



Institute for Innovation and Entrepreneurship

Audit Report No. R2307 | *May 12, 2023*



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 Institute.

Controls and Strengths

- IIE staff have cultivated strong sponsor relationships and partnerships with other city and state entities which promotes students, researchers, and alumni.
- The Office of Research and Innovation has licensed a software platform for the IIE called Startup Tree, which is used to manage the network of mentorships, scheduling, and startup data for the program.
- The faculty members who teach the IIE curriculum and classes have real world experience to bring to the program.
- The [Research and Innovation Council](#) (RIC), comprised of internal and external members, was set up “to help UT Dallas succeed in three ways: (1) invention – validate inventions and innovations proposed by faculty and students as technically and commercially feasible, and advise the Office of Research and Innovation as we facilitate the commercialization of University technologies, (2) activation – participate in key programming by supporting and mentoring students, alumni, and faculty entrepreneurs pursuing startup ventures, and (3) investment – provide counsel to the University’s leadership on producing the best and highest number of investor-ready ventures.”

Overall Conclusion

Internal controls are generally in place to ensure the effectiveness and efficiency of operations and controls for the IIE. Opportunities exist to enhance controls in the areas of funding, financial and management operations, conflicts of interest and commitment, and property management.

Observations by Risk Level

Management has reviewed the observations and has provided responses and anticipated implementation dates. Detailed information is included in the attached report.

	Recommendation	Risk Level	Management’s Implementation Date
1.	Institute Funding Plan	Medium	August 31, 2023
2.	Financial and Management Operations	Medium	August 31, 2023
3.	Conflicts of Interest and Commitment	Medium	June 30, 2023
4.	Property Management	Medium	July 31, 2023

For details about the audit and methodology, explanation of risk levels, and report distribution, please see Appendices A, B, and C, respectively, in the attached report.



Detailed Audit Results

Observation	Risk Level/Effect	Recommendation ¹
<p>1. Institute Funding Plan</p>		
<p>Blackstone funding for the Institute will expire at the end of FY23, making the future of the Institute uncertain until an extension is granted, or new funding is acquired.</p> <p>The Institute is not independently funded and must rely on gifts and funding from the Office of Research and Innovation as well as the Jindal School of Management.</p> <p>Currently, the Institute does not have a plan in place to identify future potential funding sources. The creation of a funding plan will help gather important information about potential future funding sources and will provide a roadmap in locating and securing funding for the Institute.</p>	<p>Without a funding plan in place, the uncertainty of the Institute is at risk, which could affect the overall mission of the Institute.</p>	<p>Medium Risk</p> <p>Institute leadership should work with UT Dallas management to create a funding plan that will help secure and sustain future funding for the Institute. The funding plan should be reviewed on an annual basis to ensure funding is secured for future fiscal years.</p>
<p>Management’s Action Plan: The Institute will develop a 3-year, rolling funding plan, in collaboration with its two primary sponsoring entities – the Jindal School of Management and the Office of Research and Innovation – to support its work that will mitigate the uncertainty of continued operations.</p>		
<p>Responsible Party Name and Title: Executive Director, IIE. NOTE: the role of executive director (ED) became vacant on Dec 31, 2022, with a nationwide search triggered immediately, seeking a new ED. An offer has been made with a new ED expected to join during the</p>		

¹ See Appendix B on page 11 for definitions of observation risk rankings. Minimal risk observations were communicated to management separately.



Observation	Risk Level/Effect	Recommendation ¹
<p>summer of 2023. Until then, the duties of the ED are being shared by Dr. Emily Choi, academic program director for the I&E program and Steve Guengerich, associate vice president for research.</p> <p>Estimated Date of Implementation: August 31, 2023</p>		
<p>2. Financial and Management Operations</p>		<p>Medium Risk</p>
<p>Policies and procedures surrounding financial and management operations are generally outlined within university policies and procedures; however, departments should also have their own procedures that outline various responsibilities and procedures unique to operations.</p> <p>In testing internal controls over expenses and reviewing the overall controls of the Institute, the following issues were shared in detail with management as opportunities for enhancing controls:</p> <ul style="list-style-type: none"> • Department-specific policies and procedures. • Approval and documentation of One Card expenses. • Timeliness of cost center reconciliations. • Compliance with catering policies. • Accuracy of independent contractor payments. 	<p>A lack of strong controls over financial and management operations can result in increased risks, including fraud, error, financial loss, noncompliance, and inefficiencies.</p>	<p>Management should strengthen financial and management operations by developing department-specific policies and procedures that will improve controls primarily over expenses, cost center reconciliations, business continuity, and accountability.</p>



Observation	Risk Level/Effect	Recommendation ¹
<ul style="list-style-type: none"> • Business continuity planning. • Existence of an organizational chart assigning lines of responsibility. 		
<p>Management’s Action Plan: The IIE management will strengthen financial and management operations by developing department-specific policies and procedures that will improve controls primarily over expenses, cost center reconciliations, business continuity, and accountability.</p> <p>Responsible Party Name and Title: Executive Director, IIE (see notes under Audit Observation #1)</p> <p>Estimated Date of Implementation: August 31, 2023</p>		
<p>3. Conflicts of Interest and Commitment</p>		<p>Medium Risk</p>
<p>UT Dallas conflict of interest and commitment policies for all employees is outlined on the Office of Institutional Compliance, Equity, and Title IX Initiatives website.² All UTD employees are required to disclose potential conflicts of interest and any outside activities. If any conflicts are noted, a management plan must be in place with appropriate approvals from both the School and University management.</p> <p>Three of the Institute’s faculty with leadership roles did not report outside activities as required.</p>	<p>Noncompliance with conflict of interest and commitment policies could result in loss of funding, misuse of university funds, poor decision making, and reputational harm.</p>	<p>Remind employees and require conflicts of interest and commitments be reported in compliance with university policies and monitor the reports for completeness.</p>

² <https://institutional-initiatives.utdallas.edu/compliance/conflicts-of-interest/>



Observation	Risk Level/Effect	Recommendation ¹
<p>Management’s Action Plan: Management will remind employees and require conflicts of interest and commitments be reported in compliance with university policies and monitor the reports for completeness.</p> <p>Responsible Party Name and Title: Dr. Emily Choi, I&E academic director, for faculty Executive Director, IIE, for staff (see notes under Audit Observation #1)</p> <p>Estimated Date of Implementation: June 30, 2023</p>		
<p>4. Property Management</p>		<p>Medium Risk</p>
<p>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.”</p> <p>Due to its unique nature, assets are not assigned to the Institute; instead, they are assigned to the School of Management or Office of Research and Innovation. As a result, it is difficult to determine for which assets the Institute should be responsible and accountable. Also, there are no formal procedures within the Institute over the accounting of property.</p>	<p>Without strong controls and formal procedures over property, including periodic inventories, the risks are increased that 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.</p>	<p>Strengthen controls over the Institute’s property by developing internal procedures and separately tracking and conducting periodic inventories of the Institute’s assets.</p>
<p>Management’s Action Plan: Management will strengthen controls over the Institute’s property by developing internal procedures and separately tracking and conducting periodic inventories of the Institute’s assets.</p> <p>Responsible Party Name and Title: Executive Director, IIE (see notes under Audit Observation #1)</p>		



Observation	Risk Level/Effect	Recommendation ¹
Estimated Date of Implementation: July 31, 2023		

Overall Conclusion

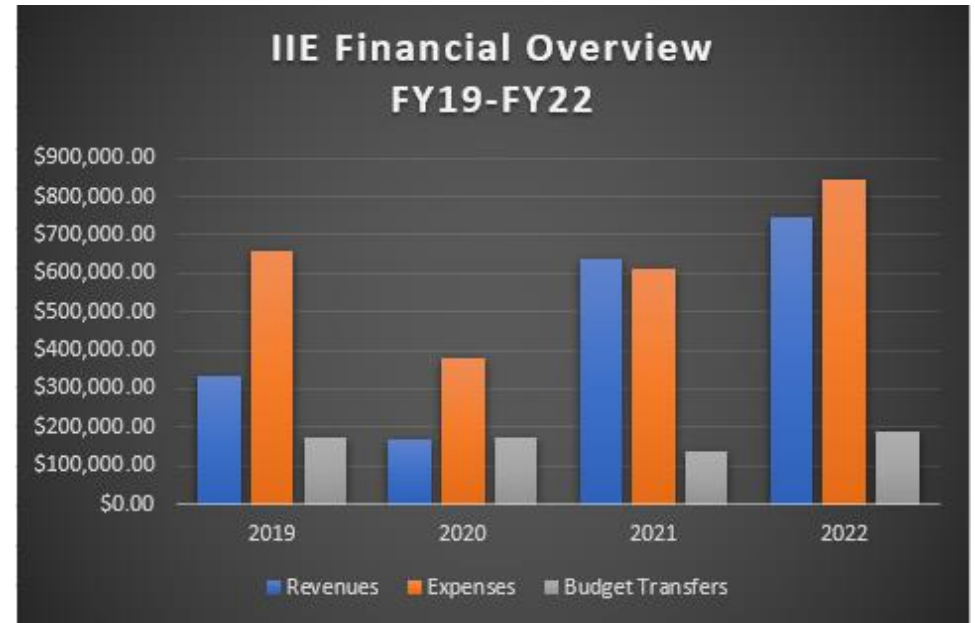
Internal controls are generally in place to ensure the effectiveness and efficiency of operations and controls for the IIE. Opportunities exist to enhance controls in the areas of funding, financial and management operations, conflicts of interest and commitment, and property management.



Appendix A: Information Related to the Audit

Background

According to their website, the Institute for Innovation and Entrepreneurship “is a nationally ranked center for student entrepreneurship and innovation at The University of Texas at Dallas and an interdisciplinary division of the Naveen Jindal School of Management. The first programs were offered in 2006. Today, the institute provides opportunities for hundreds of students, faculty, and alumni to learn about entrepreneurship and innovation. Programs include workshops, networking events, pitch competitions, venture support, innovation programs, scholarships, community outreach and more. All programs are open to students from any academic major or background. The Institute for Innovation and Entrepreneurship also manages the Venture Development Center, a 20,000 square foot incubation space for students, alumni, and faculty seeking to bring their scientific and technical discoveries to market, and commercialize groundbreaking UT Dallas research, in partnership with the Office of Research and Innovation.”³



The mission of the Institute is “to provide students transformative experiences through entrepreneurship. We strive to enable the next generation’s new ventures by utilizing world-class academic education, industry-leading experiential training, and venture mentorship, to work with the entire campus to equip our students, alumni, and faculty with the support they need to discover the entrepreneurial mindset and launch new businesses.”

³ <https://innovation.utdallas.edu/about/>



Through a generous donation by the Blackstone Charitable Foundation, the Blackstone LaunchPad was created in 2016, which provides resources to students such as mentorships, a co-working space for student-led startups, and events ranging from guest lectures on current technologies to community networking events.

The Institute for Innovation and Entrepreneurship (IIE) reports to the Vice President for Research and Innovation.

Objective

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

Scope

The scope of the audit was September 1, 2020, to August 31, 2022. Fieldwork was conducted from September 2021 to April 2023, and the audit concluded on April 21, 2023.

Methodology

The audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Both standards are required by the Texas Internal Auditing Act, and they 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. The Office of Audit and Consulting Services is independent per both standards for internal auditors.

Our audit methodology included interviews, observations of processes, reviews of documentation, and testing. The following table outlines our audit procedures and overall controls assessment for each of the audit area objectives performed.



Audit Area	Methodology	Observations Related to the Audit Area
Gaining an Understanding IIE Operations	Gained an understanding of operations by conducting interviews of Institute personnel.	Observation #4
Expenses	<ul style="list-style-type: none">• Evaluated processes and tested expenses to ensure proper controls over authorization, compliance with policies and procedures, compliance with applicable gift/grant restrictions, segregation of duties, documentation, and business purpose.• Determined if cost center reconciliations were performed in a timely manner by authorized employees.	Observation #2
Revenues	Planned to evaluate and verify contract compliance to provide reasonable assurance that the department is adhering to the stipulations in the agreement and is effectively monitoring high-risk terms and conditions; however, due to the uncertainty of the funding we did not complete this step.	Observation #1
Conflicts of Interest and Commitment	Determined if conflicts of interests and commitments had been disclosed in accordance with university policies.	Observation #3
Governance	Evaluated and provided best practices regarding funding sources and organizational positioning by benchmarking with other Texas universities.	Observation #1



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.



Appendix B: Observation Risk Rankings

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, a priority observation has a significant probability to directly impact the achievement of a strategic or important operational objective of UT Dallas or the UT System as a whole. These observations are reported to and tracked by the UT System Audit, Compliance, and Risk Management Committee (ACRMC).
High	High-risk observations are considered to be substantially undesirable and pose a high probability of adverse effects to UT Dallas either as a whole or to a division/school/department level.
Medium	Medium-risk observations are considered to have a moderate probability of adverse effects to UT Dallas either as a whole or to a division/school/department level.
Low	Low-risk observations are considered to have a low probability of adverse effects to UT Dallas either as a whole or to a division/school/department level.
Minimal	Some recommendations made during an audit are considered of minimal risk, and the observations are verbally shared with management during the audit or at the concluding meeting.



Appendix C: Report Submission and Distribution

We thank the faculty and staff in the Institute for Innovation and Entrepreneurship, the Office of Research and Innovation, and the Jindal School of Management for their support, courtesy, and cooperation provided throughout this audit.

Respectfully Submitted,

Toni Stephens, CPA, CIA, CRMA, Chief Audit Executive

Distribution List

Members and ex-officio members of the UT Dallas Institutional Audit Committee

Responsible Vice President

Dr. Joseph Pancrazio, Vice President for Research and Innovation

Persons Responsible for Implementing Recommendations:

Executive Director, IIE (when hired)

Other Interested Parties

Dr. Hasan Pirkul, Dean of the Naveen Jindal School of Management

Mr. Steve Guengerich, Associate Vice President, Innovation and Commercialization

External Parties

- The University of Texas System Audit Office
- Legislative Budget Board
- Governor's Office
- State Auditor's Office

Engagement Team

Project Leader: Rob Hopkins, CFE, Audit Manager

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Brian Seale, Internal Auditor II