

**University of North Texas System
Internal Audit Department**

**Annual Report
Fiscal Year 2014**

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

October 31, 2014



INTERNAL AUDIT

Steve Goodson, Interim Chief Internal Auditor

October 31, 2014

The Honorable Rick Perry
Governor, State of Texas
State Capitol Extension, Room E1.304
Austin, Texas 78701

Dear Governor Perry:

We are pleased to present the Fiscal Year 2014 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,

A handwritten signature in cursive script that reads "Steve Goodson".

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
State Auditor's Office
Legislative Budget Board
Sunset Advisory Commission

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I. Compliance with House Bill 16 (Texas Government Code, Section 2102.015): Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the System's Website

The Fiscal Year 2015 Audit Plan was posted to the University of North Texas System Internal Audit Department website.

Once this Fiscal Year 2014 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. Planned Work Related to the Proportionality of Higher Education Benefits

The Fiscal Year 2015 Internal Audit Plan includes projects to review benefit proportionality at UNT Dallas, UNT Health Science Center and UNT System.

III. Internal Audit Plan for Fiscal Year 2014

2014 Planned Audits as submitted in FY13 Annual Report

Type	Title	Report Date	Report Number	Current Status
Audits in Progress	BSC Payroll Processes Review			Included in FY14 Audit Plan contingent on resource availability.
Audits in Progress	College of Information Reviews			In Reporting Phase.
Audits in Progress	Endowment Review	2/7/2014	13-016 UNT	Report issued.
Audits in Progress	Grant Processes Review			Internal Audit did not conduct this project due to limited resources and emerging new risks with greater impact.
Audits in Progress	HSC Approval of Incidental Fees Review	4/4/2014	13-011 HSC	Report issued.
Audits in Progress	HSC UNT Health EPM Post-Implementation Review	4/4/2014	13-010 HSC	Report issued.
Required Audits	NCAA Financial Agreed-Upon Procedures Review	1/15/2014	14-001 UNT	Report issued.
Required Audits	Fiscal Year 2013 Investments/Commercial Paper Review	2/7/2014	14-002 UNT	Report issued.
Required Audits	UNT President's Expenditure Review	4/3/2014	14-003 UNT	Report issued.
Required Audits	Chancellor's Expenditure Review	4/3/2014	14-003 UNT	Report issued.
Required Audits	UNT Dallas President's Expenditure Review	4/3/2014	14-003 UNT	Report issued.
Required Audits	Student Managed Investment Fund Review			In Reporting Phase.
Required Audits	Joint Admission Medical Program Review	10/30/2013	14-005 UNT	Report issued.
Required Audits	Family Practice Residency Program	12/18/2013	14-001 HSC	Report issued.
Required Audits	UNT HSC Public Funds Investment Act (Investments)	2/7/2014	14-002 HSC	Report issued.
Required Audits	UNT HSC President's Expenses Review	4/3/2014	14-003 UNT	Report issued.
Required Audits	UNT HSC Anatomical Lab Review	4/4/2014	14-004 HSC	Report issued.
Risk Assessment	UNT Health Revenue Cycle Front End Review (Clinic 2)			Internal Audit did not conduct this project due to limited resources and emerging new risks with greater impact.
Risk Assessment	UNT HSC Compensation Process Review			Internal Audit did not conduct this project due to limited resources and emerging new risks with greater impact.

Projects removed from the 2014 Audit Plan with Board of Regents Order 2014-27 on 4/17/14.

Entity	Audit
UNT	Academic Workload Review
UNT	Overtime Review
UNT	College of Engineering Investigation
UNT	Business Processes Review
UNT	Advancement Review
UNT	School of Journalism Review
UNT	College of Public Affairs and Community Service Review
UNT	Selected Grant Review
UNT	Supplemental Pay Review
UNT	Incidental Fees Review
UNT	Course Buyout Process Review
UNT	Signature Delegation Review
UNT	Gift Card Purchasing Review
UNT	Telecommuting Review
UNT	Risk Management and Environmental Services Review
UNT	Clean Room Review
UNT	Selected Academic Department Reviews

Entity	Audit
HSC	UNT Health Revenue Cycle Front End Review (Clinic 1)
HSC	UNT Health ICD-10 Readiness Review
HSC	Validation of Management Reports
HSC	Student Health Review
HSC	Shared Services Governance Review
HSC	Signature Delegation Review
HSC	UNT Health Call Center Operations
SYS	BSC P-card Processes Review
SYS	Construction Fees Review
SYS	System Compliance Program Review
DAL	Advancement Review
DAL	Scholarship Review
DAL	Business Processes / Transition Planning Review
IT	ITSS - Process Consulting Related to PeopleSoft Upgrade
IT	Employee Access Review (EIS)
IT	EPAR Implementation Review
IT	Outsourced IT Projects

IV. Consulting Services and Nonaudit Services Completed

No consulting services and/or nonaudit services were completed in Fiscal Year 2014.

V. External Quality Assurance Review (Peer Review)

In accordance with the Texas Internal Auditing Act, an independent, external quality assurance review was performed for the UNT System Internal Audit Department. A report and cover letter was issued March 26, 2014 (see page 6).



INTERNAL AUDIT

Michelle Finley, Chief Internal Auditor

March 26, 2014

The University of North Texas System Board of Regents,

In accordance with the Texas Internal Auditing Act (Government Code Chapter 2012) and our professional standards, a Quality Assurance Review (QAR) was performed of our Internal Auditing activity at the University of North Texas System. Attached is the final report, along with my responses to the recommendations posed.

If you have any questions or concerns regarding the QAR process or final report, please let me know.

Sincerely,

Michelle Finley, CIA
Chief Internal Auditor
University of North Texas System
Office: (940) 565-2355
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michelle.finley@untsystem.edu

cc: L. Jackson, Chancellor

University of North Texas System

Internal Audit Quality Assurance Review Report

March 2014

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UNT | SYSTEM

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.

A handwritten signature in black ink, appearing to read "Richard H. Tarr". The signature is written in a cursive style with a large initial "R".

Richard H. Tarr, CISA, CIA

Observations

In May 2012 the previous Chief Internal Auditor left and the Audit Director for UNT Denton was appointed Interim Chief. In August 2013 a new Chief Internal Auditor was appointed by the University of North Texas Board Of Regents. Formerly an Executive Vice President and Chief Financial Officer and a Director of Internal Audit at Oral Roberts University, and prior to that as an Associate Director of Internal Audit at the University of Oklahoma, she is a Certified Internal Auditor (CIA) with over 15 years of internal auditing experience in higher education. Interviews conducted during the review indicate that she has established a strong working relationship with the UNTS Chancellor and the Audit Committee.

As required by the Texas Internal Auditing Act, the Chief Internal Auditor reports to the Audit Committee of the Board of Regents, and has access to the UNTS Chancellor. This enables the Chief Internal Auditor and the audit staff to be independent of any of the operating areas within the System and allows them to be objective and render impartial and unbiased judgments essential to the proper planning and completion of audit work. In addition, the Chief Internal Auditor meets frequently, one on one, with the Chancellor and the senior staff at the System and has established a good working relationship with executive management at the components.

At the time of the review the department had a staff of 14 auditors and an administrative services officer: the Chief Internal Auditor; a Director and eight positions located on the UNT Campus in Denton, one position was vacant; and a Director's position which was also vacant and three staff located at the Health Science Center in Fort Worth. Overall the audit staff has diverse educational backgrounds. All have a bachelor's degree, some also have a master's degree, and all have experience in business or higher education. All have at least one audit related certification and many have multiple certifications; Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Government Audit Professional (CGAP), and Certified Fraud Examiner (CFE).

A confidential survey of a sample of audit customers as to how they view the work of the IA Department and the staff indicated that 94% of those surveyed rated overall the internal audit activity either excellent or good on 18 different criteria. This is a very positive rating for an audit activity and speaks well of the professionalism and the ability of the audit staff.

A review of a sample of audit workpapers for projects showed that the staff is proficient and knowledgeable in the areas they audit and that the conclusions and recommendations contained in the audit reports were the result of a systematic and professional process. The work performed during the audits and the conclusions contained in the audit reports were appropriately supported by the work that was documented in the workpapers.

The workpaper reviews, staff interviews, and an examination of other documentation provided in planning this review identified two challenges for the new Chief Internal Auditor. The first is that in the past the time between the end of audit fieldwork and the distribution of a final audit report was too long. Some of this delay appears to have been due to not giving adequate priority to workpaper reviews and audit report editing, and in some cases allowing auditees an inordinate amount of time to respond to draft audit reports. The second challenge is in not having given adequate consideration in risk assessments and audit planning to Information Technology (IT) risks and controls. In summary, it was taking too long to issue an audit report and the department needs to conduct more IT audit projects. While the timeliness of audit reports is being addressed by the Chief Internal Auditor, identifying, planning and conducting IT audits is going to require additional staff resources.

With the hiring of the new Chief Internal Auditor there is an opportunity to raise the internal activity up a level. Some of the more important ways that this can be accomplished are by: strengthening and better defining what the Audit Committee expects from the audit activity by creating a well-crafted Audit Charter and by having the IA Department lead the effort in creating an Enterprise Risk Assessment (ERM) model at the System level that includes an assessment of IT risks.

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 by the UNTS IA Department.

The recommendations are divided into two groups; 1) recommendations made to the Audit Committee of the Board of Regents that would strengthen UNTS's governance over the internal audit activity; and 2) recommendations that relate specifically to the IA Department that would increase the efficiency, effectiveness, and value of the audit work that is performed. An outline of these recommendations is set forth below, followed by a discussion of each.

Recommendations for the Audit Committee of the Board of Regents

- Develop, and have the Audit Committee approve, an Internal Audit Charter that reflects the requirements of the UNTS Board of Regents Rule 3.411 *Duties of the Audit Committee*, and incorporates current best practices.
- The UNTS IA Department should conduct an Enterprise Risk Management Assessment.

Recommendations for the UNTS Internal Audit Department

- Develop four to six key performance indicators that can be reported to the Audit Committee and discontinue detail reporting on direct and indirect staff hours.
- Continue to develop the use of continuous monitoring/auditing techniques by expanding the use of the automated file extract and analysis tool IDEA.
- Add additional Information Technology (IT) auditor personnel to the staff and begin conducting IT control audits.
- Consider making changes to the format of audit reports by:
 - Replacing the phrase “what we suggest” with “recommendation”,
 - Discontinue the use of symbols in audit reports,
 - Use unique system-wide numbers for each audit report rather than repeating audit numbers for each location,
 - Consistently include the phrase “Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”

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.

Recommendations

Recommendations for the Audit Committee of the Board of Regents

1. Develop, and have the Audit Committee approve, an Internal Audit Charter that reflects the requirements of the UNTS Board of Regents Rule 3.411 *Duties of the Audit Committee*, and incorporates current best practices.

Recent events involving the failure of effective governance processes in organizations have established a new paradigm for institutional accountability in all sectors of our economy and raised the responsibility bar for audit committees and senior management.

Audit committees are expected to be asking harder questions and raising their expectations pertaining to: 1) Management's awareness of and accountability for an institution's business risks, compliance risks, and the controls that should be in place to mitigate and or manage the risks, and 2) The scope, depth, independence and quality of the internal audit function upon which the Audit Committee depends.

IIA Standard 1000 requires that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter and approved by the Audit Committee. The Standard further requires that the nature of assurance services provided must be defined in the charter. Any consulting services must also be defined in the charter so that the Audit Committee can understand any potential impairment to the independence or objectivity of the assurance work that it relies upon.

While the Board of Regents Rule has language emphasizing the Audit Committee's responsibilities for overseeing the internal audit activity, the language regarding independence, objectivity and effectiveness of the internal audit activity at UNTS could be improved and strengthened by further emphasizing the Audit Committee's responsibility for overseeing the internal audit activity. The following key points are considered good practices in achieving this goal, and should be considered when developing the Audit Charter.

- a) The Audit Committee should review the annual Enterprise Risk Management (ERM) assessment that the Chief Internal Auditor should conduct to ensure that it considers all

the appropriate UNTS risk areas.

- b) The Audit Committee should annually review and approve the staffing resources and the financial budget for the IA Department. It should determine if current resources are sufficient in amount and competency, through in-house staff and co-sourcing, to ensure that the risks identified in the ERM are being adequately covered.
- c) The Audit Committee should annually review and approve the Chief Internal Auditor's annual audit plan after reviewing the ERM that the plan should be based on.
- d) The Audit Committee should periodically receive information from the Chief Internal Auditor on the status and results of the audit projects in the audit plan and the status of the implementation of actions by management that addresses important issues and recommendations.
- e) The Audit Committee should meet separately with the Chief Internal Auditor at least annually to discuss matters that the Committee or the Chief Internal Auditor believes should be discussed privately.
- f) The Chief Internal Auditor should have full and free access to the Audit Committee.
- g) The Audit Committee should concur in the appointment, replacement, or dismissal of the Chief Internal Auditor.
- h) The Audit Committee should approve all decisions regarding the annual performance evaluation and compensation decisions related to the Chief Internal Auditor.
- i) The Audit Committee should review and reaffirm the Internal Audit Charter anytime the Chief Internal Auditor position turns over, or whenever there are changes in the Audit Committee's membership.
- j) The Chancellor and senior UNTS management should review and provide input to the ERM process to ensure it properly reflects where they believe there are risks and where internal audit resources can best be utilized.
- k) The Audit Committee should ensure that audit staff and contracted resources have

unrestricted access to all functions, records, property, and any necessary assistance of personnel when conducting audit work.

- l) The Chief Internal Auditor should coordinate all external audit activity conducted at the System or any of its components to ensure that the Audit Committee and the Chancellor can stay adequately informed and involved in any audits conducted by outside parties.

- m) The Audit Committee should require that management respond to draft audit reports within thirty (30) days, to ensure that the issuance of final audit reports are not unduly delayed, ensuring reports are issued in a timely manner following the completion of the work.

2. The UNTS IA Department should conduct an Enterprise Risk Management Assessment.

IIA Standard 2010 requires that the Chief Internal Auditor must establish risk-based annual audit plans to ensure the priorities of the internal auditing activity are consistent with the organization's goals. The Chief Internal Auditor takes into account the organization's risk management framework, including using the risk appetite levels set by management for the different activities or parts of the organization.

The UNTS IA Department should conduct an Enterprise Risk Management (ERM) assessment that focuses initially on key business processes and business activities, including IT risks. Identifying key processes at the System level and at the component level would create a more effective risk assessment model.

As management is ultimately responsible for assessing risk and establishing effective controls, the usefulness of any risk assessment model depends upon management's involvement in helping the IA Department identify the areas and the significant risks where audit resources can best be utilized including identifying the likelihood and impact of various risk events. Because internal auditors are outside the business units they review, they can provide objective assurance to the Audit Committee on the effectiveness of the risk assessment process and on whether major business and compliance risks are being managed appropriately by auditing the controls that management has implemented to manage the high risk areas.

Recommendations for the UNTS Internal Audit Department

1. **Develop four to six key performance indicators that can be reported to the Audit Committee and discontinue detail reporting on direct and indirect staff hours.**

It is considered a best practice for internal auditing departments to establish their own key performance measures as a way of benchmarking how well they are managing their resources, accomplishing their objectives and providing value to an organization. These benchmarks, for example, might include the time between the end of fieldwork and the completion of the workpaper review; the number of days between the end of fieldwork and the first report draft; the time it takes between the first report draft and the distribution of the final report.

How well the department is performing against these benchmarks, along with the results of the post auditee surveys that are sent to auditees could then be shared with the Audit Committee annually to provide the Committee an objective basis for determining whether the internal auditing activity is meeting their performance expectations. Additionally, the Audit Committee may want to help determine what performance measures they would like to see tracked and reported.

Response

Internal Audit will explore and identify key metrics for the Internal Audit function that provide value-added reporting to the Board of Regents Audit Committee. These metrics or benchmarks will be utilized in the quarterly reports provided to the Board.

The implementation date of this recommendation is August 31, 2014.

2. Continue to develop the use of continuous monitoring/auditing techniques by expanding the use of the automated file extract and analysis tool IDEA.

One of the most significant changes that has occurred in the internal auditing profession in the last decade is the extent to which auditors now recognize the importance of data analysis and the automation of audit and control testing procedures through the use of information technology (IT) tools. Traditionally, an auditing department's testing of controls and compliance has been performed on a retrospective and cyclical basis, often months after business activities have occurred. Testing procedures are often based on a sampling approach and have included activities such as reviews of transactions, policies, procedures, approvals, and reconciliations. This approach has only afforded auditors a narrow scope of evaluation and can be late in heading off errors in business performance or regulatory compliance.

Continuous auditing is a method used to perform control and risk assessments automatically on a more frequent basis. The use of IT tools, like the IDEA extract software tool the department already has available, is the key to enabling this approach. Using continuous auditing will allow auditors to more fully understand critical control points, rules, and exceptions. By conducting frequent analyses of data, they will be able to perform control and risk assessments on a timelier basis. Auditors will be able to analyze key business systems for both anomalies at the transaction level and for data-driven indicators of control deficiencies and emerging risks. Continuous auditing will enable the integration of analysis results into the risk assessment process, from development and maintenance of audit plans to the follow-up of specific audits.

Response

Since the issuance of this draft report, Internal Audit is currently utilizing data analytics to increase the efficiency of the audit process. Further work will also be completed to utilize the IDEA file extract and analysis tool, and routine scripts will be developed to increase the efficiency of continuous monitoring. Continuous audit techniques and monitoring will also be prioritized as a key activity for the new IT Internal Audit Director

once that position is filled.

The implementation date of this recommendation is August 31, 2014.

3. Add additional Information Technology (IT) auditor personnel to the staff and begin conducting IT control audits.

UNTS relies heavily on its information systems, which manage and support the infrastructure of practically all of the System's major business and academic processes. As this reliance continues to grow, and the System and the components continue to place greater reliance on information technology (IT) and continue to make sizable investments in new IT systems, the IA Department will need to begin to conduct IT control audits.

To adequately audit the broad scope of IT risks that exist throughout the System, additional IT experienced personnel need to be added to the staff and the Department's current staff need some basic IT controls training. While it is a challenge for an internal audit department to attract and maintain auditors with IT audit skills, knowledge and experience, the department should begin recruiting additional senior level IT Auditors immediately and develop a training program to equip the existing staff with basic IT control knowledge and audit skills.

Response

With the support of the Board of Regents and the System Administration, recruitment efforts have begun for an IT Internal Audit Director. The position will coordinate the IT risk assessment process and IT audit projects. The development of an IT audit plan and assessment of IT audit resources needed to complete the audit plan will involve the use of a third-party professional services firm in coordination with the IT Internal Audit Director and the Chief Internal Auditor.

The implementation date of this recommendation will be upon successful recruitment of an IT Internal Audit Director.

4. Consider making the following changes to the format of audit reports

The UNTS IA Department should consider making the following changes to their audit reports:

- Replace the phrase “what we suggest”, with “recommendation”.
The phrase “what we suggest” when used in audit reports sounds noncommittal. The definition of a suggestion is to “imply as a possibility”, the definition of a recommendation is to “state what is a good or sensible thing to do or use in the circumstances”. Auditors add value to an organization by working with management to identify actions in the form of recommendations to correct existing conditions or improve operations. They should not be implying possibilities.
- Discontinue the use of symbols in audit reports.
In the past it was the Department’s practice to use one of three symbols to categorize an audit observation and associated recommendation. The symbols represented either: Best Practice/Operational; Internal Policy Compliance; or Regulatory/Statutory Compliance. The managers interviewed during the review believed that the use of these symbols by the audit staff had become a crutch. Especially given that “Best Practice/Operational” appeared to be the most frequently cited justification for a recommendation without there being any discussion on how or from where it was determined to be a Best Practice. Recommendations should be developed with managements help and should include some discussion of why management should be taking a recommended action.
- Use unique system-wide numbers for each audit project and the report rather than repeating identifying numbers for each component.
Currently the Department uses a sequential number to identify audit projects and reports at each component. This is confusing for many at the System level because the numbers are only unique within a given component; the numbers are repeated at different components. While sub-

codes could be used to identify components, the major identifier numbers should be unique system-wide. This would make tracking and cross referencing audit projects and reports at the system level more efficient and less confusing, especially for the Audit Committee.

- Consistently include in audit reports the phrase “Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”
Because it is the opinion of this review that the internal auditing activity at UNTS is in compliance with the *IIA Standards* audit reports should include the phrase “conducted in accordance with the International Standards for the Professional Practice of Internal Auditing” to provide assurance to third parties, who rely on the work, that it was conducted using a systematic approach that can be depended upon to produce independent and objective conclusions and recommendations.

Response

Internal Audit has already implemented recommendations 1 and 4 from the above bulleted list. The two remaining recommendations will be evaluated for implementation at the end of the fiscal year.

The implementation date of this recommendation is August 31, 2014.

VI. Internal Audit Plan for Fiscal Year 2015

The Fiscal Year 2015 Audit Plan for the University of North Texas System Internal Audit Department was approved by the Board of Regents on August 21, 2014.

The items on the audit plan that address the "proportionality of benefits" risk are titled State Benefit Analysis. Hours have been set aside for each entity.

The Internal Audit Hours for Co-sourced Activities will be used to assist on a variety of financial-related audits, which may include expenditure transfers, capital budget controls, and other assessments of the University's adherence to the General Appropriations Act.

Contract Management is a risk measured at each unit. See Risk Menu (page 28) for a full list of risk menu items used in the risk assessment.

Information Technology (IT) risks were not included in the risk assessment, however one of the Office of Internal Audit's fiscal year 2015 objectives is to elevate its information technology audit capacity which includes an IT risk assessment and resulting audit plan.

Risks that are ranked as high but not included in the audit plan can be seen under the section "Audits from the Risk Assessment (Contingent Audits Based on Resource Availability)."

Fiscal Year 2015 Audit Plan

Audits	Hours
<u>All Entities</u>	
External FY14 Audit Coordination	300
Audit Recommendations Follow-up	1,000
FY14 Complaints/Concerns Reviews in Process	1,200
Internal Audit Hours for Co-Sourced Activities	2,500
<u>UNT System</u>	
Chancellor's Expenditure Review	250
State Benefit Analysis	450
<u>University of North Texas</u>	
President's Expenditure Review	250
Investments Review	300
Student Managed Investment Fund Review	200
Facilities Certification Review	200
Cancer Prevention and Research Institute of Texas Program Review	75
State Benefit Analysis	350
<u>Health Science Center</u>	
President's Expenditure Review	250
Investments Review	300
Advanced Research Program Grant Review	200
Family Medicine Residency Program Review	200
Cancer Prevention and Research Institute of Texas Program Review	100
State Benefit Analysis	550
<u>UNT Dallas</u>	
President's Expenditure Review	250
State Benefit Analysis	350
Total Audits	9,275

Consulting/Investigations	Hours
----------------------------------	--------------

All Entities

Management Consulting Activities	400
Hotline Implementation/Administration	800
Contingency for FY15 Complaints/Concerns	<u>1,900</u>
Total Consulting/Investigations	3,100

Audit Planning/Management	Hours
----------------------------------	--------------

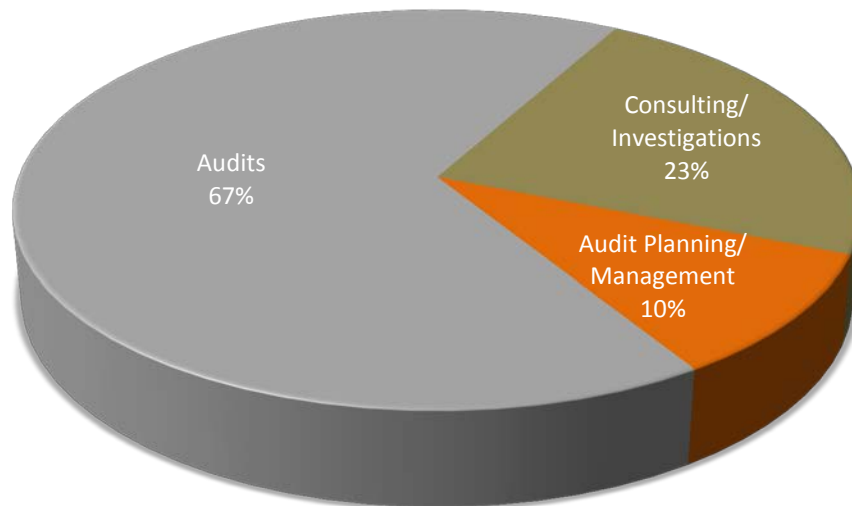
All Entities

Annual Risk Assessment/Audit Planning	500
Internal Audit Quality Assurance Initiatives	500
Audit Software Management	<u>400</u>
Total Audit Planning/Management	1,400

FY15 Audit Plan Total Hours **13,775**

Audits from the Risk Assessment (Contingent Audits Based on Resource Availability)

Financial Reporting FY15 Reconciliation Monitoring
 Financial Reporting/Payroll Process and Internal Controls Review
 Treasury Services Process Review
 PeopleSoft System Security Review
 Research Services Review



Annual Risk Assessment

Risk Criteria Methodology

The Office of Internal Audit developed the risk assessment model by identifying a risk universe (risk menu) that represented the total population of potential audits for the UNT System. The population includes: organizational units within each component of the System; processes occurring across the System or each component; compliance issues for each component within the System; and the annually required audits. The full risk menu is provided in Attachment A.

The Risk Assessment has five general risk areas:

1. Financial Risk
2. Management Control & Operations Risk
3. Strategic Risk
4. Compliance & Public Interest Risk
5. Internal & External Audit History Risk

The following information explains each risk criteria applied to each general risk area:

Financial Risk Factor

- A. **Budget Risk Criteria** - Larger operating budgets represent higher risks. In addition, inherent financial statement risk increases as revenue and expenditures increase. The Enterprise Information System was queried to extract the fiscal year 2014 budgets for each unit on the risk menu. We reviewed the salary, maintenance and operations, and revenue budget for each unit and assigned a risk factor based on size.
- B. **Trending Criteria** - The increase or decrease of budgeted salary, maintenance and operations, and revenue from the previous fiscal year was evaluated. A large increase or decrease in an area's budgeted expenses or revenue could present an increase in financial risk. Consequently, a risk factor was assigned to significant budgetary increases or decreases.

Management Control and Operations Risk Factor

- A. **Employee FTE Risk Criteria** - Larger staff size represents higher risk in the areas of human resources, ethics, performance, need for training, adequate staff levels, etc. An analysis was performed of current employee full-time equivalent's ("FTE") information from the Enterprise Information System. Specifically, the number of FTE's for each unit was gathered and reviewed from the State FTE Reporting Table in the Enterprise Information System.

- B. **Employee Turnover Risk Criteria** - Inherent risks can increase due to employee turnover in management or key personnel. The amount of turnover was obtained from the Enterprise Information System with a query that extracted full-time employees with terminated job records from FY14 to date, excluding temporary or short job assignments. To take into account the amount of turnover relative to the size of the unit, we measured turnover as a percentage of the number of staff FTE's currently on payroll.
- C. **Critical Nature of Operations to Daily University Functioning Risk Criteria** - Critical operations represent higher risks of whether an institution will achieve its objectives. The size of the operation is also a risk factor. A judgmental analysis was used to complete these risk criteria.
- D. **Management Concerns Risk Criteria**- Audit requests by the Audit Committee, President(s), and University management are factors in establishing audit priorities. It is expected that management is well informed about the risks in their areas. We considered our discussions with the Board and Administration during the audit planning process. In addition to meetings, a survey was sent to 555 individuals across all campuses, with a 46% response rate.

Strategic Risk Factor

- A. **Strategic Mission & Core Values Risk Criteria** - According to the UNT System Strategic Plan, our mission “*to provide recognized and respected undergraduate, graduate and professional education, conduct research, scholarship and creative activities, and engage in public and community service through its campuses and programs with the highest quality cost-effective planning and administrative support services.*” In addition, UNT System’s Core Values are: Purposefulness, Innovation, Respect, Value, Fulfillment, and Collaboration. Accordingly, Internal Audit’s activities should take into consideration strategic opportunities for improvement. Each risk menu item was measured against the deliverables enumerated in the UNT System Strategic Plan. The unit(s) responsible for carrying out the deliverable of each imperative was given a higher risk ranking.
- B. **Other Key Strategic Initiatives Risk Criteria** - The University Presidents, Chancellor or Board of Regents may establish strategic goals, visions or core values which will direct the University to expend energies and focus in specific areas. These areas could be new opportunities to mitigate new or heightened risks. Emerging risks were ranked based on the current affairs of the System.

Compliance and Public Interest Risk Factor

- A. **Reputation Risk Criteria** - Certain functional areas or processes, by their nature, garner greater public interest or need for higher political sensitivity. There are greater than normal risks to the University’s reputation and goodwill inherent in these activities. Activities with heavy involvement with the public and/or community are also a risk factor. A judgmental analysis was used to complete these risk criteria.
- B. **Changes in Regulatory Requirements Criteria** - Functional areas or processes that are subject to external regulatory requirements increase inherent risks to the System’s reputation, finances and achievement of objectives. Sanctions and other consequences can impact the System. Recent changes in regulatory requirements will carry a greater risk. The level of

importance and degree of work required to implement the change will be taken into consideration. Research on recent or upcoming regulatory changes as well as communication with key staff including the Office of Institutional Compliance at UNT and HSC were used in this assessment.

- C. **Recent Regulatory Violations Criteria** - Functional areas that receive sanctions and other consequences can impact the System, as well. The amount of regulatory violations and recent ramifications for non-compliance were evaluated with these risk criteria.

Audit History Risk Factor

- A. **Last Time Internal Audit Conducted Risk Criteria** - Because all functional areas and processes should be considered for auditing, this risk criteria factors in the time since the area was last audited by Internal Audit.
- B. **Level of External Review Activities Risk Criteria** - For this risk criteria, a higher risk score was given to a unit, process, or compliance areas that had never been externally reviewed or one that had a large number of external audit recommendations. Conversely, a lower risk score was given to those areas with frequent external audits without significant findings or recommendations. The UNT and HSC Compliance Committee were contacted and a collective process brought together a System-wide look at the recent and upcoming external reviews. As outlined in the Internal Audit Charter, the Chief Internal Auditor serves as the facilitator and coordinator for all federal, state, and other external audit agencies.

Risk Probability Factor

Each risk item was ranked based on the potential likelihood and impact to the System.

Internal Audit assigned the following probability weighting factors:

High probability and/or impact	x 1.25
Medium probability and/or impact	x 1.00
Low probability and/or impact	x 0.75

Risk Menu Attachment A

UNT System

Required Audits		
Chancellor's Expenditure Review	Coordinator of External Audits	
Units	Processes	Compliance
Chancellor	Financial Reporting	Texas State Comptroller Reporting Requirements
VC Academic Affairs & Student Success	Appropriation Funding	Department of Education Reporting Requirements
Board of Regents	Legislative Appropriation Request	State Tax Requirements
VC Administration	Treasury	Federal Tax Requirements
VC Governmental Relations	Accounts Receivable	Payment Card Industry Data Security Standard
VC Facilities Planning & Construction	Accounts Payable	Political Activity
Law School	Fixed Asset Management	Public Information Act
VC Finance	Purchasing	Occupational Safety and Health Act
UNT System Wide	Contracts Management	Charitable Contributions and Gifts
Pledged Auxiliaries	Budgetary	Philanthropy Protection Act
Employee Benefits	Gift Collection	Gramm Leach Bliley Act
Information Technology Shared Services	Cash Handling	Family Educational Rights and Privacy Act
Business Service Center	Purchasing Card Program	Health Insurance Portability and Accountability Act
Internal Audit	Employee Travel	Americans with Disabilities Act
VC & General Counsel	Departmental Purchasing	Fair and Accurate Credit Transaction Act
Universities Center at Dallas	Capital Projects	Equal Employment Opportunity Laws
	Financing/Management	
	Space Utilization/Reporting	Emergency Management
	Investments	Title IX of the Education Amendment of 1972
	Payroll	Clery Act
	Hiring/Termination	Drug Free Schools and Communities Act
	Enrollment Management	Higher Education Opportunity Act
	Tuition and Fees	

University of North Texas

Required Audits		
President's Expenditure Review	Investments Review	Student Managed Investment Fund Review
NCAA Financial Agreed-Upon Procedures Review	Advanced Research Program Grant Review	Facilities Certification Review
Joint Admission Medical Program Review	Coordinator of External Audits	
Units	Processes	Compliance
VP Finance & Administration	Financial Reporting	Texas State Comptroller Reporting Requirements
Institutional Compliance	Appropriation Funding	Department of Education Reporting Requirements
	Legislative Appropriation Request	State Tax Requirements
Sr AVP for Finance		
AVP Finance	Accounts Receivable	Federal Tax Requirements

Faculty/Staff Benefits	Accounts Payable	Payment Card Industry Data Security Standard
AVP Financial Planning & Budget	Fixed Asset Management	Political Activity
Provost & VP Academic Affairs	Purchasing	Public Information Act
Enrollment Management	Contracts Management	Occupational Safety and Health Act
University Libraries	Budgetary	Charitable Contributions and Gifts
TX Academy of Math & Science	Gift Collection	Philanthropy Protection Act
Honors College	Cash Handling	Gramm Leach Bliley Act
Graduate Dean	Purchasing Card Program	Family Educational Rights and Privacy Act
Planning & Institutional Research	Employee Travel	Health Insurance Portability and Accountability Act
College of Arts & Sciences	Departmental Purchasing	Americans with Disabilities Act
	Capital Projects	Fair and Accurate Credit Transaction Act
College of Visual Arts and Design	Financing/Management	
School of Journalism	Space Utilization/Reporting	Equal Employment Opportunity Laws
College of Information	Investments	Emergency Management
Distributed Learning Support	Payroll	Title IX of the Education Amendment of 1972
College of Business	Hiring/Termination	Clery Act
College of Education	Enrollment Management	Drug Free Schools and Communities Act
College of Merchandise, Hospitality, & Tourism	Tuition and Fees	Higher Education Opportunity Act
College of Music	Centers & Institutes	Annual Fire Safety Report on Student Housing
College of Public Affairs & Communication	Sponsored Programs	Sponsored Program Compliance
		Department of Homeland Security Chemicals of Interest
College of Engineering	NCAA Financial Reporting	Protection of Human Subjects
AVP Facilities		Animal Welfare Act
Director/Chief Police & Traffic		Radiation Control
AVP Human Resources		Laboratory Biosafety
Director Risk Management		Toxic Substances Control Act
VP of Student Affairs		Chemical Facility Anti-Terrorism Standards
AVP of Student Affairs		Hazardous Materials Transportation Act
Dean of Students		Intellectual Property/Technology Transfer
Int'l Studies & Programs		Export Administration Act
Director of Health & Wellness Center		NCAA Bylaw Compliance
University Union		
Student Recreation Center		
Business Services		
Information Technology		
President UNT		
VP Development		
VP Research & Economic Dev		
VP Equity & Diversity		
VP University Communications & Marketing		
Athletics Administration		

UNT Health Science Center

Required Audits

President's Expenditure Review	Investments Review	Family Medicine Residency Program Review
Advanced Research Program Grant Review	Anatomical Lab Willed Body Program Review	Cancer Prevention and Research Institute of Texas Program Review
Joint Admission Medical Program Review	Coordinator of External Audits	

Units

Processes

Compliance

Office of the President	Financial Reporting	Texas State Comptroller Reporting Requirements
Compliance Program	Appropriation Funding	Department of Education Reporting Requirements
	Legislative Appropriation	State Tax Requirements
UNT Systems Interagency	Request	
BSC State	Accounts Receivable	Federal Tax Requirements
Information Technology Shared Services	Accounts Payable	Payment Card Industry Data Security Standard

HR System	Fixed Asset Management	Political Activity
Governmental Affairs	Purchasing	Public Information Act
SVP Community Engagement	Contracts Management	Occupational Safety and Health Act
Dean, Graduate School Biomedical Sciences	Budgetary	Charitable Contributions and Gifts
Cell Biology & Immunology	Gift Collection	Philanthropy Protection Act
Physiology and Anatomy	Cash Handling	Gramm Leach Bliley Act
Molecular Biology & Immunology	Purchasing Card Program	Family Educational Rights and Privacy Act
Pharmacology & Neuroscience	Employee Travel	Health Insurance Portability and Accountability Act
Dean, Texas College of Osteopathic Medicine	Departmental Purchasing	Americans with Disabilities Act
Family Medicine	Capital Projects	Fair and Accurate Credit Transaction Act
Community Medicine	Financing/Management	
Internal Medicine	Space Utilization/Reporting	Equal Employment Opportunity Laws
Obstetrics/Gynecology	Investments	Emergency Management
Manipulative Medicine	Payroll	Title IX of the Education Amendment of 1972
Orthopaedic Surgery	Hiring/Termination	Clery Act
Molecular and Medical Genetics	Enrollment Management	Drug Free Schools and Communities Act
Pediatrics	Tuition and Fees	Higher Education Opportunity Act
Psychiatry & Behavioral Health	Centers & Institutes	Sponsored Program Compliance
Surgery	Sponsored Programs	Department of Homeland Security Chemicals of Interest
Associate Dean, Educational Program		Protection of Human Subjects
Assoc Dean, Academic Affairs		Animal Welfare Act
Assist Dean, Medical School Admission		Radiation Control
Rural Medicine		Laboratory Biosafety
Dean, School of Public Health		Toxic Substances Control Act
EVP Academic Affairs & Provost		Chemical Facility Anti-Terrorism Standards
Vice Provost Academic Affairs & Dev		Hazardous Materials Transportation Act
VP Student Affairs		Intellectual Property/Technology Transfer
Gibson D Lewis Library		Export Administration Act
Faculty Affairs & Development		Medicaid Transformation Waiver
HIT Program		Medical Billing and Reimbursement
Biotech Rider		UNT Health Medical Agreements
Information Technology Development		Medical Waste Tracking Act
Center for Learning & Development		Health Information Technology for Economic and Clinical Health Act
VP Research		
Grants & Contract Management		
Clinical Trials		
Lab Animal Medicine		
Research Development & Commercialization		
Office of Research Compliance		
Dean, College of Pharmacy		
Dean, School of Health Professionals		
Physical Therapy Program		
Physician Assistant Program		
SVP Finance & Chief Financial Officer		
Controller & Chief Budget Officer		
UNTHSC Police		
Facilities Management		
Safety Office		
VP Operations		
Central Services		
Purchased Utilities		
Employee Benefits		
Employee Compensation Program		
Miscellaneous Institutional Expenses		
VP Strategy & Measurement		

UNTH Obstetrics & Gynecology
UNTH Psychiatry & Behavioral Health
UNTH Orthopaedics
UNTH Surgery
UNTH Osteopathic Manipulative Medicine
UNTH Pediatrics
UNTH Community Health
UNTH Family Medicine
UNTH Internal Medicine
UNT Health Business Services
UNTH Physical Therapy
UNTH Student Health

UNT Dallas

Required Audits

President's Expenditure Review	Facilities Certification Review	Coordinator of External Audits
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Units	Processes	Compliance
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Units	Processes	Compliance
Office of the President	Financial Reporting	Texas State Comptroller Reporting Requirements
VP Finance & Admin	Appropriation Funding	Department of Education Reporting Requirements
Provost & VP for Academic Excellence and Student Success	Legislative Appropriation Request	State Tax Requirements
Associate Provost Student Success	Accounts Receivable	Federal Tax Requirements
Liberal Arts & Life Sciences	Accounts Payable	Payment Card Industry Data Security Standard
Urban & Professional Studies	Fixed Asset Management	Political Activity
Education & Human Services	Purchasing	Public Information Act
Advancement	Contracts Management	Occupational Safety and Health Act
Associate Provost for Academic Excellence	Budgetary	Charitable Contributions and Gifts
	Gift Collection	Philanthropy Protection Act
	Cash Handling	Gramm Leach Bliley Act
	Purchasing Card Program	Family Educational Rights and Privacy Act
	Employee Travel	Health Insurance Portability and Accountability Act
	Departmental Purchasing	Americans with Disabilities Act
	Capital Projects	Fair and Accurate Credit Transaction Act
	Financing/Management	
	Space Utilization/Reporting	Equal Employment Opportunity Laws
	Investments	Emergency Management
	Payroll	Title IX of the Education Amendment of 1972
	Hiring/Termination	Clery Act
	Enrollment Management	Drug Free Schools and Communities Act
	Tuition and Fees	Higher Education Opportunity Act
Centers & Institutes	Sponsored Programs	Sponsored Program Compliance
		Department of Homeland Security Chemicals of Interest
		Protection of Human Subjects
		Animal Welfare Act
		Radiation Control
		Laboratory Biosafety
	Toxic Substances Control Act	
	Chemical Facility Anti-Terrorism Standards	
	Hazardous Materials Transportation Act	
	Intellectual Property/Technology Transfer	
	Export Administration Act	

VII. External Audit Services

- Billing & Accounting Services-Financial Aid, Campus Partners.
- Audit Readiness Advisory Services, Deloitte & Touche LLP
- Investigative Services, Deloitte & Touche LLP
- Annual actuarial analysis and report for UNT Health Self-Insurance Plan, Fred R. White Company Inc.

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.