

# **FY16 Departmental Change in Management Review**

*Department of Petroleum  
& Geosystems Engineering*



*August 2016*

**The University of Texas at Austin  
Office of Internal Audits  
UTA 2.302  
(512) 471-7117**

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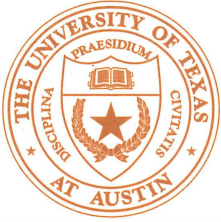
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This report has been distributed to Internal Audit Committee members, the Legislative Budget Board, the State Auditor's Office, the Sunset Advisory Commission, the Governor's Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**FY16 Departmental Change in Management Review:  
Department of Petroleum & Geosystems Engineering  
Project Number: 16.206**



**OFFICE OF INTERNAL AUDITS**  
THE UNIVERSITY OF TEXAS AT AUSTIN

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August 31, 2016

President Gregory L. Fenves  
The University of Texas at Austin  
Office of the President  
P.O. Box T  
Austin, Texas 78713

Dear President Fenves,

We have completed our audit of the Department of Petroleum & Geosystems Engineering, unit code #1460-000. Our scope included controls and operations in place for fiscal year 2016.

Based on limited procedures performed, we conclude that the Department of Petroleum & Geosystems Engineering has reasonable to strong controls in most of the areas reviewed. However, one opportunity for improvement was noted for Cash and Cash Equivalent Handling. Our report provides detailed observations for each area under review. Please note that Information Technology results will be reported separately. Suggestions are offered throughout the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of the Department of Petroleum & Geosystems Engineering throughout the audit and hope that the information presented herein is beneficial.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mike Vandervort".

Michael W. Vandervort, CPA  
Chief Audit Executive

cc: Institutional Audit Committee Members  
Ms. Nancy Brazzil, Deputy to the President, Office of the President  
Dr. Sharon Wood, Dean, Cockrell School of Engineering  
Dr. Jon Olson, Chair, Department of Petroleum & Geosystems Engineering  
Ms. Patricia Ohlendorf, Vice President for Legal Affairs  
Mr. Jeff Treichel, Associate Director, Office of Internal Audits



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## EXECUTIVE SUMMARY

The Office of Internal Audits (Internal Audits) has completed a review of internal controls and basic operating procedures in the Department of Petroleum and Geosystems Engineering, unit code #1460-000. This unit was chosen as part of our annual audit plan for fiscal year 2016. The review consists principally of an examination of the unit's completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

### **Conclusion**

Based on the limited procedures performed, we conclude that the Department of Petroleum and Geosystems Engineering has reasonable to strong controls in most of the areas reviewed. However, one opportunity for improvement was noted for Cash and Cash Handling.

### **Summary of Recommendations**

Each issue found has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions. Internal Audits identified one notable issue which led to the following recommendation:

- Cash and Cash Equivalents (Audit Issue Ranking: High)

Two additional recommendations were also provided, but were considered minor in significance. Information Technology issues will be reported separately.

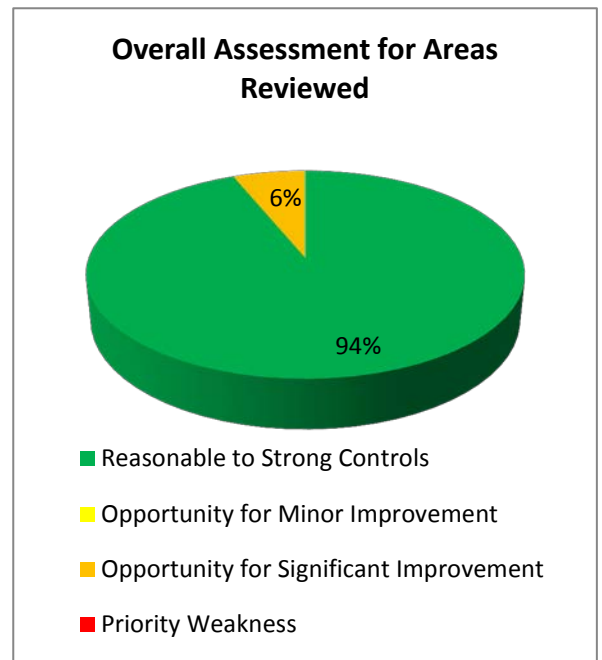
Management agreed with our observations and has provided a corrective action plan that is expected to be implemented on or before August 26, 2016

### **Scope and Objective of Limited Review**

Departmental Change in Management reviews are conducted annually, and units are chosen based on assessment of risk when a change in management in the period reviewed has occurred. The objective is to evaluate the adequacy and effectiveness of the unit's structure, processes, and internal controls and to determine compliance with relevant policies and procedures.

### **Background Summary**

The Department of Petroleum and Geosystems Engineering has been a part of The University of Texas at Austin (UT Austin) for more than 85 years. Geosystems engineers and hydrogeologists are concerned with the development and use of engineering approaches in the management of water resources in addition to oil and gas, as well as environmental restoration of contamination sites and other processes related to the subsurface. Petroleum and Geosystems Engineering has approximately 44 faculty and staff, and a total departmental budget of \$2.83 million.<sup>1</sup>



<sup>1</sup> Petroleum Geosystems and Engineering: <https://www.pge.utexas.edu/about/history>



## **PURPOSE OF REVIEW**

The Office of Internal Audits has completed a review of internal controls and basic operating procedures in the Department of Petroleum and Geosystems Engineering, unit code #1460-000. This unit was chosen as part of our annual audit plan for fiscal year 2016. The review consists principally of an examination of the unit's completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the International Standards for the Professional Practice of Internal Auditing and with Government Auditing Standards. The purpose of this review is to inform the department on areas that can be strengthened to improve the overall internal control environment.

## **BACKGROUND**

The Department of Petroleum and Geosystems Engineering has been a part of The University of Texas at Austin (UT Austin) for more than 85 years. Geosystems engineers and hydrogeologists are concerned with the development and use of engineering approaches in the management of water resources in addition to oil and gas, as well as environmental restoration of contamination sites and other processes related to the subsurface. The Department of Petroleum and Geosystems Engineering has approximately 44 faculty and staff and a departmental budget of approximately \$2.83 Million.<sup>2</sup>

## **SCOPE, OBJECTIVES, AND PROCEDURES**

The scope of this limited review included controls and operations of the department in place during fiscal year 2016. Our objectives were to evaluate the adequacy and effectiveness of the unit's structure, processes, and internal controls and to determine compliance with relevant policies and procedures.

To achieve these objectives, Internal Audits:

- Surveyed the unit via a questionnaire to ascertain reported strength in internal controls and compliance with UT Austin rules;
- Reviewed the department's electronic office structure and employees' appointment statuses;
- Conducted limited testing on account certifications, account reconciliations, payroll/HR, cash and cash equivalent handling, inventory, purchasing, procurement card expenditures, travel expenditures, and entertainment and official occasion expenditures; and
- Clarified follow-up issues through e-mails, meetings, and other correspondence.

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<sup>2</sup> Petroleum Geosystems and Engineering: <https://www.pge.utexas.edu/about/history>



## REVIEW RESULTS

We conducted a limited review of internal controls in 19 areas regarding departmental operations, financial processes of which three areas were not applicable to Petroleum and Geosystems Engineering. Information Technology results will be reported separately. The overall assessment for each of the remaining 16 areas reviewed can be found in Appendix A and is summarized below:

- 15 (94%) areas had reasonable to strong controls in place,
- 0 (%) areas had overall opportunity for minor improvement,
- 1 (6%) area had overall opportunity for significant improvement, and
- 0 (0%) areas had a priority weakness.

A recommendation was made in one area where an opportunity for improvement was noted and is detailed in the remainder of this report. This issue found has been ranked according to The University of Texas System Administration Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions.

### **Cash & Cash Handling – Documented Policies and Procedures** **Issue Ranking: High**

The Department does not have documented cash handling policies and procedures. The department was not aware of the required aspects for cash handling procedures, to include segregation of duties, receiving funds, custody of funds, depositing and reconciling funds. Without adequate cash handling policies and procedures, there is an increased risk for fraud or misappropriation of assets.

In addition, Section 6.1.D of UT Austin's *Handbook of Business Procedures* states, "Each department accepting cash shall maintain a documentation file. This file shall include: Departmental cash handling procedures."

**Recommendation 1:** Management should ensure the department creates and maintains cash handling procedures.

**Management's Corrective Action Plan:**

We have created a cash handling procedures document to be stored on a shared server where all involved parties can review it.

**Responsible Person:** Executive Assistant, Department of Petroleum and Geosystems Engineering

**Planned Implementation Date:** August 26, 2016

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.



## CONCLUSION

Based on the procedures performed, we conclude that the Department of Petroleum and Geosystems Engineering has reasonable to strong controls in most of the areas reviewed. However, one opportunity for improvement was noted for Cash and Cash Equivalent Handling.

A Unit Head Report Card can be found in Appendix A. The evaluation is based on our understanding of the controls currently in place in Petroleum Geosystems Engineering. If fully implemented, then the recommendation above would improve the overall evaluation.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that recommendations have been implemented.





## APPENDIX A UNIT HEAD REPORT CARD\*

Areas Reviewed	Issue Ranking: Priority <sup>a</sup>	Issue Ranking: High	Issue Ranking: Medium	Overall Assessment <sup>b</sup>
Electronic Office Structure	0	0	0	
General Departmental Information/Organization/Activities	0	0	0	
Payroll/HR	0	0	0	
Account Reconciliation	0	0	0	
Endowed Positions /Gift Administration	0	0	0	
Outside Employment/Conflict of Interest	0	0	0	
Cash and Cash Equivalent Handling	0	1	0	
Cash Registers/Cashiers	0	0	0	
Petty Cash	NA	NA	NA	
Accounts Receivable	NA	NA	NA	
Merchandise for Resale	NA	NA	NA	
Inventory	0	0	0	
Controlled Items	0	0	0	
Purchasing Activities	0	0	0	
Authorization for Individual Services	0	0	0	
Contracts	0	0	0	
Procurement Cards	0	0	0	
Travel Expenditures	0	0	0	
Entertainment and Official Occasion Expenditures	0	0	0	
[a] A priority weakness that significantly impacts UT Austin's operations or finances will be reported to UT System.				
[b] Overall assessment is determined by the number of issues in one area or by the highest level ranking across multiple areas.				
<b>Overall Assessment</b>				
Reasonable to Strong Controls	<b>15</b>			
Opportunity for Minor Improvement	<b>0</b>			
Opportunity for Significant Improvement	<b>1</b>			
Priority Weakness	<b>0</b>			
Not Applicable	<b>3</b>			

\* The Office of Internal Audits has completed a review of internal controls and basic operating procedures in this department. The review consists principally of an examination of the unit's completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.



## APPENDIX B

### Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, UT Austin, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Austin or the UT System as a whole.
- **High** – An issue that is considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
- **Low** – An issue that is considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.