The School of Engineering & Computer Science

Internal Audit Report No. R2114
August 2, 2021

The Office of Audit and Consulting Services
The School of Engineering and Computer Science
August 2, 2021

Executive Summary

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

Conclusion: The financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls are generally sufficient; however, improvements are recommended in the areas of property, external revenue programs, cost center reconciliations, and policies and procedures.

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. Improve Controls over Property Management	**Medium**	February 1, 2022
2. Improve Controls over External Revenue Programs	**Medium**	April 1, 2022
3. Enhance the Cost Center Reconciliation Process	**Medium**	December 1, 2021
4. Update Policies and Procedures	**Medium**	April 1, 2022
For details, engagement methodology, and explanation of risk levels, please see the attached report.		

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Observation #1: *Improve Controls over Property Management*

Medium Risk:
Lack of formal procedures over property, including periodic inventories, 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*." Accordingly, the Dean of the School of Engineering and Computer Science (ECS) is currently responsible for 6,957 assets with a total estimated value of $76,845,805. ECS assets account for almost one-third of the total assets within the University.

Property administration within the School of ECS is rather unique in comparison to other schools and departments within the University. Instead of having one person responsible for managing the inventory, the Assistant Dean for Facilities Management and the Chief Clerk II are responsible for property inventory within the entire school. Also, although the school has two unique departments and multiple research centers within its organization, all of the assets are listed on the dean's inventory. Due to the size of the school, it can be difficult to manage when all assets are under the same property manager. Although inventories are conducted during the annual property inventory, no procedures exist for conducting periodic internal inventories.

This issue has been pointed out in recent audits of the Texas Analog Center for Excellence as well as the Computer Science department. For example, one department within ECS reported 92 missing assets, valued at $1,788,026, in 2018. Although the department head signed off on the Missing or Stolen Asset Report, there was not a documented attempt to locate the assets, no reason documented why they were missing, and the report was not formally elevated to the Dean or the Provost.

Recommendation: Consider developing internal procedures to strengthen controls and reporting over property by conducting periodic internal inventories and having each department and center be accountable for their own inventory management and process.

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Management's Action Plan:

1. Develop standardize procedures and processes for conducting internal periodical inventories.
2. Work with department heads and ASOs to identify primary/secondary inventory management POC and include duties/tasks in the respective job description.

Goal: Create a web-based workflow form <u>Removal of Equipment/Property</u> for tracking inventory removed from campus that will be utilized by all ECS departments. This document/data will be used primarily for items such as laptops; but can be integrated for other types of moved inventory such as equipment relocated to UTSW.

Person Responsible for Implementation: Tarun Basu, Assistant Dean; Elaine Pearson, Associate Dean of Administration

Estimated Date of Implementation: February 1, 2022

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Observation #2: *Improve Controls over External Revenue Programs*

The School of Engineering and Computer Science has various programs that generate external revenues and are managed by different departments within the school. Controls over two of the biggest revenue-generating programs should be improved as outlined below.

> **Medium Risk:** Without review and approval by the Office of Accounting and Financial Reporting, the University is exposed to contract and credit risks. Also, without contracts in place, billing amounts could be inaccurate and agreement conditions could not appropriately be identified or tracked.

(1) E-Plan is a secure, web-based system that includes the necessary and required elements to receive chemical inventory information from facilities that are required to report.[1] The program generated $794,305 in FY20 for the School.

The E-Plan service was originally free of charge and was funded by the Environmental Protection Agency (EPA) and then the Department of Homeland Security (DHS) but managed by The Institute for Data Analytics (iDa) in the School of Engineering and Computer Science.

In 2012, the DHS stopped funding the service but UTD took over the E-Plan process and determined that a $25 fee would need to be applied to each annual report in order to cover costs associated with the service. A cost analysis was last completed in 2012 at the time of transition but has not been completed since. The costs associated with the E-Plan have not been reviewed annually as required by Accounting and Financial Reporting policies and procedures.[2]

(2) UTDesign generated $666,472 in FY20. In this program, external companies can sponsor student capstone teams. They offer external corporate sponsors three different agreements: a general agreement, a nondisclosure agreement (NDA), and an intellectual property (IP) agreement. However, the external corporate sponsors are not required to complete and sign the agreements.

The external corporate sponsors can elect to have the NDA and/or IP agreement directly with the student(s) working on the individual project, but it is not required that UTDesign receive a copy of the contract. Because the external corporate sponsors are not required to complete a contract with UTDesign and student agreements are not required to be shared with the university, it is not possible to determine if the companies were appropriately billed for the capstone projects they sponsored.

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[1] http://www.dhses.ny.gov/planning/serc/tier-2.cfm

[2] https://finance.utdallas.edu/selling-goods-services/external-sales/

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> **Recommendation:** Consider performing a cost analysis on a recurring basis on the E-Plan to ensure cost-effectiveness. Also ensure that the Office of Accounting and Financial Reporting reviews the external sales rates in accordance with university policies and procedures. UTDesign should require a contract agreement between the external corporate sponsors and UTD to ensure appropriate billing and management.

Management's Action Plan:
(1) E-Plan:
1. Conduct cost analysis covering revenue sales from E-Plan services for capital and recurring expenses over the past five years (minus COVID impact years).
2. Submit cost analysis to AFR for annual review/approval of external sale rate analysis.
3. Develop and implement procedures to ensure cost recovery for the E-Plan program, and appropriately invoice clients, ensure revenue collection and timely cost center reconciliation is performed.

Person Responsible for Implementation: Bao Tran, Director; Elaine Pearson, Associate Dean of Administration; School Fiscal Officer

Estimated Date of Implementation: April 1, 2022

Management's Action Plan:
(2) UTDesign:
1. Conduct cost analysis covering corporate (external) sponsored, faculty (internal) sponsored, student entrepreneurial (no cost), capital and recurring expenses over the past five years (minus COVID impact years) to determine rates.
2. Submit cost analysis to AFR for annual review/approval of external sale rate analysis.
3. Develop and implement procedures to ensure cost recovery for the UTDesign program, and appropriately invoice clients, ensure revenue collection and timely cost center reconciliation is performed.

Person Responsible for Implementation: Rodney Wetterskog, Assistant Dean; Elaine Pearson, Associate Dean of Administration; School Fiscal Officer

Estimated Date of Implementation: April 1, 2022

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Observation #3: *Enhance the Cost Center Reconciliation Process*

Cost center reconciliation and approval demonstrates good stewardship and accountability of financial resources. It is a comparison of the department's monthly financial transactions in PeopleSoft to supporting documentation, which is retained by the department. Reconciliation is essential for an effective internal control environment to ensure:

> **Medium Risk:**
> Without timely completion and approval of cost center reconciliations, the risk error or fraud not being detected in a timely manner is increased.

- The accuracy and validity of the entries and balances.
- The transactions are accurately recorded.
- Unauthorized charges/changes did not occur.
- Resolution of discrepancies occurs in a timely fashion.[3]

Reconciliations should be conducted to compare the department's information to PeopleSoft, UTD's accounting system. Upon completion of the reconciliations, an approver separate from the reconciler should review and approve the reconciliations in a timely manner, typically within a month after the period closes. In testing reconciliations, we noted the following:

- 2020 Cost Center Reconciliations:
  - 8% of cost centers were reconciled 30 days past the closing date with the oldest being reconciled 142 days past the closing date.
  - 33% of cost centers were approved 30 days past the closing date with the oldest being approved 251 days past the closing date.
- 2019 Cost Center Reconciliations:
  - 5% of cost centers were reconciled 30 days past the closing date with the oldest being reconciled 110 days past due.
  - 34% of cost centers were approved 30 days past the closing date with the oldest being approved 285 days past due.

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

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[3] https://finance.utdallas.edu/managing-departmental-finances/cost-center-reconciliation/

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Management's Action Plan:

1. Develop standardize reconciliation and approval processes as directed by policies, procedures, and non-compliance.
   a. Reconciliation Oversight
      Dean's Office will conduct a monthly random reconciliation oversight sampling of 10%-20% of cost center reconciliation to ensure accurate and timely completion.
   b. Reconciliation Training
      Dean's Office will provide annual reconciliation training to ECS employees.

Person Responsible for Implementation: Elaine Pearson, Associate Dean of Administration; School Fiscal Officer

Estimated Date of Implementation: December 1, 2021

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Observation #4: *Update Policies and Procedures*

Medium Risk:
The lack of an operations manual may lead to inefficiencies as employees may not be not aware of their responsibilities. In addition, there is an increased risk of fraud, error, financial loss, and/or reputational harm, noncompliance with contracts and grants, and donor dissatisfaction.

Documented policies and procedures help assist the organization in meeting its mission through clear communication of operational processes and job responsibilities. The Dean's Office is currently in the process of updating their policies and procedures manual specific to their unique operations, but the updates have not been finalized.

One result of not having updated policies and procedures was noted in testing the effectiveness of internal controls over expenses.   Instances of non-compliance with UTDBP3104, *Travel Expenses,* were observed by employees who did not obtain prior written travel authorization for domestic and/or international trips. Also noted were lack of supporting documentation and non-compliance with allowable travel expenses. These issues were shared in detail with management.

Recommendation: Continue to work toward finalizing the policies and procedures manual, including specific procedures for travel and parking expenses, and ensure it is available to all faculty and staff within the Dean's Office.

Management's Action Plan:
1. Update the current ECS operational procedures guide.
    a.   Goal: Develop an intranet web-based interface that is accessible to faculty and staff.

2. Create a standardized travel reimbursement form that includes policy and procedures for travel/parking expenses utilized by all ECS departments.

Person Responsible for Implementation: Elaine Pearson, Associate Dean of Administration; School Fiscal Officer

**Estimated Date of Implementation:** April 1, 2022

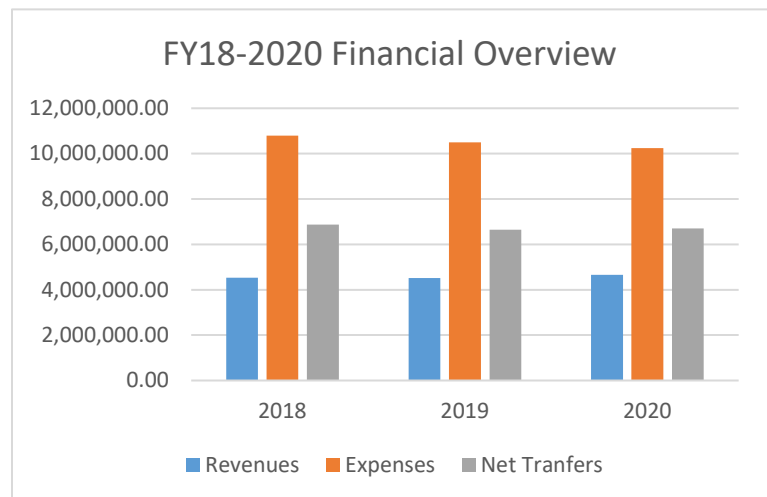The Office of Audit and Consulting Services
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Appendix A: Methodology

Background

The Erik Jonsson School of Engineering and Computer Science's (ECS) mission is to:

FY20 Revenues

- "Deliver state-of-the-art high-technology engineering degree programs for the State of Texas and beyond.
- Produce versatile students equipped not only with technical skills, but also with innovative and entrepreneurial skills.
- Address problems of critical societal need through research aimed at the creation of new engineering knowledge and technology transfer to industry.
- Develop partnerships with government and the private sector to apply new knowledge for economic growth and high-tech job creation in order to strengthen existing regional firms, promote the growth of new regional firms and create new high-paying private sector jobs.
- Provide leadership and outreach to nurture tomorrow's leaders in science, mathematics and high-technology education and business."[4].
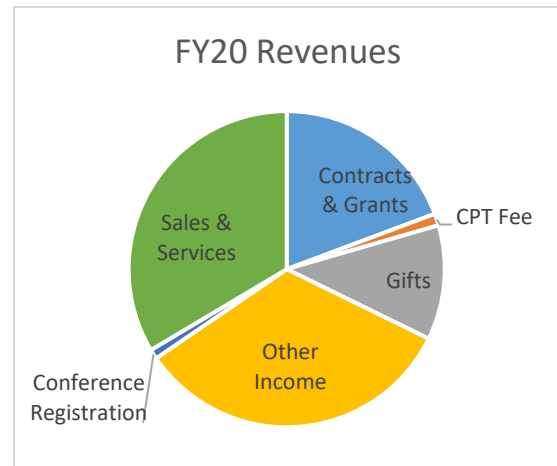
ECS encompasses six undergraduate, four minors, eleven masters and nine doctoral degrees, as well as six certificate programs. In August 2019, a new dean was hired for ECS after succeeding interim who provided leadership to the school the previous two years. The ECS Dean's Office provides oversight to the academic units through five associate deans, five assistant deans, six department heads, eight directors and officers, and eleven administrative staff members.

FY18-2020 Financial Overview

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[4] https://engineering.utdallas.edu/about/at-a-glance/

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Controls and Strengths

Our audit work indicated the following controls currently exist:

- Strong leadership in place who are striving to advance the school through positive changes.
- The addition of the Associate Dean of Administration role, assisting both the dean and the fiscal officer.

Scope and Procedures

The scope of this audit was FY19 to present, and our fieldwork concluded on May 24, 2021.

To satisfy our objectives, we performed the following:

- Reviewed the School's control environment to determine if:
  - Policies and procedures are in place.
  - The organizational structure aligns with management's strategic and operational objectives.
- Determined whether the school 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 and conducted a school-wide survey to determine processes for monitoring operations and internal controls.
- Reviewed and analyzed financial data related to the school.
- Tested selected controls including the following areas:
  - Cost Center Reconciliations
  - General Expenditure Testing
  - Revenue Testing
  - Budget Allocation and Management
  - Scholarship Management
  - Service Center Management
  - Property Management
  - Conflicts of Interest

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.

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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 Dean's Office in the School of Engineering and Computer Science 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

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Appendix B: Report Distribution

Members of the UT Dallas Institutional Audit Committee	UT Dallas Responsible Parties
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	*Responsible Vice President (VP)* • Dr. Inga Musselman, Vice President of Academic Affairs and Provost *Persons Primarily Responsible for Implementing Recommendations* • Elaine Pearson, Associate Dean of Administration *Other Relevant Persons* • Dr. Stephanie Adams, Dean of the School of Engineering and Computer Science External Agencies *The University of Texas System* • System Audit Office *State of Texas Agencies[5]* • Legislative Budget Board • Governor's Office • State Auditor's Office

Engagement Team
Project Leader: Robert M. Hopkins, CFE, Audit Manager
Staff: Caitlin Cummins, Jesson Gil, Staff Auditors

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[5] Per Texas Internal Auditing Act Requirements

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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.