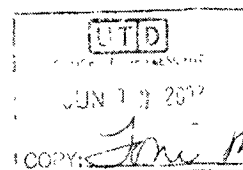




June 8, 2007

Dr. David Daniel, President  
The University of Texas at Dallas  
P.O. Box 830688  
Mail Station AD22  
Richardson, TX 75083-0688

State Auditor's Office



Dear Dr. Daniel:

This letter outlines the understanding of the State Auditor's Office with respect to the audit of:

- The State's compliance with requirements of major federal programs and internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including the automated systems and processes that support the functions being audited, for the fiscal year ended August 31, 2007.
- The Schedule of Expenditures of Federal Awards for the fiscal year ended August 31, 2007, to the extent that this audit involves the University of Texas at Dallas (University).

The State Auditor's Office has contracted with KPMG, LLP (KPMG) to conduct portions of the OMB Circular A-133 audit. This letter describes the nature and scope of the procedures the State Auditor's Office will conduct and does not cover the work to be completed by KPMG.

#### SCOPE OF WORK

We will perform tests of the University's compliance with laws, regulations, and provisions of contracts and grants for the Student Financial Assistance cluster of federal programs that we determine to be necessary based on the OMB Circular A-133 Compliance Supplement. The procedures outlined in the Compliance Supplement are those suggested by the federal agencies; they are general in nature and, therefore, do not cover all areas of regulation governing each program. Auditors may perform alternative audit procedures to achieve audit objectives stated in the Compliance Supplement.

We will also perform tests to evaluate the effectiveness of the design and operation of internal controls considered relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grants for the Student Financial Assistance cluster of federal programs. These tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control. In addition, we will complete selected procedures regarding the Schedule of Expenditures of Federal Awards (also referred to as Schedule 1A).

STATE OF TEXAS  
OFFICE OF THE STATE AUDITOR  
1001 E. ST. 10TH FLOOR  
AUSTIN, TEXAS 78701-2400  
TEL: 512/463-2400  
FAX: 512/463-2400  
WWW.AUSTIN.TX.GOV

Dr. David Daniel, President  
The University of Texas at Dallas  
June 8, 2007  
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Our work will be completed in accordance with generally accepted government auditing standards, which require our auditors to exercise professional skepticism and increased awareness to detect potential violations, fraud, and abuse. As a result, interviews with employees at all levels as appropriate may include specific questions to help us assess fraud risk at all agencies and universities that we audit. We also request that management carefully review the representation letter, which will be provided by the State Auditor's Office at a later date. The representations in that letter should be completed and provided at the end of the engagement.

We will coordinate our audit with the University's internal audit department to avoid any duplication of audit effort. The State Auditor's Office will also provide the University an engagement expectations memo to document what the University can expect from the State Auditor's Office and what the State Auditor's Office can expect from the University (see attachment).

#### **MANAGEMENT'S RESPONSIBILITY**

Management is responsible for the University's financial statements and the selection and application of the accounting policies. Management also is responsible for making all records and related information available to the auditor.

In addition, management is responsible for compliance with laws, regulations, and other provisions of contracts and grants applicable to its activities. OMB Circular A-133 includes specific audit requirements that exceed those required by *Government Auditing Standards*. Management is also responsible for establishing and maintaining a sound system of internal control, and internal control is the best means of preventing and detecting noncompliance, fraudulent financial reporting, and misappropriation of assets. To begin evaluating in these areas, we request that current information be provided as soon as possible regarding any noncompliance, fraud, or illegal act that is known or is presently under investigation.

Management is responsible for providing a management representation letter to the State Auditor's Office. We will provide a draft representation letter for management to review at a later date. The representations in that letter should be completed and provided at the end of the engagement.

Management is responsible for adjusting the Schedule of Expenditures of Federal Awards to correct material misstatements and for affirming to the auditor in the management representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the Schedule of Expenditures of Federal Awards taken as a whole.

Dr. David Daniel, President  
The University of Texas at Dallas  
June 8, 2007  
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#### **STATE AUDITOR'S OFFICE CONTACTS**

Verma Elliott is the Audit Manager overseeing the audit and can be reached at (512) 936-9500 or [veliott@sao.state.tx.us](mailto:veliott@sao.state.tx.us). Joe Curtis is the Project Manager and can be reached at (512) 936-9597 or [jcurtis@sao.state.tx.us](mailto:jcurtis@sao.state.tx.us). The on-site team leader for the work will contact the University's internal audit director regarding the details of this engagement, including the timing of fieldwork.

Your contact manager, who serves as your resource for information and assistance throughout the year, is Verma Elliott. She is kept informed of all audit projects related to the University. Please feel free to contact her regarding any questions, suggestions, concerns, or comments about this project or any other issue.

A copy of the most recent external quality control review report of the State Auditor's Office is enclosed with this letter. *Government Auditing Standards* include a requirement for audit organizations to have an external review every three years. The recent review found that the State Auditor's Office conducts audits in accordance with auditing standards.

#### **FINDINGS**

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, the auditor is responsible for ensuring that those charged with governance are aware of any significant deficiencies that come to his or her attention.

Findings or exceptions noted will be provided to management for written responses. A written management response to the findings is expected within two weeks of receipt.

Management's final responses, including corrective action plans for current and prior year findings, should be provided on University letterhead and accompanied by your signature.

In certain circumstances, auditor follow-up comments may be included in the findings.

#### **STATEWIDE AUDIT RESULTS**

The results of this audit work will be issued following the completion of the statewide audit. We anticipate the release date will be in April 2008. The statewide results will include financial and federal compliance work conducted by the State Auditor's Office and federal compliance work conducted by KPMG.

We understand that our reports on the State's internal control and compliance are intended for the information of the Governor, the Legislative Audit Committee, boards and commissions, management, and all federal and pass-through entities from which federal assistance was received. However, these reports will be a matter of public record, and their distribution is not limited.

Dr. David Daniel, President  
The University of Texas at Dallas  
June 8, 2007  
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#### REPORTING REQUIREMENTS

OMB Circular A-133 requires the auditee to submit a data collection form and a reporting package for the State as a whole. The State Auditor's Office will coordinate with KPMG and all agencies and higher education institutions to prepare comprehensive reports for the State of Texas, rather than have each agency and higher education institution submit the required reports. The comprehensive reports will fulfill the OMB Circular A-133 reporting requirement to submit the data collection form and the reporting package.

#### ESTIMATED CHARGES

In accordance with the General Appropriations Act (79th Legislature), the State Auditor's Office will request reimbursement for audit work. Based on our preliminary estimates of the work to be done, we estimate the billing for each audit area as follows:

Student Financial Assistance Cluster	<u>\$2,000</u>
<b>Total estimated billing:</b>	<b>\$2,000</b>

This estimate may change as the audit progresses. Any significant changes in the estimated billing will be discussed with management at the time the changes are identified.

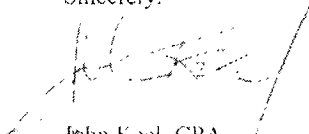
#### CONCLUDING REMARKS

We anticipate completing our audit work by January 31, 2008.

If the terms of this engagement as outlined above are acceptable, please indicate by signing below. Please return the signed copy of this letter to the State Auditor's Office.

Our office looks forward to working with University personnel over the next few months.

Sincerely,



John Keel, CPA  
State Auditor


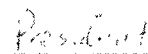
Attachment Enclosure

cc. Members of the University of Texas System Board of Regents  
Mr. James R. Huffines, Chair  
Ms. Rita Clements, Vice-Chair

Dr. David Daniel, President  
The University of Texas at Dallas  
June 8, 2007  
Page 5

Ms. Cyndi Taylor Krier, Vice-Chair  
Mr. John W. Barnhill, Jr.  
Mr. H. Scott Caven, Jr.  
Dr. Judith L. Craven  
Mr. Robert A. Estrada  
Ms. M. Colleen McHugh  
Mr. Robert B. Rowling  
Mr. Randal Matthew Camarillo, Student Regent  
Mr. Mark G. Yudof, Chancellor, the University of Texas System  
Mr. Charles Chaffin, CPA, Director of Audits, the University of Texas System  
Ms. Toni Messer, CPA, CIA, Director of Audit and Compliance, the University of Texas  
at Dallas

Accepted:

 \_\_\_\_\_  
Name Title  
 \_\_\_\_\_  
Date 6/18/07

# **ENGAGEMENT EXPECTATIONS BETWEEN THE STATE AUDITOR'S OFFICE (SAO) AND THE UNIVERSITY OF TEXAS AT DALLAS**

## **Introduction**

The SAO has developed an engagement expectations memo to establish what the University of Texas at Dallas (University) can expect from the SAO and what the SAO expects from the University.

The SAO will work with internal audit to coordinate the audit work unless University management specifically asks the SAO to do otherwise.

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## **The SAO's Commitment to the University**

To achieve its mission to actively provide government leaders with useful information that improves accountability, the SAO is committed to the highest level of professional standards. The SAO will be professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced in its approach.

The SAO performs its audits in accordance with generally accepted government auditing standards (GAGAS or the "Yellow Book" standards, which can be found at [www.gao.gov](http://www.gao.gov)).

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## **The University's Rights**

The University has the right to:

- Share its concerns about the audited area(s) so that the auditors may consider expanding the scope of work.
- Be briefed on the status of the audit.
- Receive notice of audit findings and recommendations prior to issuance of the audit report.
- Have management's views concerning findings, conclusions, and recommendations included in the audit report

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## **Types of Audits**

The work that the SAO performs is described in Texas Government Code, Chapter 321, and includes:

- Financial audits.

- Compliance audits.
  - Economy and efficiency audits.
  - Effectiveness audits.
  - Special audits, investigations, and other projects approved by the Legislative Audit Committee.
- 

#### **Access to the University's Information**

The SAO must have unrestricted access to all personnel, records, files, internal audit working papers, and other confidential and unconfidential information needed to conduct the audit. The SAO has the legal right to this access, as established in Texas Government Code, Sections 321.013(e) and 2262.003, and other law. Some of these records may include confidential and/or proprietary information.

With regard to these records:

- If records must be locked up while the SAO is on site, the University will provide a suitable, secure storage space for the records.
  - The University will provide or facilitate access to the records the SAO requests in a timely manner. This may include notifying all University staff of the expectation that they be candid with auditors and offer full disclosure when responding to SAO information requests.
- 

#### **Communication Between the SAO and the University**

The SAO is committed to maintaining constructive and continuing communication with audited entities. The University agrees to place no restrictions on the communication between its staff and SAO auditors. To ensure there are no limitations on the scope of the engagement, the University agrees that its staff will not be required to provide detailed write-ups or accounts of their communications with SAO auditors to University management - as this could unintentionally result in restrictions on the communication. Routine communication between University management and staff regarding the audit is expected.

If the SAO auditors become aware that University staff are being required to provide detailed write-ups or reports back to management, we will evaluate whether this activity creates a scope limitation and, if so, the audit report will be modified to include that determination.

Communication may include the following (not necessarily in this order):

- Before beginning any new audit, the SAO seeks to **obtain information** and data from the University. To obtain this information, the SAO will contact internal audit regarding the audit's subject and objectives.
- The SAO will work with the University's management or its designee to make arrangements for **work space**, telephones, computer access, security badges, and parking (if necessary) prior to SAO auditors' moving on site.
- The SAO will conduct **preliminary interviews** and obtain documentation to gain an understanding of the University's processes before the entrance conference. In addition, the SAO will conduct interviews with various personnel at the University throughout the audit.
- Internal Audit will **notify staff** at the University about the potential for the SAO to contact them.
- If gaining **access to systems** at the University requires that SAO auditors follow special processes, internal audit will notify the SAO within two weeks of the date that the University is notified concerning the audit.
- The SAO will send the University an **engagement letter** informing the University of the planned audit, its scope and objective(s), how the audit will be conducted, and the reports(s) to be produced. The SAO will address the engagement letter to the president of the University and send copies to the chancellor, board chairman, board members, and the internal auditor.
- The SAO will hold an **entrance conference** with officials of the University at the start of an engagement to discuss (1) the reasons for the audit work; (2) information needs, including any special precautions necessary to protect data; (3) an estimate of how long the work will take, to the extent possible, and (4) the cost of the audit, if applicable.
- To ensure that auditing standards are met and that the audit scope is not limited, only invited employees of the University will **attend interviews** or walk-throughs that the SAO conducts.
- Audit issues are normally handled by **discussing potential issues** with the relevant staff and supervisors of the University. Issues that are not resolved are discussed at status update meetings.
- The SAO will provide the University with **periodic updates** on the status of the audit and potential issues. These updates will occur as needed. SAO participants at these update meetings will include the audit manager, project manager, and team members as needed.



- The SAO will offer to hold an **exit conference** with management to discuss the final audit results.
- 

### **Significant Changes**

The SAO's plan for conducting the audit may change because of information reviewed during the course of the audit, staff turnover, or other resource issues. The SAO will inform the University as soon as possible to communicate significant changes in:

- Project manager or other key team members
  - Audit scope or objectives
  - Project completion date
- 

### **Draft Reports and University's Comments**

The SAO will discuss the preliminary findings and recommendations with the University during the audit. At the conclusion of fieldwork, the SAO will send the University the report draft for management's responses to findings and recommendations.

The University will have the opportunity to provide responses within the required time frames. The typical allotted response time is two weeks.

The SAO will ask management of the University to sign a representation letter for all audit engagements. This letter clarifies the roles of auditors and management and confirms that management has provided SAO auditors with all relevant and complete data.

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### **Report Distribution**

Draft reports are considered audit working papers under the Open Records Act. As such, they are not intended for public distribution.

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### **Contacts**

Primary contacts for the SAO are listed below.

Verma Elliott, MBA, CIA, CGAP, Audit Manager  
Joe Curtis, CPA, Project Manager  
Jennifer Brantley, MS, Student Financial Assistance Coordinator



# National State Auditors Association

September 19, 2006

Mr. John Keel, CPA  
State Auditor  
Texas State Auditor's Office  
Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

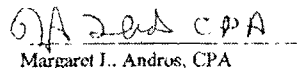
Dear Mr. Keel:

We have reviewed the system of quality control of the Texas State Auditor's Office (the office) in effect for the period September 1, 2005 through August 31, 2006. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

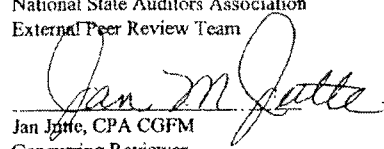
We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Texas State Auditor's Office in effect for the period September 1, 2005 through August 31, 2006 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

  
Margaret L. Andrus, CPA

Team Leader  
National State Auditors Association  
External Peer Review Team

  
Jan Jutte, CPA CGFM  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team