

***The University of Texas  
at Dallas***



***Annual  
Internal Audit Report***

**Fiscal Year 2006**



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## **PURPOSE**

The purpose of this annual report is to provide information on the benefits and effectiveness of the internal audit function at The University of Texas at Dallas (UTD). In addition, the annual report assists central oversight agencies in their work planning and coordinating efforts.

The Texas Internal Auditing Act requires that an annual report on internal audit activity be filed by November 1<sup>st</sup> of each year. Refer to the Texas Government Code, Section 2102<sup>1</sup>, as amended by H. B. 2485 during the 78<sup>th</sup> Legislature. The format used for this report was prescribed by the Texas State Auditor's Office.

Additional information regarding the UTD Office of Audit and Compliance can be found at the following website:

<http://www.utdallas.edu/audit-compliance/>

### ***Report Distribution:***

- Texas State Auditor's Office
- Governor's Office of Budget, Planning, and Policy
- Legislative Budget Board
- Sunset Advisory Commission
- The University of Texas System Executive Vice Chancellor for Academic Affairs
- The University of Texas System Audit Office
- The University of Texas at Dallas Audit Committee

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<sup>1</sup> <http://tlo2.tlc.state.tx.us/statutes/docs/GV/content/htm/gv.010.00.002102.00.htm>



## INTERNAL AUDIT PLAN FOR FISCAL YEAR 2006

Audit Areas	Priority Budgeted Hours	% of Total
<b><i>Required Audits</i></b>		
<b><u>UT System Requested</u></b>		
Deloitte Financial Audit Work	150	
<b><u>Externally Required</u></b>		
Assistance to Outside Auditors - Statewide Federal Audit of Financial Aid	25	
Governor's Fraud Initiative	80	
ATP/ARP Grants	120	
Lena Callier Trust	120	
TETC Grants (Texas Engineering and Technical Consortium)	120	
TAC 202 Security Program Compliance Audit	150	
<b><u>Internally Required</u></b>		
President's Expenses	60	
Contracting	160	
<b><i>Total Required Audits</i></b>	<b>985</b>	<b>19.27%</b>
<b><i>Consulting</i></b>		
Audit Issues - Consulting/Meetings	25	
Compliance Consulting/Meetings	40	
Information Technology Consulting/Meetings	60	
Financial Consulting and Meetings	25	
<b><i>Total Consulting</i></b>	<b>150</b>	<b>2.93%</b>
<b><u>Risk Based: Compliance Audits</u></b>		
Callier Child Care	50	
Callier - Limitation of Liability for Claims	50	
Callier - Medical Documentation	50	
Code of Ethics/Conflict of Interest	40	
EH & S	100	
Contracts and Grants - Cost Sharing	60	
Contracts and Grants - Unallowable Costs	60	
Segregation of Duties & Reconciliation of Accounts	120	



Cash Handling	160	
Graham Leach Bliley	60	
Callier - HIPAA Security Rule	60	
Scanning	50	
TAC 202 (see IT Audits)	-	
FERPA	60	
University Events & Travel - Academic Affairs	40	
Hotline Investigations	25	
<b>Total Compliance Audits</b>	<b>985</b>	<b>19.27%</b>
<b>Risk Based: Information Technology Audits</b>		
Smart Cards: Debit Cards	200	
Identipass/Proximity Cards	60	
Telecommunications - new system	180	
Callier - new system	200	
Macromedia Breeze Implementation Meetings	100	
Project Quest (Banner) Implementation Team Meetings, Training	100	
<b>Total Information Technology Audits</b>	<b>840</b>	<b>16.43%</b>
<b>Risk-Based: Academic Institutional Processes</b>		
Gifts	240	
Scholarships & Fellowships	200	
The Pub	160	
University Police - Decals and Ticketing	200	
Physical Plant Billing/Work Order System	200	
Human Resources : Hiring/Staffing/Organization		
Financial Statement Certifications - Follow-Up	40	
Engineering and Science Research Enhancement Initiative (Project Emmitt)	135	
Academic Institutional Process Audits Carryforward		
Registration	40	
Equipment	20	
<b>Total Academic Institutional Process Audits</b>	<b>1,235</b>	<b>24.16%</b>



<b>Change in Management Audits</b>		
Social Sciences	40	
Geosciences	40	
Admissions	40	
Recreational Sports	40	
Electrical Engineering	40	
VP Development	40	
Reserve	60	
<b>Total Change in Management Audits</b>	<b>300</b>	<b>5.87%</b>
<b>Follow-Up Audits</b>		
Annual Follow-Up Audit	80	
Quarterly Follow-Up of Significant Recommendations	8	
<b>Total Follow-up Audits</b>	<b>88</b>	<b>1.72%</b>
<b>Projects</b>		
U. T. System Requests	50	
Teammate Implementation and Training	100	
Follow-up QAR	30	
FY 2007 Audit Plan	50	
Annual Internal Audit Report	30	
Reserved for Special Projects & Investigations - As Determined by President, Audit Committee, Etc.	99	
Internal Audit Committee	60	
Enterprise Risk Management (ERM) Implementation	50	
Audit Manual Revision	60	
<b>Total Projects</b>	<b>529</b>	<b>10.35%</b>
<b>Total Audit Hours</b>	<b>5,112</b>	<b>100.00%</b>

## ***Explanation of Deviations from 2006 Audit Plan***

The Audit Plan was accomplished as approved by the Audit Committee, with the following exceptions. The Audit Committee approved the exceptions due to various circumstances which are discussed below. The exceptions are documented in the quarterly Audit Committee meeting minutes.

### **Audit Plan Activities**

Effective September 1, 2005, the Office of Internal Audits was reorganized with the Compliance Office. The Compliance Officer position was vacant at the time, and in the first quarter the Compliance Coordinator position became vacant. The Director of Internal Audits became the Director of Audit and Compliance, and due to the significant turnover in the Compliance Office, the Director spent much of her time on Compliance activities during the first and second quarters of fiscal year 2006. In addition, turnover occurred in the Staff Auditor position. While the position was only vacant for two months, this resulted in audits that were not completed in a timely manner, learning curves, and necessary on-the-job training for the staff and supervisors.

The Audit Committee was kept apprised of the staffing issues and the status of the Audit Plan each quarter. The Audit Committee approved the changes, deletions, and additions to the Audit Plan, and these are documented in the Audit Committee meeting minutes maintained in the Office of Audit and Compliance.

Refer to the "Status of the Fiscal Year 2006 Audit Plan" below for a detailed listing of audits completed, audit hours used, and status at the end of the fiscal year.

- ***Required*** – All audits were either completed or in the process of completion as of 8/31/06.
- ***Compliance Audits*** – Due to the reorganization in Internal Audit and Compliance that was not known at the time the FY 2006 Audit Plan was created, a decision was made to transfer those planned compliance audits that were considered of lower risk, to Compliance for an inspection. It was agreed in the Audit Committee meetings that any significant issues that were noted during the inspections would be considered for audit. The compliance audits that were considered of higher risk would remain on the Audit Plan.

As of 8/31/06, four compliance audits were in process, and one had been carried forward to the FY 2007 Audit Plan. The remaining planned audits were transferred to the Compliance Office for inspection.

- ***Information Technology Audits*** – At 8/31/06 one of the Information Technology audits was in process. The others had been carried forward to FY 2007.

- ***Academic Institutional Processes*** – As of 8/31/06, one of the audits had been completed.

The FY 2006 Audit Plan contains 54 separate projects for which an audit or similar report could be issued. At 8/31/06, of the 54 projects identified: 14 were completed, 14 were in process of completion, 10 were postponed to FY 2007, and 16 were deleted from the Audit Plan after consultation and approval with the Audit Committee due to other circumstances, such as reliance on outside audit, reorganizations, etc. 14 audit reports were issued during fiscal year 2006, and the Director participated on two external quality assurance reviews. There were only five hotline calls during the year, and only 25 hours spent investigating the calls. There were no significant changes of scope in the audits that were performed during fiscal year 2006.





## Status of the Fiscal Year 2006 Audit Plan

FY 2006 Audit Plan		Status of Plan
Audit/Project	9/2/2006	Comments
<b><i>Required Audits</i></b>		
<b><u>UT System Requested</u></b>		
Deloitte Financial Audit Work - 8/31/05	Completed.	At time of FY 2006 Audit Plan preparation, the Board of Regents had not approved an audit for 8/31/06; therefore, time was not budgeted for this audit.
Deloitte Financial Audit Work - 8/31/06	Audit added to FY 2006 hours.	
<b><u>Externally Required</u></b>		
Assistance to Outside Auditors - Statewide Federal Audit of Financial Aid	Completed.	
Governor's Fraud Initiative	Completed.	
ATP/ARP Grants	Completed.	
Lena Callier Trust	Completed.	
TETC Grants (Texas Engineering and Technical Consortium)	Carried forward to FY 2007 Audit Plan after Director determined additional work to be performed.	
TAC 202 Security Program Compliance Audit	Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06.	
<b><u>Internally Required</u></b>		
President's Expenses	Completed.	Audit deleted from Audit Plan as approved by Audit Committee due to reliance on outside review of Waterview and other priorities.
Contracting		
<b><i>Consulting</i></b>		
Audit Issues - Consulting/Meetings	Completed.	
Compliance Consulting/Meetings	Completed.	
Information Technology Consulting/Meetings	Completed.	
Financial Consulting and Meetings	Completed.	



**Risk Based: Compliance Audits**

		As part of reorganization of Audit and Compliance, transferred compliance audits of lower risk to the Compliance Office to conduct inspection rather than audit. If Compliance were to find significant issues, then audit would be conducted. Audit Committee approved this transfer.
Callier Child Care	Transferred to Compliance Office.	
Callier - Limitation of Liability for Claims	Transferred to Compliance Office.	
Callier - Medical Documentation	Transferred to Compliance Office.	
Code of Ethics/Conflict of Interest	Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06.	
	Met with EH & S. RAMP needs to be revised. After approval received from Audit Committee, carried forward to FY 2007 Audit Plan.	
EH & S		
Purchasing Card	Transferred to Compliance Office.	
Contracts and Grants - Cost Sharing	Transferred to Compliance Office.	
Contracts and Grants - Unallowable Costs	Transferred to Compliance Office.	
Segregation of Duties & Reconciliation of Accounts	Transferred to Compliance Office.	
Cash Handling	Transferred to Compliance Office.	
Graham Leach Bliley	Transferred to Compliance Office.	
Callier - HIPAA Security Rule	Transferred to Compliance Office.	
Scanning	Transferred to Compliance Office.	
TAC 202 (see required audits)	See required audits - TAC 202.	
FERPA	Transferred to Compliance Office.	
University Events & Travel - Academic Affairs	Transferred to Compliance Office.	
Research Compliance	Transferred to Compliance Office.	
Endowment Compliance	Transferred to Compliance Office.	
Carryforward: Business Expense Reimbursements	Completed.	
Carryforward: Protection of SSN's	Completed.	
Hotline Investigations	Completed.	

**Risk Based: Information Technology Audits**

	Carried forward to FY 2007 Audit Plan after approval received from Audit Committee due to other audit priorities.	
Smart Cards: Debit Cards		
	See required audits - TAC 202.	
Identipass/Proximity Cards		Budget of 60 hours should be reallocated to TAC 202 audit budget.



Telecommunications - new system	Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06. Carried forward to FY 2007 Audit Plan after approval received from Audit Committee due to other audit priorities.	
Callier - new system	Completed but will be ongoing for FY 2007.	
Macromedia Breeze Implementation Meetings Project Quest (Banner) Implementation Team Meetings, Training	Banner Project Discontinued	Peoplesoft Project will replace for FY 2007.

***Risk-Based: Academic Institutional Processes***

Gifts	Carried forward to FY 2007 Audit Plan after approval received from Audit Committee due to other audit priorities. Carried forward to FY 2007 Audit Plan after approval received from Audit Committee due to other audit priorities.	
Scholarships & Fellowships	Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06.	
The Pub	Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06.	
University Police - Decals and Ticketing Physical Plant Billing/Work Order System	Completed. Doing a CSA with HR Management. Carried forward to FY 2007 Audit Plan at request of HR Management.	
Human Resources : Hiring/Staffing/Organization	See President's Travel audit - combined with that audit.	
Entertainment & Discretionary Funds	Deleted audit from FY 2006; however, follow-up for FY 2007 - put on FY 2007 Audit Plan.	As a result of UT System Treasury Review - Audit Committee decided not to conduct this audit as would be duplication of efforts.
Cash Handling and Investments	Combined with Deloitte work.	
Financial Statement Certifications - Follow-Up	Carried forward to FY 2007 Audit Plan after approval received from Audit Committee due to other audit priorities. Carried forward to FY 2007 Audit Plan after approval received from Audit Committee due to other audit priorities.	
Contracts & Grants		
Engineering and Science Research Enhancement Initiative (Project Emmitt)		



*Academic Institutional Process Audits Carryforward*

*Registration*

Completed.

Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06.

*Expenditures*

*Equipment*

Completed.

**Change in Management Audits**

*Social Sciences*

Completed.

*Geosciences*

Completed.

Deleted due to reorganization of Admissions Office.

*Admissions*

*Recreational Sports*

Completed.

Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/9/06.

*Electrical Engineering*

*VP Development*

Completed.

Audit work completed; however, audit completion delayed due to Deloitte work for 8/31/06. Will be completed by 10/6/06.

*Office of Research Administration*

*Reserve*

Completed.

**Follow-Up Audits**

Annual Follow-Up Audit

Carried forward to FY 2007.

Quarterly Follow-Up of Significant Recommendations

Completed.

**Projects**

U. T. System Requests

Completed.

Teammate Implementation and Training

Completed but will be ongoing for FY 2007.

Quality Assurance Reviews for Other Audit Departments

Completed.

Follow-up QAR

Carried forward to FY 2007.

FY 2007 Audit Plan

Completed.

Annual Internal Audit Report

Completed.

Reserved for Special Projects & Investigations - As Determined by President, Audit Committee, Etc.

Completed.

SACS Committees

Completed but will be ongoing for FY 2007.

Internal Audit Committee

Completed.

Enterprise Risk Management (ERM) Implementation

Completed.

Carried forward additional updates to FY 2007 Audit Plan.

Audit Manual Revision

## EXTERNAL QUALITY ASSURANCE REVIEW

*The following is the External Quality Assurance Review (QAR) report, issued October 2003. At the time of this report, an external QAR was in process. Results of the QAR are expected no later than December 2006.*

### **EXECUTIVE SUMMARY**

At your request, we have conducted a quality assessment of the Office of Internal Audit (Internal Audit) at The University of Texas at Dallas (UTD). The principal objectives of the quality assessment (QA) were to assess Internal Audit's conformity to The IIA's *Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate Internal Audit's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of UTD's management), and identify opportunities to enhance its management and work processes, as well as its value to UTD.

As part of the preparation for the QA, Internal Audit prepared a self-study, with detailed documentation. Prior to the commencement of the onsite work by the QA team, the team members reviewed the self-study and supporting documentation. During the onsite work performed by the QA team on October 22 – 24, 2003, the team interviewed key executives and Internal Audit staff. Additionally, we reviewed Internal Audit's risk assessment and audit planning process, audit tools and methodologies, engagement and staff management processes, and a representative sample of Internal Audit's working papers and reports.

The Internal Audit activity environment is well structured and strives to be progressive. Additionally, Internal Audit staff understand the *Standards* and management is endeavoring to provide useful audit tools and implement appropriate practices. Among these tools and practices are automated audit sampling software; professional training and encouragement of certifications for Internal Audit staff; concise reports with a focus on risk; and a strong reputation and credibility with customers. Consequently, our comments and recommendations are intended to build on this foundation already in place in Internal Audit.

Our recommendations are divided into two groups:

- Those that concern UTD as a whole and suggest actions by senior management. Some of these are matters outside the scope of the QA, as set out above, which came to our attention through the interviews. We include them because we believe they will be useful to UTD management and because they impact the effectiveness of Internal Audit and the value it can add.
- Those that relate to Internal Audit's structure, staffing, deployment of resources, and similar matters that should be implemented within Internal Audit activity, with support from senior management.

Highlights of our recommendations are set forth below, with details in the main body of our report.

## **PART 1 – MATTERS FOR CONSIDERATION OF UTD MANAGEMENT**

1. Enhance the independence of Internal Audit, including rescinding the delegation of responsibility for providing the University's official responses to audit reports and contact personnel.
2. Enhance the resources dedicated to Internal Audit, including establishing an appropriate funding level to ensure adequate training resources to maintain and enhance the knowledge and skill sets of personnel.

## **PART II – ISSUES SPECIFIC TO INTERNAL AUDIT**

1. Complete the update of the Audit Manual to reflect the new Standards and any other changes in departmental operating procedures.
2. Review the department training policy to ensure that the established requirements are consistent with training needs for the current staffing level and address the changing, complex environment of UTD.
3. Expand available Internal Audit activities to include more formalized consulting projects.

## **OPINION AS TO CONFORMITY TO THE STANDARDS**

It is our opinion that Internal Audit generally conforms to the following *Standards*:

- 1000 – Purpose, Authority, and Responsibility (Charter),
- 1100 – Independence and Objectivity,
- 1200 – Proficiency and Due Professional Care
- 1300 – Quality Assurance/Improvement Program,
- 2000 – Managing the Internal Audit Activity,
- 2100 – Nature of Work,
- 2200 – Engagement Planning,
- 2300 – Performing the Engagement,
- 2400 – Communicating Results,
- 2500 – Monitoring Progress,
- 2600 – Management's Acceptance of Risks, and
- The IIA's *Code of Ethics*.

In our terminology, "generally conforms" means that Internal Audit has a charter, policies, and procedures that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in our recommendations. "Partially conforms" means deficiencies in practice are noted and are judged to deviate from the *Standards*, but these deficiencies did not preclude Internal Audit from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or



preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities. It is our opinion that there are no areas in which Internal Audit does not conform to the *Standards*.

We appreciate this opportunity to be of service to UTD. We will be pleased to respond to further questions concerning this report and to furnish any desired information.

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Assistant Director for System-wide Compliance  
The University of Texas System

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## OBSERVATIONS AND RECOMMENDATIONS

The review team, based on observations made during interviews and review of Internal Audit's conformity to the *Standards*, makes the following recommendations for enhancing the efficiency and effectiveness of the internal audit function.

### A. PART 1 – MATTERS FOR CONSIDERATION OF UTD MANAGEMENT

1. **Enhance the independence of Internal Audit by rescinding the delegation of responsibility for providing the University's official responses to audit reports and contact personnel.**

During our review, we noted that the President has delegated the responsibility for providing the University's official responses to all audit reports to the Senior Vice President for Business Affairs. Additionally, the Senior Vice President for Business Affairs approves all institutional audit reports for issuance, including those for operational areas under other Vice Presidents or Senior Vice Presidents. This could be interpreted as the Senior Vice President for Business Affairs having authority over operational units not reporting to him. Additionally, when reports are transmitted outside the University, the recipient is advised to contact the Senior Vice President for Business Affairs with any questions. This creates the outward appearance that Internal Audit reports to the Senior Vice President for Business Affairs, rather than directly to the President.

**Recommendation:** We recommend that the delegation of responsibility for providing the University's official responses to all audit reports be rescinded. Audit responses for institutional audit reports should be the responsibility of the appropriate Vice President or Senior Vice President for the organizational unit being audited. For external audit reports, the appropriate Vice President or Senior Vice President should be responsible for the audit response with coordination by the President's office. Inquiries related to audit reports should be directed to the Director of Internal Audits.

**Response:** We agree, and the recommendation will be implemented.

**Implementation Date:** Immediately.

2. **Enhance the resources dedicated to Internal Audit, including establishing an appropriate funding level to ensure adequate training resources to maintain and enhance the knowledge and skill sets of personnel.**



We noted that the budgeted funds for Maintenance & Operations (M&O) and Travel activities of the Department of Internal Audit have remained static since the 2000-2001 fiscal year at a combined total of \$13,000 or approximately \$2,900 per audit professional. This funding level appears inadequate based on the amount of professional development required to maintain a qualified and certified professional audit staff, which is current on industry developments, trends and changes. High quality continuing professional training is especially important due to the limited experience levels of the current staff, excluding the Director and Audit Manager. We reviewed the funding of internal audit departments at other comparable UT System academic institutions, noting that an average of approximately \$5,600 per audit professional is budgeted in these categories. Internal Audit encourages the obtainment of professional certifications including the Certified Internal Auditor, Certified Information Systems Auditor, and Certified Public Accountant. Currently, several members of the staff have certifications requiring a specified minimum of annual professional development hours to maintain certification.

**Recommendation:** We recommend review of the M&O and Travel funding levels to ensure that adequate resources are available to ensure high quality training opportunities for each member of the professional staff.

**Response:** A review of the M&O and Travel funding levels will be performed during the next budgetary cycle.

**Implementation Date:** Third quarter, fiscal year 2004.

## PART II – ISSUES SPECIFIC TO INTERNAL AUDIT

1. **Complete the update of the Audit Manual to reflect the new *Standards* and any other changes in departmental operating procedures.**

During our review of the Audit Manual and Internal Quality Assurance Report, we noted that the Audit Manual is in the process of being updated to address the changes in the *Standards* that occurred in January 2002.

**Recommendation:** We recommend that the Audit Manual be updated to reflect the new *Standards* and any other changes in departmental policies and procedures.

**Response:** The Audit Manual is in the process of being updated.

**Implementation Date:** We will complete the update by the end of the second quarter, fiscal year 2004.

2. **Review the department training policy to ensure that the established requirements are consistent with training needs for the current staffing level and address the changing, complex environment of UTD.**

During our review of the departmental training policy, we noted that a percentage of the annual training time is targeted toward information systems auditing. With the exception of the one member of the staff classified as an Information Systems Auditor, who is a Certified Information Systems

Auditor, the department is not meeting this training target for all auditors. Since the department has an Information Systems Auditor, the concentration of a percentage of training on information technology auditing for all staff might not be the best allocation of limited resources. Additionally, we noted that training is not identified in other specialized focus areas.

**Recommendation:** During the update of the Audit Manual, consideration should be given to modifying the training policy to expand target training to include other specializations. The policy should also ensure that training received assists the audit staff in meeting the needs of a changing, complex organization.

**Response:** *We implemented that policy at the recommendation of the previous quality assurance review team. We agree, and we will revise the training policy as suggested.*

**Implementation Date:** *We will incorporate the revised training policy into the revised Audit Manual by the end of the second quarter, fiscal year 2004.*

### **3. Expand available Internal Audit activities to include more formalized consulting projects.**

During our review of documentation and interviews with management, we noted a limited amount of audit resources were dedicated to consulting engagements. Several interviewees indicated that Internal Audit was very responsive to informal requests for assistance; however, they believe the addition of more consulting activities would enhance the value of Internal Audits activities.

**Recommendation:** We recommend Internal Audit established a more formalized process for consulting requests. This could include developing an inventory of services available, maintaining summary information on completed requests and reporting of these activities to the Internal Audit Committee on a quarterly basis.

**Response:** *A more formalized process for consulting requests will be developed as suggested.*

**Implementation Date:** *We will incorporate this process into our revised Audit Manual by the end of the second quarter, fiscal year 2004.*



## **LIST OF AUDITS COMPLETED**



Report No.	Report Date	Name of Report	High-Level Audit Objectives	Observations, Findings, & Recommendations	Current Status	Fiscal Impact/ Other Impact
n/a	9/7/05	<b>Time and Effort Reporting – follow-up</b>	To review UTD's progress on the implementation of the U. T. System Time and Effort Reporting principles, which mainly involve the compliance program for the existing time and effort reporting program.	UTD is making good progress on implementation. Many of the principles are still in process.	<i>In process of implementation. An audit of the Time and Effort high-risk compliance area is scheduled for fiscal year 2007.</i>	Noncompliance with federal regulations regarding time and effort reporting could result in penalties and loss of federal funding.
R601	9/14/05	<b>Vice President for Business Affairs</b>	To provide a service to the new Vice President for Business Affairs by reviewing the exiting internal controls in the department to provide assurance that an adequate system of internal controls and sound management exists.	<ol style="list-style-type: none"> <li>1. Taxes should be collected by the Copy Center and other UTD operations for taxable orders, and taxes for all prior taxable services should be collected and remitted to the State.</li> <li>2. Checks should be restrictively endorsed upon receipt by the employee receiving the check in the Office of the VPBA.</li> </ol>	<i>Both recommendations have been implemented.</i>	<ol style="list-style-type: none"> <li>1. Penalties and interest could occur.</li> <li>2. Could increase the risk that the checks could be cashed by someone other than UTD.</li> </ol>
R602	10/6/05	<b>Business Expense Reimbursements</b>	To provide assurance that an effectively designed compliance program had been implemented for the high-risk areas of "Business Expense Reimbursements," and that the program is operating effectively.	The Risk Assessment and Monitoring Plan (RAMP) should be modified to include additional documentation and monitoring procedures.	<i>Implemented.</i>	Without updated monitoring plan information, the risk of non-compliance is increased.
R603	11/10/05	<b>Protection of Social Security Numbers</b>	To provide assurance that an effectively designed compliance program has been implemented for the high-risk area of "Protection of Social Security Numbers," and that the program is operating effectively.	The responsible person, currently designated as the Director of Human Resources, should work with the Compliance Office to prepare a more comprehensive and specific compliance plan.	<i>In process. An audit of the Protection of Social Security Numbers high-risk area is scheduled for fiscal year 2007.</i>	If social security numbers were not well protected, UTD's public reputation would be impacted, and identity theft risks could be increased.
R604	1/2/06	<b>Annual Financial</b>	The objectives of the audit were	Adjustments/corrections were found as part of the audit that		An adjustment of \$950,000 was

Report No.	Report Date	Name of Report	High-Level Audit Objectives	Observations, Findings, & Recommendations	Current Status	Fiscal Impact/ Other Impact
		<b>Report Audit</b>	to (1) identify misstatements in excess of \$4 million in the UTD Annual Financial Report (AFR) – Exhibits A and B – Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets for fiscal year ended August 31, 2005, and (2) Report these misstatements to Deloitte & Touche LLP for consideration in rendering their opinion on The University of Texas System-wide Consolidated Financial Statements for the year ending August 31, 2005.	were made to the AFR and others were not made to the AFR.  Internal control recommendations were:  1. Continue to improve the bank reconciliation process.  2. Enhance documentation that supports the financial statements.  3. Better control the signature authority system.	   <i>Implemented.</i>  <i>Implemented.</i>  <i>In process.</i>	made to capital assets and non operating revenue.   The risk of error or fraud is increased.  Risk of misstatement is increased.  Risk of error or fraud is increased.
R605	3/9/06	<b>Registration</b>	To provide assurance as to the effectiveness of the controls over the registration process that are relevant to ensuring compliance with policies and procedures and the economical and efficient use of resources.	1. Grading processes should be better documented to ensure all schools and all levels of study are following documented, approved guidelines for assigning or changing grades.  2. A more centralized structure should be established between the various advising offices to ensure consistency of services and enhanced communication to students. Mandatory attendance at training would help facilitate this. The Registrar's Office should be closely involved with advisor meetings and training courses.	<i>Both recommendations were to have been implemented by the Spring 2006 semester, per the Deans of Undergraduate and Graduate Studies.</i>	1. Unauthorized changes to grades may occur.  2. Students may receive inconsistent services, incomplete, or incorrect information.

[illegible]



Report No.	Report Date	Name of Report	High-Level Audit Objectives	Observations, Findings, & Recommendations	Current Status	Fiscal Impact/ Other Impact
				fulfilled. In addition, OSP should ensure that all PIs are current with required Training Post training courses. The Fiscal Office for the School of Engineering and Computer Science should ensure that time and effort reports are submitted to Contract and Grant Accounting in a timely manner.		
R610	7/14/06	<b>Lena Callier Trust for the Hard of Hearing and the Deaf</b>	To ensure the accuracy of financial information for the Lena Callier Trust for the Hard of Hearing and the Deaf, and to ensure compliance with the criteria established by the Trust and certain UTD policies and procedures, for fiscal year 2005. The audit is required annually at the request of the Trustee.	<ol style="list-style-type: none"> <li>1. A written method of monitoring expenses should be developed and procedures improved to ensure that all trust fund expenses are properly authorized, reviewed, and comply with the Trust Agreement.</li> <li>2. Trust revenue of \$231,718 should have been accrued at year-end for fiscal year 2005 for financial statement reporting purposes.</li> </ol>	<ol style="list-style-type: none"> <li>1. <i>A new process has been established.</i></li> <li>2. <i>Implemented.</i></li> </ol>	<ol style="list-style-type: none"> <li>1. The risk of fraud or error is increased.</li> <li>2. Financial information is not accurate in the financial statements.</li> </ol>
R611	7/31/06	<b>Executive Management Travel and Entertainment</b>	To provide assurance that travel and entertainment expenses for Executive Management are in compliance with UTD and U. T. System policies and procedures.	<ol style="list-style-type: none"> <li>1. Discretionary fund policies should be updated by perhaps developing a general policy on entertainment and other discretionary expenses, similar to the U. T. System policy. Also, the "Reimbursement for Actual Travel Expenses" listing should be reviewed and updated, and approved by the President on an annual basis, such as the beginning</li> </ol>	<ol style="list-style-type: none"> <li>1. <i>In process.</i></li> </ol>	<ol style="list-style-type: none"> <li>1. Increased risks of noncompliance, error, or fraud.</li> </ol>



Report No.	Report Date	Name of Report	High-Level Audit Objectives	Observations, Findings, & Recommendations	Current Status	Fiscal Impact/ Other Impact
				<p>of each fiscal year.</p> <p>2. An interim solution for the signature authority system should be developed.</p> <p>3. Controls over entertainment and travel expenses should be enhanced.</p> <p>4. Policies over entertainment and travel should be followed when using procurement cards.</p>	<p>2. <i>In process.</i></p> <p>3. <i>In process.</i></p> <p>4. <i>In process.</i></p>	<p>2. Unauthorized expenses.</p> <p>3. Increased risks of error or fraud. Negative publicity, increased expenses.</p> <p>4. Increased risks of error, fraud, negative publicity, increased expenses.</p>
R612	8/14/06	<b>Geosciences</b>	To provide a service to the new department head by reviewing the existing internal controls in the department to provide assurance that an adequate system of internal controls and sound management exists.	<p>1. Account reconciliations should be reviewed in a more timely manner by the department head.</p> <p>2. The department should ensure that all assets over \$500 are reported to Property Administration when purchased. In addition, a UTD Property Custody Receipt should be filled out for all assets tracked by Property before they are removed from campus. Furthermore, the department should make every effort to obtain all UTD property from employees upon exit or</p>	<p>1. <i>Implemented.</i></p> <p>2. <i>Implemented.</i></p>	<p>1. Errors or irregularities may occur and not be detected in a timely manner.</p> <p>2. The risk of property loss is increased.</p>





Report No.	Report Date	Name of Report	High-Level Audit Objectives	Observations, Findings, & Recommendations	Current Status	Fiscal Impact/ Other Impact
				<p>termination from UTD.</p> <p>3. The department should develop a policies and procedures manual specific to departmental operations.</p> <p>4. The Administrative Assistant should store critical departmental files on a network shared drive that is backed-up by UTD Information Resources. In addition, the department head should remind all departmental employees of their responsibilities for backing up critical departmental data.</p>	<p>3. <i>In process.</i></p> <p>4. <i>Implemented.</i></p>	<p>3. Departmental inefficiencies, weak internal controls.</p> <p>4. Important data may be lost.</p>
R613	8/21/06	<b>School of Economic, Political, and Policy Sciences</b>	To provide a service to the new department head by reviewing the existing internal controls in the department to provide assurance that an adequate system of internal controls and sound management exists.	Account reconciliations should be reviewed in a more timely manner by the account manager.	<i>In process of implementation. Should be implemented by January 2007.</i>	Errors and irregularities may not be detected in a timely manner.



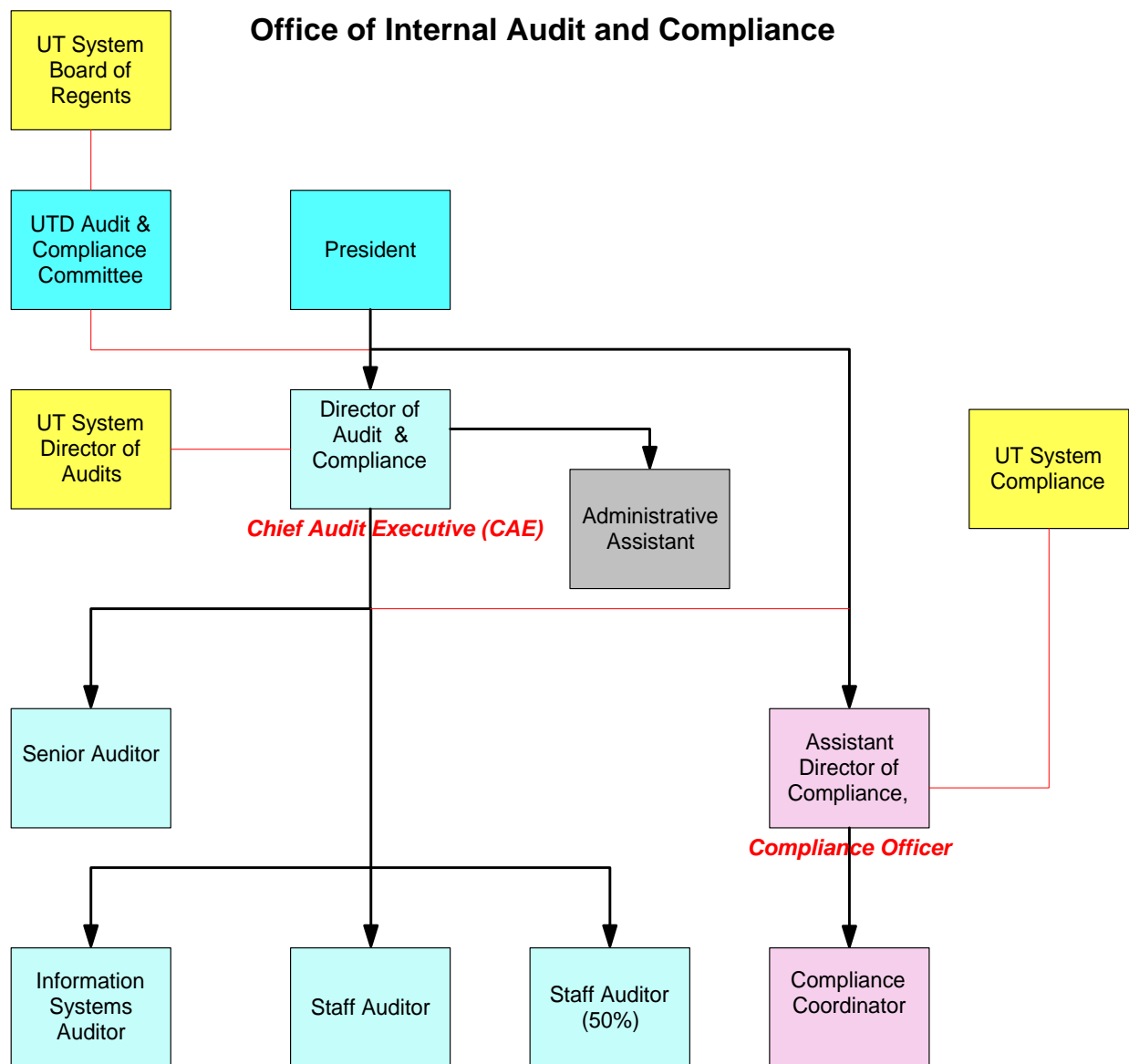
## **LIST OF CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES COMPLETED**

The Office of Internal Audit did not participate in any consulting engagements or non-audit services as defined by the General Accounting Office (GAO)<sup>2</sup>.

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<sup>2</sup> <http://www.gao.gov/govaud/yb/2003/html/chap26.html>

## ORGANIZATIONAL CHART



## REPORT ON OTHER INTERNAL AUDIT ACTIVITIES

ACTIVITY	IMPACT
Served on University Information Resources Security Committee (Information Systems Auditor).	Provides independent consultation and guidance to help ensure that the University's computing environment is adequately safeguarded.
Consulted on maintenance of the administrative information systems, as needed.	Provides independent consultation and guidance to help ensure that the risk of errors and fraudulent activities are minimized.
Participated on the University's compliance committee and compliance subcommittee.	Provides independent consultation and guidance to help ensure that institutional compliance issues are being addressed.
Facilitated University's ethics/compliance hotline and served on committee to address calls to the hotline.	Provides independent consultation and guidance to help ensure that the risk of errors and fraudulent activities are minimized and helps ensure that institutional compliance issues are being addressed.
Consulted with management, faculty, and staff with questions on various university issues such as internal controls, procedures, etc.	Provides university employees with guidance and resources.
Participated in external quality assurance review.	Participated in an external quality assurance review of Texas A&M University and Texas Tech University System. Performed a follow-up to the external QAR for UT Arlington and UT Austin. This provides a sharing of ideas, experiences, and approaches with other internal audit departments.
Participated in the Dallas Chapter of the Institute of Internal Auditors as a Board and member, co-chair of the Programs Committee for the SMART Regional Conference, and as co-chair of the Certified Internal Auditor Examination Committee.	This provides a sharing of ideas, experiences, and approaches with other internal auditors and audit/business professionals.
Participated in the Association of College and University Auditors as Conference Director for the 2006 Annual Conference.	This provides a sharing of ideas, experiences, and approaches with other internal auditors and audit/business professionals.
Presented to the Endorsed Internal Audit Program class on Risk Assessment and working papers. Supervised student auditors from the class on audit projects.	This provides opportunity to interact with students and share ideas, approaches, audit issues.
Information Systems Auditor participated in the UTD Staff Council.	Provides opportunities to be involved with university employees and get a better understanding of staff issues.
Facilitated control self-assessment workshop for Human Resources Management.	The department is in the process of identifying risks to manage their reorganization.
Facilitated management responsibilities training for Facilities Management.	Trained the departmental supervisors in risk assessment processes and internal controls.

## INTERNAL AUDIT PLAN FOR FISCAL YEAR 2007

A full copy of the Audit Plan may be requested from the Director of Internal Audits at 972-883-2693 or [tmesser@utdallas.edu](mailto:tmesser@utdallas.edu).

### Fiscal Year 2007 Priority Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<b><i>Required Audits</i></b>		
<b><u>UT System Required</u></b>		
Deloitte Financial Audit Work	400	
Presidential Travel and Entertainment Expenses - Regents Rule 20205	140	
SSN Protection	60	
Time and Effort Reporting	100	
<b><u>Externally Required</u></b>		
Assistance to Outside Auditors - Financial Audit FY 2007	60	
Assistance to Outside Auditors - Statewide Federal Audit	25	
JAMP (Joint Admissions Medical Program)	40	
Lena Callier Trust	80	
<u>Carried Forward from FY 2006 Audit Plan</u>		
TETC Audit	30	
<b><u>Internally Requested</u></b>		
SACS - Review of Faculty Credentials	100	
<b>Total Required Audits</b>	<b>1,035</b>	<b>20.40%</b>
<b><i>Consulting</i></b>		
Audit Issues - Consulting/Meetings	50	
Compliance Consulting/Meetings	50	
Information Technology Consulting/Meetings	100	
Financial Consulting and Meetings	50	
<b>Total Consulting</b>	<b>250</b>	<b>4.93%</b>
<b><i>Risk Based: Compliance Audits</i></b>		



Environmental Health and Safety (EH & S)	240	
Emergency Operations Plan	80	
Purchasing Cards	100	
SEVIS (Student and Exchange Visitor Information System)		
<b>Total Compliance Audits</b>	<b>420</b>	<b>8.28%</b>
<b>Risk Based: Information Technology Audits</b>		
BPM 75-04-06 (Protecting the Confidentiality and Integrity of Digital Research Data)	60	
Security over Laptops and Other Portable Devices	120	
Comet Cards	120	
Callier - new system	200	
Authentication and Computer Account Requests	180	
Unix		
Breeze Implementation Meetings	50	
<b>Total Information Technology Audits</b>	<b>730</b>	<b>14.39%</b>
<b>Risk-Based: Academic Institutional Processes</b>		
Financial Statement Certifications	100	
Scholarships & Fellowships	220	
Gifts	220	
Cash Handling	160	
Contracts & Grants	160	
Engineering and Science Research Enhancement Initiative (Project Emmitt)	220	
<i>Academic Institutional Process Audits Carryforward (in process at 8/31/06)</i>		
Human Resources Control Self-Assessment Workshops	60	
<b>Total Academic Institutional Process Audits</b>	<b>1,140</b>	<b>22.47%</b>
<b>Change in Management Audits</b>		
Dean of Natural Sciences and Mathematics	100	
Facilities Management	200	
VP Business Affairs	60	
Information Resources	120	
Callier Center	120	
Associate VP for Budget	60	
Reserved for Change in Management Audits During the Year		
Carryforward from FY 2006 Audit Plan		



VP Development	40	
<b>Total Change in Management Audits</b>	<b>700</b>	<b>13.80%</b>
<b>Follow-Up Audits</b>		
Annual Follow-Up Audit	80	
Quarterly Follow-Up of Significant Recommendations	20	
<b>Total Follow-up Audits</b>	<b>100</b>	<b>1.97%</b>
<b>Projects</b>		
ACL Projects	80	
Annual Internal Audit Report	15	
Audit & Compliance Committee	50	
Enterprise Risk Management (ERM) Implementation	60	
External QAR	150	
FY 2008 Audit Plan	50	
Quality Assurance Reviews for Other Audit Departments		
Reserved for Special Projects & Investigations - As Determined by President, Audit Committee, Etc.	123	
SACS	40	
U. T. System Requests	25	
Website Updates and TeamMate Procedures	80	
Hotline Investigations	25	
<b>Total Projects</b>	<b>698</b>	<b>13.76%</b>
<b>Total Audit Hours</b>	<b>5,073</b>	<b>100.00%</b>



## **EXTERNAL AUDIT SERVICES**

The University of Texas System contracted with an external audit firm to conduct a financial audit of the U. T. System financial statements for the year ended August 31, 2006. UTD is being audited; however, the contract is with the U. T. System.