The Edith O'Donnell Institute of Art History

Internal Audit Report No. R2105
February 26, 2021

Executive Summary

Audit Objective: To evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls within the department.

Conclusion: Internal controls are generally in place to ensure the effectiveness and efficiency of operations for the Edith O'Donnell Institute of Art History. Opportunities exist to enhance controls in the areas of governance, expenses, and property.

Observations by Risk Level: Management has reviewed the observations and has provided responses and anticipated implementation dates.

Observation	Risk Level	Management's Implementation Date
1. Strengthen the Governance Structure	**Medium**	June 30, 2021
2. Enhance Controls over Expenses	**Medium**	June 30, 2021
3. Strengthen Controls over Property	**Medium**	March 1, 2021
For details, engagement methodology, and explanation of risk levels, please see the attached report.		

Observation #1: *Strengthen the Governance Structure*

> **Medium Risk:** Without a formal governance framework, employees may not understand their responsibilities and lead to risks that include noncompliance with university policies, duplication of efforts, lack of productivity, and low morale.

Due to the overall uniqueness and internal positioning under the Provost Office, as well as their decentralized operations, the Institute does not have a formal internal governance structure to manage and control their operations. Good governance helps ensure the achievement of strategic objectives, stakeholder confidence, and accountability of operations. In decentralized operations, formalizing policies and procedures and job duties helps ensure employees are aware of their responsibilities. The following was noted in reviewing the governance and operations of the Institute:

a. The current workflow and approval processes were established at the inception of the Institute and have not been revisited since the transition to a new Director. Currently, expenses and reconciliations are formally approved by the Provost's Office, with input from the Director in the form of an email acknowledgement and/or approval. The inability of the Director to review and approve EODIAH day-to-day financial operations within the University's operational internal controls has resulted in a duplication of effort from the observations of both the EODIAH Director and the Provost Office approvals, as well as increased operational delays.

b. The EODIAH Business Administrator did provide an initial draft of internal policies and procedures that were being developed in February 2019; however, they were never fully implemented to make a meaningful impact on internal resources.

> Recommendation: Consider revising the workflow and approval processes to ensure formal approvals within the university accounting systems by the Director and implementing and formalizing internal policies and procedures.

Management's Action Plan: Per audit's recommendation we are working on a handbook of policies and procedures. This manual will be guided by the Business Administrator who will work with the various areas of EODIAH to define and record our departmental policies and procedures.

The Director will approve the policies and procedures handbook annually and hold meetings with staff regarding any changes as needed.

In addition to the changes to formalizing policies and procedures, EODIAH will re-work job descriptions and departmental re-organization of the office in order to more clearly define who is responsible for what tasks to limit duplication of efforts, paperwork errors, and low morale.

Per audit's recommendation revisit approval structure with the Provost Office to ensure that the current structure is the best procedure for all involved.

Person Responsible for Implementation: Michael Thomas, Director

Estimated Date of Implementation: 6/30/2021

Observation #2: *Enhance Controls over Expenses*

Observation #2 acknowledged the overall decentralized nature of the Institute's operations and absence of a formal governance structure. In testing the Institute's expenses to ensure the effectiveness of internal controls, the following opportunities to enhance controls were noted and shared in great detail with management:

> **Medium Risk:**
> A lack of strong controls over expenses can result in an increased risk of fraud, error, financial loss, and/or reputational harm and donor dissatisfaction.

- Complying with travel procedures over international and/or student/group travel authorization documentation.
- Submitting itemized business meal expense receipts in the reimbursement documentation, as well documenting prior approval and a clear purpose of anticipated excess business meal per person overages.
- Further assurance in complying with the One Card Guide related to the Disallowed Purchases.
- Ensuring purchases include a documented business justification.

> Recommendation: Consider ways to enhance controls over expenses, including improved procedures, reminders for employees, and stricter reviews.

Management's Action Plan: Per audit's recommendation we are working on a handbook of policies and procedures. This manual will be guided by the Business Administrator who will work with the various areas of EODIAH to define and record our departmental policies and procedures.

The Director level approval process will be more rigorous in review of requests and more complete and thorough business justifications will be required.

In addition to the changes to formalizing policies and procedures, EODIAH will re-work job descriptions and departmental re-organization of the office in order to more clearly define who is responsible for what tasks to limit risk, errors, and reputational harm.

Person Responsible for Implementation: Michael Thomas, Director

Estimated Date of Implementation: 6/30/2021

Observation #3: *Strengthen Controls over Property*

Medium Risk: Decentralized operations and lack of formal procedures over property can lead to the loss or misuse of assets and can result in financial losses, reputational risks, and noncompliance with State and University regulations and policies.

According to UTDBP3066 - Property Administration *"each department head is responsible for the proper custody, maintenance and safekeeping of UTD property assigned to his/her department."* The Institute is currently responsible for 48 assets with a total estimated value of $154,593 with asset locations on campus, the Dallas Museum of Art, and the Naples Center in Italy.

Internal Audit tested a sample of assets and found that controls were in place to ensure the existence, usage, and safeguarding of property. However, the following opportunities exist to ensure property accountability over assets.

a. *Property Located Off-site*
   - At the Naples Center, Property Administration did not properly ship the asset tags and ultimately did not tag these decentralized assets until a year and a half after the assets were obtained. Also, the Naples Center assets' location within Peoplesoft is ATC2.800; but the assets are located in Naples, Italy.
   - At the Dallas Museum of Art, two assets were not tagged correctly. One asset was noted as a surplus item by Property Administration though was still being used by the Institute.
   - A scanner originally valued at $19,880 was assigned and entrusted to a former employee in 2016 to use to scan her photography collection that is being bequeathed to UT Dallas. A formal agreement does not exist to document this. Audit informed the Inventory team of the issue, and they are working to address these unique circumstances.
b. *Other Issues*
   - The asset entitled "Artwork – Giant Dots" is incorrectly assigned to the Institute's Business Administrator though should be listed as an ATEC asset.
   - Various assets had missing serial numbers and/or did not have a custodian assigned to the asset.

Recommendation: Consider developing internal procedures to strengthen controls and departmental reporting over property, including conducting periodic internal inventories.

Management's Action Plan: We currently keep records of the assets on the spreadsheets provided by Property and email updates as soon as changes are made to Property Management. We can see that the changes and updates provided in the official annual checks and change emails are not always correctly updated. EODIAH does not have access to the Property Management module to check/confirm requested updates are made.

We will start a new file to save the emails and also enhance the spreadsheet method we currently use, which was based off of incorrect data received from the Property's annual inventory. We have identified some items that are not on our list and should be and have worked with A&H, ATEC, and Property to make these updates.

Person Responsible for Implementation: Heidi Kessell, Business Administrator

Estimated Date of Implementation: 3/1/2021

Appendix A: Methodology

Background

The Edith O'Donnell Institute of Art History (EODIAH) is a center for innovative research and education in the history of art and was founded at The University of Texas at Dallas in Fall 2014 with a "generous endowment from arts patron Edith O'Donnell[1]." The main Institute is located within the School of Arts, Technology, & Emerging Communication (ATEC) with decentralized research centers located within the Dallas Museum of Arts and at the Museo e Real Bosco di Capodimonte in Naples, Italy[2].

Dallas Museum of Art

The Institute was managed until FY19 by its founding director. In late FY19, a new director was named.   Currently the Institute has a director, an associate director, two current graduate fellows, a postdoctoral research associate, and six support staff/faculty members who serve in administrative positions.

The strategic initiatives of the EODIAH include: increasing Masters of Arts student funding, filling the vacant EODIAH Distinguish Chairs, and relocating the Wildenstein-Plattner Library to UTD.

La Capraia – Naples, Italy

The Institute primarily receives its funding through endowment distributions and gifts. The following graph, obtained from the PeopleSoft Reporting Console, presents the actual year-end revenues, expenses, and net transfers for the Institute since its inception. As shown in the graph, the Institute has a surplus of funds that have increased year-to-year. Missing from this graph are the encumbrances.
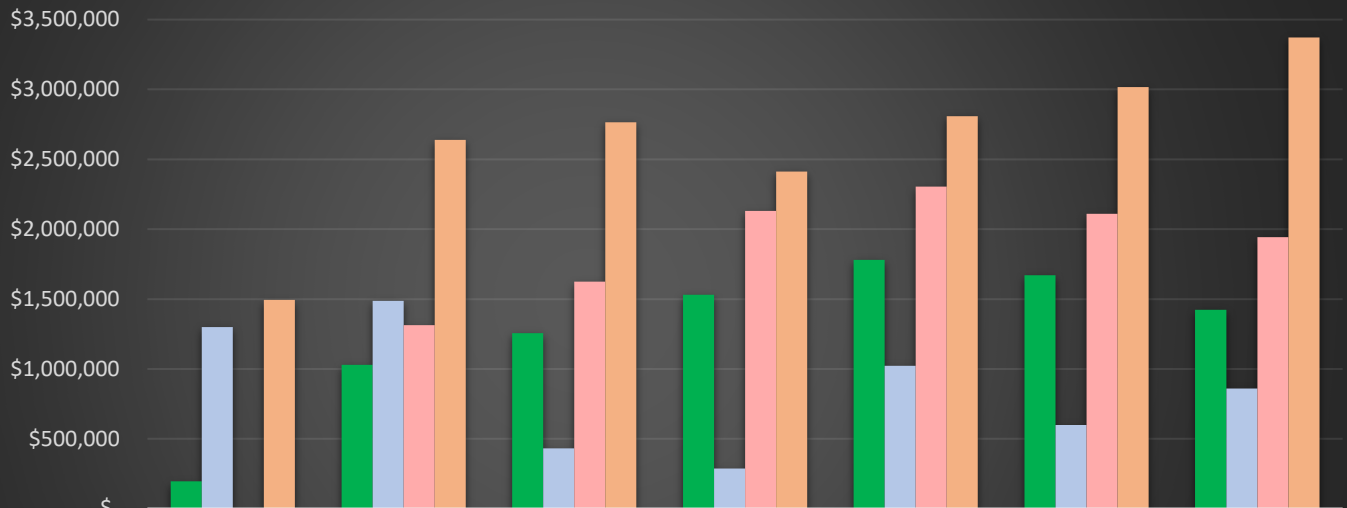
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[1] https://arthistory.utdallas.edu/about/
[2] http://www.museocapodimonte.beniculturali.it/

EODIAH Financial Overview

	2014	2015	2016	2017	2018	2019	2020
■ Year-End Revenue	$195,234.24	$1,029,845.53	$1,256,340.55	$1,531,614.72	$1,780,415.31	$1,671,600.29	$1,423,374.79
■ +Net Transfers	$1,300,000	$1,487,099	$432,275	$287,451	$1,022,584	$600,081	$860,282
■ Year-End Expenses	$-	$1,314,136.36	$1,624,096.68	$2,130,396.73	$2,305,193.25	$2,109,428.69	$1,943,273.77
■ Year-End Available Balance	$1,495,234.24	$2,638,163.44	$2,764,587.59	$2,412,120.91	$2,809,056.90	$3,017,751.77	$3,370,905.14

Controls and Strengths

Our audit work indicated the following controls currently exist:

- Cost center reconciliations are being performed in a timely manner
- Generally, the Institute is complying with the terms of its gifts and endowments
- Generally, the Institute is complying with the University Conflict of Interest policies

Scope and Procedures

The scope of our audit including testing FY19-20 operations in addition to reviewing FY21 operations. Our fieldwork concluded on January 21, 2021. To satisfy our objectives, we performed the following:

- Reviewed the department's governance to determine if:
  - o Policies and procedures, including unique job descriptions, are in place
  - o The organizational structure aligns with management's strategic and operational objectives
- 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 selected controls including the following areas:
  - Conflicts of Interests
  - Cost Center Reconciliations
  - Expenses
  - Revenues
  - Property
  - Payroll

We conducted our examination in conformance with the Texas Internal Auditing Act 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.

Follow-up Procedures

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. Requests for extension to the implementation dates may require approval from the UT Dallas Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.

Thank You

We appreciate the courtesies and considerations extended to us from the Edith O'Donnell Institute of Art History 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

Appendix B: Report Distribution

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Members of the UT Dallas Institutional Audit Committee

External Members
- Ms. Lisa Choate, Chair
- Mr. Gurshaman Baweja
- Mr. John Cullins
- Mr. Bill Keffler
- Ms. Julie Knecht

UT Dallas Members
- Dr. Richard Benson, President
- Dr. Rafael Martin, Vice President and Chief of Staff
- Dr. Kyle Edgington, Vice President for Development and Alumni Relations
- Mr. Frank Feagans, Vice President and Chief Information Officer
- Dr. Gene Fitch, Vice President for Student Affairs
- Dr. Calvin Jamison, Vice President for Facilities and Economic Development
- Dr. Inga Musselman, Provost and Vice President for Academic Affairs
- Ms. Sanaz Okhovat, Chief Compliance Officer
- Dr. Joseph Pancrazio, Vice President for Research
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Mr. Timothy Shaw, University Attorney, ex-officio

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UT Dallas Responsible Parties

Responsible Vice President (VP)
- Dr. Inga Musselman, Provost and Vice President for Academic Affairs

Persons Responsible for Implementing Recommendations
- Dr. Michael Thomas, Director and Associate Provost

Other Relevant Persons
- Heidi Kessell, Business Administrator
- Heather Burge, Assistant Provost
- Nicole Harrington, Business Manager, Office of the Provost

External Agencies

The University of Texas System
- System Audit Office

State of Texas Agencies[3]
- Legislative Budget Board
- Governor's Office
- State Auditor's Office

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Engagement Team

Project Leader: Jesson Gil, Internal Auditor II

Interns from the JSOM School of Management: Meina Wu, Darryl Clark, and Jingwen Xu

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[3] Per Texas Internal Auditing Act Requirements

Appendix C: Definition of Risks

Risk Level	Definition
Priority	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 "*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.*"
High	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.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.