

***SAM HOUSTON STATE UNIVERSITY
INTERNAL AUDIT DEPARTMENT***



*A Member of The Texas
State University System*

INTERNAL AUDIT

ANNUAL PLAN

AND

RISK ASSESSMENT

FISCAL YEAR 2006

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July 21, 2005

Mr. John Dudley
Chairman, Finance and Audit Committee
Board of Regents
The Texas State University System
Austin, TX 78701

Dear Regent Dudley:

I am pleased to submit the Sam Houston State University Internal Audit Department Fiscal Year 2006 Annual Audit Plan. Fiscal year 2006 holds new challenges in pursuing different ideas and activities to assist the University to operate more efficiently and effectively. Our departmental goal continues to be the creation of a synergistic environment which is viewed as user friendly by the University community while maintaining the high standards of the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

Our department has many reasons for continued success. First, is the management team at Sam Houston State University who has never failed to support the Internal Audit Department. Second, is the support we receive from The Texas State University System Office and from you, the Board members. Many great things can be accomplished in such an environment.

The audit plan for fiscal year 2006 has been prepared to comply with the *Rules and Regulations* of The Texas State University System, the Texas Internal Auditing Act, and the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

I thank you for the time and effort you spend as Chairman of the Finance and Audit Committee. I look forward to working with you in the year 2006.

Sincerely,

Kelly Bengé
Interim Director of Internal Audit
Sam Houston State University



TABLE OF CONTENTS

	Page
<i>FISCAL YEAR 2006 AUDIT PLAN</i>	
<i>Introduction</i>	3
<i>Scheduled Work Hours</i>	4
<i>AUDIT PLAN YEAR 2006</i>	5
<i>LONG-RANGE PLAN</i>	7
<i>2007 Audit Plan</i>	8
<i>2008 Audit Plan</i>	9
<i>RISK ASSESSMENT METHODOLOGY</i>	10
<i>Hierarchy of Auditable Units</i>	13



Introduction

The 2005-06 Audit Plan for Sam Houston State University has been developed to comply with the *Rules and Regulations* of the Texas State University System, the Texas Internal Auditing Act, and The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

The scope of the audit plan provides for the auditing of activities and operations which by their nature possess a high level of risk to the University. A formal weighted risk assessment was used to determine the hierarchy of auditable units. Each unit was numerically evaluated using the risk ranking attributed to each of the risk factors. The majority of audit hours will be allocated to auditable units classified as high risk and required audits. In addition, the scope of the plan is stratified to ensure auditable units were selected from each risk category. High risk categories are planned to be covered, at minimal, every three years. The sample selected from moderate and low risk units were selected using experience, legislative requirements, professional judgment, specific management concerns, and external environmental factors. Selections from the moderate and low risk categories help to facilitate overall risk coverage.

Input for the audit plan was solicited from all areas of the University. Management was asked to become involved by completing a risk ranking survey. This survey required the ranking of risk factors based on ***IMPACT, PROBABILITY, AND CONTROLS***. The survey was sent to the President, all Vice-Presidents, Associate Vice-Presidents, and Academic Deans of the University. In addition, a mass email was sent to all account managers requesting their recommendations or identification of concerns and auditable areas.

An analysis of available audit hours has also been included as part of the Audit Plan and Risk Assessment. An estimated forty-eight percent (48%) of time will be used as direct audit hours. Indirect audit hours comprise fifty percent (50%) of the remaining hours and two (2%) percent are unallocated.

The auditable units selected will be examined for existing internal controls associated with the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; safeguarding of assets; economical and efficient use of resources; and the accomplishment of established objectives and goals for operations or programs. Additional audit procedures will be performed based on the results of the comprehensive review of internal controls associated with each unit under examination. These additional procedures will be designed to search for errors and/or irregularities.



INTERNAL AUDIT DEPARTMENT
SCHEDULED WORK HOURS FOR THE YEARS 2006, 2007, AND 2008

ACTIVITY	HOURS			TOTAL	%
	DIRECTOR	ASSISTANT	STUDENT		
HIGH RISK AUDITS	500	1,020	570	2,090	41%
MODERATE RISK AUDITS	100	160	40	300	6%
LOW RISK AUDITS	10	40	20	70	1%
SPECIAL PROJECTS	1,000	500	90	1,590	30%
ADMINISTRATIVE DUTIES	210	100	180	490	9%
SEMINARS, CPE	40	40	0	80	2%
HOLIDAY, VACATION, ETC.	180	180	100	460	9%
UNALLOCATED	40	40	0	80	2%
TOTAL	2,080	2,080	1,000	5,160	1



AUDIT PLAN
FISCAL YEAR 2006



AUDIT PLAN
FISCAL YEAR 2006

AUDIT	HOURS	DESCRIPTION
STUDENT ORGANIZATIONS <i>Risk Based</i>	300	The scope will include evaluation of effectiveness and efficiency of student organization operations. Internal controls will be reviewed surrounding high risk transactions.
GRANTS AND CONTRACTS <i>Risk Based</i>	300	The scope will include evaluation of effectiveness of internal controls over the transactions within the department. Internal controls will be reviewed surrounding high risk transactions.
VENDING <i>Risk Based</i>	500	The scope will include evaluation of effectiveness of internal controls over the transactions within the department. Efficiency of operations will also be reviewed.
COURSE FEES <i>Risk Based</i>	300	The scope will include evaluation of effectiveness of internal controls surrounding course fees as well as compliance with state laws.
PRIVACY OF INFORMATION <i>Risk Based</i>	390	The scope will include a review of the efficiency of operations and related planning, as well as compliance with state laws.
RISK MANAGEMENT <i>Risk Based</i>	300	The scope will include assessment of internal controls surrounding risk management. Operational efficiency will also be reviewed.



LONG RANGE AUDIT PLAN



2007 AUDIT PLAN

AUDIT	RISK ASSESSMENT	SOURCE	TYPE
Contract Administration	High	Risk Assessment	Compliance
Keys and Safeguarding of Assets	High	Risk Assessment	Operational
Facility Planning	High	Risk Assessment	Operational
Recruiting of Employees	High	Risk Assessment	Operational
Information Security	High	Risk Assessment	Operational/Compliance
Student Activities	High	Risk Assessment	Compliance
Construction	High	Risk Assessment	Operational/Compliance
Financial Aid State Programs	High	Risk Assessment	Compliance
Financial Aid Federal Programs	High	Risk Assessment	Compliance
Conflicts of Interest	High	Risk Assessment	Compliance
Policy Management	High	Risk Assessment	Compliance
Budget	High	Risk Assessment	Operational
Selected Moderate Risk Areas	Moderate	Risk Assessment	Various
Selected Low Risk Areas	Low	Risk Assessment	Various



2008 AUDIT PLAN

AUDIT	RISK ASSESSMENT	SOURCE	TYPE
Investment Compliance	Required	Required	Compliance
NCAA Compliance	Required	Required	Compliance
Student Organizations	High	Risk Assessment	Operational
Grants & Contracts	High	Risk Assessment	Operational/ Compliance
Investigating Employee Backgrounds	High	Risk Assessment	Operational
Risk Management	High	Risk Assessment	Operational/ Compliance
Course Fees	High	Risk Assessment	Operational/ Compliance
Privacy of Information	High	Risk Assessment	Operational/ Compliance
Vending	High	Risk Assessment	Operational
Selected Moderate Risk Areas	Moderate	Risk Assessment	Various
Selected Low Risk Areas	Low	Risk Assessment	Various



RISK ASSESSMENT
METHODOLOGY

METHODOLOGY

Risk assessment is the identification and analysis of relevant risks to the achievement of objectives, the determination as to how risks will be managed, and the identification of risks associated with change. The State Auditor's Office defines risk as "anything that could jeopardize the achievement of an objective." Our risk analysis has been designed to identify not only those risks related to potential loss from fraud and errors, but those which could have an impact on the University due to inefficient or inadequate operating procedures.

Once implemented, the Internal Audit Plan is designed to: 1) minimize the risk of losses to the University; 2) prioritize audit projects by their level of risk; 3) utilize audit resources in an efficient and effective manner, and; 4) determine the nature, timing and extent of audit procedures in direct relation to the amount and nature of the risk. Risk assessment is the key process in accomplishing these goals.

This assessment of risk to the University's auditable units consisted of four steps:

1. **Identification of the University's auditable units** – This process included review of current and prior budgets, departmental operating reports, financial statements, prior audit reports and direct inquiry of management.
2. **Determination of risk factors** – The risk factors were determined from review of the types of risks associated with the existence and operation of a university. The risk factors used in this formula included:
 - IMPACT** – What would be the impact on the University if this item failed to function as intended.
 - PROBABILITY** – Without considering existing process controls which may exist, what is the probability that this breakdown could occur?
 - CONTROLS** - How well does the University manage this potential risk, i.e., how good are controls in this area?
 - RISK TYPE** – What type of risk is involved with the unit, i.e., fraud, misreporting, ineffectiveness/inefficiency, destruction or casualty loss, and loss of creditability.
3. **Weighting of individual risk factors** – A management survey was delivered to the University President, Vice Presidents, Associate Vice Presidents, and Academic Deans requesting the ranking of risk factors. A numeric value was then assigned to each factor based on the results of the survey. Additional weighting factors were included for areas from which we received no response.
4. **Review of each auditable unit** – Each auditable unit was then reviewed and related to the risk factor evaluation, legislative requirements, professional judgment, and management concerns.

The result was an annual audit plan for the fiscal year 2006 and a long-range plan. The plans are developed to complete required audits on an annual basis, high risk audits every three years, and moderate and low risk audits as determined by annual review. The audits included in the long-range plan section that are classified as high risk represent the high risk areas not covered each fiscal year.



Risk evaluation is a continual process. Sam Houston State University will review and revise the audit plan and risk assessment on an annual basis. An annual review will allow us to keep abreast of emerging issues. In addition we will be able to assess the risks associated with changes to both our internal and external environments.

WEIGHTING SCALE

The first level of evaluation was based upon weighting factors determined by IMPACT and PROBABILITY.

IMPACT	PROBABILITY	WEIGHT (VALUE)
HIGH	HIGH	9
HIGH	MEDIUM	8
HIGH	LOW	5
MEDIUM	HIGH	7
MEDIUM	MEDIUM	6
MEDIUM	LOW	4
LOW	HIGH	3
LOW	MEDIUM	2
LOW	LOW	1

The second level of evaluation was based upon weighting factors associated with INTERNAL CONTROLS.

TYPE OF CONTROL	WEIGHT (VALUE)
GOOD	1
AVERAGE	6
POOR	9

An additional level of evaluation was based upon management response to our survey. Non-response from a specific division further weighted the auditable units.

LACK OF VICE PRESIDENT RESPONSE	3
LACK OF ANY RESPONSE FROM A DIVISION	3

The following is a list of auditable units considered, their overall ranking and risk category. The list is in descending order.



HIGH RISK AUDITS

DEPARTMENT	UNIT	WEIGHT TOTAL	CATEGORY
SS	Student Organizations	32	HIGH
P	Contract Administration	31	HIGH
M	Locking Systems (keys)	31	HIGH
C	Grants & Contracts	29	HIGH
M	Facility Planning	28	HIGH
HR	Investigating Employee Backgrounds	27	HIGH
HR	Recruiting of Employees	26	HIGH
M	Risk Management	26	HIGH
I	Information Security	26	HIGH
A	Privacy of Information	26	HIGH
A	Course Fees	26	HIGH
SS	Student Activities	26	HIGH
ATH	NCAA Compliance	25	HIGH
P	Vending	25	HIGH
M	Construction	25	HIGH
FA	Financial Aid State Programs	25	HIGH
FA	Financial Aid Federal Programs	25	HIGH
G	Conflicts of Interest	25	HIGH
G	Policy Management & Communication	25	HIGH
F	Budget Preparation & Maintenance	25	HIGH



MODERATE RISK AUDITS

DEPARTMENT	UNIT	WEIGHT TOTAL	CATEGORY
HR	Evaluating Employee Performance	24	MODERATE
A	Grading	24	MODERATE
HR	Employee Retention	23	MODERATE
R	Cash Receipts, Management & Handling	23	MODERATE
SS	Student Government	23	MODERATE
EM	Admissions	23	MODERATE
M	Environmental Health & Safety	22	MODERATE
G	Internal Communications	22	MODERATE
HR	Training of Employees	21	MODERATE
R	Accounts Receivable Management	21	MODERATE
AA	University Farm	21	MODERATE
SS	Student Service Fees	21	MODERATE
EM	Student Records	21	MODERATE
FA	Scholarships	21	MODERATE
G	Encouraging Ethical Behavior	21	MODERATE
HR	Personnel Management	20	MODERATE
M	Asset Safeguarding	20	MODERATE
M	Disaster Recovery Planning	20	MODERATE
M	Facility Scheduling	20	MODERATE
M	General Maintenance/Grounds/Janitorial	20	MODERATE
SS	Bookstore	20	MODERATE
UA	Endowment Management	20	MODERATE
UA	Gift Management	20	MODERATE
I	Network Management	19	MODERATE
AA	University Hotel	19	MODERATE
I	Data Base Management	18	MODERATE
A	Research Compliance	18	MODERATE
AA	Crimes	18	MODERATE
SS	Health Center	18	MODERATE
HR	Employee Benefit Management	17	MODERATE
C	HUB Compliance	17	MODERATE
C	State Funding Formulas	17	MODERATE
I	Internet Management	17	MODERATE
I	User Support	17	MODERATE
G	Strategic Planning	17	MODERATE
P	Purchasing	16	MODERATE
F	Debt Management	16	MODERATE
F	Investment Management	16	MODERATE
C	Federal Reporting & Tax Compliance	16	MODERATE
C	State Academic Reporting	16	MODERATE
I	System Support	16	MODERATE
I	Technology Planning	16	MODERATE
A	Advising and Counseling	16	MODERATE
AA	LEMIT	16	MODERATE
AA	CMIT	16	MODERATE
EM	Housing	16	MODERATE



LOW RISK AUDITS

DEPARTMENT	UNIT	WEIGHT TOTAL	CATEGORY
P	Travel	15	LOW
F	Financial Reporting	15	LOW
C	Legislative Performance Measures	15	LOW
A	Accreditation	15	LOW
A	Library Resources and Management	15	LOW
EM	Graduation	15	LOW
I	User Training	15	LOW
F	General Accounting	14	LOW
MISC	Food Service	14	LOW
A	Academic Instruction	14	LOW
UA	Alumni Association	14	LOW
EM	Orientation	14	LOW
R	Billing	14	LOW
HR	Payroll Processing & Reporting	13	LOW
P	Accounts Payable	13	LOW
P	Cash Disbursements	13	LOW
R	Legislative Appropriation	13	LOW
M	Telecommunications	13	LOW
M	Utilities	13	LOW
PS	University Police Department	13	LOW
SS	Lowman Student Center	13	LOW
UA	Fundraising	13	LOW
EM	Student Recruiting	13	LOW
EM	Registration	13	LOW
ATH	Athletics	12	LOW
P	USAS Processing	12	LOW
SS	Recreational Sports	12	LOW
P	Receiving	11	LOW
G	Public Service Involvement	11	LOW