

FY16 Departmental Change in Management Audit

McDonald Observatory



August 2016

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

The University of Texas at Austin Institutional Audit Committee

Mr. William O'Hara, External Member, Chair
Dr. Gregory Fenves, President
Dr. Maurie McInnis, Executive Vice President and Provost
Dr. Patricia Clubb, Vice President for University Operations
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Dr. Daniel Jaffe, Vice President for Research
Dr. Soncia Reagins-Lilly, Interim Vice President for Student Affairs
Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
Ms. Mary Knight, CPA, Associate Vice President for Finance
Mr. Paul Liebman, Chief Compliance Officer, University Compliance Services
Mr. Cameron Beasley, University Information Security Officer
Ms. Christine A. Plonsky, Women's Athletics Director and Executive Senior Associate
Athletics Director for External Services
Mr. Tom Carter, External Member
Ms. Susan Whittaker, External Member
Mr. Michael Vandervort, Chief Audit Executive, Office of Internal Audits
Mr. J. Michael Peppers, Chief Audit Executive, University of Texas System Audit Office

The University of Texas at Austin Office of Internal Audits

Chief Audit Executive:	Michael Vandervort, CPA
Associate Director:	Jeff Treichel, CPA
Assistant Directors:	*Angela McCarter, CIA, CRMA Chris Taylor, CIA, CISA
Audit Manager:	Brandon Morales, CISA, CGAP
Auditor IV:	Cynthia Martin-Hajmasy, CPA Ashley Oheim, CPA
Auditor III:	Stephanie Grayson *Michael Hammond, CIA, CISA, CFE
Auditor II:	*Jason Boone Bobby Castillo
IT Auditor:	Tiffany Yanagawa Mike McIntosh

* denotes project members

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 Audit: McDonald Observatory
Project Number: 16.201**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

1616 Guadalupe Street, Suite 2.302 • Austin, Texas 78701 • (512) 471-7117 • FAX (512) 471-8099

August 25, 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 review of McDonald Observatory, unit code #0140-000. Our scope included controls and operations in place for fiscal year 2016.

Based on limited procedures performed, we conclude that McDonald Observatory has reasonable to strong controls in most of the areas reviewed. However, opportunities for improvement were noted for the Records Management Plan, Payroll, Cash Registers and Cashiers, and Travel Expenditures. Our audit 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 McDonald Observatory throughout the review and hope that the information presented herein is beneficial.

Sincerely,

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

Michael W. Vandervort, CPA
Chief Audit Executive

cc: Institutional Audit Committee Members
Ms. Nancy Brazzil, Deputy to the President and Chief of Staff, Office of the President
Dr. Linda Hicke, Dean, College of Natural Sciences
Dr. Taft Armandroff, Director, McDonald Observatory
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Mr. Jeff Treichel, Associate Director, Office of Internal Audits



TABLE OF CONTENTS

Executive Summary	1
Purpose of Review	2
Background	2
Scope, Objectives, and Procedures	2
Review Results.....	3
Conclusion	6
Appendices.....	7



EXECUTIVE SUMMARY

The Office of Internal Audits (Internal Audits) has completed a review of internal controls and basic operating procedures of McDonald Observatory, unit code #0140-000. 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 which is in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

Conclusion

Based on limited procedures performed, we conclude that McDonald Observatory has reasonable to strong controls in most of the areas reviewed. However, opportunities for improvement were noted for the Records Management Plan, Payroll, Cash Registers and Cashiers, and Travel Expenditures.

Summary of Recommendations

Each issue found has been ranked according to the University of Texas System Administration Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions. Internal Audits identified two notable issues which led to the following recommendations:

- Records Management Plan (Audit Issue Ranking: High); and
- Payroll – Timesheet Reporting (Audit Issue Ranking: High);

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

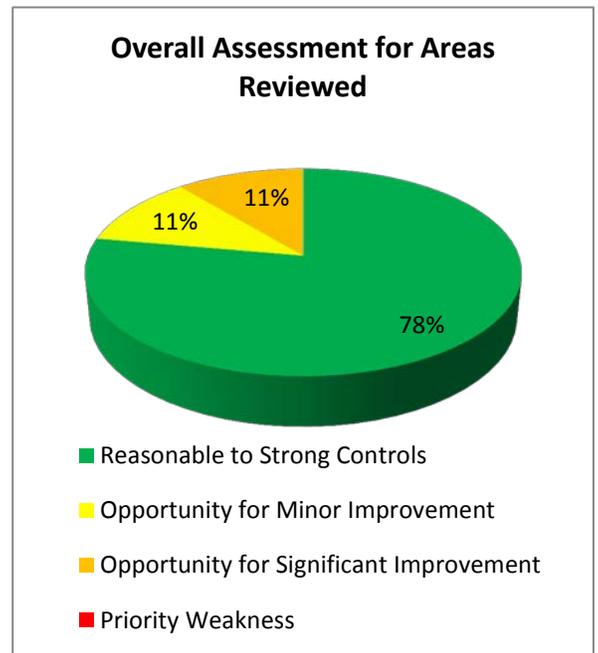
Management agreed with our observations and has provided corrective action plans that are expected to be implemented before the end of November.

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

McDonald Observatory is a component of the Department of Astronomy within the College of Natural Sciences. The mission of the Observatory is to advance the understanding of the universe through astronomy, help facilitate higher education in the subject, and to encourage children to pursue careers in a scientific and technical field. McDonald Observatory has approximately 145 employees, and a total departmental budget of \$10 million.





PURPOSE OF REVIEW

The Office of Internal Audits (Internal Audits) has completed a review of internal controls and basic operating procedures of McDonald Observatory, unit code #0140-000. 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 which is 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 of areas that can be strengthened to improve the overall internal control environment.

BACKGROUND

McDonald Observatory is a component of the Department of Astronomy within the College of Natural Sciences. The Observatory is located in the Davis Mountains of West Texas, and houses multiple state-of-the-art telescopes. The mission of McDonald Observatory is to advance humanity's understanding of the universe through research in astronomy, to facilitate graduate and undergraduate education in astronomy at The University of Texas at Austin, to contribute to the public understanding of science in Texas and the nation, and to use astronomy as a tool to help Texas teachers meet state standards and excite Texas schoolchildren about careers in a scientific and technical field.¹ McDonald Observatory has approximately 145 employees, and a total departmental budget of \$10 million.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this limited review includes 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.

¹ <http://www.as.utexas.edu/mcdonald/mission.html>



REVIEW RESULTS

We conducted a limited review of internal controls in 19 areas regarding departmental operations and financial processes, of which one area was not applicable to McDonald Observatory. Information Technology results will be reported separately. The overall assessment for each of the 18 areas reviewed can be found in Appendix A and is summarized below:

- 14 (78%) areas had reasonable to strong controls in place,
- 2 (11%) areas had overall opportunity for minor improvement,
- 2 (11%) areas had overall opportunity for significant improvement, and
- 0 (0%) areas had a priority weakness.

Recommendations were made in areas where opportunities for improvements were noted and are detailed in the remainder of this report. Each issue found has been ranked according to The University of Texas System Administration Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions.

Records Management Plan

Issue Ranking: High

The department does not currently maintain a records management plan. It appears that the department is unaware that UT Austin requires a documented plan. Without having a departmental records management plan in place, there is an increased risk that the department is not following The University of Texas at Austin's (UT Austin) record management policy.

Section 20.4.3 of *UT Austin's Handbook of Business Procedures (HBP)* states, "Each departmental records management contact (DRMC) at The University of Texas at Austin is responsible for creating a records management plan to provide information about how the department will enact university records management policy."

Recommendation 1: Management should ensure that a departmental records management plan is created and maintained.

Management's Corrective Action Plan: The department records management contact will create a notification letter that will go out to all staff describing how the department handles any record created or maintained by the department as well as the proper disposition procedures to reduce

- 1) uncertainty about requirements for the disposal of records
- 2) the volume of records that are stored within the department, and
- 3) the liability associated with retaining records for a longer period that required by law.



The letter will provide resources about the type of documents and retention based the university records management policy and procedure. The letter will be sent out on an annual basis prior to the end of the fiscal year.

A sign will be posted in the copy rooms identifying who the records management contact is for the department and encouraging staff to consult with the DRMC about their documents.

Responsible Person: Administrative Manager

Planned Implementation Date: By November 18, 2016

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

Payroll and HR – Timesheet Reporting

Issue Ranking: High

According to the department questionnaire, there are employees who work over 40 hours per week but only report 40 hours on their timesheets. It appears that supervisors may be unaware of actual hours worked by researchers and other employees, but approve timesheets nonetheless. When employees do not correctly record actual time worked, there is an increased risk of misuse of time.

UT Austin's *Handbook of Operating Procedures* 5-4010 Section C.2 states that it is the employee's responsibility to "promptly and accurately record on the weekly time report all time worked plus use of paid leave or paid holiday time and the use of state compensatory time."

Recommendation 2: Management should ensure that employees promptly and accurately record all time worked on the weekly time report, to include the use of any paid leave or paid holiday time and the use of state compensatory time.

Management's Corrective Action Plan: Communicate best practices for time reporting to management team and through an all staff email including, but not limited to:

- 1) All employees need to promptly and accurately record all time worked on weekly basis and include the use of any paid leave such as holiday, overtime, compensatory time, or FMLA;
- 2) Employees submit timesheets weekly and on the last day of their work schedule or the first day of their work schedule in the following week for their supervisor's approval. Ex. If your work week is Tuesday through Saturday, you would complete and approve your timesheet at the end of the day on Saturday or by the end of the day on the following Tuesday.



3) The supervisor should check for timesheets following their employees work week. The supervisor should verify the accuracy and approve timesheets. Things for the supervisor to check for are whether hours worked and hours absent add up to appointed hours, are the hours worked recorded on the correct days, and whether or not the employee has leave hours available to use weekly. If corrections are needed, explain in the Notes, and return to employee and notify the employee that you have returned the timesheet.

Responsible Person: Administrative Manager and Senior Administrative Associate (MCD West Texas)

Planned Implementation Date: By August 31, 2016

Post Project Review: Internal Audits will follow-up in the first quarter of FY17.

Cash Registers and Cashiers – Cashier Training

Issue Ranking: Medium

One of the nine employees (11%) listed as cash handlers on the department questionnaire had not completed the necessary training module (CW505). The questionnaire states that McDonald's Austin operations seldom handle cash, which is where the one employee is located. At the time of the exit meeting with McDonald, the one employee had completed the necessary cashier training. Without the completion of cash handling training, employees may not be aware of the proper cash handling procedures.

Section 6.1.F of *UT Austin's HBP* states, "Employees who handle cash are required to complete CW 505 - Cashier Training."

Recommendation 3: Management should ensure that all employees who handle any amount of cash complete CW 505 - Cashier Training.

Management's Corrective Action Plan: All cashier training has been completed.

Responsible Person: Assistant Director of Administration (MCD Austin) and Administrative Services Officer (MCD West Texas)

Planned Implementation Date: Immediately

Post Project Review: Internal Audits is in the process of its post audit review.

Travel Expenditures – Travel Requests Approvals

Issue Ranking: Medium

Two of four (50%) Requests for Travel Authorizations (RTA) tested did not have proper approval obtained from the immediate supervisor. The department does not consistently maintain documentation that indicates approval by an employee's supervisor for travel.



Without approval of travel requests from the immediate supervisor, the supervisor may not be aware that an employee is absent from campus for business travel.

Section 11.2.A of *UT Austin's HBP* states, "Prior approval for all business travel is required for absences of employees from the campus or other designated headquarters for periods of half a day or more during the normal working period, whether or not there is a cost to The University."

Recommendation 4: Management should ensure that all travel requests are submitted to the employee's immediate supervisor for approval.

Management's Corrective Action Plan: Supervisor approval was reflected on the VE5, but there was no date. Moving forward the supervisors will date their approval if signing the RTA or VE5 or there will be a supporting email to show approval. The approval documentation will be kept at the department level and the VE5 creator will write in the document notes that supervisor authorization is on file with the department.

This will be communicated at the management team meeting and verification of supervisor approval will be managed through the travel administrators.

Responsible Person: Administrative Associate (MCD Austin); Senior Administrative Associate (MCD West Texas); Administrative Associate (MCD-HET-West Texas)

Planned Implementation Date: By August 31, 2016

Post Project Review: Internal Audits will follow-up in the first quarter of FY17.

CONCLUSION

Based on the procedures performed, we conclude that McDonald Observatory has reasonable to strong controls in most of the areas reviewed. However, opportunities for improvement were noted for Records Management Plan, Payroll, Cash Registers and Cashiers, and Travel Expenditures.

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 McDonald Observatory. If fully implemented, then the recommendations 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 ^a	Issue Ranking: High	Issue Ranking: Medium	Overall Assessment ^b
Electronic Office Structure	0	0	0	
General Departmental Information/Organization/Activities	0	1	0	
Payroll/HR	0	1	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	0	0	
Cash Registers/Cashiers	0	0	1	
Petty Cash	0	0	0	
Accounts Receivable	0	0	0	
Merchandise for Resale	0	0	0	
Inventory	0	0	0	
Controlled Items	NA	NA	NA	
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	1	
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.				
Overall Assessment				
Reasonable to Strong Controls	14			
Opportunity for Minor Improvement	2			
Opportunity for Significant Improvement	2			
Priority Weakness	0			
Not Applicable	1			

* 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.