures exceed the competitive bid threshold.</p> <p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Kelly McKinney, Senior Director, Research/Cindy Sutton, Assistant Director, Research</p>
<p><b>(2) Strengthen Controls over Lab Access (High)</b></p> <p>The Cleanroom Research Laboratory is used to support university research. Access to the Cleanroom requires safety training, and outside users pay fees to use the lab. 352 individuals have access to the Cleanroom, including:</p> <ul style="list-style-type: none"> <li>• Current students, staff, faculty</li> <li>• External industry or academic institution contracted with UTD for access and billed accordingly</li> <li>• Contingent workers who have limited access, such as a visiting scientist or repair person</li> </ul> <p>Access to the Cleanroom Research Lab was tested, and the following was noted:</p> <ul style="list-style-type: none"> <li>• 32 (9% of total) individuals have access to the Cleanroom who are not current staff, faculty, students, contingent workers, or external users.</li> <li>• 15 (4% of total) individuals have access to the Cleanroom that are listed as a Contingent Worker; however, their current status is unknown.</li> </ul>	<p>Without strong controls over lab access, the risk of injury, theft of research data, and loss of grant funding is increased. Also, the University may be forfeiting revenues earned from external parties who use the labs and equipment.</p>	<p><b>Recommendation:</b> Perform timely and thorough reviews of the access lists, verifying through independent data that each individual with lab access has the appropriate and current affiliation with the university.</p> <p><b>Response:</b> The Director of Core Facilities in collaboration with the Associate Director for the Clean Room Laboratory and the Director of Academic Safety will transition the Clean Room access request process from the CCure system to BioRaft. This will bring the Clean Room process into alignment with the process for other lab facilities in the NSERL and BSB. As part of this transition, all users with current access to the clean room will be reviewed and any users that no longer require access or who do not have university sponsors will have their access terminated. Reauthorization of access will occur through the BioRaft process. BioRaft requires annual reauthorization by eligible university sponsors of access for all lab personnel.</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
		<p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Jimmy Gowrisankar, Director, Core Facilities/Shane Solis, Director, Academic Safety/Naim Moumen, Associate Director, Clean Room Laboratory</p>
<p><b>(3) Improve Existing Procedures to Ensure Compliance with Conflict of Interest and Commitment Policies (High)</b></p> <p>We tested for compliance with the university's conflict of interest and commitment policies<sup>2</sup> that require disclosure of outside employment and business ownership and found the following:</p> <p>(a) One director within the Office of Research had outside employment that had not been disclosed which could create a perceived conflict of interest and commitment with his university responsibilities. The employee's work outside the university is consulting work similar to his position at UT Dallas.</p> <p>(b) The Office of Research rented \$26,170 in artwork from Derive Art in FY18 using Research Enhancement funds. The artwork was displayed near the office in the hallways of the Administration Building. Derive Art is owned by a faculty member in the School of Arts and Humanities who is using the Venture Development Center to promote various artists, including himself. No conflict of interest form was on file for the faculty member.</p>	<p>Without following conflict of interest and commitment policies, the University's credibility and reputation may be impacted.</p>	<p><b>Recommendation:</b> Ensure that all employees have disclosed their conflicts of interest and commitment to the appropriate supervisor for review and approval as required by university policies on conflicts of interest and commitment. Management plans should be put in place as necessary.</p> <p><b>Response:</b> The Conflict of Interest and Commitment policy at UT Dallas is communicated through our annual compliance training process and relies on employees self-identifying/self-reporting activities that pose potential conflicts. As such, the Office of Research will endeavor to remind employees of the requirements to report relevant activities or financial interests. However, it would be prudent for the university to explore the possibility of requiring a disclosure from every employee at the time that they complete their annual compliance training. This could be accomplished by simply adding an assessment question along</p>

<sup>2</sup> <https://policy.utdallas.edu/utdpp1100>

<https://policy.utdallas.edu/utdpp1102>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
		<p>the lines of "Do you have any activities or outside financial interests to report under the policy covered by this training module?". If they answer "No", that can be recorded as a negative disclosure. If they answer "Yes", they can be provided a link to the conflict disclosure portal.</p> <p><b>Estimated Implementation Date:</b> February 2020</p> <p><b>Responsible Party:</b> Rafael Martin, AVP for Research</p>
<p><b>(4) Improve Cost Center Reconciliation Process (Medium)</b></p> <p>The Office of Research is responsible for 52 cost centers and has 13 sub-departments within its organization. We tested controls over reconciliations, noting the following:</p> <ul style="list-style-type: none"> <li>• Three individuals account for 76% of all cost center reconciliation approvals, and the AVP for Research approved 54%, or 239 cost centers in FY18.</li> <li>• The cost center owner is not always the approver, and the various sub-department reconciliations are not always reconciled and/or approved by the leader of the sub-department.</li> <li>• 37% of reconciliations have taken over 60 days to reconcile and approve, and 12% have taken more than 120 days.</li> <li>• Two reconcilers are reconciling their own One Card expenses in addition</li> </ul>	<p>Without proper reconciliation controls, including segregation of duties, timeliness of reconciliations, and span of control, there is a higher risk for fraud or error that may not be detected in a timely manner.</p>	<p><b>Recommendation:</b> Delegate the authority of cost center reconciliations to employees with detailed knowledge of the operations and expenses, maintaining appropriate segregation of duties. Also, require the approvals to be completed within 60 days of the end of the month.</p> <p><b>Response:</b> The Office of Research concurs with the recommendation that the department should improve the cost center reconciliation process. The Office of Research will review all departmental cost centers and based on that review will:</p> <ul style="list-style-type: none"> <li>• Ensure "reconciliation, review and approval of cost center financial records [is] performed on a monthly basis by knowledgeable personnel" per Office of Finance guidance</li> <li>• Review cost centers usage and (1) inactivate cost centers that</li> </ul>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<p>to the cost center reconciliations, which creates segregation of duties issues.</p>		<p>are not in use or that have little usage; (2) look for opportunities to reduce the number of cost centers used for similar purposes; and (3) ensure that cost centers logically support the business mission/purpose of office.</p> <ul style="list-style-type: none"> <li>• Develop and implement internal processes to ensure that the reconciliations occur within 30 days of month-end close;</li> <li>• Develop and implement internal processes to ensure appropriate segregation of purchasing, authorization, record keeping, and reconciliation responsibilities.</li> </ul> <p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Kelly McKinney, Senior Director, Research/Cindy Sutton, Assistant Director, Research</p>
<p><b>(5) Improve Controls over Revenues at the Venture Development Center (Medium)</b></p> <p>The Venture Development Center (VDC) is an incubator designed to "transform early state, student, faculty, and alumni startups into fundable companies"<sup>3</sup>. The VDC offers dedicated office, lab, and meeting space, as well as shared business services and equipment and charges its users for their services. VDC revenues totaled \$216,337 in FY18.</p> <p>We reviewed the VDC and its processes and noted the following:</p>	<p>Without strong controls over revenues, the risk of error and fraud is increased. Also, without a formalized rate structure and review by Accounting and Financial Reporting, costs may not be fully recovered.</p>	<p><b>Recommendation:</b> Improve controls over revenues by ensuring an appropriate segregation of duties and compliance with UTD cash handling procedures. Work with Accounting and Financial Reporting to ensure that the rates charged for the use of the VDC are properly reviewed and formalized.</p> <p><b>Response:</b> The Office of Research concurs with the recommendation that the department should improve</p>

<sup>3</sup> <https://innovation.utdallas.edu/venture-development-center/>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<ul style="list-style-type: none"> <li>Lack of segregation of duties over revenues, as the Business Manager maintains the list of current tenants, invoices the tenants, collects the license checks, and also deposits the checks.</li> <li>The VDC has not worked with the Office of Accounting and Financial Reporting to set rates or manage deposits.</li> </ul>		<p>controls over Revenues at the Venture Development Center.</p> <p>The Office of Research will:</p> <ul style="list-style-type: none"> <li>Work with the Office of Budget and Finance to develop formalized policies and procedures to be compliant with Cost Accounting standards;</li> <li>Ensure appropriate cost center owners and approvers are assigned;</li> <li>Develop and implement a process to ensure individual steps of invoicing, collection, depositing, record keeping and reconciliation of revenues are separated between multiple employees to maintain appropriate segregation of duties.</li> </ul> <p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Kelly McKinney, Senior Director of Research/Kimberly Warren, Business Manager of Research</p>
<p><b>(6) Improve Controls over Cleanroom Revenue (Medium)</b></p> <p>The Cleanroom charges external users for access to its labs and equipment. In FY18, external sales for the Cleanroom totaled \$87,933.</p> <p>The process of billing the external users to the Cleanroom is based solely on an honor system, and there is no verification of accuracy. Upon a quarterly request from the Administrative Assistant, the external users submit their usage and access to the</p>	<p>Without appropriate controls over revenues, the revenues may not be accurate and may be less than what is actually owed to the university. Without a periodic rate study, costs may either not be fully recovered or a</p>	<p><b>Recommendation:</b> Improve controls over Cleanroom revenues to ensure compliance with university policies on service centers and external sales and develop a process to ensure usage by external users is accurate.</p> <p><b>Response:</b> The Office of Research agrees that the current honor system for recording external use of clean room equipment presents a risk of</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<p>Cleanroom and are issued an invoice based on their response. Additionally, the fee schedule has not been updated since 2013.</p>	<p>profit could occur. Also, the risk of noncompliance with federal guidelines over billing is increased.</p>	<p>abuse by third party users. However, implementation of a system that more accurately records user time on each instrument (e.g. iLabs) would cost significantly more to implement and maintain than income is generated from third party users. In addition, it may not be technically feasible to implement an automated/technical system due to the age and control hardware on some of the clean room equipment. As such, we will undertake two parallel efforts that may address some of the issues identified in this finding: 1) Clean Room Laboratory management will undertake a review of the current process and make changes to improve the accuracy and efficiency of recording third party use of Clean Room equipment; and 2) Clean Room management will undertake a comprehensive review and updating of the current rate study for the Clean Room and recommend changes to the rates for access and equipment use and caps (if any) on maximum allowable charges. These changes together should increase the revenue generation from third party users of clean room equipment and enable management to better identify abuse of access privileges by these parties.</p> <p><b>Estimated Implementation Date:</b> September 2019</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
		<p><b>Responsible Party:</b> Jimmy Gowrisankar, Director, Core Facilities/Naim Moumen, Associate Director, Clean Room Laboratory</p>
<p><b>(7) Create Disaster Recovery Plans for the Cleanroom and Core Labs (Medium)</b></p> <p>To help mitigate the damage or recovery time after a disaster or disruptive event occurs, the Office of Research Integrity and Outreach and the Office of Emergency Management encourage laboratories and research facilities to develop their own Continuity Plan<sup>4</sup>. Currently, there are no disaster recovery plans in place for the Cleanroom and Core labs.</p>	<p>In the event of a disaster, the Cleanroom and Core labs may not be able to recover or continue business in a timely manner.</p>	<p><b>Recommendation:</b> Work with the Office of Research Integrity and Outreach and the Office of Emergency Management to create disaster recovery plans for the Cleanroom and Core Labs.</p> <p><b>Response:</b> The Office of Research will create and submit disaster recovery plans for the Clean Room and Core Laboratory facilities.</p> <p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Jimmy Gowrisankar, Director, Core Facilities/Naim Moumen, Associate Director, Clean Room Laboratory</p>
<p><b>(8) Improve Controls over Property Inventory (Medium)</b></p> <p>The Office of Research has 443 inventory assets, totaling \$14.9 million. These assets are located across 18 different buildings on campus. We tested a sample of assets and noted that the item location was not correct for 11% of the assets tested, and one item had two tag numbers. Property Administration policies outline inventory custody, care, and maintenance of UT Dallas property<sup>5</sup>. Also, after discussions with the department property manager, it was</p>	<p>The risk of theft or loss is increased when property is not actively monitored and tracked.</p>	<p><b>Recommendation:</b> Improve controls over property inventory by developing procedures to conduct periodic inventories, monitoring mobile assets, and maintaining documentation for surplus and transferred equipment.</p> <p><b>Response:</b> Office of Research Information Systems keeps an internal asset tracking spreadsheet as we have regularly received incorrect</p>

<sup>4</sup> <https://research.utdallas.edu/orio/research-and-academic-safety/disaster-recovery>  
<https://www.utdallas.edu/safety/programs/continuity/>

<sup>5</sup> <https://policy.utdallas.edu/utdbp3066>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<p>determined that communication regarding surplus or transferred assets to Property Inventory was not always timely or did not contain proper documentation.</p>		<p>and/or incomplete data from Property Administration reports.</p> <p>Internal tracking mechanism served to locate 5 out of 11 identified assets.</p> <ul style="list-style-type: none"> <li>• 84510, 74906, 252158 had been redeployed since 2018 inventory</li> <li>• 61177, 87379 were actively being transferred during audit sampling</li> <li>• 256113, 254900 had recently been redeployed</li> <li>• 257558 was locked in storage awaiting deployment as it had recently been procured</li> <li>• 81922, 252297 were locked in storage awaiting redeployment</li> <li>• 79761 – incorrectly identified as having two tags, as it is a stacked pair with 77381, was procured separately and tagged by Property Administration.</li> </ul> <p>ORIS has recently completed a complete review and internal update of stationary and fixed assets, including the assigning of custodians to fixed assets. ORIS will increase regularity of updates to internal inventory list with asset custodian changes, relocations, transfers, and surplus actions. ORIS will submit an updated inventory list to Property Administration on a quarterly (as opposed to annual) basis.</p> <p><b>Estimated Implementation Date:</b> August 31, 2019</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
		<p><b>Responsible Party:</b> Gabe Cavazos, Senior Director, Research/Michael Karich, Associate Director, Research</p>
<p><b>(9) Record Licensing Revenue in Proper Account (Low)</b></p> <p>Licensing revenue totaling \$3.6 million in FY18, received by the Office of Technology Commercialization, is currently being recorded in an account for lease income. Because the revenues are for licensing, they should be recorded in a licensing revenue account.</p>	<p>When license revenues are reported as lease income, management does not receive accurate financial information for decision-making.</p>	<p><b>Recommendation:</b> Work with Accounting and Finance to set up a licensing revenue account to ensure licensing revenues are properly recorded.</p> <p><b>Response:</b> The Office of Research is working with the Office of Budget and Finance to creating a new account code (48210-“Licensing Revenue”) which will be used in lieu of 48205-“Lease Income” for recognizing future licensing revenue. All FY19 license revenue which was previously deposited into 48205-“Lease Income” will be transferred to the new account code as well.</p> <p><b>Estimated Implementation Date:</b> June 2019</p> <p><b>Responsible Party:</b> Rocio Gallo, Financial Analyst, Research</p>
<p><b>(10) Develop Procedures for Centers Requesting Subsidies (Low)</b></p> <p>The Office of Research subsidizes four centers for a total of \$940,000 each year.</p> <ul style="list-style-type: none"> <li>• Texas Analog Center for Excellence (TxACE) - \$400,000</li> <li>• Institute for Innovation and Entrepreneurship (IIE)- \$140,000</li> <li>• MSE Nano-Characterization - \$200,000</li> <li>• NSM Nano-Characterization - \$200,000</li> </ul>	<p>By subsidizing established centers without effective monitoring, fewer funds are available to new centers or labs, and funds may not be used as originally intended.</p>	<p><b>Recommendation:</b> Develop procedures requiring centers requesting subsidies prepare a formal request each year for the planned usage of the funds. At the end of each year the Office of Research should review the usage to ensure the funds were used as intended.</p> <p><b>Response:</b> Before the end of FY19, the Office of Research will schedule a meeting with each center/institute receiving subsidies. At these meetings,</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
<p>The subsidies are transferred to these centers without any requirement for reporting their usage to the Office of Research, and the Office of Research does not currently monitor their usage.</p> <p>Internal Audit reviewed the largest subsidy, TxACE, and shared an analysis of their subsidy usage with the VP for Research for further review and consideration. A separate audit of the TxACE is in process, and a report will be issued during the third quarter of FY19.</p>		<p>the center/institute leadership will provide: 1) a review of their activities over the past year; 2) how Office of Research funds were used to advance the goals of the center/institute; 3) how these goals support the larger mission of the Research Office; 4) how future funding (if allocated) would be used to support activities beneficial to the mission of the Research Office. From FY20 onward, the Office of Research will use the procedures (e.g. establishment of new centers, annual reports, periodic review) outlined in the University Research Unit policy to review requests for new subsidies and to reauthorize existing subsidies.</p> <p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Rafael Martin, AVP for Research</p>
<p><b>(11) Ensure Compliance with the UT System Policies Regarding Licensing Agreements (Low)</b></p> <p>Currently, the Associate VP of Research signs off on the licensing agreements for rental space in the Venture Development Center. UT System policies require approval by either the VP for Budget and Finance or the VP for Facilities and Economic Development when UTD is the landlord.</p>	<p>Without appropriate approvals, UTD may not be licensing rental space in accordance with UT System policies.</p>	<p><b>Recommendation:</b> Ensure compliance with UT System policies regarding licensing agreements by ensuring that the agreements are signed by either the VP for Budget and Finance or the VP for Facilities and Economic Development.</p> <p><b>Response:</b> The Office of Research will work with the Office of Facilities and Economic Development and the Office of Budget and Finance to review and revise the template agreement for Venture Development Center tenants.</p>



Observations and Risk Levels	Risk/Effect	Recommendations and Management's Responses
		<p>In addition, these offices will develop a process for executing these agreements that conforms with UT Systems and UT Dallas policies.</p> <p><b>Estimated Implementation Date:</b> September 2019</p> <p><b>Responsible Party:</b> Rafael Martin, AVP for Research</p>

In addition to the reportable issues above, minor observations regarding improving the control environment, improving communication and customer service, improving expense documentation, improving controls over salary increases, using H1B visas, complying with existing cell phone policies, and reviewing the VDC license agreement were shared verbally with management for their disposition.

## Conclusion

Based on the audit work performed, we conclude that internal controls within the VP Research are generally adequate and functioning as intended; however, the audit resulted in opportunities to improve controls over expenses, lab access, compliance, revenues, and the safeguarding of assets.

We appreciate the courtesy and cooperation received from the management and staff in the Office of Research as part of this audit.



## Appendix

### Definition of Risks

Risk Level	Definition
<b>Priority</b>	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Risk Management Committee (ACRMC). Priority findings reported to the ACRMC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
<b>High</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.