November 1, 2004

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 2004 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,

Tim Edwards, CIA, CFE
Chief Internal Auditor

Enclosure

cc: Members of the Board of Regents
        Mr. Lee Jackson, Chancellor
        Dr. Norval F. Pohl, President, UNT
        Dr. Ronald R. Blanck, President, UNTHSC

The leading university of the Dallas-Fort Worth region
P.O. Box 311247 ◆ Denton, Texas 76203-1247 ◆ (940) 565-2153
Fax (940) 565-2534 ◆ TTY (800) RELAY TX ◆ www.unt.edu

UNIVERSITY _of_ NORTH TEXAS SYSTEM

Internal Audit

Annual Report
Fiscal Year 2004

Submitted by: _Tim Edwards_

Tim Edwards, CIA, CFE
Chief Internal Auditor

TABLE OF CONTENTS

I.   Internal Audit Plan for Fiscal Year 2004

The attached annual audit plan for the University of North Texas System was approved by the Board of Regents on August 21, 2003.

ANNUAL RISK ASSESSMENT AND AUDIT PLAN
Audit No. 03-029

INTRODUCTION

The Internal Audit function for the University of North Texas System performs in accordance with the Texas Internal Auditing Act, Government Code Chapter 2102. The purpose of internal auditing is "to assist agency administrators by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of an agency's system of internal control policies and procedures and the quality of performance in carrying out assigned responsibilities."

Furthermore, the Institute of Internal Auditors (IIA) is recognized as the authoritative body for a program of internal auditing. The internal audit program at UNT conforms to the *Standards for the Professional Practice of Internal Auditing*, Generally Accepted Government Auditing Standards, the Certified Internal Auditor Code of Professional Ethics, and the Statement of Responsibilities of Internal Auditing of the Institute of Internal Auditors.

The Chief Internal Auditor reports directly to the UNT System Board of Regents with access to the Chancellor.

BACKGROUND

Internal audit departments face limited audit resources and budget constraints. The purpose of risk assessment is to allocate these limited resources to areas of the organization that are most critical to the success of the organization in reaching its goals. Additionally, knowing the areas to audit and where to commit resources is critical to a successful internal auditing department. Overall internal audit department efficiency and effectiveness is increased when audit effort is matched to risk in the various auditable units of the organization.

Thus, a well-developed risk assessment model will provide an efficient and systematic procedure to:

- Determine the auditable areas of an entity;
- Measure the risk of each unit and identify activities exposed to high risk;
- Rank the units by risk;
- Determine the time necessary to complete audits;
- Distribute available resources in the most efficient manner; and
- Develop annual and long-term audit plans.

SCOPE

"Risk" is the probability that an event or action could adversely affect the organization. Stated another way, risk is the degree to which activities are exposed to the potential for financial loss, the inappropriate disclosure of data, or other forms of embarrassment that result from the absence or inadequacy of control or effectiveness of human resources. Furthermore, risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less risk.

Specific examples of risks facing the organization include the following:

- Erroneous decisions from using incorrect, unreliable, fraudulent, or incomplete information;
- Erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss or exposure;
- Failure to adequately safeguard assets;
- Customer dissatisfaction, negative publicity, and damage to the organization's reputation;
- Failure to adhere to organizational policies, plans or procedures, or not complying with relevant laws and regulations;
- Acquiring resources uneconomically or using them inefficiently; and
- Failure to accomplish objectives and goals.

METHODOLOGY

As previously stated, the goal of risk assessment is to determine units exposed to high risk and to allocate limited audit resources appropriate to that level of risk. Steps to accomplish this purpose, which ultimately results in audit selection and inclusion in the annual audit plan, include the following:

1. Identify and catalog auditable activities (the "audit universe") of the organization.

2. 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.

3. Weight the selection (risk) factors in terms of importance to management, external influences, and the auditor.

4. Prepare an audit selection schedule that includes the factors for each audit universe item.

5. Compute the weighted score for each universe item and the cumulative factor score.

6. Select and prioritize the audits to be conducted.

7. Examine available resources.

STAFFING/BUDGET

The System Internal Audit operating budget for fiscal year 2004 (including one special item request) is $695,769. This level of support, in conjunction with current staffing, is sufficient to accomplish the attached audit plan.

SUMMARY

Internal Audit objectives and scope of work are aligned with the overall mission of the UNT System. Whereas internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations, it helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The attached Internal Audit Plan for fiscal year 2004 was developed and is presented on a component basis based on risk assessment, materiality, existing controls, state, federal and other audit requirements, audit staff capabilities, results of prior audits, and knowledge of the UNT System and its personnel. Additionally, consideration was given to specific requests by University and Health Science Center management.

University of North Texas System
Internal Audit

Allocation of Hours by Position - UNT Denton
Fiscal Year 2004

	Chief IA		Asst Director		Auditor III		Auditor II	
Staff Size by Position	1		1		1		3	
Total Hours Available	2,080		2,080		2,080		6,240	
Less:								
Vacation	80	4%	80	4%	80	4%	240	4%
Sick Leave	80	4%	80	4%	80	4%	240	4%
Holidays	112	5%	112	5%	112	5%	336	5%
Continuing Education	45	2%	45	2%	45	2%	135	2%
Total Non-office Hours	317	15%	317	15%	317	15%	951	15%
Net Hours Available	1,763	85%	1,763	85%	1,763	85%	5,289	85%
Administrative Activities	500	24%	400	19%	250	12%	750	12%
Direct Audit Hours	1,263	61%	1,363	66%	1,513	73%	4,539	73%
Total Direct Audit Hours - UNT Denton							8,678	70%

NOTE: All percentages are calculated on total individual hours available.

University of North Texas System
Internal Audit

Schedule of Planned Audits & Detail of Direct Audit Hours - UNT Denton
Fiscal Year 2004

	Budget Hours	Percent of Direct Hours
Audits In Progress		
Follow-up Reviews - Prior Audit Recommendations FY03	300	
Distributed Learning Policy/Courseware Agreements	175	
Annual Investments Audit FY03 Compliance	100	
Immigration and Naturalization (INS) Reporting	100	
Special Events Insurance Coverage	75	
Total Audits In Progress	750	9%
Required Audits		
Bonds Review - UNT System Compliance	303	
State Auditor's Office A-133 Assistance	250	
Advanced Technology Program (ATP) Review	200	
Annual Investments Audit FY04 Compliance	150	
Total Required Audits	903	10%
Audits Based On Risk Assessment		
Departmental Accountability Reviews	500	
Federal Programs Review (Trio Cluster, Gaining Early Awareness)	400	
Environmental Safety/EPA Compliance Review	350	
Contract Administration Process	300	
Performance Measures Reliability	300	
Compliance Function Review	300	
Health Insurance Portability and Accountability Act (HIPAA) Review	250	
Purchasing Card Departmental Reviews	200	
Employee Reimbursement Review	200	
Student Development Loan Programs	200	
Tuition Increase - Financial Aid Review	150	
Financial Modernization Act of 1999 (GLB) Compliance Review	150	
Survey Research Center Departmental Review	100	
President's Office Review	100	
Unrelated Business Income Tax (UBIT) Audit	100	
Cash Handling Review - Student Recreation Center	75	
Information Technology Reviews		
Enterprise Information System (EIS)	600	
Wireless Technology Review	200	
Total Audits Based on Current Year Risk Assessment	4,475	52%

Other Direct Audit Activities

Risk Assessment/Annual Audit Plan/Annual Report	400	
Follow-up Reviews - Prior Audit Recommendations FY04	350	
Quality Assurance Review	300	
Consulting/Training	200	
Total Other Direct Audit Activities	1,250	14%
Contingency for Special Requests, Investigations, etc.	1,300	15%
TOTAL DIRECT AUDIT HOURS	**8,678**	**100%**

University of North Texas System
Internal Audit

Allocation of Hours by Position - UNT Health Science Center
Fiscal Year 2004

	Director		Asst Director		Auditor III		Auditor II	
Staff Size by Position	1		1		1		1	
Total Hours Available	2,080		1,200 *		2,080		2,080	
Less:								
Vacation	88	4%	88	7%	88	4%	88	4%
Sick Leave	80	4%	80	7%	80	4%	80	4%
Holidays	112	5%	112	9%	112	5%	112	5%
Continuing Education	40	2%	40	3%	40	2%	40	2%
Total Non-office Hours	320	15%	320	26%	320	15%	320	15%
Net Hours Available	1,760	85%	880	74%	1,760	85%	1,760	85%
Administrative Activities	528	25%	176	15%	176	8%	528	25%
Direct Audit Hours	1,232	60%	704	59%	1,584	77%	1,232	60%
Total Direct Audit Hours - UNT Health Science Center							4,752	64%

* Excused leave due to illness.

NOTE: All percentages are calculated on total individual hours available.

University of North Texas System
Internal Audit

Schedule of Planned Audits & Detail of Direct Audit Hours - Health Science Center Fiscal Year 2004

	Budget Hours	Percent of Direct Hours
Audits In Progress		
Health Insurance Portability and Accountability Act (HIPPA)	80	
MSRDP Fund Balance Deficits	120	
Total Audits In Progress	200	4%
Required Audits		
Family Medicine Residency Program	240	
Advanced Technology Programs	200	
Graduate Medical Education - Residency Program	200	
Investment Compliance/Public Funds	200	
Joint Admission Medical Program (JAMP)	120	
Federal Skiptracing Program	100	
Total Required Audits	1,060	22%
Management Requested Audits		
MSRDP Expenditure Review	320	
Total Management Requested Audits	320	7%
Audits Based On Risk Assessment		
Accounting Controls - Cash Disbursements	300	
Construction Audit - Biotechnology and Public Health Building	300	
Federal Contracts and Grants	300	
MSRDP - Cash Receipts Internal Controls	300	
Indirect Cost Recoveries	240	
Substantive Testing of Financial Statements		
Assets	200	
Revenues	100	
Annual Financial Report	75	
Trial Balance and General Ledger	57	
Liabilities	50	
Net Assets	50	
Expenditures	40	
Total Audits Based on Current Year Risk Assessment	2,012	42%

Other Direct Audit Activities

Annual Internal Audit Report	200	
Peer Review	200	
Follow-Up on Audit Recommendations	160	
Internal Audit Plan and Risk Assessment Preparation	150	
Assisting State Auditor's Office	50	
Total Other Direct Audit Activities	760	16%
Contingency for Special Requests, Investigations, etc.	400	9%
TOTAL DIRECT AUDIT HOURS	**4,752**	**100%**

Internal Audit – UNT Denton
Status Report
(From Board of Regents Quarterly Report, August 2004)

The following schedule details current progress and variances in accomplishment of the Annual Audit Plan.

		Budgeted Hours	Actual Hours	Variance	Comments
Audit Reports Issued Year to Date					
03-003	Annual Investments Audit Fiscal Year 2003	100	94	(6)	
03-014	Instructional Materials Policy Compliance Review	80 [2]	110	30	
03-015	Accounts Receivable Management Review	20 [2]	24	4	
03-017	Clinical Services Billing Review	125 [2]	162	37	
03-021	Research Committees Review	20 [2]	64	44	
03-030	Fiscal Year 2003 Follow-up Review	300	279	(21)	
03-041	Information Systems Research Center Review	75 [2]	118	43	
04-002	Consulting - State Auditor's Office Assistance	250	157	(93)	
04-003	Advanced Research/Advanced Technology Programs Compliance Review	200	314	114	Add'l testing required
04-012	Employee Reimbursement Review	200	299	99	Detailed issues identified
04-013	Student Development Loan Review	200	148	(52)	Add'l work in progress
04-020	Consulting - EIS Payroll Controls	25	30	5	
04-022	Annual Internal Audit Report (System)	150 [1]	93	(57)	No change in requirements
04-025	Historically Underutilized Business (HUB) Reporting Analysis	200 [2]	197	(3)	
04-026	Consulting - Policy Development	10 [2]	14	4	
04-027	Consulting - Grant Prepayment Review	50 [2]	24	(26)	
04-027	Consulting - Grant Payment Review	26 [2]	24	(2)	
04-028	Consulting - Dean's Office Financial Review and Analysis	300 [2]	71	(229)	Add'l work completed 2Q
04-028	School of Library and Information Sciences Financial Review and Analysis	300 [2]	590	290	Extensive controls review
04-030	Student Managed Investment Fund Review	100 [2]	114	14	
04-031	Consulting - Orientation for Leaders Presentation	30 [3]	28	(2)	
04-032	Consulting - Management Controls Training	170 [3]	14	(156)	Add'l work completed 3Q
04-032	Management Controls Training	156 [3]	145	(11)	
04-033	Consulting - Universities Center Cash Review	25 [2]	20	(5)	
04-034	College of Education Grant Analysis	225 [2]	184	(41)	
04-035	Dining Services Meal Plan Review	200 [2]	183	(17)	

	Budgeted Hours	Actual Hours	Variance	Comments
Audit Reports Issued This Quarter				
04-011 Purchasing Card Departmental Reviews	200	445	245	Expanded testing
04-017 President's Office Review	100	109	9	
04-019 Student Recreation Center Cash Handling Review	75	65	(10)	
04-022 Risk Assessment and Annual Audit Plan (System)	250 [1]	243	(7)	
04-024 Quality Assurance Review Results (System)	300	324	24	
04-037 Student Health and Wellness Center Pharmacy Review	125 [2]	123	(2)	
04-038 Consulting - Management Controls Reports	40 [2]	30	(10)	
04-039 Consulting - Cash Loss	15 [2]	9	(6)	
Total Budget vs. Actual Hours For Completed Audits	**4642**	**4848**	**206**	

[1] Allocated from Annual Risk Assessment/Annual Audit Plan/Annual Report (336 used/400 budgeted).

[2] Allocated from Annual Audit Plan contingency hours (2061 used/1300 budgeted).

[3] Allocated from Consulting/Training (187 used/200 budgeted).

Audits in Progress

	Budgeted Hours	Actual Hours	Variance	
04-004 Annual Investments Audit Fiscal Year 2004	150	84	(66)	
04-006 Environmental Safety/EPA Compliance	350	269	(81)	
04-010 Health Insurance Portability and Accountability Act (HIPAA) Review	250	68	(182)	
04-013 Student Development Loan Review	200	266	66	
04-015 Financial Modernization Act of 1999 Assessment	150	229	79	
04-018 Unrelated Business Income Tax (UBIT) Review	100	68	(32)	
04-023 Fiscal Year 2004 Follow-up Review	350	130	(220)	
04-034 College of Education Grant Analysis	225	166	(59)	
04-036 College of Business Administration Dean's Office Review	200	239	39	

Time Allocation Among Budgeted Activities

	Budgeted Percentage	Actual Percentage	Variance	Comments
Vacation	4	5.3	1.3	
Sick Leave	4	3	(1.0)	
Holidays	5	6.1	1.1	
Continuing Education	2	4.6	2.6	Certification requirements
Administrative Activities	15	17.5	2.5	Change in budgeted standards
Direct Audit Hours	70	63.5	(6.5)	Change in budgeted standards

Status Report Summary

Internal Audit issued thirty-four audit reports in fiscal year 2004. Approximately 81 percent of the Board approved "Annual Audit Plan" was completed (2,061 contingency hours were used during fiscal year 2004 for special investigations and consulting, which negatively impacted an otherwise excellent completion rate for the Annual Plan). Direct audit hours accounted for sixty-four percent of total available hours, administrative time eighteen percent, and continuing education, vacation, sick leave, and holiday time eighteen percent.

Internal Audit – Health Science Center
Status Report

The following schedule is an analysis of budgeted hours vs. actual hours for September 1, 2003 – August 31, 2004.

Functional Areas	Budgeted Hours	Actual Hours Audited	Variance Over (Under)	Percent Over (Under)
Audits Based on Risk Assessment	2,212	3,236	1,024	(46%)
Statutory Audits	1,060	825	(235)	(22%)
Management Requested Audits	320	159	(161)	(50%)
Other Planned Projects	760	732622	(28)	(4%)
Unplanned Audits	400	4	(396)	(99%)
Miscellaneous	0	0	0	0%
Total Direct Hours Charged	**4,752**	**4,955**	**204**	**(4%)**
Administrative Hours Charged	**1,408**	**1,351**	**(57)**	**(4%)**
Total Hours Charged	**6,160**	**6,306**	**146**	**(2%)**

Status Report Summary

Internal Audit completed the fiscal year 4 percent over the aggregate Direct Hours Budgeted. Internal Audit finished the fiscal year 2 percent over the overall budget (Total Direct Audit Hours plus Administrative Hours). Even though "Audits Based On Risk" was significantly exceeded, unexpended budgets from "Unplanned Audits" and "Statutory Audits" were available to offset the additional hours used for the risk based audits. Only one engagement was not completed at year end and carried forward to the fiscal year 2005 audit plan.

Direct audit hours accounted for approximately 62 percent of total available hours, administrative time 17 percent, and continuing education, vacation, sick leave, and holiday time 21 percent.

II.   External Quality Assurance Review (Peer Review)

A respected consultant in the field of internal auditing completed an evaluation of the UNT System Internal Audit function in June 2004. Performed in accordance with the Association of College and University Auditors (ACUA) quality assurance guide, the UNT System received a ***fully complies*** with *International Standards for the Professional Practice of Internal Auditing*. This rating represents the best possible evaluation. A copy of the Executive Summary/Overall Opinion is attached.

<div style="text-align: center;">

University of North Texas System
Quality Assurance Review
September 2004

</div>

Executive Summary

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.), an external quality assurance review (QAR) was conducted of the internal audit activity at the University of North Texas System (UNTS).

Every three years, internal audit departments at state agencies and universities must conduct a comprehensive external peer review, also known as a quality assurance review. An external quality assurance review, as part of a quality assurance program, is intended to provide reasonable and objective assurance that the internal audit work being performed meets the requirements of appropriate professional standards.

The principal objectives of the review at UNTS were to assess whether the internal audit activity conforms to the Texas Internal Auditing Act and whether the audit work being performed complies with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing,* and the United States General Accounting Office's (GAO) *Government Auditing Standards*, as required by the Texas Internal Auditing Act. Also, during the review an attempt was made to identify opportunities that would enhance the functionality of the audit process and improve the value of the internal auditing activity at UNTS.

The scope of the review included an evaluation of existing internal audit policies, procedures, and audit files, at both the University of North Texas (UNT) campus in Denton and the University of North Texas Health Science Center at Fort Worth (UNTHSC). Interviews were conducted with: the Chair of the Budget and Finance Committee of the UNTS Board of Regents; the UNTS Chancellor; the UNTS Vice Chancellor for Finance and Business

Affairs; the UNTS Vice Chancellor for Legal; the UNT President; the UNTS Chief Internal Auditor; and the audit staff.

At UNTHSC interviews were conducted with the President; the Senior Vice President of Finance and Administration; the Dean of the Texas College of Osteopathic Medicine; the UNTHSC Audit Director; and the audit staff. The Chief Internal Auditor's reporting relationships and communications with the Budget and Finance Committee, and the Chancellor, as well as each location's relationship to their President, and the objectivity of the audit work they performed were reviewed to determine their independence. The knowledge, skills, discipline and training of the staff were evaluated by examining examples of their workpapers and their administrative records. An inventory of current audit work and selected workpapers at each site was reviewed and the scope and performance of the planned and completed audit work was also evaluated. The annual internal audit planning process was examined, including a review of the policies and procedures for planning, documenting, and communicating audit results, and following-up on audit recommendations.

Overall Opinion

Based on the work outlined above, it is the opinion of the reviewer that the Internal Audit activity at the University of North Texas System **fully complies** with the Texas Internal Auditing Act, the IIA International Standards for the Professional Practice of Internal Auditing and the GAO Government Auditing Standards.

This opinion, representing the best possible evaluation, means that there are in place, at both the UNT campus at Denton and the UNTHSC in Fort Worth, relevant structures, policies, procedures and processes that comply with the requirements of the Texas Internal Auditing Act and the IIA and GAO standards in all material respects.

Management at both UNT and UNTHSC are strongly supportive of the internal audit function. Management interviews indicated that the scope and type of work being performed by the departments is addressing where management believes there are risks. A review of selected workpapers at both locations showed that the staffs are proficient and knowledgeable in the areas they review. The workpapers are very professionally prepared and supported levels of professional care appropriate for the complexities of the work being performed. Audit projects are being well planned, and the work performed by the staffs is being appropriately documented in their workpapers. Audit programs were appropriately referenced to the audit steps. Tests performed during the audit and conclusions contained in audit reports were supported by the work performed. There was evidence that the workpapers are thoroughly reviewed before audit reports were issued.

While the internal audit activity at UNTS is in compliance with the Texas Internal Auditing Act and other applicable auditing standards, the following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving the value and the effectiveness of the audit work being performed.

The recommendations are divided into two groups:

Part I – Matters for the consideration of the Budget and Finance Committee of the UNTS Board of Regents. These recommendations concern the internal audit function at UNTS as whole and are actions that should be taken by the Committee. These recommendations impact the effectiveness and efficiency of the internal auditing activity overall and the value it adds to UNTS. The recommendations in this area include:

- The Budget and Finance Committee needs to develop and document in its bylaws the duties and responsibilities of the Committee, which are required by the Texas Internal Auditing Act in overseeing the internal auditing activities at UNTS.

- Change the title of the Budget and Finance Committee to the Finance and Audit Committee to underscore the importance of internal controls and internal auditing's role in insuring their effectiveness.

Part II – **Improvement opportunities specific to the UNTS internal audit activity**. These recommendations relate to the internal auditing activity's structure, staffing, deployment of resources, and other matters that should be implemented by the Chief Internal Auditor, with the support of the Board. The recommendations in this area include:

- The audit staff at UNT needs to more fully incorporate the use of information technology into their audit work

- UNTS Internal Audit should consider acquiring outside resources to review the EIS System and to supplement their own staff skills and ability.

- The Implementation of these recommendations will enhance the internal audit activity at UNTS and improve the value, efficiency and effectiveness of the internal auditing work in the future.

Richard H. Tarr, CISA, CIA

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

University of North Texas – Denton

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
03-003	Nov 03	Annual Investments Audit – Fiscal Year 2003	Based on University Policy, the Public Funds Investment Act, and State Auditor requirements: • Perform a review of management controls over investing activities and adherence to UNT's established investment policy; • Verify investments are adequately and appropriately safeguarded; and • Verify investment transactions are recorded and reported in a manner consistent with state law and in accordance with methods prescribed by the Legislative Budget Board.	(1) The Vice President for Finance and Business Affairs requested that Internal Audit evaluate controls over endowment funds invested with the Commonfund. Internal Audit determined that transaction practices of the Commonfund indicated a need for UNT to implement compensating controls. Therefore, Internal Audit recommended the Cash Manager require (in writing) that Commonfund prohibit signature guaranty letters for the bond and equity funds.	Implemented Based on the concern expressed by UNT over the practice of accepting faxed copies of signature guaranteed instructions, the Commonfund instituted a policy change. Effective, October 6, 2003, the Commonfund began accepting only original copies of the signature guaranteed letter for all of its investors.	Strengthen controls over investment activities.
				(2) UNT should include the Internal Audit annual investments review on the web page. Additionally, action should be taken to ensure quarterly reports are posted no later than seven days after presentation to the Board of Regents.	Implemented Follow-up scheduled for FY 2005 as part of annual audit of investments.	Assure compliance with SAO requirements.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
03-014	Feb 04	Instructional Materials Policy Compliance Review	Evaluate contractual agreements for printing services between academic units and non-UNT publishers. Review documentation reflecting that Printing Services had approved specifications for print work prior to bidding outside contracts.	Increased priority should be given to oversight of the instructional materials adoption and pricing process.	Internal Audit will work with the Provost and the Deans to review and evaluate controls that could increase compliance with the Instructional Materials Policy at UNT. Follow-up scheduled for FY 2005.	Strengthen compliance with University policy; safeguard interests of students, faculty, and staff; and promote consistency.
03-015	Nov 03	Accounts Receivable Management Review	Evaluate individual processes for managing receivables and identify possible areas for improvement.	(1) Departments should consider developing additional aging reports.	In Progress Follow-up scheduled for FY 2005.	Assist in monitoring and collecting receivables.
				(2) Departments should develop written procedures for collections.	Implemented	Assure continuity.
03-017	Feb 04	Clinical Services Billing Review	Determine if the procedures for the billing and collection processes for four instruction-related units, as identified in a prior review, were functioning as intended	No findings/recommendations	N/A	N/A
03-021	Nov 03	Research Committees Review	Determine that University research committees are established and operating in the manner directed by law and/or University policy.	(1) Develop a process through which higher risk protocols might be identified for further review and/or observation at intervals of less than a year.	In Progress Follow-up scheduled for FY 2005.	Enhance the effectiveness of the committees.
				(2) Consider developing procedures whereby notifications are transmitted to Principal Investigators with sufficient lead time to assure return of reports before established review dates.	In Progress Follow-up scheduled for FY 2005.	Enhance the effectiveness of the committees.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(3) Complete and accurate records of meetings of the Institutional Biosafety Committee should be made and retained.	In Progress Follow-up scheduled for FY 2005.	Enhance the effectiveness of the committees.
03-030	May 04	Fiscal Year 2003 Follow-up Review	Determine if previously agreed-upon actions have been taken and are functioning as intended.	N/A	N/A	N/A
03-041	Nov 03	Information Systems Research Center Review	Internal Audit was contacted by the Director of the Information Systems Research Center (ISRC) to request a review of certain fiscal activities of an Administrative Assistant employed by the Center.	Internal Audit determined the Administrative Assistant owed reimbursement to ISRC. Inappropriate activities identified included (1) using a UNT purchasing card for personal purchases; (2) receiving inappropriate task and overtime payments; and (3) circumventing payroll controls and procedures to allow for an inappropriate payroll check payment.	Personnel action has been taken to address the situation. The Administrative Assistant has been terminated from University employment and has been arrested in connection with activities identified in the review. In addition, the UNT Office of Risk Management filed proof of loss with UNT's fidelity insurer.	Misappropriation of University funds minimized.
04-002	May 04	Consulting – State Auditor's Office Assistance	The Texas State Auditor's Office (SAO) conducted an audit of cash controls at the University of North Texas. Internal Audit assisted the State Auditors by gathering information, assisting in the selection of departments for review, and facilitating the scheduling of meetings.	N/A	N/A	N/A

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-003	May 04	Advanced Research/Advanced Technology Programs Compliance Review	Determine if grants were appropriately administered in accordance with Texas Higher Education Coordinating Board (THECB) guidelines and University policies.	(1) Faculty salaries are restricted by ARP/ATP grant conditions to 1.5 months of salary, not to exceed $10,000 a year for two years. Salaries for five faculty members exceeded the salary limitations. This resulted because benefit replacement pay (BRP) was not included in the calculation of gross wages for faculty support limits.	Implemented Office of Research Services (ORS) has corrected the overpayments, and future calculations of gross wages will include benefit replacement pay.	Assure compliance with ARP/ATP grant conditions.
				(2) Four transactions related to capital equipment, foreign travel, and wages were not reviewed or approved by ORS. It appears that these expenditures were not in compliance with grant conditions.	In Progress The new enterprise information system will address this issue by automatically routing these types of items through ORS.	Assure compliance with ARP/ATP grant conditions.
				(3) A project director retired and failed to file the final technical report required by grant conditions. ORS has made numerous efforts to resolve the submission. During the course of the review, progress was made toward completion of the report's final filing with the THECB by another professor.	In Progress ORS is in the process of assuring all reports have been submitted to the THECB. Follow-up scheduled for FY 2005	Assure compliance with ARP/ATP grant conditions.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(4) On three occasions reports and/or refunds were not submitted to the Coordinating Board in a timely manner. However, during the period under review, four out of five staff positions turned over, including the position responsible for ARP/ATP account management. The training of new staff temporarily hindered the ability of ORS to provide timely submission of the financial reports. Additionally, a final technical report required to be completed by the project director had not been submitted to the Coordinating Board. ORS notified the project director, who agreed to submit the report.	In Progress ORS is in the process of assuring all reports have been submitted to the THECB. Follow-up scheduled for FY 2005.	Assure compliance with ARP/ATP grant conditions.
04-011	Aug 04	Purchasing Card Departmental Reviews	Reviewed a total of sixty-five purchasing cards in four departments/units to determine compliance with purchasing card guidelines.	Based on review of transaction logs and supporting documentation, multiple types of exceptions were noted. Cardholders should review and follow the University Purchasing Card Program Guide. Each unit should evaluate the need for additional purchasing card training. Reimbursement to University accounts was recommended where applicable.	Monitoring of purchasing cards is on-going. Departments with exceptions have agreed to take appropriate action. Follow-up scheduled for FY 2005.	Assist in assuring compliance with purchasing card requirements and guidelines.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-012	May 04	Employee Reimbursement Review	At the request of the Vice President for Finance and Business Affairs, Internal Audit reviewed twenty-seven non-travel reimbursement claims paid to six employees in fiscal year 2003. The objective was to test those reimbursements for compliance with University Policy.	Nine issues were identified for more extensive Internal Audit follow-up.	N/A	Achieve compliance with University policy.
04-013	Nov 03	Student Development Loan Review	At the request of the Vice President for Student Development, Internal Audit reviewed a loan fund administered by the unit. Objectives were to: • Address concerns of Purchasing and Payment Services related to reconciliation reporting, and • Evaluate the loan process.	(1) A strong collection effort for outstanding loans should be ongoing.	In Progress Follow-up scheduled for FY 2005.	Ensure fund is functioning as intended and assists the maximum number of students.
				(2) Management should obtain reconciliation preparation and review training from Financial Reporting.	Implemented Follow-up scheduled for FY 2005	Ensure accurate reporting of the petty cash fund.
				(3) Fees collected by Student Development are commingled in the loan account. The cumulative fees should be transferred to a separate account, and future fees should be transferred on a monthly basis.	In Progress Follow-up scheduled for FY 2005.	Achieve compliance with University policy; and improve safeguarding of assets.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-017	Aug 04	President's Office Review	At the President's request, reviewed selected accounts managed by the President's Office to determine if management control systems provide appropriate review, approval, and monitoring of expenditures.	No findings/recommendations.	N/A	N/A
04-019	Aug 04	Student Recreation Center Cash Handling Review	Determine if cash controls were functioning as designed by management, and in accordance with UNT Policy.	No findings/recommendations. Discussed with management opportunities to streamline cash control process and clarify departmental procedures.	N/A	N/A
04-020	Feb 04	Consulting – EIS Payroll Controls	Internal Audit met with representatives from Human Resources and the Payroll Department to discuss controls related to entry and approval of time in the Enterprise Information System (EIS). The system was designed such that one individual could both enter and approve payroll information.	As a result of this meeting, it will now be required that at least two individuals be involved in the time reporting duties.	In Progress Internal Audit will follow-up on those instances when the same individual performs both functions.	Increase assurance of proper controls (separation of duties).

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-025	Nov 03	Historically Underutilized Business (HUB) Reporting Analysis	Compare HUB information prepared by Facilities to HUB information summarized and reported by Purchasing and Payment Services (PPS) for consistency and accuracy. Follow-up on previously reported HUB-related audit recommendations.	HUB reports prepared by Facilities and PPS are based on the same basic data. HUB utilization percentages can vary from one report to another, however, due to timing differences and the way data is classified. Two suggestions were made which offer opportunities to clarify information and improve the accuracy of HUB reporting with PPS and Facilities management.	Implemented Follow-up scheduled for FY 2005.	
				(2) All prior recommendations have been implemented or are in progress. PPS and Facilities are currently working with the Director of Compliance to further refine specific compliance procedures and processes. Both PPS and Facilities remain committed to the success of the University's HUB program.	N/A	N/A

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-027	Nov 03 May 04	Consulting – Grant Pre-payment Review	Review regarding possible wage pre-payment(s) to an employee from a Telecommunications Infrastructure Fund Board (TIFB) grant. Objectives were to determine the following: • Whether a breach of standards occurred; • The reason(s) for non-compliance (if a breach occurred); and • The effects, appropriate action to be taken, and recommendations in case of non-compliance.	Concluded that a breach of standards did occur when an employee was paid prior to completing work on the grant. However, the agreed-upon work was completed fully and satisfactorily in December 2003 (the grant deadline was August 31, 2003. As a result of the review, the Texas Workforce Commission (as administrators for the TIFB) was contacted regarding this issue. After reviewing the information provided, the TIFB Project Manager concluded that while it appears administrative procedures were not completely followed, the goal of the grant has been met and therefore the use of funds is allowable. The Principal Investigator has been appropriately informed of his responsibilities regarding future grant administration.	N/A	Minimize instances of non-compliance with grant requirements and resulting penalties.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-028	Nov 03 Feb 04	School of Library and Information Sciences Financial Review and Analysis	During the course of the five-month investigation, Internal Audit engaged the following review, evaluation, and support procedures related to the improper activities: • Examined detailed Payroll and Human Resource records; • Evaluated payment rates for hourly wages and task payments; • Assessed hours worked by student employees; and • Reviewed travel and miscellaneous expense reimbursement documentation. Additionally, Internal Audit consulted with Police, Human Resources, Legal Affairs, and Risk Management personnel to provide requested information and to convey results of the procedures performed.	Fourteen arrests have been made as a result of the investigation. Additionally, as a direct result of this experience, multiple entities and offices of the University are coordinating an effort to address issues such as management review and oversight responsibilities, training, and control processes/procedures.	N/A	The goal is to mitigate the chance of reoccurrence at a cost that is acceptable to the level of risk involved.
04-030	Feb 04	Student Managed Investment Fund Review	Required annual review by Internal Audit of all aspects of the Student Managed Investment Fund (SMIF) and Student Scholarship Program.	(1) Investment transactions for the Student Investment Group (SIG) are performed through an institutional brokerage firm. Statements from the firm should be delivered to an individual independent of the execution of investment transactions for review and reconciliation.	Implemented Annual audit scheduled for FY 2005.	Assist in developing an appropriately segregated control environment over investment activities.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(2) All SIG quarterly reports should be prepared and issued in a timely manner. Additionally, arrangements should be made for a year-end audit to be conducted by UNT accounting majors, and results provided to all appropriate parties.	Implemented Annual audit scheduled for FY 2005	Assure compliance with written agreement between the donor and the University.
				(3) The latest SIG organizational chart dated July 1, 2003 indicated several positions were vacant; these positions should be filled in a timely manner.	Implemented Annual audit scheduled for FY 2005.	Assist in assuring success of SIG and continuity of student management of the SMIF.
04-033	May 04	Consulting – Universities Center at Dallas Cash Review	Follow-up review of cash handling procedures.	Internal Audit found 12 checks in the UCD safe from October 2002 (nearly 16 months previous). Internal Audit met with the UCD Executive Director to discuss the circumstances and to determine action necessary regarding the checks.	N/A	N/A

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • Implemented • Planned • In Progress • Factors Delay Implementation • Agency Does Not Plan to Implement Recommendation	Fiscal Impact/ Other Impact
04-035	May 04	Dining Services Meal Plan Review	Internal Audit consulted with Human Resources regarding a UNT Police investigation of an individual suspected of fraudulently obtaining meals from residence halls. Internal Audit's involvement in the investigation was to review controls in the Dining Services Meal Plans process.	Overall, action taken by Dining Services management upon discovery of the theft was immediate, appropriate, and effective in preventing additional losses. Dining Services employees should obtain additional training in the functions of the software application that provides information for processing and tracking meal plans and payments.	Implemented Follow-up scheduled for FY 2005.	Strengthen the overall control environment and increase effectiveness in the meal plans process; provide reasonable assurance that errors or irregularities will be detected in a timely manner.
04-037	Aug 04	Student Health and Wellness Center Pharmacy Review	Identify and evaluate measures taken to detect suspected misappropriation of prescription drugs. Review and evaluate a Pharmacy self-audit conducted by Student Health and Wellness Center (SHWC) personnel. Assess physical access to the Pharmacy and security of the drug inventory.	(1) The Pharmacy uses a computerized management system that has multiple components allowing for complete pharmacy administration. However, the software allows changes to inventory records (as well as changes in other components), without recording who made the changes. Consideration should be given to increasing the minimum capabilities (through an upgrade if possible) of the Pharmacy management system.	In Progress Inventory module expected to be available by December 2004. Follow-up scheduled for FY 2005.	Provide a more effective reconciling tool with additional security over changes to inventory records.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(2) Operating procedures and UPO-31 Planning Guides should be updated, and more explicit descriptions of job responsibilities be written and distributed to the employees.	In Progress Follow-up scheduled for FY 2005.	Increase efficiency and effectiveness of pharmacy operations.
				(3) During a walk-through of the Pharmacy, Internal Audit observed drugs maintained on open, unsecured shelves. Although DEA policies allow this type of storage for certain classes of drugs, it appears that someone who was so inclined could access controlled substances without additional effort. Consideration should be given to more thoroughly securing specific drugs or drug types.	Implemented	Increase security over pharmacy operations.
				(4) Observations revealed access to the Pharmacy was not restricted to authorized personnel. The only door for entering and exiting the area remains unlocked throughout operating hours to anyone desiring to enter or leave the Pharmacy. Management should educate all Pharmacy employees about the need to secure the Pharmacy when left unattended for any period of time.	Implemented	Increase security over pharmacy operations.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-038	Aug 04	Consulting – Management Controls Reports	With implementation of the Enterprise Information System (EIS), the ability to create reports with customized information for management review purposes is significantly enhanced. Internal Audit consulted with Human Resources, Purchasing and Payment Services, and the Office of the Associate Vice President for Finance and Business Affairs to identify reports that can be used to improve oversight and detection of fraud, abuse, or mismanagement of University resources.	Monthly or quarterly EIS reports (as well as others) will be generated and distributed electronically to individuals having budgetary authority and to Internal Audit for review and evaluation.	In Progress	Development and dissemination of these reports should serve to mitigate certain fiscal risks.
04-039	Aug 04	Consulting – Cash Loss	Reviewed circumstances surrounding a cash loss in Athletics that occurred on a coach's recruiting trip to determine if: • Controls related to safeguarding cash had been circumvented; and • Appropriate procedures related to reporting the loss were followed.	Determined the loss was simply the result of unfortunate circumstances as opposed to neglect, circumvention of controls, or intentional abuse. Appropriate procedures were followed in reporting the loss to the Police.	N/A	N/A

University of North Texas Health Science Center

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
03-019	Aug 04	Assessment of Implementation of HIPAA Privacy Standards	Determine that the Center is in substantial compliance with the HIPAA Title II privacy standards.	(1) Amend job descriptions for the Privacy Officer, Director of Regulatory Compliance and the Security Officer to include their relative responsibilities regarding HIPAA.	In Progress	Allow management to assess employee performance, hold employees accountable, and eliminate potential disconnect over employee's responsibilities.
				(2) Reiterate to all clinics the importance of obtaining the written acknowledgement notices from patients.	In Progress	Reduce the risk of failure to comply with requirements to obtain written acknowledgement notices from patients.
				(3) Submit overall HIPAA policy/mission statement to Board of Regents and/or senior management for approval and adoption.	In Progress	Formal approval would evidence Center commitment to comply with the HIPAA standards.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(4) Develop a stand alone self-contained HIPAA policies and procedures manual and distribute to all departments within the Center.	In Progress	Increase Center awareness and provide consistency in information provided institutionally.
				(5) Create a separate sanction policy that delineates the consequences concerning employees who breach the HIPAA rules and regulations.	In Progress	Deterrent to non-compliance and provides a clear basis for personnel action should a compliance breach occur.
				(6) Amend MSRDP policies 4.003, 4.0013 and 4.017 to stipulate the number of days the Center has to honor a patient's request to access, amend or receive an accounting of disclosures of his or her PHI.	In Progress	Reduce possible violations of the HIPAA regulations.
				(7) Increase the quantity and quality of training provided to the Institutional Review Board pertaining to how the HIPAA Standards impact the institution's research endeavors.	In Progress	Increase awareness of and compliance with the HIPAA Standards.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
03-020	Nov 03	MSRDP Clinical Research Unexpended Balance Review	Determine if the Medical Services, Research and Development Plan incurred any allowable costs that could have rightfully been charged to the clinical research accounts.	(1) Establish periodic assessments of the clinical research grant accounts to ensure that unexpended grant and contract funds are utilized to the fullest possible extent.	Implemented	Potential to utilize available funds to the fullest extent.
			Ascertain if periodic reconciliations were done regarding the clinical research protocols. Discern if any unexpended clinical research net assets at August 31, 2003 were subject to write-off or return to the granting sponsors.	(2) Establish a formal process to reconcile financial transactions and address compliance issues between the PI(s), Office of the Associate Dean for Clinical Research and the Office of Grants and Contract Management.	Implemented	Enhance coordination to mitigate exceptions to grant compliance issues.
04-001	Nov 03	Federal Skip-tracing Audit	Ensure procedures are established to safeguard names and addresses of defaulted borrowers under the Federal Perkins Loan Program. To determine if confidential information is properly disposed of after serving its usefulness.	No findings/recommendations	N/A	N/A

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • Implemented • Planned • In Progress • Factors Delay Implementation • Agency Does Not Plan to Implement Recommendation	Fiscal Impact/ Other Impact
04-003	Nov 03	Joint Admissions Medical Program Review	Certify the financial report was correct and that all outlays and unliquidated obligations were for the purposes set forth in the agreement with the JAMP council. Provide a list of all equipment purchases with a cost of $250 or more. The certification is due to the State Office on or before October 31, 2003.	All requisitions issued to pay for business entertainment functions shall include a business justification and a delineated list of attendees.	Implemented	Lessen potential for the Center to pay for undocumented business entertainment expenses.
04-004	Nov 03	Annual Investments Audit – Fiscal Year 2003	Ensure the Center's funds are invested in accordance with the Public Funds Investment Act (Government Code 2256).	No findings/recommendations	N/A	N/A
04-005	Feb 04	Graduate Medical Education Residency Program Review	To issue an audit statement concerning the financial activities and certain program compliance matters related to the residency program as of and for the fiscal year ended August 31, 2003.	(1) Reimburse $179 to those GME accounts charged with a specific type of investment loss incurred by the Center.	Implemented	Identified improper charges of $179.
				(2) Monitor program accounts and address negative account balances in a timely fashion.	Planned	Prevent potential overspending of available balances.
04-006	Feb 04	Family Practice Residency Program Review	To attest to the material accuracy of the expenditures and revenues as reported on the Center's residency program annual financial report for the fiscal year ended August 31, 2003.	(1) Reimburse the family practice and rural rotation accounts for a certain type of investment loss charged to the accounts by the Center.	Implemented	Identified improper account charges.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(2) Ensure that all program funds are expended by the end of the fiscal year.	Implemented	Reduce potential to lose available funds.
04-007	Feb 04	Advanced Research/Advanced Technology Programs Compliance Review	Review the ARP/ATP grant activity for support years 2002 and 2003 for compliance with the grant conditions administered by the Texas Higher Education Coordinating Board.	(1) Two principal investigators were paid over the allowable cost. Reimburse funds.	Implemented	Identified disallowed costs.
				(2) A formal system of documenting time and effort is not in place for personnel paid from ARP/ATP grants.	Planned	Limit the risk of improperly allocating salaries.
				(3) The notice of change in investigator and a technical progress report was not submitted in a timely manner for one project.	Implemented	Adherence to grant compliances.
04-008	Feb 04	Review of Medical Practice Plan Disbursements	Determine whether • disbursements were allowable per Plan policy, • disbursements were made in accordance with Center and state requirements for documentation, • disbursements were allowable per Internal Revenue Service guidelines, and • opportunities for cost savings existed.	No findings/recommendations	N/A	N/A

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-009	May 04	Federal Contracts and Grants Review	Determine whether reports are filed and grant funds are drawn on a timely basis to cover expenditures. Ensure disbursements adhere to federal guidelines and individual contract stipulations. Agree grant contracts to the budgets recorded and verify proper review and approval of contracts. Ensure funds are expensed by the end of the grant project period or returned in accordance with individual contract or federal guidelines.	(1) Establish a formal process to document the request and approval of pre-award costs.	In Progress	Reduce the risk of expending Center funds that may not be reimbursed.
				(2) Improve the system in place to ensure compliance with federal provisions for the carryover of unobligated balances.	In Progress	Increase adherence to federal grant compliances.
				(3) Enhance the process designed to ensure federal reimbursements are drawn timely.	In Progress	Improve cash flow.
				(4) Determine the propriety of the fringe benefit reserve and take appropriate action if needed.	In Progress	Identified potential improper grant charges.
				(5) Record unrecognized indirect cost recoveries of approximately $900,000 and bill for these costs as soon as practical.	Implemented	Correct general ledger and improve cost flow
04-010	May 04	Review of Internal Controls Over MSRDP Cash Receipts	Review the internal accounting control environment over cash receipts and determine whether cash receipts are being handled in accordance with the State of Texas and institutional policies.	(1) The monthly bank reconciliation process should include more timely investigations and better documentation of reconciling items.	Planned	Improve cash reconciliation controls and identify in a timely manner potential errors and irregularities.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
				(2) Updated cash handling policies and procedures should be disseminated to applicable personnel.	In Progress	Ensure compliance with policies and consistent application of procedures.
				(3) Incident report handling procedures should be reviewed to ensure policies are adhered to with regard to incident (shortages and thefts) reports.	Planned	Same as above.
				(4) The process of distribution and accounting for charge tickets (superbills) should be consistent at each clinic.	Implemented	Reduce the risk for errors, irregularities or fraud related to clinic operations.
				(5) Compensating controls should be strengthened for employees that perform incompatible functions.	Implemented	Reduce the risk for errors, irregularities or fraud related to clinic operations.
04-011	May 04	Review of the Internal Accounting Controls Over Disbursements	Analyze the internal accounting controls over the Center's disbursements Ascertain whether cash disbursements were being executed in accordance with federal, state and Center policies, rules and regulations.	Analyze that portion of the system programmed to calculate interest regarding late payments to vendors in accordance with the Prompt Payment Act.	In Progress	Reduce the risk of noncompliance with State policies.

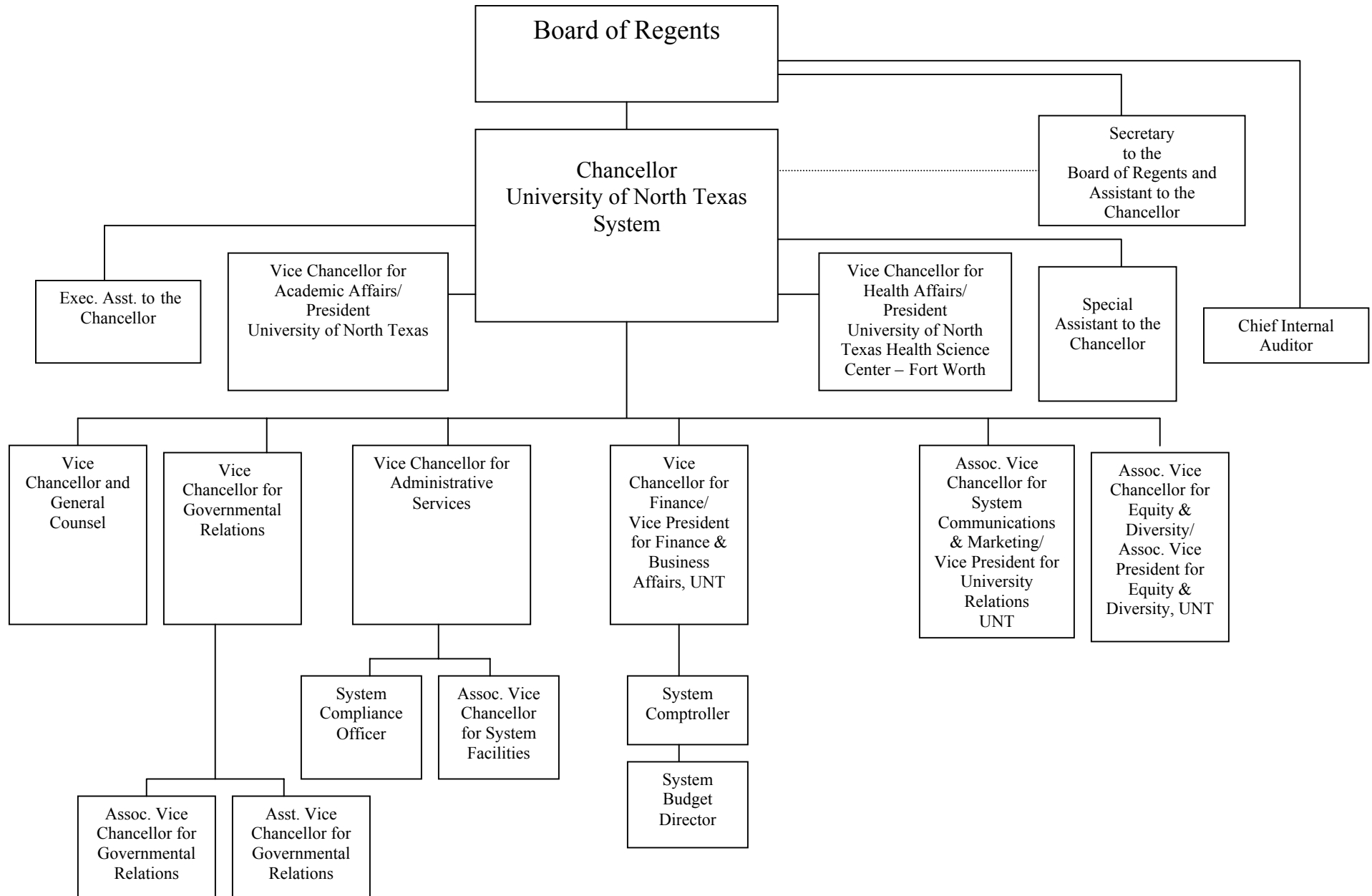| Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented) • **Implemented** • **Planned** • **In Progress** • **Factors Delay Implementation** • **Agency Does Not Plan to Implement Recommendation**	Fiscal Impact/ Other Impact
04-012	Aug 04	Fiscal Year 2004 Follow-up Review	Satisfy the audit standard and provide a summary of the status of audit recommendations for senior management.	No findings/recommendations	N/A	N/A
04-013	Aug 04	Center for BioHealth Construction Review	Ensure the control systems over the construction administration and contract closeout phases of the CBH Project were suitably designed and operating effectively.	(1) Evaluate the current policy for approving change orders and take measures to ensure a process is in place to achieve compliance with policy as it exists when a change order is submitted for approval.	In Progress	A change order to increase the project contract by $550,263 was consummated without Board approval. Reduce the risk of noncompliance with Board policies.
				(2) Approximately $25 million in the Construction In Progress account for the CBH should be transferred to Buildings.	Implemented	Correct misclassification of assets, expenditures and net assets.

IV.   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.

University of North Texas System
2003-2004 Organization Chart

Applicability: UNT System

Board of Regents

Chancellor
University of North Texas System

Secretary to the Board of Regents and Assistant to the Chancellor

Exec. Asst. to the Chancellor

Vice Chancellor for Academic Affairs/ President University of North Texas

Vice Chancellor for Health Affairs/ President University of North Texas Health Science Center – Fort Worth

Special Assistant to the Chancellor

Chief Internal Auditor

Vice Chancellor and General Counsel

Vice Chancellor for Governmental Relations

Vice Chancellor for Administrative Services

Vice Chancellor for Finance/ Vice President for Finance & Business Affairs, UNT

Assoc. Vice Chancellor for System Communications & Marketing/ Vice President for University Relations UNT

Assoc. Vice Chancellor for Equity & Diversity/ Assoc. Vice President for Equity & Diversity, UNT

System Compliance Officer

Assoc. Vice Chancellor for System Facilities

System Comptroller

System Budget Director

Assoc. Vice Chancellor for Governmental Relations

Asst. Vice Chancellor for Governmental Relations

August 19, 2003

V.   Report on Other Internal Audit Activities

University of North Texas – Denton

Activity	Impact
Consulting – Maintain an availability to consult with all University entities. Examples include the following:	Topics range from policy and procedural issues, safeguarding of assets, and implementation of appropriate controls, to fraud and misappropriation. Provide independent reviews and/or supply clarification on certain control issues.
(1) Policy Development, Audit No. 04-026 – The Vice President for Finance and Business Affairs proposed that additional guidance to accountholders be codified within the current University Policy 2.10 "Accountholder Responsibility." Internal Audit reviewed a set of comprehensive requirements that accountholders will be responsible for performing to achieve the stated purpose.	Ensure that controls related to fiscal oversight are working as intended.
(2) Orientation for Leaders Presentation, Audit No. 04-031 – Internal Audit participated in the *Orientation for Leaders* program sponsored by the Human Resources Department. The program is a five-hour training session with presentations from several key areas on campus. Internal Audit gave an overview of the audit function, provided information on how departments are chosen for audit, explained the audit process, and discussed when departments should contact Internal Audit.	Provide UNT leadership with a basic overview of leadership principles, University policies, and legal issues; create a consistent foundation of knowledge on these issues; introduce the resource people on campus related to these issues.
(3) Management Controls Training, Audit No. 04-032 – Internal Audit facilitated a Management Controls Workshop as part of the spring *Service Leadership* programs. This workshop was designed for anyone with oversight responsibilities, but in particular the curriculum targeted those considered to be primary account holders (Administrators, Deans, Department Chairs, and Managers). Additionally, President Pohl designated the workshop as a <u>required</u> course for all University account holders.	The workshop, offered on three different occasions, had a combined total of 361 attendees. Participant evaluations reflected an overall positive attitude toward the information presented. Additionally, as a result of these workshops, Internal Audit was asked to provide additional detailed presentations tailored to the specific needs of particular areas.
Performance Survey – Distribute customer surveys to departments upon completion of audits**.**	Assist in reviewing Internal Audit's image, the quality of its product, and management's need for information.
Committees/Staff Meetings – Participated in University activities related to: • Enterprise Information System (EIS) • Finance and Business Affairs • Student Development • Dean's Council • Staff Council	Assist the university in addressing both short- and long-range issues.

Activity	Impact

Miscellaneous – One auditor achieved Certified Fraud Examiner (CFE) designation.	Such certification designations reflect competence in the principles and practices of the specific professional fields. The UNT System Internal Audit staff has certifications as follow:
	
	  6 Certified Internal Auditors (CIA)
	  4 Certified Public Accountans (CPA)
	  3 Certified Fraud Examiners (CFE)

Continuing Education (Professional Development) – Department participated in the following training/workshops: • Forty-Seventh Annual Conference, sponsored by the Association of College and University Auditors (ACUA). • Nineteenth Annual Conference, sponsored by the Texas Association of College and University Auditors (TACUA). • 2003 Fraud Conference, sponsored by the Institute of Internal Auditors (IIA). • PRG-Schultz Frank W. Abagnale U.S. Tour. • Increasing Auditor Effectiveness in Recognizing and Detecting Fraud, sponsored by IIA. • Fraud Investigation, and How to Get Positive Publicity on the News, sponsored by IIA. • Quality Assurance Review, sponsored by the State Auditor's Office (SAO). • Value-Added Data Interrogation Techniques for Auditors, sponsored by SAO. • Texas Government Internal Audit/Financial Management/Fraud Conference, sponsored by SAO. • Professional Ethics for Texas CPA's, sponsored by Positive Systems Incorporated. • Eighth Annual Texas Higher Education Law Conference, sponsored by UNT. • Diversity Workshop, sponsored by UNT. • Service Connections Training Workshop, sponsored by UNT. • Monthly meetings, Fort Worth Chapter, IIA.	Such professional development assists staff to maintain and develop technical competencies and to keep informed about current developments in the internal auditing profession.

University of North Texas Health Science Center

Activity	Impact
Consulting/Committees – Participated in Center activities related to the following:	
(1) Serve as a member of the President's Action Committee for the UNT Health Science Center at Fort Worth.	Maintains continuous dialogue with senior management keeping them informed of audit-related issues and priorities impacting the institution and its mission.
(2) Facilitate the Office of Institutional Compliance.	Serves as an audit liaison to the Office of Institutional Compliance.
(3) Serves as liaison on the Enterprise Information System (EIS)	Serves as a consultant from an audit perspective to the EIS project team.
Continuing Education (Professional Development) – Department participated in the following training/workshops: • Mid-Year Conference, sponsored by the Association of College and University Auditors (ACUA). • Increasing Auditor Effectiveness, sponsored by Institute of Internal Auditors (IIA). • Quality Assurance Review, sponsored by the State Auditor's Office (SAO). • HIPPA for Auditors, sponsored by SAO. • CPE Exposition Conference, sponsored by Texas Society of Certified Public Accounts (TSCPA). • Annual Update for Accountants and Auditors, sponsored by TSCPA. • Effective Controllership Skills, sponsored by TSCPA. • Revised Yellow Book: Government Auditing Standards, sponsored by TSCPA. • OSHA, sponsored by National Seminars Group • Creative Leadership Crash Course, sponsored by the National Seminars Group. • Managing and Eliminating Unacceptable Behavior, sponsored by Skillpath Seminars • Return to Work Issues in Worker's Compensation, sponsored by Lormen Educ. Series. • HIPPA, ADA and FMLA in Texas, sponsored by Lormen Educ. Series. • Management of Medical Records in Texas, sponsored by Lormen Educ. Series. • EIS Training (Financial Module, Inventory Module, Query, Eprocurement, IDEA Report Reader), sponsored by UNTHSC. • Monthly meetings, Fort Worth Chapter, IIA.	Such professional development assists staff to maintain and develop technical competencies and to keep informed about current developments in the internal auditing profession.

VI. Risk Assessment and Internal Audit Plan for Fiscal Year 2005

The attached annual audit plan for the University of North Texas System was approved by the Board of Regents on August 26, 2004.

RISK ASSESSMENT AND ANNUAL AUDIT PLAN
Audit No. 04-022

INTRODUCTION

The Internal Audit function for the University of North Texas System performs in accordance with the Texas Internal Auditing Act, Government Code Chapter 2102. 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. 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."

Furthermore, the Institute of Internal Auditors (IIA) is recognized as the authoritative body for a program of internal auditing. The internal audit program for the UNT System 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.

The Chief Internal Auditor reports directly to the UNT System Board of Regents with access to the Chancellor.

BACKGROUND

Internal audit departments face limited audit resources and budget constraints. The purpose of risk assessment is to allocate these limited resources to areas of the organization that are most critical to the success of the organization in reaching its goals. Additionally, knowing the areas to audit and where to commit resources is critical to a successful internal auditing department. Overall internal audit department efficiency and effectiveness is increased when audit effort is matched to risk in the various auditable units of the organization.

Thus, a well-developed risk assessment model will provide an efficient and systematic procedure to:

- Determine the auditable areas of an entity;
- Measure the risk of each unit and identify activities exposed to high risk;
- Rank the units by risk;

- Determine the time necessary to complete audits;
- Distribute available resources in the most efficient manner; and
- Develop annual and long-term audit plans.

SCOPE

"Risk" is the probability that an event or action could adversely affect the organization. Stated another way, risk is the degree to which activities are exposed to the potential for financial loss, the inappropriate disclosure of data, or other forms of embarrassment that result from the absence or inadequacy of control or effectiveness of human resources. Furthermore, risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less risk.

Specific examples of risks facing the organization include the following:

- Erroneous decisions from using incorrect, unreliable, fraudulent, or incomplete information;
- Erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss or exposure;
- Failure to adequately safeguard assets;
- Customer dissatisfaction, negative publicity, and damage to the organization's reputation;
- Failure to adhere to organizational policies, plans or procedures, or not complying with relevant laws and regulations;
- Acquiring resources uneconomically or using them inefficiently; and
- Failure to accomplish objectives and goals.

METHODOLOGY

As previously stated, the goal of risk assessment is to determine units exposed to high risk and to allocate limited audit resources appropriate to that level of risk. Steps to accomplish this purpose, which ultimately results in audit selection and inclusion in the annual audit plan, include the following:

1. Identify and catalog auditable activities (the "audit universe") of the organization.

2. 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.

3. Weight the selection (risk) factors in terms of importance to management, external influences, and the auditor.

4. Prepare an audit selection schedule that includes the factors for each audit universe item.

5. Compute the weighted score for each universe item and the cumulative factor score.

6. Select and prioritize the audits to be conducted.

7. Examine available resources.

STAFFING/BUDGET

The System Internal Audit operating budget for fiscal year 2005 is $799,140. This level of support, in conjunction with previously approved staffing increases, is sufficient to accomplish the attached audit plan.

SUMMARY

Internal Audit objectives and scope of work are aligned with the overall mission of the UNT System. Whereas internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations, it helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The attached Internal Audit Plan for fiscal year 2005 was developed and is presented on a component basis based on risk assessment, materiality, existing controls, state, federal and other audit requirements, audit staff capabilities, results of prior audits, and knowledge of the UNT System and its personnel. Additionally, consideration was given to specific requests by University and Health Science Center management.

University of North Texas System
Internal Audit

Allocation of Hours by Position - UNT Denton
Fiscal Year 2005

	Chief IA		Asst Director		Auditor III		Auditor II	
Staff Size by Position	1		1		3		4	
Total Hours Available	2,080		2,080		6,240		8,320	
Less:								
Vacation*	132	6%	132	6%	420	6%	432	5%
Sick Leave	80	4%	80	4%	240	4%	320	4%
Holidays	96	5%	96	5%	288	5%	384	5%
Professional Development	40	2%	40	2%	120	2%	160	2%
Total Non-office Hours	348	17%	348	17%	1,068	17%	1,296	16%
Net Hours Available	1,732	83%	1,732	83%	5,172	83%	7,024	84%
Administrative Activities	500	24%	350	17%	750	12%	1,000	12%
Direct Audit Hours	1,232	59%	1,382	66%	4,422	71%	6,024	72%
Total Direct Audit Hours							13,060	70%

* Hours earned

University of North Texas System
Internal Audit

Schedule of Planned Audits & Detail of Direct Audit Hours - UNT Denton
Fiscal Year 2005

	Budget Hours	Percent of Direct Hours
Audits In Progress		
Follow-up Reviews - Prior Audit Recommendations FY04	250	
Health Insurance Portability and Accountability Act (HIPAA) Review	200	
College of Education Grant Analysis	200	
Student Development Loan Review	200	
Environmental Safety/EPA Compliance	125	
Annual Investments Audit FY04 Compliance	100	
Unrelated Business Income Tax (UBIT) Audit	75	
Total Audits In Progress	1,150	9%
Required Audits		
State Auditor's Office Assistance (incl A-133)	350	
Bonds Review - UNT System Compliance	300	
Annual Investments Audit FY05 Compliance	175	
Student Managed Investment Fund (SMIF) Review	125	
Total Required Audits	950	7%
Audits Based On Risk Assessment		
Departmental Financial Compliance Reviews	500	
Federal Programs Review (Trio Cluster, Gaining Early Awareness)	400	
Purchasing Card Departmental Reviews	400	
Sarbanes-Oxley Initiatives	400	
Federal Grant Reviews	400	
Contract Administration Process	300	
Compliance Function Review	300	
Intellectual Property Management	300	
UNT Dallas Expenditures Review	285	
Contract Administration - Sodexho	275	
Commercial Paper Compliance Review	250	
Tuition Increase - Financial Aid Review	225	
Parking Fees Financial Review	225	
Travel Reimbursement Reviews	200	
SAO Follow-up (FY04 Cash Controls Review)	200	
Dept ID Holder Accountability Reviews	200	
HR Hiring Practices	200	

	Budget Hours	Percent of Direct Hours
Audits Based On Risk Assessment (continued)		
Survey Research Center Departmental Review	150	
BCIS/ISRC Review	150	
Information Technology Reviews		
Enterprise Information System (EIS) Technical Reviews	1,000	
Enterprise Information System (EIS) Project Management Reviews	500	
Information Technology Security	350	
Credit Card Customer Information Security Program	300	
Wireless Technology Review	100	
Total Audits Based on Current Year Risk Assessment	7,610	59%
Other Direct Audit Activities		
Risk Assessment/Annual Audit Plan/Annual Report	400	
Consulting/Training	400	
Follow-up Reviews - Prior Audit Recommendations FY05	350	
Quality Assurance Activities	200	
Total Other Direct Audit Activities	1,350	10%
Contingency for Special Requests, Investigations, etc.	2,000	15%
TOTAL DIRECT AUDIT HOURS	**13,060**	**100%**

University of North Texas System
Internal Audit

Allocation of Hours by Position - UNT Health Science Center
Fiscal Year 2005

	Director		Asst Director		Auditor III		Auditor II	
Staff Size by Position	1		1		1		1	
Total Hours Available	2,080		2,080		2,080		2,080	
Less:								
Vacation*	156	8%	180	9%	120	6%	156	8%
Sick Leave	80	4%	80	4%	80	4%	80	4%
Holidays	96	5%	96	5%	96	5%	96	5%
Professional Development	40	2%	40	2%	40	2%	40	2%
Total Non-office Hours	372	19%	396	20%	336	17%	372	19%
Net Hours Available	1,708	81%	1,684	80%	1,744	83%	1,708	81%
Administrative Activities	512	24%	168	7%	174	7%	342	15%
Direct Audit Hours	1,196	57%	1,516	73%	1,570	76%	1,366	66%
Total Direct Audit Hours							5,648	68%

* Hours earned

University of North Texas System
Internal Audit

Schedule of Planned Audits & Detail of Direct Audit Hours - Health Science Center
Fiscal Year 2005

	Budget Hours	Percent of Direct Hours
Audits In Progress		
Facilities and Administrative Costs (Indirect Cost Recoveries)	200	
Total Audits In Progress	200	4%
Required Audits		
Family Medicine Residency Program	300	
Graduate Medical Education - Residency Program	250	
Joint Admission Medical Program (JAMP)	200	
Investment Compliance/Public Funds Act	150	
Federal Skiptracing Program	100	
Total Required Audits	1,000	18%
Management Requested Audits		
MSRDP Expenditure Review	200	
South Central Academic Medical Libraries (SCAMeL) Consortium	200	
Total Management Requested Audits	400	7%
Audits Based On Risk Assessment		
MSRDP - Billings or Coding - Medicare	500	
Health Insurance Portability and Accountability Act (Security Standards)	450	
Internal Accounting Controls Over Journal Vouchers (Internal Control)	250	
Texas Infrastructure Funds (TIFB)	250	
Information Technology Resources (Software License Review)	250	
Procurement Card (Internal Control)	250	
Federal Financial Aid (Internal Control)	200	
Substantive Testing of Financial Statements		
Liabilities	200	
Expenditures	200	
Trial Balance and General Ledger	100	
Net Assets	75	
Annual Financial Report	73	
Assets	50	
Revenues	50	
Total Audits Based on Current Year Risk Assessment	2,898	51%

	Budget Hours	Percent of Direct Hours
Other Direct Audit Activities		
Annual Internal Audit Report	250	
Follow-Up on Audit Recommendations	250	
Risk Assessment/Annual Audit Plan	150	
SAO Assistance	100	
Total Other Direct Audit Activities	750	13%
Contingency for Special Requests, Investigations, etc.	400	7%
TOTAL DIRECT AUDIT HOURS	**5,648**	**100%**