July 30, 2015

Dr. Hobson Wildenthal, President *ad interim*
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Executive Education as part of our fiscal year 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of this audit was to determine whether an adequate system of internal controls is in place which will provide reasonable assurance of use of cost-, revenue-, and risk-sharing agreements; accurate revenue projection and recording; monitoring of faculty supplemental pay; and compliance with policies and procedures relating to purchases exceeding $10,000, purchasing card transactions, and account reconciliations.

Overall, we found the Executive Education programs have an adequate system of internal controls in place. However, opportunities exist to enhance governance, formally delineate the relationship with the University, and improve the existing controls over academic holds and purchasing.

Management has reviewed the recommendations and provided responses and anticipated implementation dates. 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. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:
   Dr. Hasan Pirkul, Dean of the Naveen Jindal School of Management
   Dr. Denis Dean, Dean of the School of Economic, Political and Policy Sciences
   Dr. Mark Spong, Dean of the Erik Jonsson School of Engineering and Computer Sciences
   Mr. Gerald Hoag, Associate Dean of Executive Education

Members of the UT Dallas Institutional Audit Committee:
   External Members:
     Mr. Bill Keffler
     Mr. Ed Montgomery
     Ms. Julie Knecht
   Dr. Inga Musselman, Acting Provost
   Dr. Calvin Jamison, Vice President for Administration
   Mr. Terry Pankratz, Vice President for Budget and Finance
   Mr. David Crain, Vice President and Chief Information Officer
   Dr. Bruce Gnade, Vice President for Research
   Dr. Gene Fitch, Vice President for Student Affairs
   Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
   Mr. Timothy Shaw, University Attorney

The University of Texas System:
   Dr. Steven Leslie, Executive Vice Chancellor for Academic Affairs
   Alan Marks, Attorney
   Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive
   Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

State of Texas Agencies:
   Legislative Budget Board
   Governor's Office
   State Auditor's Office
   Sunset Advisory Commission

Executive Summary

Executive Education, Report No. R1518

Audit Objective and Scope: The objective of this audit was to determine whether an adequate system of internal controls is in place which will provide reasonable assurance of use of cost-, revenue-, and risk-sharing agreements; accurate revenue projection and recording; monitoring of faculty supplemental pay; and compliance with policies and procedures relating to purchases exceeding $10,000, purchasing card transactions, and account reconciliations. The scope included fiscal years 2013 and 2014.
The following is a summary of the audit recommendations by priority and risk type. See Appendix A for additional details.

High (0)	High/Medium (0)	Medium (4)	Low (0)

Recommendation	Priority and Risk Type	Estimated Implementation Date
(1) Formalize Program Resource and Liability Sharing Responsibility with UT Dallas	Effectiveness and Efficiency	JSOM: April 23, 2015 EPPS: As soon as necessary ECS: As soon as necessary
(2) Enhance Monitoring of Academic Holds	Effectiveness and Efficiency	JSOM: April 22, 2015 EPPS: Currently in place ECS: In process of developing a process
(3) Revise the Bid Process (JSOM)	Effectiveness and Efficiency	JSOM: April 22, 2015
(4) Complete Implementation of Prior Audit Recommendations (JSOM)	Management Oversight	JSOM: April 23, 2015

| **Responsible Vice President:** Dr. Inga Musselman, Acting Provost	**Responsible Party:** Dr. Hasan Pirkul, Dean, Naveen Jindal School of Management Dr. Denis Dean, Dean of the School of Economic, Political and Policy Sciences Dr. Mark Spong, Dean of the Erik Jonsson School of Engineering and Computer Sciences Mr. Gerald Hoag, Associate Dean of Executive Education
Staff Assigned to Audit: Polly Atchison, CPA, CIA, Audit Manager Dylan Becker, CPA, CIA, Senior Auditor Ashley Mathew, Staff Auditor	

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Background

Executive Education programs at The University of Texas at Dallas are administered by the Naveen Jindal School of Management(JSOM); the School of Economic, Political and Policy Sciences (EPPS); and the Erik Jonsson School of Engineering and Computer Science (ECS).

Offerings by school include the following.

JSOM	**Executive MBA**
	Global Leadership Executive MBA
	Healthcare Management Executive MBA
	Master of Science in Healthcare Management
	Executive MBA - Project Management Emphasis
	Master of Science in Systems Engineering and Management
	Graduate Certificates
	Professional Certificates
	Corporate Programs
EPPS	Executive Master of Science in Justice Administration and Leadership
ECS	Executive Master of Science in Software Engineering

The programs are required to be self-supporting and are budgeted accordingly. In FY14, approximately 800 students were enrolled in Executive Education programs or classes at UT Dallas. The majority were in JSOM (86%), followed by ECS (10%) and EPPS (4%). Revenues for Fiscal Year 2014 are depicted in the chart below.

4% 5%

91%

- EPPS $270,000
- ECS $340,000
- JSOM $6,500,000
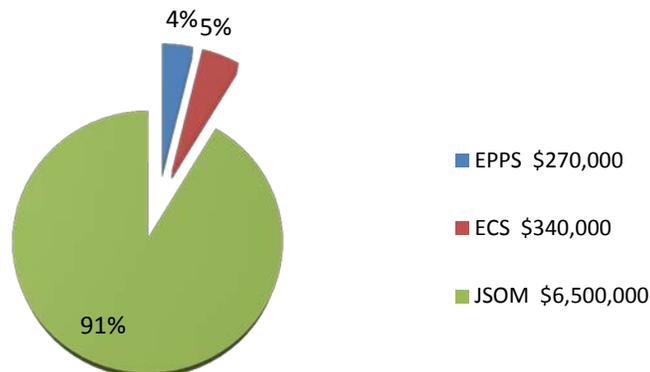
Audit Objective

The objectives of the audit were to provide assurance that an adequate system of internal controls is in place which will provide reasonable assurance of use of cost-, revenue-, and risk-sharing agreements; accurate revenue projection and recording; monitoring of faculty supplemental pay; and compliance with policies and procedures relating to purchases exceeding $10,000, purchasing card transactions, and account reconciliations.

Scope and Methodology

The scope of this audit was fiscal years 2013 and 2014. Fieldwork was primarily limited to JSOM Executive Education programs as they are the largest of the three schools in terms of enrollment and revenues. To satisfy our objectives, we performed the following:

- Interviewed staff and obtained documentation to gain an understanding of operations.
- Determined the nature of the relationship between the Executive Education programs and The University of Texas at Dallas.
- Determined enrollment projection methodologies.
- Reviewed recorded revenue and agreed-upon distributions to Deans' accounts.
- Reviewed documentation and records regarding purchasing cards, expenditures and account reconciliations to ensure proper authorization and compliance with policies and procedures.
- Reviewed faculty pay to determine whether additional pay exceeded authorized amounts.
- Determined if appropriate holds were placed on student accounts.
- Determined if Executive Education students were properly excluded from formula funding calculations.
- Determined status of recommendations from previous audit conducted in 2010.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management's Responses

Controls
Our audit work indicated that the following controls currently exist:

- Account reconciliations are generally conducted in a timely manner by someone with adequate knowledge of the cost center.

- Proper supporting documentation exists for account reconciliations and purchasing card transactions.
- Program tuition revenue is recorded and distributed accurately.

Audit Recommendations

Although the above controls are in place, opportunities exist to enhance governance over Executive Education and delineate the relationship with the University.

Priority Findings – UT System

A UT System priority finding is defined by the UT System Audit Office 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.*"[1]

We have **no UT System Priority Findings** resulting from this audit; however, the following recommendations are offered to enhance Executive Education programs on campus.

(1) *Formalize Program Resource and Liability Sharing Responsibility with UT Dallas*

Risk Rating: **Medium** ⭐ **;** Risk Factor**:** Effectiveness and Efficiency

UTDPP1040 – Continuing and Extended Education Activities requires that the proposed fees for self-supporting programs comprise all incremental costs of providing the programs including appropriate administrative overhead charges.[2] Executive Education utilizes classrooms, offices, information technology support and other University operational resources to provide its programs. We observed that the JSOM Executive Education program has cost and revenue sharing arrangements with the Bursar's Office and with the Dean of JSOM, respectively; however these are not documented.

Benchmarking surveys suggest that formalizing the understanding between a university and the schools administering the programs, whether by memorandum or contract, enhance university governance, ensure goals of the programs are aligned with those of the University, and clearly define resource sharing and division of responsibility.

Recommendation: We recommend that the University document agreements for Executive Education programs outlining resource and liability sharing responsibility with UT Dallas.

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[1] Appendix A defines the priority and risk ranking used for all internal audit recommendations.

[2] http://policy.utdallas.edu/print/utdpp1040

Management's Response (JSOM): *The governance regimen is clear between Executive Education and JSOM, as well as the Bursar's office (memo provided to Internal Audit). Additionally, the degree program revenue sharing agreements are communicated to the Bursar's office where they are coded into PeopleSoft so that revenue is automatically distributed to the appropriate cost centers. Non-degree program revenue sharing occurs by semester and is recorded in PeopleSoft. We will ensure that the sharing percentages are communicated via e-mail.*

Estimated Date of Implementation: *April 23, 2015*

Person Responsible for Implementation: *Gerald Hoag, Associate Dean of Executive Education*

Management's Response (EPPS): *The Criminology program has an internal agreement with the School of EPPS. However, we are completely open to developing an agreement with the University.*

Estimated Date of Implementation: *As soon as necessary*

Person Responsible for Implementation: *Dean Denis Dean and Justice Administration and Leadership (JAL) Director*

Management's Response (ECS): *The Software Engineering program is new and still in the development stage. We will work with the university to develop the necessary internal agreements.*

Estimated Date of Implementation: *As soon as necessary*

Person Responsible for Implementation: *Dean Mark Spong and Professor Rym Wenkstern*

(2) *Enhance Monitoring over Academic Holds (JSOM)*

Risk Rating: **Medium** ⭐ **;** Risk Factor**:** Effectiveness and Efficiency

Holds or service indicators are computerized mechanisms to prevent registration. A D03 academic hold was designed to prevent Executive Education students from enrolling in non-Executive Education classes.

During FY13 and FY14, 1,525 Executive Education (EE) students were enrolled at UT Dallas. We queried student records for all EE students and found that 488 students (32%) did not have a D03 academic hold placed on their accounts.

There does not appear to be a clear process or ownership for application or removal of the D03 service indicator. Without this service indicator, a student that has only been accepted into an Executive Education program will not be prevented from self-registration and could enroll in state-funded classes. This could potentially conflict with the admissions criteria for state-funded UT Dallas programs, and invalid enrollments could go undetected.

Recommendation: All Executive Education programs need to create a clear process/policy indicating which service indicators should be placed on Executive Education Student accounts, when they should be applied or removed, and who is authorized to do so.

Management's Response (JSOM): *A new process/policy has been written (*provided to Internal Audit*) and distributed to each program instructing them that after registering students every semester they are to verify that the DO3 hold has been placed back on these students' accounts.*

Estimated Date of Implementation: *April 22, 2015*

Person Responsible for Implementation: *Gerald Hoag, Associate Dean of Executive Education*

Management's Response (EPPS): *JAL currently has a D13 service indicator that is used for JAL students only. This prevents students from enrolling in incorrect classes. They are then registered by the Associate Director to further ensure that they are not enrolled in state classes. The indicators are placed on student accounts and removed from student accounts by the Bursar's Office only. The Bursar's Office is prompted to take action from JAL directors.*

Estimated Date of Implementation: *Currently in place*

Person Responsible for Implementation: *JAL Associate Director*

Management's Response (ECS): *We are in the process of developing a process*

Estimated Date of Implementation: *Fall, 2015*

Person Responsible for Implementation: *Professor Rym Wenkstern*

(3) *Revise the Bid Process (JSOM)*

Risk Rating: **Medium** ⭐ **;** Risk Factor**:** Effectiveness and Efficiency

Purchases between $10,000 and $25,000 that are not currently under a contract require a bid tabulation form to document the informal bid process. Purchasers contact vendors for pricing quotes and use a bid tabulation form to document the quotes received. Without going through this process, UT Dallas may not comply with state purchasing rules and may pay more for goods and services than necessary or not receive the best value.

We reviewed 25 JSOM Executive Education purchases of goods and services from FY 2013 - 2014 that were over the bid tabulation threshold of $10,000. A completed bid tabulation form was not on file for 92% ($644,728) of these purchases.

Recommendation: For all purchases over $10,000, Executive Education should contact Procurement to conduct a bid process and document with a bid tabulation form prior to purchase of the goods or services. If the service or product is single-source, it should be noted on the bid tabulation form.

Management's Response: *The programs did receive multiple quotes before deciding which vendor to use. All contracts are routed through Procurement prior to any payments being made. Per procurement guidelines, "Procurement Management Buyer's discretion on informal Bids based on HUB and Best Value Policy, Bid Tabulation Form documenting bidding and best value process".*

Estimated Date of Implementation: *April 22, 2015*

Person Responsible for Implementation: *Gerald Hoag, Associate Dean of Executive Education*

(4) *Complete Implementation of Recommendations from Previous Audit (JSOM)*

Risk Rating: **Medium** ⭐ **;** Risk Factor**:** Effectiveness and Efficiency

Of the nine recommendations from the previous audit conducted in 2010, six have been implemented and three are partially implemented. See the Status of Prior Audit Recommendations Table below for a detailed listing of the status of all recommendations. Those that have not been fully addressed are as follows:

- Recommendation 1(e): *Ensure Compliance with Texas Higher Education Coordinating Board (THECB) and UT System Board of Regents Rules and Regulations and Strengthen the Enrollment Process*

The recommendation to obtain and document approval for Executive Education course tuition rate changes from the President or his delegate prior to rates becoming effective was not fully implemented. Although approval was obtained from the Provost and documented via memorandum for one tuition increase, there is no consistent or documented process for all tuition increases.

- Recommendation (2): *Revise Policies on Salary Supplements and Implement Monitoring Controls*

  Executive Education relies on JSOM for this control. JSOM requires that faculty sign a Memorandum of Understanding (MOU) which contains a clause indicating that payment is subject to school and university policies, but the clause does not specifically mention supplemental pay restrictions. The school fiscal officer monitors salaries to prevent overages but accepts verbal authorization for exceeding the cap set by the Provost's Office. The policy is currently under revision by the Office of Budget and Finance and if approved as drafted, will mitigate the issues previously noted.

- Recommendation (9): *Strengthen Controls over Parking Permits*

  Our review of purchasing card transactions revealed that five parking passes were purchased for consultants and faculty. While no prohibition against purchasing parking passes for employees or consultants exists (other than use of state funds), this practice may constitute a fringe benefit for employees and require reporting as such. The last parking pass purchased was in December 2014 for a new hire.

Recommendations: To address the prior audit recommendations, we recommend the following:

1. Develop a written procedure for obtaining and documenting approval for Executive Education course tuition rate changes from the President or his delegate prior to rates becoming effective.
2. Until the new policy is approved, continue monitoring salary supplements to ensure compliance with the current policy, and document approvals for those that exceed the approved cap.
3. Ensure parking permit purchases are tracked and if required, reported to appropriate UTD personnel to ensure compliance with IRS guidelines relating to fringe benefits.

Management's Response: *1. Tuition rate changes: we have written a procedure (see attachment 3)[3] on how we submit tuition rate changes. 2. We continue tracking salary supplements with the current policy. 3. Director has been notified about this parking issue, as has payroll. This will not occur again.*

Estimated Date of Implementation: *April 23, 2015*

Person Responsible for Implementation: *Gerald Hoag, Associate Dean of Executive Education*

Management's Response: *This is currently relevant to SOM only. However, we will use the recommendations to ensure procedures are being utilized in JAL.*

Estimated Date of Implementation: *August 1, 2015*

Person Responsible for Implementation: *JAL Director*

Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1006, *Executive Education*, dated February 10, 2010.

Recommendation	Implemented?
1) Ensure compliance with Texas Higher Education Coordinating Board (THECB) and UT System Board of Regents Rules and Regulations and strengthen the enrollment process.	
a) Discontinue co-mingling of students and courses.	Yes
b) Ensure all Executive Education students satisfy the same admission requirements.	Yes
c) Collect residency status as part of the enrollment process.	Yes
d) Report extension offerings to THECB. *The UT Dallas Office of Strategic Planning and Analysis reports Executive Education statistics to THECB, but these are not reported separately as specified in the THECB Reporting and Procedures Manual for Fall 2014.	Yes*
e) Obtain and document approval for Executive Education course tuition rate changes from the President or his delegate prior to rates becoming effective.	Partially – See Recommendation (4) above
f) Submit course inventories to the Registrar's Office to be included on the course offerings website.	Yes
g) Ensure controls in PeopleSoft are adequate to provide accurate billing.	Yes
2) Revise policies on salary supplements and implement monitoring controls.	Partially - See Recommendation (4) above
3) Perform timely account reconciliations and document business purpose.	Yes
4) Improve credentialing process.	Yes
5) Develop procedures for transferring funds to cover overhead expenses on a monthly basis.	Yes
6) Develop a refund policy for Executive Education.	Yes

Recommendation	Implemented?
7) Develop procedures to migrate to Marketplace for credit card payments.	Yes
8) Improve departmental controls relating to:	Yes
a) Business purpose documentation on Purchase Card Activity Reports	Yes
b) Time reporting	Yes
c) Property	Yes
d) Contracts	Yes
e) International Collaborations Contracts filing with OIE	N/A – Contracts are managed through JSOM
f) Cash handling procedures	Yes
9) Strengthen controls over parking permits.	Partially - See Recommendation (4) above

Conclusion

Based on the audit work performed, we conclude that the Executive Education programs have an adequate system of internal controls in place. However, opportunities exist to enhance governance, formally delineate the relationship with the University, and improve the existing controls over academic holds and purchasing. Full implementation of the recommendations will enhance internal controls and increase compliance with applicable policies, procedures and best practices.

We appreciate the courtesy and cooperation received from the management and staff of Naveen Jindal School of Management; the School of Economic, Political and Policy Sciences; and the Erik Jonsson School of Engineering and Computer Science during this audit.

Appendix A: Priority Findings and Risk Matrix

Definition of Risks

Risk Level	Definition
High	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC 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/Medium	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.

Risk Factors

- Reputation - damage to the image of UT Dallas and/or UT System
- Information Security - integrity, confidentiality and availability of information
- Compliance – compliance with external legal or regulatory requirements
- Accomplishment of Management's Objectives – goals being met, projects being successful
- Effectiveness and Efficiency – objectives at risk and/or resources being wasted
- Capital Impact - loss or impairment of the use of assets
- Life Safety – including loss of life, injury, toxics/infectious disease
- Management Oversight
- Operational Alignment – management's alignment of people, process and technology to efficiently accomplish organization objectives
- Designed Controls – adequacy of controls within critical operations
- Payments/Expenditures – including fines and legal costs
- Lost Revenue – actual and/or opportunities