



**TEXAS
STATE**
UNIVERSITY
SAN MARCOS

Texas State University–San Marcos

Audit and Compliance

Audit Plan

FY 2006

July 21, 2005

Texas State University-San Marcos, founded 1899, is a member of the Texas State University System

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EXECUTIVE SUMMARY

The past year at Texas State University-San Marcos has been the most proactive year for Audit and Compliance since the current Director arrived in 1996. We have a small but highly qualified professional staff of four that has been in place for nearly a year now, including three Certified Public Accountants (CPA), two Certified Internal Auditors (CIA), three Certified Fraud Examiners (CFE), one Certified Information Systems Auditor (CISA), one Senior Professional in Human Resources (SPHR), and one Certified Government Financial Manager (CGFM). One staff member is currently preparing for the CISA and another for the CFE.

Our audit plan for FY 05 included several initiatives. (Details about these initiatives are available on our website at www.txstate.edu/audit_compliance.) Institutional compliance has been on the plan for a few years but finally came to fruition with the appointment of the Compliance Committee last December. Enterprise risk management (ERM) has been started, including training by David Crawford in April, 2005, and although this will be a long term process, it has been utilized to develop our audit plan for FY 06. We have already made two individual ERM presentations at the request of the Student Center Director and the Interim Vice President for Student Affairs and hope to assist other departments as needed. Support of the President and the President's Cabinet have been critical to this effort.

Our website has been updated to include many resources for institutional compliance and enterprise risk management. We have made a transition in addressing follow-up audits more efficiently by developing an action plan database to track implementation of recommendations rather than conducting individual audits. Although a System-wide committee was appointed in February, 2004, for Sarbanes-Oxley implementation, of which the Director is a member, limited progress has been made on that initiative.

Last summer the Governor issued Executive Order RP-36 to address fraud issues at state agencies and institutions of higher education. The Director was appointed to the Governor's Fraud Task Force which reviewed the initial data submitted by the agencies and universities. The survey has been revised by the Committee to more clearly indicate expectations. The State Auditor's Office has agreed to offer fraud training later this summer that will include guidance for the upcoming survey that will be due in October.

Last fall, our office released an audit about ethics, conflict of interest and fraud policies at Texas State. As a result of those recommendations, the University Attorney is working with us to review and revise those policies. In addition, the Presidential Fellow (a tenured faculty member selected by the President to work on one-year projects in her office) for the next academic year will be working on some of these same issues. In conjunction with the emphasis on ethics, compliance and fraud, Audit and Compliance collaborated with Media Relations to develop a poster and flyers for distribution on campus to help make everyone on campus aware of our hotline as well as other information available on our website.

Last summer, our office underwent a quality assurance review as required by the Texas Internal Auditing Act and the Institute of Internal Auditors newly revised Standards for the Professional

Practice of Internal Auditing. Although the draft has not yet been received from the quality assurance review team, we have implemented most of the recommendations that were made by the team via electronic mail last summer after completion of their site visit.

One area of increasing importance is information technology both across the University and within our own office. Our staff participated in virtually all the training modules provided for SAP, our new financial and human resources application system, since we have to be familiar with all the new processes implemented across the University when we audit. Our Certified Information Systems Auditor has conducted much more technically intense information technology audits in the past few months than we had in the past, including assessment of some SAP controls. We recently purchased ACL software to enable us to better analyze data and were considering the purchase of Direct Link which would give us direct access to the SAP database but decided to delay that acquisition until we are more familiar with ACL. In addition, the State Auditor's Office (SAO) has recently made available licenses for TeamMate audit software at a reasonable cost. This software was developed by PriceWaterhouseCoopers (PWC), and the State Auditor's Office has provided training for state agencies and universities that two of our staff members attended. This should enable us to make all our workpapers "paperless" and hopefully streamline our audit process. PWC is developing a module for tracking audit recommendations in TeamMate which will supplement the action plan database noted above. In addition, with the SAO utilizing the same software, we may be able to better assist them on campus and more easily communicate with them electronically.

Finally, our staff has completed or has in progress most audits on our FY 05 audit plan and has completed several special reviews as needed. This is in addition to all the new initiatives noted above. When we attended the Texas Association of College and University Auditor's Conference in Dallas in May, it was clear that we have been extremely proactive and are "cutting-edge" in the audit field, particularly given the level of resources we have compared to many of our peers, such as the University of Texas System.

Our goals for the next year would include continuing efforts toward the implementation of enterprise risk management and institutional compliance. We expect that ERM will allow us to better utilize our resources in the areas where they are most needed in the development of our audit plan as well as have more information about why a process or area is considered high risk, thus adding value for management. Within our own office, we anticipate that we will continue to ensure we are providing the most efficient, best practice audit services that we can to support the University through continuing education of our professional staff and ongoing improvements using information technology resources.

AUDITS FOR FISCAL YEAR 2006

Based on Enterprise Risk Management by Division

Academic Affairs

Promotion, Tenure and Retention (300 hours) A review of the process of promotion, tenure and retention, including benchmarking with other universities.

Athletics

The National Collegiate Athletic Association (NCAA) requires that every area of athletic departments be reviewed every four years. The items to be reviewed in FY 06 include eligibility and recruiting. (300 hours)

Academic Center (200 hours) A review to assess the effectiveness of tutoring athletes without providing inappropriate assistance.

Finance and Support Services

Environmental Hazards/Compliance (350 hours) A review of policies and procedures in place to ensure the safety of faculty, staff and students in areas such as lab safety, indoor air, radiation safety and hazardous waste and to ensure compliance with required federal and state laws.

Lack of Experience with SAP software (300 hours) An assessment of the current SAP level of knowledge among faculty and staff and identification of areas where more training is needed. Also, determine potential risks that may exist due to relative inexperience with the software.

Information Technology

Network Security (300 hours) A comprehensive assessment of the campus-wide network security.

Desk-top Software Licensing Procurement and Management (200 hours) This audit will be an extension and update of the licensing audit completed in FY 03 to ensure compliance with software licensing regulations.

Student Affairs

Campus Activities (250 hours) A review of the utilization of funds allocated for campus activities.

Residence Life (300 hours) A review of the new deposit and the University's relationship with the LLC.

University Advancement

University Donor Accounts (250 hours) A review of the accounting for donations and the distribution of those funds.

Special Projects (200 hours) An assessment of potential harm to university guests.

Required Audits

Athletics/NCAA Compliance See above comments.

Financial Aid (300 hours) An audit of student records and financial reporting practices to measure performance against the Department of Education and State regulations.

Investments (250 hours) A State required audit of compliance with the University's and The Texas State University System's investment policies and the Public Funds Investment Act. Also, a test of associated financial records to assess controls in connection with new and existing investments and validation of SAP's investment reporting.

Advanced Research Program (100 hours) A biannual audit of grants as required by the Coordinating Board. The appropriations bill for the 2006-2007 biennium did not include funding for the Advanced Technology Program.

NOTE:

The duration of each audit is an estimate which may vary due to the scope and objectives of the audit determined during the initial planning process and unanticipated issues that may arise during the audit. Special projects or requests by management considered a priority may also alter the completion of the Audit Plan as scheduled.

ALLOCATION OF AUDIT RESOURCES

<u>Audits</u>	4 FTE's*
High Risk (Based on ERM)	2,950
Required	650
Carryforward	220
Special Projects	1,900
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Subtotal	5,720
<u>Administrative</u>	
Continuing Education	200
Leave (vacation, sick leave, holidays)	1,200
Other (non-audit meetings, reports, etc.)	<u>1,200</u>
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Subtotal	<u>2,600</u>
TOTAL HOURS	8,320

*Based on full time equivalent professional staff

Long Range Audit Plan

High Risk Audits	2006	2007	2008
Promotion, Tenure and Retention	X		
Academic Center	X		
Environmental Hazards/Compliance	X		
Lack of Experience with SAP Software	X		
Network Security	X		
Desk-top Software Licensing Procurement and Management	X		
Campus Activities	X		
Residence Life	X		
University Donor Accounts	X		
Special Projects	X		
Procurement Cards		X	
Information Security		X	
Employee Retention		X	
Cash Receipts, Management and Handling		X	
Asset Safeguarding		X	
Database Management		X	
Medium Risk Audits	2006	2007	2008
Electronic Mail Usage			X
Technology Planning			X
User Support			X
State Funding Formulas			X



Round Rock Education Center			X
Locking Systems			X
Cashier's Office			X
Required Audits	2006	2007	2008
Investments	X		X
Advanced Research Program	X		X
Athletics/NCAA Compliance	X	X	X
Financial Aid	X	X	X
Facilities	X		

RISK ASSESSMENT PROCESS

Enterprise risk management (ERM) was utilized as the basis for our audit plan for the first time for FY 2006. This replaces the prior approach of having Audit and Compliance develop a list of auditable units to be ranked by the President, Provost, and all vice presidents and deans. There were at least three major flaws with the prior process:

- Audit and Compliance does not possess the comprehensive knowledge about every risk at the university as do the individuals in operational positions.
- Management from every college and division ranked the risk for their own areas of responsibility as well as all other colleges/divisions potentially allowing *perceived risk* to determine the audit plan rather than *actual risk*.
- Due to the composite nature of the ranking, we sometimes encountered difficulty in determining why a particular area or process was considered high risk, thus potentially not maximizing audit resources.

With ERM, management within each division or college is responsible for assessing risk based on input from a broad base of their employees. Because this is a long term, ongoing process for the University, we anticipate that each college and division will adapt their own approach that utilizes the principles of ERM through the coming years. Due to this learning curve, our goal this year was to develop the highest risk areas to be included in this audit plan while recognizing this was not the only goal of the ERM initiative. The long range plan was still based on the ranking risk assessment methodology from prior years, but we expect that in the future, ERM will be the basis for the long range plan as well. The long range plan should continuously be monitored and revised to reflect variations in risk and mitigating controls over the long term. It is not a static plan.

More details about enterprise risk management, including the presentation made in April, 2005, by David Crawford and the presentations that have been made to President's Cabinet and Student Affairs by Audit and Compliance, can be found on our website at www.txstate.edu/audit_compliance.