

# UNIVERSITY OF NORTH★TEXAS™ SYSTEM



## **Internal Audit**

### **Annual Report**

### **Fiscal Year 2007**

Submitted by: *Donald W. Holdegraver*  
Donald W. Holdegraver, CIA, CFE  
Chief Internal Auditor



*Internal Audit*

*University of North Texas*

*University of North Texas  
Health Science Center at Fort Worth*

*University of North Texas  
Dallas Campus*

October 31, 2007

Governor's Office of Budget and Planning  
Legislative Budget Board  
State Auditor's Office  
Sunset Advisory Commission

A report on activity of the University of North Texas System (Agency 769) Internal Audit function is attached. This report fulfills requirements set out in the Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code. The report provides information pertaining to fiscal year 2007 audit plan and deviations, audits completed, audit objectives, key observations/findings and recommendations, and other Internal Audit activities at the University of North Texas (Agency 752) and the University of North Texas Health Science Center at Fort Worth (Agency 763).

The information contained in this report will give the State's decision makers information about the UNT System operations and may help to increase accountability in State government.

We appreciate the opportunity to participate in this process.

Sincerely,

Donald W. Holdegraver, CIA, CFE  
Chief Internal Auditor

Cc Members of the UNT System Board of Regents  
Lee Jackson, Chancellor, UNT System  
Gretchen Bataille, PhD, President, UNT  
Scott Ransom, DO, President, UNTHSC



## **I. Internal Audit Plan for Fiscal Year 2007**

The attached annual audit plan for the University of North Texas System was approved by the Board of Regents on September 7, 2006.

University of North Texas System  
Internal Audit Department  
FY 2007 Risk Assessment and Annual Audit Plan

**Overview**

The University of North Texas System Internal Audit Department operates in accordance with the Texas Internal Auditing Act, Government Code Chapter 2102. Under the Act, the purpose of internal auditing is:

*“to assist agency administrators and governing boards by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of a state agency's systems of internal control policies and procedures and the quality of performance in carrying out assigned responsibilities.”*

The Institute of Internal Auditors (IIA) is recognized as the authoritative body for a program of internal auditing. Under the IIA Professional Practices Framework, internal auditing is defined as:

*“an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*

The UNT System Internal Audit Department conforms to the *International Standards for the Professional Practice of Internal Auditing*, the Code of Ethics contained in the *Professional Practices Framework* as promulgated by the IIA, and generally accepted government auditing standards.

At UNT, the Chief Internal Auditor reports directly to the UNT System Board of Regents with access to the Chancellor of the UNT System as needed. The Chief Internal Auditor is supported by Directors of Internal Audit at the Health Science Center and Denton Campuses, as well as a professional staff of ten and 1.5 FTE support staff.

**Risk Assessment Background**

Internal audit departments overall, serving in an advisory and support capacity to management, traditionally face limited audit resources and budget constraints in the performance of their responsibilities. As such, internal audit departments

must rely on establishing priorities in developing work plans to address and evaluate risks to their organization in fulfilling their mission.

The purpose of business risk assessment is to allocate limited resources to areas of the organization that are most critical, or are of the highest business risk, to the success of the organization in reaching its goals and fulfilling its mission. Knowing the areas to audit and where to commit resources is critical to a successful internal audit department. Internal audit department efficiency and effectiveness is increased when audit effort is matched to business risk in the organization.

A well-developed business risk assessment model provides an efficient and systematic process to:

- Identify the business risks that impact the organization at a point in time;
- Identify the auditable areas of an entity impacted by these business risks;
- Measure the risk of each unit and identify activities of highest business risk;
- Rank the units by business risk;
- Determine the time necessary to complete reviews;
- Distribute available resources in the most efficient manner; and
- Develop annual valid, business risk-based project plans that address the business risks in priority order.

## Scope

Risk is a measure of impact to an organization. Though often thought of as the probability that an event or action could adversely affect the organization, risk is also the potential that a positive result will be achieved. In a positive context, risk is considered from a cost-benefit viewpoint. Analysis of positive risks assures that optimal outcomes will be achieved.

However, in its most commonly understood form, risk is defined as the degree to which activities are exposed to the potential for financial loss, the inappropriate disclosure of data, or other negative results from the absence or inadequacy of internal control. Using this frame of reference, risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Any action that reduces negative risk or improves positive risk increases the likelihood that goals and objectives will be achieved. In general, increased internal control means less risk.

Business risks facing an organization generally include the following categories:

- Strategic: Decisions may be based on incorrect, unreliable, fraudulent, or incomplete information, or may result in failure to accomplish objectives and goals.
- Financial: Record keeping, accounting, and financial reporting may be subject to inaccuracy, fraud, theft or financial loss, or exposure, and assets may not be adequately safeguarded.
- Operational: Resources may be managed poorly, uneconomically, or may be used inefficiently or ineffectively.
- Compliance: Appropriate adherence to organizational policies, plans or procedures, relevant federal, state, and local laws, or various regulations may not occur consistently.
- Reputational: The organization's reputation may be subjected to customer dissatisfaction, negative publicity, or damage.

## Methodology

As already stated, the goal of business risk assessment is to identify elevated business risk, and to allocate limited Internal Audit resources appropriate to the level of risk identified in the appropriate areas. Steps to accomplish this purpose, which ultimately results in project selection and inclusion in the annual project plan, include the following:

1. Select the criteria (risk factors) used to identify the significance of, and likelihood that, conditions and/or events may occur that would adversely affect the organization.
2. Weight the selection (risk) factors in terms of importance to management, external influences, and the internal auditor.
3. Identify and catalog auditable activities (the "audit universe") of the organization, including budgetary impact.
4. Prepare a risk matrix that includes the factors for each audit universe item.
5. Compute the weighted score for each universe item and the cumulative factor score.
6. Identify mandated projects required to be performed by the State of Texas, federal regulatory bodies, and other stakeholders in the operations of the University System.
7. Select and prioritize the risk-based projects to be performed.

8. Apply available resources in a systematic manner to address the largest portion of identified mandatory and risk-based areas possible.

### **Staffing/Budget**

The UNT System Internal Audit Department operating budget for fiscal year 2007 is projected to be \$846,672. This level of support will address the most significant risk areas identified. Remaining risk areas will be prioritized to the extent required to achieve the plan.

## Summary

Internal Audit objectives, and scopes of work, are aligned with the overall mission of the UNT System. The attached UNT System Internal Audit Plan for fiscal year 2007, for the UNT System, UNT-Denton, Health Science Center, and Dallas campuses, represent the results of this business risk assessment identification and assignment process. The project plan attempts to make the most efficient and effective use of UNT System Internal Audit Department resources.

The attached project plan was developed and is presented on a component basis, based on risk, materiality, existing internal controls, state, federal and other audit requirements, audit staff capabilities, results of prior audits, knowledge of the UNT System and its personnel, current trends in higher education, and the general business environment overall.

University of North Texas System  
Internal Audit Department  
Allocation of Hours by Position -- UNT Denton  
Fiscal Year Ending August 31, 2007

Staff Size by Position	<u>Chief IA</u>	<u>Director*</u>	<u>Auditor III</u>	<u>Auditor II</u>	<u>Total</u>
Total Hours Available	(1) <u>2,080</u>	(1) <u>2,080</u>	(3) <u>6,240</u>	(4) <u>8,320</u>	9 <u>18,720</u>
Less:					
Vacation**	96	136	359	449	
Sick leave	96	96	288	384	
Holidays	112	112	336	448	
Professional Development	<u>40</u>	<u>40</u>	<u>120</u>	<u>160</u>	
Total Non-office Hours	344 16.5%	384 18.5%	1103 17.7%	1441 17.3%	<u>3,272</u>
Net Hours Available	<u>1,736</u> 83.5%	<u>1,696</u> 81.5%	<u>5,137</u> 82.3%	<u>6,879</u> 82.7%	<u>15,448</u>
Administrative Activities	600 28.8%	400 19.2%	720 11.5%	960 11.5%	<u>2,680</u>
Direct Audit Hours	<u>1,136</u> 54.6%	<u>1,296</u> 62.3%	<u>4,417</u> 70.8%	<u>5,919</u> 71.1%	<u>12,768</u>
Total Direct Audit Hours - Denton	<u>12,768</u>				

\* The Assistant Director position at the Denton campus is reclassified to Director - UNT Denton effective September 1, 2006, as part of the refocusing of Internal Audit efforts for the UNT System

\*\* Hours Earned for FY 2007-does not include leave accrued but not taken from prior years.

University of North Texas System  
Internal Audit Department  
Allocation of Hours by Position -- UNT Health Science Center  
Fiscal Year Ending August 31, 2007

Staff Size by Position	<u>Director</u>	Assistant <u>Director</u>	<u>Auditor III</u>	<u>Auditor II</u>	<u>Total</u>
Total Hours Available	(1) <u>2,080</u>	(1) <u>2080</u>	(1) <u>2,080</u>	(1) <u>2,080</u>	4 <u>8,320</u>
Less:					
Vacation**	180	204	156	122	
Sick leave	96	96	96	96	
Holidays	112	112	112	112	
Professional Development	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	
Total Non-office Hours	<u>428</u> 20.6%	<u>452</u> 21.7%	<u>404</u> 19.4%	<u>370</u> 17.8%	<u>1,654</u>
Net Hours Available	<u>1,652</u> 79.4%	<u>1,628</u> 78.3%	<u>1,676</u> 80.6%	<u>1,710</u> 82.2%	<u>6,666</u>
Administrative Activities	<u>400</u> 19.2%	<u>300</u> 14.4%	<u>240</u> 11.5%	<u>240</u> 11.5%	<u>1,180</u>
Direct Audit Hours	<u>1,252</u> 60.2%	<u>1,328</u> 63.8%	<u>1,436</u> 69.0%	<u>1,470</u> 70.7%	<u>5,486</u>
Total Direct Audit Hours - HSC	<u>5,486</u>				

\*\* Hours Earned for FY 2007-does not include leave accrued but not taken from prior years.

University of North Texas System  
Internal Audit Department  
Allocation of Hours by Position -- System Summary  
Fiscal Year Ending August 31, 2007

Staff Size by Position	<u>Chief IA</u>	<u>Director</u>	<u>Assistant Director</u>	<u>Auditor III</u>	<u>Auditor II</u>	<u>Total</u>
Total Hours Available	(1) <u>2080</u>	(2) <u>4,160</u>	(1) <u>2080</u>	(4) <u>8,320</u>	(5) <u>10,400</u>	13 <u>27,040</u>
Less:						
Vacation**	96	316	204	515	571	1,702
Sick leave	96	192	96	384	480	1,248
Holidays	112	224	112	448	560	1,456
Professional Development	<u>40</u>	<u>80</u>	<u>40</u>	<u>160</u>	<u>200</u>	<u>520</u>
Total Non-office Hours	<u>344</u> 16.5%	<u>812</u> 19.5%	<u>452</u> 19.5%	<u>1507</u> 18.1%	<u>1811</u> 17.4%	<u>4,926</u>
Net Hours Available	<u>1,736</u> 83.5%	<u>3,348</u> 80.5%	<u>1,628</u> 80.5%	<u>6,813</u> 81.9%	<u>8,589</u> 82.6%	<u>22,114</u>
Administrative Activities	<u>600</u> 28.8%	<u>800</u> 19.2%	<u>300</u> 19.2%	<u>960</u> 11.5%	<u>1200</u> 11.5%	<u>3,860</u>
Direct Audit Hours	<u>1,136</u> 54.6%	<u>2,548</u> 61.3%	<u>1,328</u> 61.3%	<u>5,853</u> 70.3%	<u>7,389</u> 71.0%	<u>18,254</u>
Total Direct Audit Hours - System	<u>18,254</u>					

\*\* Hours Earned for FY 2007-does not include leave accrued but not taken from prior years.

University of North Texas System  
 Internal Audit Department  
 Schedule of Planned Projects and  
 Detail of Direct Audit Hours --  
 UNT -- Denton  
 Fiscal Year Ending August 31, 2007

<u>Projects in Progress</u>	<u>Budget Hours</u>	<u>Percent of Direct Hours</u>
EIS Student Grade Reporting/Grade Change Process Review	230	
Fiscal Year 2006 Investments/Commercial Paper Review	200	
Survey Research Center	80	
Wireless Technology Review	75	
IT Security Review	70	
Cooperative Education	50	
President's Office Review	40	
Trio Cluster	<u>40</u>	
 <u>Total Projects In Progress</u>	 <u>785</u>	 <u>6.15%</u>
 <u>Required Projects</u>		
Fiscal Year 2007 Investments/Commercial Paper Review	260	
NCAA Agreed-Upon Procedures Review	196	
Student Managed Investment Fund (SMIF) Review	200	
President's Office Review	150	
Joint Admission Medical Program	120	
NTIEVA Grant Review	<u>100</u>	
 <u>Total Required Projects</u>	 <u>1,026</u>	 <u>8.04%</u>
 <u>System Assigned Projects</u>		
Construction Review	300	
Purchasing Card Process Review	<u>240</u>	
 <u>Total System Assigned Projects</u>	 <u>540</u>	 <u>4.23%</u>
 <u>Projects Based on Risk Assessment</u>		
College of Education Review	300	
Micro Maintenance Services	300	
Criminal Justice Review	280	
Enrollment Reporting	280	

<u>Projects Based on Risk Assessment (cont'd)</u>	<u>Budget Hours</u>	<u>Percent of Direct Hours</u>
Financial Aid Review	280	
International Student Reporting (SEVIS) Review	280	
CCECM Operational Review	240	
Centers & Institutes Review	240	
Deferred Maintenance Review	240	
International Programs/Study Abroad Review	240	
Research Services - Post-Award Process Assessment	240	
Research Services - Pre-Award Process Assessment	240	
Review of Selected Grants	240	
Student Fees Review (Fee Determination)	240	
Computing Systems Security Risk Analysis	220	
EIS Business Continuity Planning	220	
NCAA Compliance Review	220	
Time Keeping/Time Reporting Student Recreation Center	220	
Asset Capitalization Process Review	200	
Deficit Account Review	180	
Departmental Business Continuity Review	180	
Payroll Review	180	
Surplus Computer Equipment Review	175	
Avian Flu Preparation Review	160	
PCI DSS Follow-up Review	160	
Student Health and Wellness Center Billing Practices	160	
Board of Regents Expenditures Review	150	
Chancellor's Office Review	150	
Faculty/Staff Scholarship Review	150	
Purchasing Card	140	
Student Service Fee Distribution Process Review	140	
Travel Follow-up Review	140	
Students Accounts Receivable Review	120	
Affiliated Organizations Contract Review	<u>80</u>	
<u>Total Projects Based on Risk Assessment</u>	<u>6,985</u>	<u>54.71%</u>
<u>Other Direct Audit Activity</u>	<u>1,277</u>	<u>10.00%</u>
<u>Quality Assurance Review - Self Study</u>	<u>240</u>	<u>1.88%</u>
<u>Contingency for Special Requests, Investigations, etc.</u>	<u>1,915</u>	<u>15.00%</u>
<b><u>Total Direct Project Hours -- Denton</u></b>	<b><u>12,768</u></b>	<b><u>100.00%</u></b>

University of North Texas System Internal Audit Department Schedule of Planned Projects and Detail of Direct Audit Hours -- Health Science Center Fiscal Year Ending August 31, 2007
---

<u>Projects in Progress</u>	<u>Budget Hours</u>	<u>Percent of Direct Hours</u>
Internal Controls Over Cash Receipts	50	
Biomedical Communications	100	
Clinical Trials	<u>25</u>	
<u>Total Projects In Progress</u>	<u>175</u>	<u>3.19%</u>
<u>Required Projects</u>		
Joint Admission Medical Program (JAMP)	150	
Graduate Medical Education Program	80	
Family Practice Residency Program (FP)	150	
Audit of Investments	240	
Review of President's Travel and Business Entertainment	150	
UMA Contract Agreed-Upon Procedures Review	120	
Review of Physician Group Practice Expenditures	<u>250</u>	
<u>Total Required Projects</u>	<u>1,140</u>	<u>20.78%</u>
<u>System Assigned Projects</u>		
Construction Review	0	
Procurement Card Review (Program Assessment)	240	
<u>Total System Assigned Projects</u>	<u>240</u>	<u>4.37%</u>
<u>Projects Based on Risk Assessment</u>		
Procurement Card Review (Selected Cards)	80	
Private Contracts and Grants	300	
Time and Effort Review (Federal Grants)	240	
Travel Office	280	
Advancement Department	280	
JPS Contract	300	

<u>Projects Based on Risk Assessment (cont'd)</u>	<u>Budget Hours</u>	<u>Percent of Direct Hours</u>
Federal Bureau of Prisons Contract (FMC)	280	
Course Fees (Medical School and PA Program)	280	
ITS - Access Security Review	240	
Credit Card Security Assessment	<u>61</u>	
<u>Total Projects Based on Risk Assessment</u>	<u>2,341</u>	<u>42.67%</u>
<u>Other Direct Audit Activity</u>	<u>600</u>	<u>10.94%</u>
<u>Quality Assurance Review - Self Study</u>	<u>240</u>	<u>4.37%</u>
<u>Contingency for Special Requests, Investigations, etc.</u>	<u>750</u>	<u>13.67%</u>
<b><u>Total Direct Project Hours -- Health Science Center</u></b>	<b><u>5,486</u></b>	<b><u>100.00%</u></b>

University of North Texas System  
 Internal Audit Department  
 Schedule of Planned Projects and  
 Detail of Direct Audit Hours --  
 UNT System Summary  
 Fiscal Year Ending August 31, 2007

	<u>Budget Hours</u>	<u>Percent of Direct Hours</u>
Total Projects In Progress	960	5.26%
Total Required Projects	2,166	11.87%
Total System Assigned Projects	780	4.27%
Total Projects Based on Risk Assessment	9,326	51.09%
Other Direct Audit Activity	1,877	10.28%
Quality Assurance Review - Self Study	480	2.63%
Contingency for Special Requests, Investigations, etc.	<u>2,665</u>	<u>14.60%</u>
<b><u>Total Direct Project Hours -- System Summary</u></b>	<b><u>18,254</u></b>	<b><u>100.00%</u></b>

## **II. External Quality Assurance Review (Peer Review)**

In accordance with the Texas Internal Auditing Act, an independent, external peer review team performed an external quality assurance review of the work of the UNT System Internal Audit Department. A copy of the Summary Letter is attached.

**III. List of Audits Completed Showing High-Level Objectives, Observations/Findings, Recommendations, and Status**

**IV. List of Consulting Engagements and Non-audit Services Completed Showing High-Level Objectives, Observations/ Results, Recommendations, and Status**

## **V. Organizational Chart**

The UNT System Internal Audit Department reports directly to the UNT Board of Regents with access to the Chancellor of the System. A copy of the System's organizational chart follows. The Finance and Audit Committee of the UNT System Board of Regents serves as the Audit Committee.



## **VI. Report on Other Internal Audit Activities**

## **VII. Risk Assessment and Internal Audit Plan for Fiscal Year 2008**

The attached annual audit plan for the University of North Texas System was approved by the Board of Regents on August 24, 2007.

## **VIII. External Audit Services**