

**The University of Texas at Brownsville
and
Texas Southmost College**



**Internal Audit Annual Report
for Fiscal Year 2008**

The University of Texas at Brownsville
and
Texas Southmost College

Internal Audit Annual Report
for
Fiscal Year 2008

Submitted by

A handwritten signature in cursive script that reads "Norma L. Ramos".

Norma L. Ramos
Director of Internal Audits

Table of Contents

<i>I. Internal Audit Plan for Fiscal Year 2008</i>	<u>4</u>
<i>II. External Quality Assurance Review</i>	<u>6</u>
<i>III. List of Audits Completed</i>	<u>8</u>
<i>IV. List of Consulting Engagements and Non-audit Services Completed</i>	<u>12</u>
<i>V. Organizational Chart</i>	<u>13</u>
<i>VI. Report on Other Internal Audit Activities</i>	<u>15</u>
<i>VII. Internal Audit Plan for Fiscal Year 2009</i>	<u>16</u>
<i>VIII. External Audit Services</i>	<u>19</u>

I. Internal Audit Plan for Fiscal Year 2008

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
FY 2007 Financial Statement Audit	700	
IT Systems Change Management Audit	200	
Presidential Travel and Entertainment Expenses	100	
Subtotal	1000	22%
<i>Externally Required</i>		
SACS Financial Review	200	
Governance: Standards of Conduct/Conflicts of Interest	200	
Subtotal	400	9%
<i>Risk Based: Institutional</i>		
Physical Plant	300	
Outreach Programs	300	
Student Fees	250	
Carryfwd-Compliance: Contracts & Grants--Allowable Cost, Time & Effort, Reporting	20	
Subtotal	870	20%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
IRB	210	
Effort Reporting	200	
<i>Information Technology</i>		
General Controls Review	250	
Carryfwd--Protecting the Confidentiality & Integrity of Digital Research Data	20	
Subtotal	680	15%
<i>Change in Management Allocation</i>		
Change in Management Audits	300	
Carryforward from 2007		
Institutional Advancement Division	50	
Training provided by IA	100	
Subtotal	450	10%
<i>Follow-up</i>		
Student Health Services	150	
Other	200	
Subtotal	350	8%
<i>Projects</i>		
U. T. System Requests	40	
SACS	100	
Audit Projects Subtotal	140	
<i>Consulting Projects</i>		
Special Requests - Consulting	100	
Consulting Projects Subtotal	100	
<i>Other Projects</i>		
Quality Assurance Review	140	
Internal Audit Committee/IA Council	100	
Internal Audit Annual Plan-SAO	20	
Annual Audit Plan	100	
ERM Implementation	100	
Other Projects Subtotal	460	
Projects Total	700	16%
Total Hours	4450	100%

Deviations from the Audit Plan

The following contributed to the deviations from the FY 2008 Audit Plan:

- **Consulting/Special Requests**- Time was spent in consulting with departments which requested services such as additional internal control training, review of department's internal controls, policies and procedures, etc. Significant time was spent on a special request audit and assisting Campus Police in an investigation which held priority over other audits.

II. External Quality Assurance Review



System Internal Audit Department

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Texas A&M University
Prairie View A&M University
Tarleton State University
Texas A&M International University
Texas A&M University-Corpus Christi
Texas A&M University-Kingville
West Texas A&M University
Texas A&M University-Commerce
Texas A&M University-Texarkana
The Texas A&M University System
Health Science Center
Texas Agricultural Experiment Station
Texas Engineering Experiment Station
Texas Cooperative Extension
Texas Forest Service
Texas Engineering Extension Service
Texas Transportation Institute
Texas Veterinary Medical
Diagnostic Laboratory

November 11, 2005

Dr. Juliet V. Garcia
President and Chair of the Internal Audit Committee
The University of Texas at Brownsville and Texas Southmost College
Gorgas Hall, 80 Fort Brown
Brownsville, Texas 78520

Re: Report of Quality Assurance Review for the Office of Internal Audits

Dear Dr. Garcia:

In accordance with the Texas Internal Auditing Act and The University of Texas System Business Procedures Memorandum 18-02-04, we have conducted an external quality assurance peer review of the work of your Office of Internal Audits. The principal objectives of the quality assurance review (QAR) were to assess the Office of Internal Audit's conformity to the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate its effectiveness in carrying out its mission, and to identify opportunities to enhance its value to The University of Texas at Brownsville and Texas Southmost College (University).

The review was performed by persons independent of the University's Office of Internal Audits and covered audit activity conducted during the period June 1, 2004 through June 1, 2005. The last day of our fieldwork was June 9, 2005. The scope of our review included an evaluation of selected documents; a review of a sample of Internal Audit Reports issued during the period under review, together with the applicable workpapers; a survey of institutional personnel with whom the Office of Internal Audits interacts; interviews with key University management; and interviews with staff members within the Office of Internal Audits.

The environment in which the Office of Internal Audits operates appears to be well structured where the IIA *Standards* are understood, and management is working to provide useful audit tools and implement appropriate practices. Based on the scope of the QAR, on an overall basis, we determined that the Office of Internal Audits **did comply** with all four IIA Attribute Standards, all seven IIA Performance Standards and the IIA *Code of Ethics*. A complete copy of the IIA *International Standards for the Professional Practice of Internal Auditing* is included as an attachment to this report. Please note that the IIA *Standards* have been revised since the last Quality Assurance Review. The latest edition of the IIA *Standards* became effective January 1, 2004.

The attached report provides additional information and opportunities for continued improvement, which we believe will enhance the efficiency and effectiveness of the University's Internal Audit activity. Included within the text of our report are management responses provided by Ms. Norma Ramos, the University's Director of Internal Audits.

We appreciate this opportunity be of service to the University. This review would not have been possible without the outstanding cooperation and valuable assistance provided to us by University staff throughout the course of our review. All individuals interviewed offered candid and constructive comments. The feedback from the University constituents we interviewed reflected that the Office of Internal Audits is well respected, consistently viewed as a value-added component of the organization, and is very responsive to the needs of management.

We will be pleased to respond to further questions concerning this report and to furnish any desired information.

Sincerely,



Dick Dinan CPA, CIA
QAR Team Leader

Team Members:

Dick Dinan, Director of Internal Audit
The Texas A&M University System

William A. Peters, CPA, CIA Director of Auditing and Consulting Services
The University of Texas at El Paso

David Spencer, Internal Auditor
Midwestern State University

cc: Ms. Norma Ramos, CIA, Director of Internal Audits
Mr. Charles Chaffin, CPA, CIA, Director of Audits & Chairman of System-wide
Compliance Committee at The University of Texas System Office

III. List of Audits Completed

Report No.	Report Date	Name of Report	High-Level Audit Objective (s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact /Other Impact
N/A	08/20/08	2008 Change in Management Audit of the Office of the Dean for the College of Science, Math, Technology and Engineering Department	<p>To review the internal controls over the Office of the Dean for the College of Science, Math & Technology and the Engineering Department regarding the control environment, segregation of duties, approvals and authorizations, safeguarding of assets, and monitoring, to provide reasonable assurance that existing internal controls in departments that have had a change in management are adequate.</p> <p>To provide references material and guidance that will assist new administrators in developing adequate system of internal controls in their departments.</p>	<p>Although a control conscious environment exists, the policies and procedures manual should be revised to include all policies and procedures in place.</p> <p>We recommend the Office of the Dean of the College of Science, Math & Technology develop and document policies and procedures.</p>	Implemented.	
				<p>Two instances where an asset did not have an appropriate inventory tag.</p> <p>We recommend that a physical inventory be conducted to ensure that inventory is accounted for and reported appropriately. Proper forms should be submitted to central inventory for any items not found in the department, correction regarding location of item, and correct inventory custodian.</p>	Implemented.	
				<p>We identified 3 out of 4 instances for a total of \$676.94 where the expenses were valid business expenses; however those expenses did not fall within the definition of the Engineering Technology Fee.</p> <p>We recommend that the Engineering Technology Fee account be reimbursed for unallowable expenses related to research expenses. Those research expenses should be recorded to the proper account. In addition, we recommend the account manager emphasize the importance of the student fee definitions. This will help ensure that the student fees expenses fall within the definition of the student fees.</p>	Implemented.	
				<p>The account reconciliation process is not complete. We noted there is no evidence of review by the account manager. Reconciliations of employee leave balances are not performed.</p> <p>We recommend that revenue and expenses, including payroll, be reconciled in order to ensure proper revenue and expenditures are being recorded. We also recommend the person preparing the reconciliations signs off and that the account manager verify this process by signing the completed reconciliations.</p> <p>We recommend that the Dean ensure that employee records of vacation and sick leave balances are reconciled to ensure that leave balances are accurately reported.</p>	Implemented.	

Report No.	Report Date	Name of Report	High-Level Audit Objective (s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact /Other Impact
N/A	08/20/08	2008 Follow Up Audit of UTS165: Protecting the Confidentiality and Integrity of Digital Research Data	To follow-up on the implementation status of UTS 165.	<p>UTB is in noncompliance with UTS 165 Section 1.3.2 Information Security Program Budget which had a compliance date of July 12, 2007.</p> <p>We recommend UTB budgets resources considering the need to develop a successful Information Security Program.</p>	Partially Implemented	Ensure compliance with UTS165
				<p>UTB is in noncompliance with UTS 165 Section 1.6 referring to the designation of Information Security Officer (ISO). This section had a compliance date of July 12, 2007.</p> <p>Recommend UTB ensures the budget for fiscal year 2009 includes allocated funds for the ISO position to be in compliance with UTS 165 and TAC 202.</p>	Partially Implemented	Ensure compliance with UTS165
				<p>UTB is in noncompliance with UTS 165 Sections 8 and 11 Classification and Management of Sensitive Digital Data as it relates to Research Data, which had a compliance date of July 12, 2007.</p> <p>We recommend the steering committee reassess the importance of its mission and complete the task assigned to be in compliance with UTS 165 and any other applicable state and federal laws related to UTB Research Grants.</p>	Partially Implemented	Ensure compliance with UTS165
				<p>UTB is in noncompliance with UTS 165 Section 18 Passwords, which had a compliance date of July 12, 2007.</p> <p>We recommend management implement LDAP or another password management method that at a minimum will:</p> <ul style="list-style-type: none"> • Establish, measure, and manage password strength (e.g. special characters, minimum/maximum length) • Expire passwords • Restrict reuse of passwords (e.g. cannot use the last X number of passwords) 	Partially Implemented	Ensure compliance with UTS165
				<p>UTB is in noncompliance with UTS 165 Section 22 Security Training, which had a compliance date of April 11, 2008.</p> <p>We recommend management change the training requirements and plan to provide the training once a year as required by UTS 165 and TAC 202.</p>	Partially Implemented	Ensure compliance with UTS165
N/A	11/28/07	2008 Audit of FY2007 Annual Financial Report	<p>Determine if the Annual Financial Report for Fiscal Year 2007 is free of material misstatements;</p> <p>Determine if controls over the financial reporting process, including Information Technology and Certification Process controls, are adequate.</p>	None.	N/A	N/A

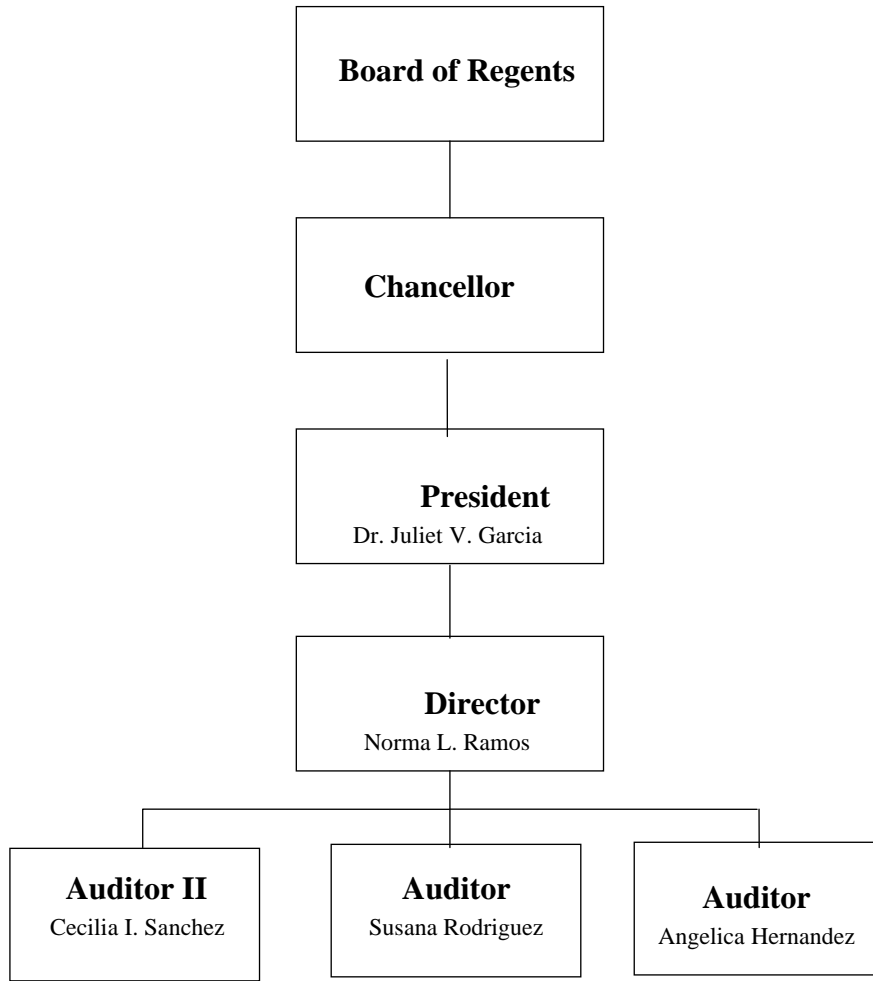
Report No.	Report Date	Name of Report	High-Level Audit Objective (s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact /Other Impact
N/A	11/28/07	2008 Audit of President's Travel, and Entertainment Expenses	<p>Determine the reliability and integrity of travel, entertainment, and housing expenses for the President of The University of Texas at Brownsville and Texas Southmost College and spouse, if applicable; and</p> <p>Ensure compliance with applicable laws, U. T. System, and the University of Texas at Brownsville/Texas Southmost College policies and procedures.</p>	None.	N/A	N/A
N/A	11/28/07	2008 Limited Scope Audit of Endowment Management Administration and Fee Analysis Proposal	To determine the accuracy, completeness, and reasonableness of the analysis proposal prepared by Development Office	None.	N/A	N/A
N/A	03/05/08	2008 Follow Up Audit of Student Health Services	To follow up on the fiscal year 2007 audit recommendations and the status of their implementation.	None.	N/A	N/A
N/A	03/05/08	State Auditor's Office Review of FY 2007 Financial Statements for SACS Accreditation	The Office of Internal Audits assisted the State Auditor's Office (SAO) in the review of the Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of the University of Texas at Brownsville as of and for the year ended August 31, 2007, in accordance with <i>Statements on Standards for Accounting and Review Services</i> issued by the American Institute of Certified Public Accountants.	None.	N/A	N/A

IV. List of Consulting Engagements and Non-audit Services Completed

Report No.	Report Date	Name of Report	High-Level Consulting Engagement/Non-audit Service Objective(s)	Observations/ Results 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
07-00A	January 20, 2007	Consulting engagement on Automated Information System Development	Verify that the information system will meet planned objectives and be completed on a timely basis.	<p>The system will meet planned objectives. However, the anticipated completion date has been extended by six months, resulting in an added cost of \$500,000.</p> <p>Establish project monitoring procedures to more accurately track the development and implementation of new information systems.</p>	Planned	Identified additional cost of \$500,000 due to delayed implementation of new system.

- Internal Audits, Compliance Manager, and Information Systems coordinated to develop user friendly reports to be used in the account reconciliation of expenditures and revenues as well as the reconciliation of employee leave balances.
- Provided one-on-one internal control training for those departments who requested it.
- FY 2008 Consulting Engagement of Faculty Credentials
- Assist Campus Police with Special Investigation
- Ethics complaint

V. Organizational Chart



VI. Report on Other Internal Audit Activities

Activity	Impact
Provided Five Internal Control Training sessions.	Improved internal control awareness to new Account Managers and/or their secretaries.
Participated on the University's Compliance Committee	Provides independent consultation and guidance to help ensure that institutional compliance issues are being addressed.
Follow-up	Follow-up conducted on significant and important recommendations.
Participated in external quality assurance review.	Participated in an external quality assurance review of The University of Texas at Pan American. This provides a sharing of ideas, experiences, and approaches with other internal audit departments.
Participated on Association of College and University Auditors and Texas Association of College and University Auditors.	This provides a sharing of ideas, experiences, and approaches with other internal auditors and audit/business professionals.
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

VII. Internal Audit Plan for Fiscal Year 2009

PURPOSE OF AUDIT PLAN

The University of Texas at Brownsville and Texas Southmost College (UTB/TSC) fiscal year 2009 Audit Work Plan is a description of the internal audit activities that will be performed by the Office of Internal Audit in fiscal year 2009.

Our overall objective was to develop a standardized audit plan which addresses the highest risks within the institution, consistent with the Internal Audit Charter and UTB/TSC's Strategic Plan.

We have prepared a formal audit plan for fiscal year (FY) 2009 that complies with the Texas Internal Auditing Act (Texas Government Code 2102), The University of Texas (U. T.) System Policy UTS129, *Internal Audit Activities*, The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, Government Auditing Standards, and specific instructions from The U. T. System Audit Office. This audit plan allows the Director of Internal Audits to carry out the responsibility of the internal auditing department in accordance with IIA Standards and under the direction of the Audit Committee.

APPROVAL OF AUDIT PLAN

The Audit Plan is reviewed and approved as follows:

- U. T. System Audit Office – Audit Plan Hearing on August 22, 2008.
- UTB Internal Audit Committee on September 3, 2008.

METHODOLOGY

To prepare the audit plan, we followed instructions received from The U. T. System Audit Office, "*UT System Annual Audit Plan Guidelines FY 2009.*"

Input on the Audit Plan was received from the members of the Internal Audit Committee. To obtain input from the campus community, we met with department heads from the various areas of the university, such as Business Affairs, Student Affairs, Information Technology Services, and Research. Internal Audits also coordinated with the Compliance Office asking them for input on the Audit Plan.

To determine the audit universe, we followed U. T. System Audit Office guidelines, reviewed the Strategic Plan, prior audit plans, the annual financial report, the budget, the accounting system, etc. For the academic institutional process audits, we used the U. T. System suggested areas. In addition, we discussed the audit universe with top management and members of the Audit Committee. We evaluated the previous year's risk assessments, making revisions where necessary.

A Full copy of the Audit Plan may be requested from the Director of Internal Audits at (956)882-7023.

FY 2009 Audit Plan Audit/Project	Budgeted Hours	% of Total	Priority Hours	% of Total	✓ Priority	Description
Financial Audits						
<u>UT System Requested/Externally Required Audits</u>						
FY 2008 Financial Statement Audit	500		500		✓	Perform a risk-based audit of financial information reported on the Annual Financial Report (AFR) at UTB at 8/31/08. Identify material misstatements in excess of \$500K in the AFR – Exhibits A and B – Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets for fiscal year ended 8/31/08. Identify and test key controls over financial reporting including Information Technology (IT) controls and the certification process required by UT System policies to ensure the adequacy of controls over the financial reporting process.
President's Travel and Entertainment Expenses	100		100		✓	Annual audit of the the President's travel and entertainments expenses as required by <i>Regent's Rule 20205</i> . Audit must be conducted within 90 days after fiscal year end and report must be issued by November 30, 2008.
Joint Admission Medical Program	80		80		✓	Biennial requirement;provide assurance that UTB is in compliance with JAMP Agreement requirements and the JAMP Expenditure Guidelines. Verify reasonableness of the financial report. Report due by Oct 31, 2008.
Financial Audits Subtotal	680	14%	680	17%		
Operational Audits						
<u>UT System Requested/Externally Required Audits</u>						
Campus Security/Emergency Preparedness Audit, including Clery Act	200		200		✓	Determine whether the campus is in compliance with the Clery Act and has appropriate procedures and policies to respond to a campus emergency.
<u>Risk Based Tier One Audits</u>						
Dual Enrollment	305		300		✓	To provide assurance that resources are employed efficiently and economically; established operating and strategic goals and objectives are accomplished
Outreach Programs	250		250		✓	To provide assurance that resources are employed efficiently and economically; established operating and strategic goals and objectives are accomplished
<u>Risk Based Tier Two Audits</u>						
Distance Education	100		100		✓	Review the internal controls over the Department regarding the control environment, segregation of duties, approvals and authorizations, safeguarding of assets, and monitoring, to provide reasonable assurance that existing internal controls in departments that have had a change in management are adequate.
<u>Change in Management Audits</u>						
Human Resources	150		150		✓	Review the internal controls over the Department regarding the control environment, segregation of duties, approvals and authorizations, safeguarding of assets, and monitoring, to provide reasonable assurance that existing internal controls in departments that have had a change in management are adequate.
Athletics	100					
Other Change in Management Audits	150					
<u>Carryforward Audits</u>						
Physical Plant	20		20		✓	Complete prior year audit
ITECC Lease Management Audit	100		100		✓	Complete prior year audit
Operational Audits Subtotal	1375	28%	1120	28%		
Compliance Audits						
<u>UT System Requested/Externally Required Audits</u>						
Federal Portion of the Statewide Single Audit (assistance to the SAO)	10		10		✓	To provide assistance to the SAO for the A-133 Audit
Cash Management and Cash Handling Audit	200		200		✓	To evaluate compliance with UTS 166; fulfillment of fiduciary responsibilities in handling, securing, and investing the funds of the institution.
Endowment Management Administration and Fee Analysis Proposal	40		40		✓	To determine the accuracy, completeness, and reasonableness of the analysis proposal prepared by Development Office
TSC- Carl Perkins	100		100		✓	Provide assurance that TSC is in compliance with grant requirements and evaluate the internal controls. Requested by TSC external auditors
<u>Risk Based Tier Two Audits</u>						
IRB	200					
Effort Reporting	200		200		✓	An audit to determine compliance with University, System, State and Federal rules and regulations. An audit to determine if UTB is in compliance with UTS163, <i>Guidance on Effort Reporting Policies</i> . To evaluate the accuracy of the effort certification reports.
<u>Carryforward Audits</u>						
Student Fees	100		100		✓	Complete prior year audit
Compliance Audits Subtotal	850	17%	650	16%		

Information Technology Audits

UT System Requested/Externally Required Audits

TAC 202 Compliance Audit	200		150	✓	To determine compliance with UTS 165 and DIR rules and regulations applicable to IT security.
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Risk Based Tier One Audits

Access Controls over Blackboard	150		150	✓	To review the adequacy of IT controls of the Blackboard (access controls, segregation of duties, monitoring, policies & procedures, and training)
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Risk Based Tier Two Audits

IT Systems Change Management Audit	120				Change Management is the process of controlling the communication, approval, implementation, and documentation of modifications to hardware and software to ensure that information resources are protected against improper modification before, during, and after system implementation. Ensure that UTB is in compliance with the Change Management policies within UTS165.
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Carryforward Audits

IT General Controls Audit	100		100	✓	Complete prior year audit
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Information Technology Subtotal	<u>570</u>	12%	<u>400</u>	10%	
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Follow-up Audits

	<u>200</u>	4%	<u>200</u>	5%	✓ To follow up on prior outstanding audit recommendations.
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Projects

Audit Projects

UT System Requests	100		100	✓	Requests made by the UT System Audit Office, including quarterly reports, responding to significant findings, time summaries, liaison forms, etc.
FY 2010 Audit Plan Preparation	80		60	✓	Preparation of the FY 2010 Audit Plan.
Annual Internal Audit Report	20		20	✓	Preparation of the annual report required by the Texas Internal Auditing Act that is due November 1st of each year.
Construction Management (TSC)	100		100		
Special Requests - Audits	250		150	✓	As determined by President, Audit Committee, UT System, Etc

Consulting Projects

Training provided by IA	120		100	✓	Provide Internal Control and Reconciliation Training to University personnel
Consulting Requests	200		100	✓	As determined by President, Audit Committee, UT System, Etc

Other Projects

Assist Compliance w/ERM	50		50	✓	Assistance in the implementation of Enterprise Risk Management at UTB
Quality Assurance Review	200		200	✓	Internal Quality Assurance Program
Internal Audit Committee/IA Council	100		100	✓	Prepare and attend quarterly Internal Audit Committee-UTB and Internal Audit Council-Austin

Projects Subtotal	<u>1220</u>	25%	<u>980</u>	24%	
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Total Hours	<u>4895</u>	100%	<u>4030</u>	100%	
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Percentage Priority of Budgeted Hours 82%

Note: Total Priority hours should be at least 80% of Total Budgeted Hours

VIII. External Audit Services

UTB engaged the State Auditors' Office to perform a financial review of the University of Texas at Brownsville Financial Statements for Fiscal Year Ended August 31, 2007.