

UNT | SYSTEM[™]
INTERNAL AUDIT

Fiscal Year 2015 Annual Internal
Audit Report

Steve Goodson, CIA, CISA, CCSA, CGAP, CRMA
Interim Chief Internal Auditor

October 23, 2015



October 23, 2015

The Honorable Greg Abbott
Governor, State of Texas
State Capitol Extension, Room E1.304
Austin, Texas 78701

Dear Governor Abbott:

We are pleased to present the Fiscal Year 2015 Annual Report for the University of North Texas System Internal Audit Department.

This report fulfills the requirements set out in the Texas Internal Auditing Act (Texas Government Code, Section 21012) and provides the information in the format prescribed by the State Auditor's Office.

For further information about the contents of this report or to request copies of audit reports, please call (940) 565-2153.

Respectfully,

Steve Goodson, CIA, CISA, CGAP, CCSA, CLEA, CRMA
Interim Chief Internal Auditor – University of North Texas System

cc: UNT System Board of Regents
UNT System Chancellor Jackson
Texas State Auditor's Office
Texas Legislative Budget Board Texas Sunset Advisory Commission

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website

The Fiscal Year 2016 Audit Plan is posted on the University of North Texas System Internal Audit Department website.

Once this Fiscal Year 2015 Annual Report is presented to the UNT System Board of Regents, it will be posted to the Internal Audit website.

There were no weaknesses, deficiencies, wrongdoings or other concerns raised by the audit plan or annual report.

II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions

In partnership with Deloitte and Touch, LLC, UNT System Internal Audit completed Benefit Proportionality Audits of each of our components¹:

- UNT System Benefits Funding Proportionality Analysis, issued February 4, 2015
- UNT Dallas Benefits Funding Proportionality Analysis, issued February 4, 2015
- UNTHSC Benefits Funding Proportionality Analysis, issued February 4, 2015

These audits were conducted in response to Governor Perry’s letter dated May 29, 2014. This letter requested that internal auditors for higher education institutions conduct work to determine whether “proportionality is being applied according to the established guidelines.” The methodology for these audits was in compliance with methodology approved by the Texas State Auditor’s Office.

Additionally, Rider 8, page III-39, of the General Appropriations Act (84th Legislature) requires higher education institutions to consider audits of benefits proportionality when developing their annual internal audit plans for fiscal years 2016 and 2017. The Board of Regent’s approved UNT System Internal Audit Plan for Fiscal Year 2016 includes a Benefits Proportionality Audit at each System component.

¹ An audit of UNT Benefits Funding Proportionality was completed in fiscal year 2014 and a report was issued May 27, 2014.

III. Internal Audit Plan for Fiscal Year 2015

2015 Planned Audits as submitted in FY14 Annual Report

Entity	Title	Report Date	Report Number	Status
UNT System	Chancellor's Expenditures Review	December 2014	1501	Report Issued
UNT System	Benefits Funding Proportionality Analysis	February 2015	N/A (Deloitte & Touche LLP)	Report Issued
UNT	President's Expenditures Review	December 2014	1502	Report Issued
UNT	Investments Review	October 2015	1505 UNT	Report Issued
UNT	Student Managed Investment Fund Review	September 2015	1508	Report Issued
UNT	Facilities Certification Review	August 2015	1532	Report Issued
UNT	Cancer Prevention and Research Institute of Texas Program Review	September 2015	N/A (Grant Thornton)	Report Issued
UNT	Benefits Funding Proportionality Analysis	May 2014	N/A (Deloitte & Touche LLP)	Report Issued
UNT HSC	President's Expenditures Review	December 2014	1503	Report Issued
UNT HSC	Investments Review	October 2015	1506 HSC	Report Issued
UNT HSC	Advanced Research Program Grant Review ²	N/A	N/A	N/A
UNT HSC	Family Practice Residency Program	December 2014	1507	Report Issued
UNT HSC	Cancer Prevention and Research Institute of Texas Program Review	September 2015	N/A (Grant Thornton)	Report Issued
UNT HSC	Benefits Funding Proportionality Analysis	February 2015	N/A (Deloitte & Touche LLP)	Report Issued
UNT Dallas	President's Expenditures Review	December 2014	1504	Report Issued
UNT Dallas	Benefits Funding Proportionality Analysis	February 2015	N/A (Deloitte & Touche LLP)	Report Issued

Additional Reports Issued

Entity	Audit	Report Date	Report Number	Status
UNT System	American Recovery and Reinvestment Act of 2009	March 2015	EXT 1505	Report Issued
UNT System	Investments Review	October 2015	1505 SYS	Report Issued
UNT	Student-Managed Investment Fund Review	January 2015	14-004	Report Issued
UNT	Contemporary Arab Muslim Cultural Studies Institute (CAMCSI)	February 2015	14-028	Report Issued
UNT	UNT International Student Fees Investigation	March 2015	14-032	Report Issued
UNT	SAO UNT HEAF Investigation	June 2015	14-2974	Report Issued
UNT	UNT International Cash Loss Investigation	August 2015	14-030	Report Issued
UNT Dallas	UNT Dallas Dean of Liberal Arts and Life Sciences (LALS)	December 2015	14-005	Report Issued
UNT Dallas	UNT Dallas Financial and Segregation of Duties Investigation	April 2015	1509 DAL	Report Issued
UNT Dallas	Investments Review	October 2015	1505 DAL	Report Issued

² The Fiscal Year 2015 Audit Plan included an audit of Advanced Research Program. This audit was not necessary because UNTHSC did not receive the identified grant.

IV. Consulting Services and Nonaudit Services Completed

No formal consulting services and/or nonaudit services were completed in Fiscal Year 2015.

Significant nonaudit assistance was provided to management related to the Financial Transformation process.

V. External Quality Assurance Review (Peer Review)

In accordance with the Texas Internal Auditing Act, an independent, external quality assurance review was completed in May 2014 for the UNT System Internal Audit Department. The Executive Summary follows.

Our next external quality assurance review is due by March 2017.

University of North Texas System
Internal Audit Quality Assurance Review Report
March 2014

Prepared by:

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Executive Summary

Overview

As required by the Texas Internal Auditing Act (TIAA, TX Government Code, Chapter 2102), the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*, and the *Government Auditing Standards (GAGAS)*, an external quality assurance review (QAR) was conducted of the internal auditing activity at the University of North Texas System (UNTS).

An external quality assurance review, as part of a quality assurance program, is intended to provide reasonable and objective assurance to the governing board and the Chancellor that the internal audit work being performed by the UNTS Internal Audit Department (IA) meets the requirements of all 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 opportunities were identified that will enhance the functionality of the audit process and improve the value of the internal auditing activity at UNTS.

The scope of the review included a review and evaluation of:

- The audit department's communication with the Audit Committee of the Board of Regents and the UNTS Chancellor;

- The IA Department’s independence and the objectivity of the audit work performed;
- Existing internal audit policies and procedures;
- The IA Department’s risk assessment and annual audit planning process;
- The planning process for individual audit projects;
- The audit methodologies used in performing the audit work;
- A representative sample of audit workpaper files and reports;
- Workpaper documentation supporting the work performed;
- The support in the workpapers for the conclusions and recommendations in the audit reports;
- How the results of audit projects are communicated;
- The procedures for following up on audit recommendations; and
- The knowledge, skills, discipline, and training of the staff as well as the department’s organizational structure.

This scope included the audit work conducted at the University of North Texas (UNT), UNT at Dallas (UNTD), the University of North Texas Health Science Center at Fort Worth (UNTHSC), and the UNT System (UNTS) building.

Interviews were conducted with: the Chair of the Audit Committee of the UNTS Board of Regents; the UNTS Chancellor; the Interim UNTS Vice Chancellor for Administration and Finance; the UNTS Vice Chancellor and General Counsel; the UNT President and the Vice President of Finance and Administration at UNT Denton; the UNT Dallas President and the Vice President of Finance and Administration; the UNTHSC President and the UNTHSC Chief Financial Officer at Fort Worth; the UNTS Chief Information Officer; the UNTS Chief Internal Auditor; and the audit staff.

As part of the preparation for the QAR, the Internal Audit management and staff prepared a self-study document that contained detailed documentation on the Internal Audit Department’s policies and procedures. In addition, confidential surveys were sent to a representative sample of the department’s audit customers and management. The responses to the survey were returned to the reviewer and a summary of the survey results and accompanying comments (without identifying the respondents) were furnished to the Chief Internal Auditor.

Opinion

The rating system used for expressing an opinion for this review provides for three levels of conformance:

- “Generally Conforms” (the best) means that the internal auditing activity has policies, procedures, and a charter in place, and follows practices that were judged to be in accordance with applicable professional standards and the TIAA; however, opportunities for improvement may exist.
- “Partially Conforms” means that while deficiencies in practice were found that deviated from professional standards, these deficiencies, while they might impair, did not prohibit, the internal auditing activity from carrying out its responsibilities.
- “Does Not Conform,” means there that where deficiencies found in practices that were considered so significant as to seriously impair or prohibit the IA Department from carrying out its responsibilities.

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 **generally conforms** to the Texas Internal Auditing Act, the *IIA Standards*, and the *Government Auditing Standards*. This opinion, representing the best possible evaluation, means that policies, procedures, and an internal audit charter are in place, and that the practices that are followed are providing reasonable assurance that the audit work conducted is in compliance with the requirements of the Texas Internal Auditing Act and all applicable professional standards.



Richard H. Tarr, CISA, CIA

VI. Internal Audit Plan for Fiscal Year 2016

The Fiscal Year 2016 Audit Plan for the University of North Texas System Internal Audit Department was approved by the Board of Regents on July 31, 2015.

This plan includes two contract audits. The plan does not include projects specifically related to expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

A list of additional projects areas that ranked high, but were not included in the Fiscal Year 2016 Audit Plan, are listed in the plan under the section “Potential Fiscal Year 2017 Audits.”

The methodology used included Information Technology risks. The methodology is described in the plan.

Fiscal Year 2016 Audit Plan

Required Audits	Hours
<u>UNT System</u>	
Chancellor's Expenditure Review	150
Benefits Proportionality Review	100
<u>University of North Texas</u>	
President's Expenditure Review	150
Investments Review	250
Student Managed Investment Fund Review	150
Benefits Proportionality Review	300
Cancer Prevention and Research Institute of Texas Program Review	300
<u>Health Science Center</u>	
President's Expenditure Review	150
Investments Review	250
Family Medicine Residency Program Review	100
Joint Admission Medical Program Review	100
Cancer Prevention and Research Institute of Texas Program Review	300
Benefits Proportionality Review	200
<u>UNT Dallas</u>	
President's Expenditure Review	150
Benefits Proportionality Review	200
Component Risk Based Audits	Hours
<u>University of North Texas</u>	
Unit Specific Management Control Review (1 of 4)	150
Unit Specific Management Control Review (2 of 4)	150
Unrelated Business Income Tax (UBIT)	300
Selected Scholarships Review	250
International Travel Process Review	300
Selected Student Fees Review	200
<u>Health Science Center</u>	
Unit Specific Management Control Review (3 of 4)	150
Financial Review of HSC Reserves	400
<u>UNT Dallas</u>	
Unit Specific Management Control Review (4 of 4)	150
Enrollment Management and Planning	300
Federal Financial Aid Review	300

System-Wide Risk Based Audits	Hours
Investigations	4,897
Management Requests and Emerging Risks	1,500
Audit Recommendation Follow-up	770
Financial Transformation Implementation Assurance	750
Advisory: Fiscal Year 2015 External Audit Coordination and	600
Time & Labor Audit	450
Selected Contracts Review (1 of 2)	250
Selected Contracts Review (2 of 2)	250
Risk Based Continuous Audits	Hours
Accounts Payable	275
Payroll	275
Journal Entry	275
Task Payments	275
Information Technology Risk Based Audits	Hours
Security Governance	480
Privacy and Data Protection	320
Change Management	240
Advisory: PeopleSoft Implementation	150
Advisory: Hyperion Implementation	150
Affordable Care Act Implementation	50
Payment Card Industry Data Security Overview	160

Fiscal Year 2016 Annual Risk Assessment and Proposed Audit Plan

Introduction

This document presents UNT System Internal Audit's proposed Fiscal Year 2016 audit projects and summarizes the risk assessment methodology used to prepare it, as required by the Texas Government Code Chapter 2102, also known as the Texas Internal Auditing Act, and professional auditing standards³.

The Texas Internal Auditing Act establishes requirements for internal auditing in state agencies, including UNT System. This law establishes the purpose of the internal audit function as assisting administrators and governing boards by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of an agency's systems of internal control, policies and procedures, governance processes and the quality of performance in carrying out assigned responsibilities. These requirements are further outlined in the Internal Audit Charter, approved by the Board of Regents in February 2015.

This proposal is the blueprint by which the Internal Audit will provide assurance and advisory services that help the Board of Regents and executive management meet agency goals and objectives.

Methodology

This Audit Plan outlines the audits and other activities Internal Audit will conduct during Fiscal Year 2016. The risk assessment process was conducted in partnership with UNTS Office of Institutional Compliance, UNT HSC Institutional Compliance and the external auditing firm Deloitte & Touche LLP.

Audits included in this plan were primarily identified through a system-wide risk assessment process; however, some of the audits included are intended to assist the UNT System in complying with other external requirements.

During the risk assessment process we conducted 56 interviews, received 155 survey responses from a pool of 303 participants resulting in 65 potential audit projects. From this list of 65, using stakeholder input, a final risk ranking process took place to further identify projects that would provide the most benefit to UNTS. This effort yielded the projects listed on the attached Fiscal Year 2016 Audit Plan.

³ Government Auditing Standards issued by the Government Accountability Office (GAO) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

The six components evaluated during risk ranking were:

1. Regulatory, Compliance, Fraud Risk
2. Reputational Risk
3. Operational Risk
4. Financial Risks
5. Professional Input
6. Information Technology Risks

The specific scope of each audit in the Plan will be determined once the audit team has completed the audit planning process for each engagement. The audit planning process includes consideration of the risk management, control, and governance processes that provide reasonable assurance that:

- Risks are appropriately identified and managed;
- Information is accurate, reliable, and timely;
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Operations are efficient and effective;
- Resources are acquired economically, used efficiently, and adequately protected; and
- Accountability systems are in place to ensure organizational and program missions, goals, plans, and objectives are achieved.

The types of projects listed in this plan demonstrate the variety of approaches Internal Audit takes to address its mission of helping UNTS achieve its goals and objectives in an efficient and effective manner. To accomplish this, deliverables for projects may vary, including audit reports, technical assistance, data analysis, and other written and oral communications.

Acceptable Level of Risk and Available Resources

Internal Audit believes that completion of the projects proposed, or appropriate alternatives, will provide reasonable coverage regarding risks identified in the risk assessment process.

The Texas Internal Auditing Act requires the governing board to conclude whether resources available adequately address the identified risks. Specifically, Senate Bill 1694 of the 78th legislative session amended the Texas Internal Auditing Act to require the governing board periodically review the resources dedicated to the audit program and determine whether existing resources can ensure the coverage of identified risks within a reasonable time frame. The Interim Chief Internal Auditor asserts that the staffing and funding levels proposed for Fiscal Year 2016, if approved, will be adequate to accomplish the projects proposed in this plan. Audit coverage beyond what is proposed in this plan would require additional resources.

Revisions Subsequent to Approval

Changes in operations, priorities, workloads, and timing of initiatives, management requests, and staff availability may affect the risk assessment and suggest revisions to the approved Audit Plan. Internal Audit will assess emerging risks and monitor the Audit Plan throughout the year and consult with the Board of Regents' Audit Committee and executive management to adjust the Plan as needed. Material recommendations for change to the Audit Plan will be submitted to the Audit Committee for approval.

VII. External Audit Services Procured in Fiscal Year 2015

Audit Readiness Advisory Services, Deloitte & Touche LLP

Investigative Services, Deloitte & Touche LLP

Internal Audit Assistance, Deloitte & Touch LLP

Annual actuarial analysis and report for UNT Health Self-Insurance Plan, Fred R. White Company Inc.

External Audit of the Consolidated Annual Financial Report and Independent Auditors' Report, Grant Thornton

Audit of CPRIT Grants, Grant Thornton

Audit of NCAA Compliance, Merki & Associates P.C.

VIII. Reporting Suspected Fraud and Abuse

To comply with the requirements of Section 7.09, Fraud Reporting, General Appropriations Act (82nd Legislature), Article IX, each entity in the UNT System provides a reporting mechanism on its public website for suspected instances of fraud, waste, and abuse of state resources. The UNT System entities' websites include information on how to report suspected fraud and abuse.

The UNT System Internal Audit Department is responsible for compliance with Texas Government Code, Section 321.022, Coordination of Investigations. The State Auditor's Office is notified of all instances where we have reasonable cause to believe fraud, waste or abuse may have occurred.