

**The University of Texas at Arlington
Annual Internal Audit Report
Fiscal Year 2003**

THE UNIVERSITY OF TEXAS AT ARLINGTON

Fiscal Year 2003 Annual Internal Audit Report



November 1, 2003

THE OFFICE OF INTERNAL AUDIT
BOX 19110
ARLINGTON, TX 76019-0110

**The University of Texas at Arlington
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Purpose of the Annual Report: To provide information on the benefits and effectiveness of the internal audit function. In addition, the annual report assists central oversight agencies in their work planning and coordinating efforts.

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I. Internal Audit Plan for Fiscal Year 2003

Key Financial and Operating Audits	
<i>System-wide Audits</i>	
Equipment, and Equipment and Buildings Depreciation	350
Accounts Receivable and Allowance for Bad Debts	325
Auxiliary Revenues/Expenditures	250
Cash Counts	60
<i>Consulting Activities</i>	
Special Projects	125
Financial Statements	80
Subtotal	1190
Institutional Compliance Audits	
Environmental Health and Safety	400
NCAA Compliance – Financial Aid	300
Institutional Compliance Program Design	150
<i>Consulting Activities</i>	
Reviews of the High Risk Areas	510
Special Projects	125
Ethics Hotline Investigations	180
Subtotal	1665
Information Technology Audits	
General Computer Controls (IT Planning/Computer Operations)	300
Student Billing/Student Accounts Receivable	300
Subtotal	600
Core Business Processes	
Human Resource Management	350
Research – Office of Sponsored Projects	350
Instruction and Academic Support – Accreditation and Institutional Effectiveness	340
Purchasing and Warehousing – Operations and Bid Processes	350
Out-Sourced Operations (Food Services Contract)	200
Collections Process	200
Enrollment Management	200
<i>Consulting Activities</i>	
Performance Measures	100
Special Projects	125
Subtotal	2215
Change in Management	
Departmental Audits not fully completed from prior year	120
<i>Consulting Activities</i>	
Change in Management Audits (including those not yet identified)	440
Special Projects	125
Subtotal	685
Follow-up on Prior Audits	550
Subtotal	550
Projects	
Cost Savings Report	300
Annual Internal Audit Report	60
Quality Assurance Reviews	125

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Audit Plan Preparation	60
Audit Committee	60
Subtotal	605
Total Audit and Project Hours	7510

Explanation of Deviations from 2003 Audit Plan

The following audits were in progress at August 31, 2003:

- Environmental Health and Safety
- General Computer Controls
- Research – Office of Sponsored Projects
- Collections Process
- Out-Sourced Operations (Food Services Contract)

The Executive Director plans to complete these audits and issue the reports prior to December 31, 2003.

As documented in the Audit Committee meeting minutes, the following audits were deleted from the Annual Audit Plan:

- Institutional Compliance Program Design (the UT System Action Plan for Institutional Compliance was revised during fiscal year 2003, and this audit is no longer required.)
- Consulting - Reviews of the High Risk Areas (in February 2003, the Office of Internal Audit and the Office of Institutional Compliance were temporarily combined when the Director of Internal Audit resigned. Therefore, Internal Audit did not complete their reviews of the high-risk areas. This has been added to the fiscal year 2004 Audit Plan.)
- Human Resources Management
- Instruction and Academic Support – Accreditation and Institutional Effectiveness

The audits of Auxiliary Revenues/Expenditures and Enrollment Management were not considered priority audits and were not completed during the fiscal year. This was approved by the Audit Committee.

Midway through fiscal year 2003, the Director of Internal Audit and three staff members resigned. An Interim Director was immediately appointed; however, it took six months to fill the other three vacancies. Therefore, the number of hours available to complete the audits on the audit plan was reduced, and this greatly impacted our ability to complete our entire audit plan.

II. External Quality Assurance Review (Peer Review)

The following represents the Executive Summary from the Quality Assessment Review of The University of Texas at Arlington Office of Internal Audit Report issued in June 2003. The entire report can be requested from the Executive Director of Internal Audit at (817) 272-3089.

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EXECUTIVE SUMMARY

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

As part of the preparation for the QA, Internal Audit prepared a self-study, with detailed documentation. Prior to the commencement of the onsite work by the QA team, the team members reviewed the self-study and supporting documentation. During the onsite work performed by the QA team on March 24 - 26, 2003, the team interviewed key executives and Internal Audit staff. Additionally, we reviewed Internal Audit's risk assessment and audit planning process, audit tools and methodologies, engagement and staff management processes, and a representative sample of Internal Audit's working papers and reports.

The Internal Audit environment where we performed our review is currently in transition. The Director of Internal Audit resigned effective January 31, 2003, and a part-time Interim Director has been appointed. Additionally, three other members of the staff have left the employment of UTA during the past month, leaving two full-time employees. The Interim Director is actively recruiting to fill two of the vacancies.

Internal Audit strives to ensure that the *Standards* are understood and management is endeavoring to provide useful audit tools and implement appropriate practices. Among these tools and practices are automated audit sampling software; professional training and encouragement of certifications for Internal Audit staff; concise reports with a focus on risk; and a good reputation and credibility with customers. Consequently, our comments and recommendations are intended to build on this foundation already in place in Internal Audit.

Our recommendations are divided into two groups:

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

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

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PART 1 - MATTERS FOR CONSIDERATION OF UTA MANAGEMENT

1. Support/facilitate the filling of vacant positions to ensure an appropriate audit staffing level is maintained.
2. Support/facilitate increased coverage of UTA's operations, including those operations outside the financial areas of the organization.

PART II - ISSUES SPECIFIC TO INTERNAL AUDIT

1. Update the Audit Manual to reflect the new *Standards* and any other changes in departmental operating procedures.
2. Enhance the audit plan process by establishing a documented process for development of the risk universe to ensure that appropriate coverage is given to UTA's risks in the developed audit plan.
3. Enhance relations with Internal Audit's customers and solicit their input into the engagement planning process.
4. Enhance the engagement preparation and planning process to ensure that planning documentation includes both strengths and weaknesses of the operations being reviewed and the consideration these are given in the assessment of risk and development of the audit program.
5. Ensure changes in audit scope and objectives are clearly documented within the working papers.
6. Enhance the oversight of Internal Audit management on individual engagements. This should include establishment of appropriate time budgets with regular monitoring and regular, timely review of working papers.
7. Enhance the internal quality assurance process to ensure that working paper documentation supports reported information (including referencing and dispositions).
8. Ensure audit reports are timely and contain management responses and implementation dates, when appropriate. Consideration should also be given to including information related to improving effectiveness.
9. Customer survey forms should be sent out to all auditees subsequent to the audit report being issued.
10. Develop a consistent, documented follow-up process for audit recommendations to ensure timely implementation.
11. Review the Internal Audit resources and skill set mix, in light of the current budget constraints, staffing needs, and the expected discontinuation of co-sourcing the IT audit activities with Deloitte & Touche.
12. Develop a plan for staff enhancement that includes annual training and certifications.

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OPINION AS TO CONFORMITY TO THE STANDARDS

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

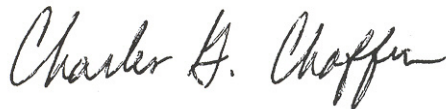
- 1000 - Purpose, Authority, and Responsibility (Charter),
- 1100 - Independence and Objectivity,
- 1200 - Proficiency and Due Professional Care
- 1300 - Quality Assurance/Improvement Program, 2100 - Nature of Work,
- 2400 - Communicating Results,
- 2600 - Management's Acceptance of Risks, and
- The IIA's *Code of Ethics*.

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

- 2000 - Managing the Internal Audit Activity,
- 2200 - Engagement Planning,
- 2300 - Performing the Engagement, and
- 2500 - Monitoring Progress.

In our terminology, "generally conforms" means that Internal Audit has a charter, policies, and procedures that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in our recommendations. "Partially conforms" means deficiencies in practice are noted and are judged to deviate from the *Standards*, but these deficiencies did not preclude Internal Audit from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities. It is our opinion that there are no areas in which Internal Audit does not conform to the *Standards*.

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



Charles G. Chaffin, CPA, CIA
Team Leader
Director of Audit
The University of Texas System

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Team Members:

Kimberly Hagara, CPA, CIA
Assistant Director for System-wide Compliance
The University of Texas System

Toni Messer, CPA, CIA
Director of Internal Audits
The University of Texas at Dallas

Christie Oliver, CPA, CIA
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The University of Texas System

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

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) <ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation 	Fiscal Impact/ Other Impact
02-12	Nov. 13, 2002	Appropriations	Our objectives were to determine if the reliability and integrity of the financial information and the safeguarding of assets are adequate in order to ensure compliance with key University and state policies and procedures.	Based on our audit, it appears that Appropriations are accounted for accurately, adequately safeguarded, and accounted for to the state in compliance with key University and state policies and procedures. No exceptions were noted in our tests of the selected reports.	Not Applicable.	Not Applicable.

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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)	Fiscal Impact/ Other Impact
02-16	Oct. 10, 2002	ATP/ARP	<p>Our objectives were to verify that the PI listed in DEFINE is the same PI listed in the grant document and that the PI has completed the annual Conflict of Interest Form; budget transfers in excess of those authorized by grant conditions have been approved by the Coordinating Board; salary, travel, equipment, and maintenance and operation expenditures are in accordance with the terms of the grant conditions and UTA policies; required reports are submitted timely to the Coordinating Board; “matching” funds required for ATP Development and Transfer grants have been received; unexpended funds from expired supplemental grants have been returned; and controls exist to ensure the PI actually worked on the grant.</p>	<p>Based on the audit steps performed, overall it appears that the University is materially complying with terms and conditions applicable to the ATP/ARP grants; however , we noted that Conflict of Interest Forms had not been completed for three individuals involved in three grants; there were four budget transfer requests from three grants that did not include justification statements; DEFINE does not have the capacity to generate personnel effort reports that are based on payroll transactions occurring in the state appropriated accounts. Additionally, we noted that Grant and Contract Accounting was only reviewing the PI/Co-PI salaries; when conducting post-expenditure reviews for allowability purposes, reviewers appear to mainly watch for items that would ordinarily require special approval; therefore, other potentially unallowable items could pass through undetected; it is not mandatory to forward purchase requests for items over \$2,000 to Grant and Contract Services for approval; we were unable to determine the timeliness of submission for 9 of 15 active grants</p>	<p>In Progress.</p> <ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation 	<p>Reduce the risk of non-compliance with state policies and procedures as they relate to ATP/ARP Grants.</p>

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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)	Fiscal Impact/ Other Impact
				<p>because an electronic copy of the report's submission to the Coordinating Board was not maintained; a written policy covering such matters as to what constitutes matching funds and in-kind contributions, how they are to be accounted for and reported, and what the responsibilities are of all parties has not been finalized; and unexpended funds for three expired supplemental ATP/ARP grants had not been returned in a timely manner.</p> <p>We recommended that the Office of Research review the Conflict of Interest Forms annually to ensure each PI/Co-PI completed one; Grant and Contract Services and the Office of Accounting and Business Services should comply with the University's established procedures that budget transfer requests include justification statements prior to approving the transfer, in accordance with University Policy; the Office of Accounting and Business Services should continue to investigate whether DEFINE can include the ATP/ARP grants within the personnel effort reports system;</p>	<ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation 	

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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)	Fiscal Impact/ Other Impact
				Office of Accounting and Business Services should coordinate with the Office of Research regarding the development of written procedures regarding the monitoring of expenditures and Procurement Services should forward all Requests to Purchase over \$2,000 on ATP/ARP awards to Grant and Contract Services for approval prior to making the purchase; Grant and Contract Services should maintain evidence of submission date for all active grants; the Office of Research should finalize policies and procedures on marching funds; and develop and implement written procedures ⁵ to ensure that unexpended funds are returned to the Coordinating Board in a timely manner.	<ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation 	
02-20	Aug. 27, 2003	Equipment	Our objectives were to determine whether a complete and accurate fixed asset physical inventory was taken and inventory is properly reported to the State Comptroller via the State Property Accounting System.	Based on our review, it appears that procedures are in place to conduct an annual inventory and to account for missing items. It also appears that the inventory being certified exists and that the inventory listings for the departments are materially complete.	Not Applicable.	Not Applicable.

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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)	Fiscal Impact/ Other Impact
02-21	June 6, 2003	Time Reporting	Our objectives were to document and evaluate the adequacy and effectiveness of internal controls over time cards and compensatory time records maintained in the departments for exempt and non-exempt employees; to evaluate compliance with laws, regulations, policies and procedures; to ensure timecards are properly completed; to verify that the Monthly Report of Vacation and Sick Leave is reconciled and forwarded to Human Resources in a timely manner; to gain an understanding of each department's procedures and process for recording and maintaining leave; and to ensure proper separation of duties.	Internal Audit found discrepancies in several areas, including reporting of the correct amounts of hours worked; hours absent with pay; total hours reported; compensatory and straight time earned; and timecards failing to indicate a lunch hour taken. We recommended that Payroll Services continue to develop and implement a training course for department personnel to instruct the departmental personnel on how to properly complete timecards.	In Progress – Internal Audit has not completed a follow-up visit but expects to do so by December 31, 2003.	Reduce the risk of non-compliance with federal law and the University's policies and procedures as they relate to timekeeping.
03-01	Nov. 20, 2002	Cost Savings	The objective was to review the reported savings reported within the Cost Savings Report to evaluate their reasonableness.	The actual net cost savings and the projected net cost savings appear reasonable.	Not Applicable.	Not Applicable.
03-02	June 4, 2003	Accounts Receivables and Allowance for Bad Debt	The objectives were to review the methodology for valuing the (net) accounts receivable, and to determine the reasonableness of the allowance for doubtful accounts.	Based on the work performed, it appears that the methodology for valuing the (net) accounts receivable and the allowance for doubtful accounts is reasonable.	Not Applicable.	Not Applicable.

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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)	Fiscal Impact/ Other Impact
03-03	April 1, 2003	Purchasing and Warehousing – Operations and Bid Processes	The objectives were to verify specific personnel are assigned to perform the purchasing/bidding function, their duties are segregated, and that they have been properly trained; the department’s policies and procedures provide adequate guidance to employees; purchasing authority and signature at specific thresholds; punitive measures for noncompliance with regulations; established purchasing system for emergency purchases and informal bids; conflict of interest policy and updated conflict of interest statements for key management personnel; contracts were issued applying the appropriate bidding or solicitation procedures based on the dollar amount of each contract; documentation of research performed to verify that specifications required by the department requesting the purchase have been met; and documentation of vendor performance.	Based on the work performed, it appears that the design and effectiveness of the University’s competitive bidding process is generally adequate for its intended purposes. However, we noted that there are two employees that have lost their certification; and 3 of 20 purchases tested did not include quotes from a HUB vendor and the circumstances were not documented. We recommended that management strengthen Procurement Policy and Procedures to develop and implement a method to ensure buyers maintain their certification and develop and implement procedures to ensure proper documentation of circumstances that cause buyers to make exceptions to policy regarding obtaining HUB quotes.	<ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation <p>In Progress – Internal Audit has not completed a follow-up visit but expects to do so by December 31, 2003.</p>	Reduce the risk of non-compliance with state regulations.

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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)	Fiscal Impact/ Other Impact
03-06	March 12, 2003	Student Accounts Receivables and Student Fees Systems Review	Our objective was to identify, document, and test control procedures implemented to ensure the input, processing, and output activities surrounding the SAR and SFS systems are consistent with administration's expectations.	Based on the audit work performed, we conclude that the Information Technology controls surrounding the Student Accounts Receivable and Student Fees Systems appear to be operating effectively to ensure input, processing, and output activities through these systems is accurate and consistent with the administration's expectations. Our work identified some areas for improvement that included: the generic accounts and maintenance logs on the Sallie Mae server; updating the policy for program change control to include coordination between the developer and the person with migration responsibilities and procedures to direct developers to close projects promptly; enhancing the security settings for RACF; and improved operator security for the CA-7 Job Scheduler. We issued recommendations to enhance the controls in each of these areas.	<ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation <p>In Progress – Internal Audit has not completed a follow-up visit but expects to do so by December 31, 2003.</p>	Reduce the risk of non-compliance with the administration's expectations.

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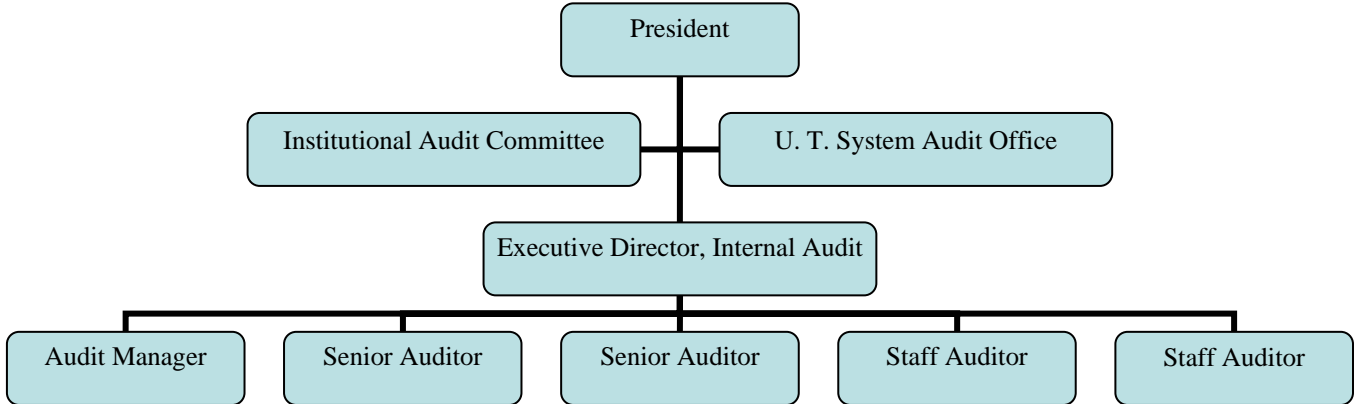
Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/ Findings and Recommendations	Current Status (with brief description if not yet implemented)	Fiscal Impact/ Other Impact
03-07	April 15, 2003	IT Vulnerability Report	Our objective was to evaluate the procedures used and the data gathered during the vulnerability assessment (phase I) and express an opinion on the reasonableness of management's report.	In our opinion, management's assertion that the University of Texas at Arlington conducted a thorough inventory and vulnerability assessment of its mission critical and central information systems as of April 15, 2003, is fairly stated and management's report is reasonable in all material respects.	<ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation 	Not Applicable.
03-08	June 10, 2003	Information Systems Action Plan Summary	Our objective was to evaluate the procedures used and the data gathered during the preparation Action Plan Summary (phase I) and express an opinion on the reasonableness of management's report.	Based on our review, it appears that management has developed thorough and adequate action steps to address all critical vulnerabilities identified in its vulnerability report. Furthermore, the assessment, planning, and communication procedures used to develop the action plan ensured that sufficient feedback was solicited from affected areas. We have concluded that the information provided in the University of Texas at Arlington's "Phase I Information System Application Vulnerability Action Plan Summary" is reasonable.	Not Applicable.	Not Applicable.

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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)	Fiscal Impact/ Other Impact
03-09	June 23, 2003	NCAA Compliance – Financial Aid	Our objectives were to determine whether UTA has policies and procedures in place to determine and monitor financial aid for student-athletes in accordance with NCAA regulations and to evaluate their effectiveness.	<p>Overall, it appears that policies and procedures are in place to determine and monitor financial aid for student-athletes. However, during our review, we noted the following, the University’s policies and procedures did not include some elements in accordance with NCAA Regulations; and the reason that one student received financial aid during the spring semester but not the fall semester, was not documented in the Athletic Department. The Athletic Compliance Coordinator was able to explain this situation, however.</p> <p>We recommended that management in the Athletic Department revise their departmental policies and procedures to include the items listed in the NCAA regulations; and that Athletic Department develop and implement a procedure to document the reason for an increase in athletic aid to ensure that the increase is not based on any athletics reason.</p>	<ul style="list-style-type: none"> • Implemented • Planned • In progress • Factors delay implementation • Agency does not plan to implement recommendation <p>In Progress.</p>	Reduce the risk of non-compliance with the NCAA Regulations.

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IV. Organizational Chart



V. Report on Other Internal Audit Activities

Activity	Impact
Consulted with management regarding the risk of fraudulent financial statements.	Provides independent consultation regarding the strengths and weaknesses of the University's methods for detecting or preventing material misstatements in the financial reporting process.
Consulted with those departments where a change in management occurred.	Provides a service to the new manager by reviewing the existing internal controls in the department and providing information necessary to assist the new manager in developing an adequate system of internal controls over the department.
Served as an ex-officio member of the Institutional Compliance Executive Committee	Provides independent consultation and guidance to help ensure that institutional compliance issues are being addressed.
Served as a non-voting member of the Student Information System Executive Steering Committee	Provides independent consultation and guidance to help ensure that the University's Student Information System is adequately safeguarded.
Consulted with management, faculty and staff with questions on various university issues such as internal controls, procedures, etc.	Provides university employees with guidance and resources.
Facilitated University's ethics/compliance hotline and served on committee to address calls to the hotline.	Provides independent consultation and guidance to help ensure that the risk of errors and fraudulent activities are minimized and helps ensure that institutional compliance issues are being addressed.
Served as a track coordinator for the Association of College and University Auditors Annual Conference held in September 2002.	Provides networking with peers at other institutions of higher education and enhancement of the Department's knowledge.

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VI. Internal Audit Plan for Fiscal Year 2004

The following contains excerpts from the FY 2004 Audit Plan, including the Overview, Identification of the Audit Universe and Risk Assessment, Audit Areas, Budget and Staffing, Calculation of Fiscal Year 2004 Available Audit Hours, and the Internal Audit Plan for Fiscal Year 2004. Please note that the detailed appendices are not included. A complete copy of the Audit Plan may be requested from the Executive Director of Internal Audit at (817) 272-3089.

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Fiscal Year 2003-2004 Audit Plan



Approved by the Internal Audit Committee
On
July 29, 2003

THE OFFICE OF INTERNAL AUDIT
BOX 19110
ARLINGTON, TX 76019-0110

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OVERVIEW

The University of Texas at Arlington fiscal year 2004 Audit Plan (*2004 Audit Plan*) is a description of the internal audit activities that will be performed by The University of Texas at Arlington Office of Internal Audit in fiscal year 2004.

In accordance with the Texas Internal Auditing Act (Article 6252-5d, Tex. Rev. Civ. Stat. Ann.), UT System Business Procedure Memorandum No. 18, The Institute of Internal Auditors' (IIA) Standard 2000 (Performance Standards) and specific instructions from the UT System Audit Office, we have prepared a formal audit plan for fiscal year 2004. This audit plan allows the Executive Director of Internal Audit to carry out the responsibility of the Internal Auditing department in accordance with the IIA Standards.

In fiscal year 2004, the UT Arlington internal audit function will:

- audit key financial and operating information,
- continue to focus on providing assurance activities in the institutional compliance initiative,
- perform information technology audits on systems critical to operations,
- emphasize economical and efficient use of resources and accomplishment of established objectives and goals for operations in risk-based audits,
- limit departmental audits to departments where there has been a change in management, and
- perform required projects and special requests made by management.

Input on the 2004 Audit Plan was received from members of the Institutional Audit Committee, and by Deans, Directors, Department Heads and other members of the Administrative Council who returned the survey. The Institutional Audit Committee is comprised of the following members:

- Dr. Charles A. Sorber, Interim President
- Dr. Dana Dunn, Vice President for Academic Affairs and Interim Provost
- Mr. Rusty Ward, Interim Vice President for Business Affairs and Controller
- Mr. Wylvan Parker
- Dr. James Campbell Quick

We also discussed the Information Technology Risk Assessment with both the Vice President for Information Technology and the Assistant Vice President for Information Technology.

The UT System Audit Office required that progress on the Annual Audit Plan be reported to them on a quarterly basis. This information is also reported to the Institutional Audit Committee at their quarterly meetings. Any changes made to the Audit Plan during the year will be brought to the attention of the Institutional Audit Committee for their approval.

The UT Arlington Audit Committee reviewed and approved the *2004 Audit Plan*. The process of preparing the *2004 Audit Plan* included identifying those areas that are considered the most important, and ensuring that activities with the greatest risks are audited.

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IDENTIFICATION OF THE AUDIT UNIVERSE AND RISK ASSESSMENT

Currently, the audit universe was divided into four areas:

- key financial and operating audits (*Appendix B*)
- institutional compliance audits (*Appendix C*)
- information technology audits (*Appendix D*)
- core business process audits (*Appendix E*),

The individual risk assessments contain the explanation of the risk factors, how the totals were calculated, and which areas were selected for audit.

We did not perform a risk assessment for management reviews (departmental audits), since UT System only requires these reviews when there is a change in management.

Consideration of the following was given in developing the audit plan:

- **UT System Requirements:** UT System requires the following audits to be performed at all components:
 - ⇒ **Key Financial and Operating:**
 - Sarbanes-Oxley Implementation
 - Internal Controls
 - Any significant areas that have not been audited in the last two to three years for the fiscal year ending 8/31/2003.
 - ⇒ **Institutional Compliance:**
 - Endowments
 - Work with the Compliance Officer to determine which high-risk areas to audit. All high-risk areas should have some means of positive assurance (i.e., internal audit or peer review) by August 31, 2004. Based on discussions with the Compliance Officer and reviews completed to date, the appropriate items have been added to the audit plan. The high-risk items related to Information Technology, Animal Subjects and Human Subjects will be subject to an external peer review in lieu of an internal audit.

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- ⇒ Information Technology:
 - Texas Administrative Code (TAC) 202 Information Security Audit
 - Information Technology Vulnerability Assurance Audit and Action Plan Follow-up
- ⇒ Core Business Processes:
 - Physical Security Initiative
 - Performance Measures
- Risk assessments – We performed the risk assessments at Appendices B-E. The higher ranked audit areas were selected for audit.
- Management input – If management requested an audit, we selected that area, with the approval of the Institutional Audit Committee.
- Economical and efficient use of internal audit resources,
- Required activities:
 - ⇒ Annual Internal Audit Report that is required by the Texas Internal Auditing Act
- Requirements of the following Action Plans:
 1. *1994 Action Plan to Enhance Internal Controls through Awareness, Accountability, and Audit Committees (1994 Action Plan)*
 2. *1996 Action Plan to Enhance Internal Controls (1996 Action Plan), and*
 3. *1998 Action Plan to Ensure Institutional Compliance (1998 Action Plan).*
- Carry forward audits – Audits in process at August 31, 2003, from the fiscal year 2003 Audit Plan.

AUDIT AREAS

Audit Area	Purpose	Authority
Key Financial & Operating Information	Over time, to attest that the financial statement information included in the Annual Financial Report is fairly presented in all material respects.	<ul style="list-style-type: none"> ➤ <i>IIA Standard 1000 and 2000</i> ➤ <i>1996 Action Plan</i>
Institutional Compliance	Provide assurance that an effectively designed Institutional Compliance Program has been implemented and is operating effectively. Additionally, to provide assurance that the institution is in compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports.	<ul style="list-style-type: none"> ➤ <i>IIA Standard 1000 and 2000</i> ➤ <i>1998 Action Plan</i> ➤ <i>Texas Internal Auditing Act – Sec. 321.0132</i>
Information Technology	Provide assurance that information assets are secure, effective and reliable, are linked to the achievement of the organization’s objectives, and are used in accordance with all applicable laws, rules, and policies.	<ul style="list-style-type: none"> ➤ <i>IIA Standard 1000 and 2000</i> ➤ <i>Texas Internal Auditing Act, Section 5</i>
Core Business Processes	Provide assurance that either: 1) assets are safeguarded, 2) resources are employed efficiently and economically, or 3) established operating and strategic goals and objectives are accomplished for all “Core Business Processes” that are not covered under Key Financial and Operating, Institutional Compliance, or Information Technology.	<ul style="list-style-type: none"> ➤ <i>IIA Standard 1000, and 2000</i> ➤ <i>Texas Internal Auditing Act, Section 3 and 7</i>

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Audit Area	Purpose	Authority
Projects	Assist members of the organization in the effective discharge of their responsibilities. This includes furnishing them with analysis, appraisals, recommendations, and information concerning the activities reviewed. Examples include Cost Savings, providing training, peer reviews, and activities requested by management and special investigations.	<ul style="list-style-type: none"> ➤ <i>IIA Standard 1000 and 2000</i> ➤ <i>Texas Internal Auditing Act – Section 7 (1)(e), 7 (1)(f)</i> ➤ <i>1994 and 1996 Action Plans</i>
Management Reviews	Provide a consulting service to the new manager by reviewing the existing internal controls in the department and providing the information necessary to assist the new manager in developing an adequate system of internal controls which will provide reasonable assurance of sound management.	<ul style="list-style-type: none"> ➤ <i>IIA Standard 1000 and 2000</i> ➤ <i>1994 Action Plan</i> ➤ <i>1996 Action Plan</i> ➤ <i>1998 Action Plan</i>

BUDGET AND STAFFING

The budget for the Office of Internal Audit was prepared in accordance with UT System guidelines and was approved at the August 2003 Board of Regents’ meeting. The following positions are included:

- Director
- Audit Manager
- Senior Auditor – 2 positions
- Staff Auditor – 2 positions

Three of the four members of the Office of Internal Audit are certified as CPA’s or CIA’s. Career development for the staff is a strategic goal of the Office of Internal Audit, and we will continue our efforts to develop staff to their fullest potential through the performance of operational audits, exposure to high levels of management, and training targeted at non-traditional audit areas.

CALCULATION OF FISCAL YEAR 2004 AUDIT HOURS

The calculation of Available Hours and the Time Budget for Priority Audits are included in *Appendices F and G*, respectively.

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INTERNAL AUDIT PLAN FOR FISCAL YEAR 2004**

Audit Areas	Budget Hours Priority Audits	Budget Hours Other Audits
Key Financial and Operating Audits		
<i>System-wide Audits</i>		
Sarbanes-Oxley Implementation	200	
<i>Internal Controls</i>		
Revenues	200	
Expenditures	200	
Fixed Assets	200	
<i>Financial Audits</i>		
AFR Review	40	
NCAA Financial Audit	350	
Materials and Supplies Expenditures	240	
Scholarship and Fellowship Expenditures	240	
Tuition and Fees	240	
Cash Counts		60
<i>Financial Consulting</i>		
Special Requests – Consulting		40
Subtotal	1910	100
Institutional Compliance Audits		
<i>System-wide Audits</i>		
Endowments	200	
<i>Compliance Program Audits</i>		
NCAA Eligibility		280
NCAA Recruiting	280	
Equal Opportunity and Affirmative Action	80	
Campus Security/Law Enforcement and Crime Control	80	
Environmental Health and Safety	80	
Physical Plant	80	
Incidental Fees		80
Intercollegiate Athletics	80	
Underage Drinking/Hazing	80	
<i>Compliance Consulting</i>		
Special Requests – Consulting		200
Hotline Investigations		80
<i>Compliance Carryforward</i>		10
Subtotal	960	650
Information Technology		
<i>System-wide Audits and IT Audits</i>		
IT Vulnerability Assurance Audit and Action Plan Follow-up	200	
TAC 202 Information Security Audit	240	
<i>Information Technology Consulting/Meetings/Special Projects</i>		40
Information Technology Carryforward – Finalize General Computer Controls Review	20	
Subtotal	460	40
Core Business Processes		
<i>System-wide Audits</i>		
Physical Security Initiative	120	
Performance Measures	200	

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<i>Core Business Process Audits</i>		
Counseling and Testing	240	
<i>Core Business Carryforward</i>	80	
Subtotal	640	
Change in Management		
Change in Management Audits	120	
Subtotal	120	
Follow-up	300	
Subtotal	300	
Audit Projects		
UT System Requests	40	
Audit Plan	60	
Annual Internal Audit Report	40	
Other Projects		
Internal Audit Committee	80	
Reserve for Other Special Requests		100
Subtotal	220	100
Total Audit and Project Hours	4610	890