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## A Summary Report on Internal Audit Recommendations

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February 1997

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# Key Points of Report

## A Summary Report on Internal Audit Recommendations

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February 1997

### Overall Conclusion

The State's internal auditors report that opportunities exist to improve controls for an estimated five-year fiscal impact of \$160 million. The annual internal audit summary reports indicate opportunities for the State's agencies and universities to improve controls over expenditures, revenues, contracting, and policies and procedures.

### Key Facts And Findings

- Of the more than 6,100 internal audit recommendations for fiscal years 1995 and 1996, at least 91 percent have been implemented or are in the process of being implemented, according to the status reported by the internal auditors.
- The internal audit annual summary reports submitted generally complied with the reporting requirements of the Texas Internal Auditing Act.

### Contact

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## Office of the State Auditor

Lawrence F. Alwin, CPA

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*This compliance audit was conducted in accordance with Government Code, Section 321.0133.*

Section 1:

## Internal Auditors Report Opportunities to Improve Controls for an Estimated Five-Year Fiscal Impact of \$160 Million

Figure 1

Control Area	Fiscal Year	Specific Category
Expenditures	1996	<ul style="list-style-type: none"> <li>Prompt Payment</li> <li>Long Distance Telephone Use</li> <li>Approval of Expenditures and Purchase Orders</li> </ul>
Revenues	1996	<ul style="list-style-type: none"> <li>Billing for Services Provided</li> <li>Prompt Depositing</li> <li>Segregation of Duties</li> </ul>
	1995	<ul style="list-style-type: none"> <li>Cash Collections</li> <li>Controls Over Cash</li> </ul>
Contracting	1996	<ul style="list-style-type: none"> <li>Monitoring</li> <li>Contract Provisions</li> </ul>
Policies and Procedures	1995	Development and Enforcement

Based on a sample of recommendations, the annual internal audit summary reports indicate opportunities for the State's agencies and universities to improve controls over expenditures, revenues, contracting, and policies and procedures. Improving controls in these areas will reduce the risk that certain events may materially impact the agencies' or universities' operations. Figure 1 lists the specific categories identified in the reports.

Section 1-A:

### The Five-Year Fiscal Impact of Internal Auditors' Recommendations is Estimated at \$160 Million

Internal auditors reported that their recommendations, if implemented, would have an estimated fiscal impact of \$160 million over a five-year period.

In 1995, one recommendation at the Department of Mental Health and Mental Retardation had a five-year fiscal impact of approximately \$55 million. The recommendation addresses the maximization of Medicaid and other consumer fees. In

Figure 2

Fiscal Year	Five-Year Period	Dollar Amount
1995	1995-1999	\$129,049,438
1996	1996-2000	31,045,028
<b>Total Impact</b>		<b>\$160,094,466</b>

addition, the Office of the Attorney General identified a recommendation with a fiscal impact of approximately \$18 million. The recommendation addresses the county court costs that should be assessed relating to House Bill 202, 72nd Legislature, Regular Session.

Internal audit recommendations do not always have a clearly defined fiscal impact. These recommendations, however, still benefit the State by attempting to improve controls and safeguard valuable state assets.

The fiscal impact amounts are estimates and do not necessarily represent savings to the General Revenue Fund. Quantification methods and assumptions vary among agencies. Individual agency results may not be comparable.

Section 1-B:

### **Internal Auditors Report Recommendations in Two Major Management Control Categories**

The control areas listed in Figure 1 are components of larger control categories, most notably Resource Management and Policy Management. Each recommendation was categorized according to the State Auditor's Office Key Accountability Control Systems of State Agencies and Universities Model (Key Accountability Model). This Key Accountability Model identifies various management controls and summarizes them into major categories. Further information on the Key Accountability Model is provided in Appendices 5 and 6.

Key accountability control systems operate in significant areas of operations to help guide an agency or institution toward achievement of expected results. Accountability systems also identify and correct conditions that interfere with achieving these outcomes.

Using these key accountability system categories, the percentages of recommendations for each category are as follows:

Figure 3

Key Accountability System Category	Percentages of Recommendations	
	1995	1996
Policy Management	36%	26%
Performance Management	16%	2%
Information Management	13%	24%
Resource Management	35%	48%

Section 2:

## Internal Audit Reports Indicate That Management Has Taken Action on at Least 91 Percent of Internal Auditors' Recommendations

Figure 4

Management's Action	Percentage of Recommendations	
	1995	1996
Implemented	55%	66%
In Progress	36%	29%
Action Delayed	5%	3%
No Action to be Taken	3%	2%
Not Applicable	1%	<1%

Source: Internal Audit Annual Reports

Of the more than 6,100 internal audit recommendations for fiscal years 1995 and 1996, at least 91 percent have been implemented or are in the process of being implemented, according to the status reported by the internal auditors. (See Figure 4.)

Section 3:

## Many Internal Audits Focus on Controls and Safeguarding Assets

Figure 5

Audit Scope	Percentage of Audits With Some Emphasis on Scope Area*	
	1995	1996
Reliability of Financial and Operational Information	58%	62%
Management and Accounting Controls and Means of Safeguarding Assets	77%	74%
Compliance with State or Federal Requirements	55%	60%
Economy and Efficiency	41%	31%
Program Results/Program Effectiveness	29%	28%
Electronic Data Processing Systems and Controls	19%	23%

\* Percentages will not add to 100 percent as audits may address more than one scope category.

Of the approximately 1,100 audits conducted each fiscal year, the scope of the audits performed by internal auditors most often emphasizes controls and safeguarding assets as well as reliability of financial and operational information. The number of audits addressing economy and efficiency, program effectiveness, and electronic data processing (EDP) are smaller when compared to the other types of audits. As the State moves towards performance-based budgeting and automating more systems, there may be a need for internal auditors to work with their governing boards and audit committees to evaluate the adequacy of audit coverage in these areas.

Section 4:

## The State's Internal Auditors Have Generally Complied With the Reporting Requirements of the Texas Internal Auditing Act

The internal audit annual summary reports generally complied with the reporting requirements. The Texas Internal Auditing Act (Act) requires internal auditors to include specific items of information in their annual summary reports. Some of the annual reports submitted include audit recommendations for more than one agency.

Figure 6

	Number of Agencies in Compliance	
	1995	1996
Number Required to Comply With the Act	108	106
Number of Reports Submitted	102 *	100 *
<b>Information Required by the Act</b>		
Annual Audit Plan	101	97
List and Scope of Audits Completed	96	99
Explanation of Deviations from Audit Plan	95	99
Description of Significant Findings	100	98
Management's Response and Plan of Action for Significant Findings	98	98
Five-Year Fiscal Impact of Findings	95	96
Status of Internal Audit Recommendations	94	95
Date of Last Peer Review	100	100
<b>Additional Information</b>		
Last Peer Review More Than 3 Years Ago <sup>†</sup>	12 **	11 **

\* Some universities receive audit coverage from a system administration audit function. Each of these universities is counted separately.

\*\* See Appendix 4 for detailed listing by agency/university.

† Internal auditing standards require that each internal audit function receive a peer review at least every three years. (*Codification of Standards for The Professional Practice of Internal Auditing*, Section 560.04.)

## Objectives, Scope, and Methodology

### Objectives

The objectives of the project are:

1. To identify and summarize the issues presented in the internal auditors' annual reports for fiscal years 1995 and 1996
2. To present those issues of concern to more than one agency or university, and to identify and report trends in the issues reported by the internal auditors
3. To summarize the internal auditing functions' compliance with the reporting requirements of the Texas Internal Auditing Act

### Scope

In accordance with Texas Government Code, Chapter 2102, 110 executive branch agencies and universities were included in the scope of this review. However, the information in the body of this report includes only the information obtained from those internal audit functions which submitted an annual report.

### Methodology

Audit recommendations and information relating to the activities of the each internal audit function were obtained from each internal audit function's annual report. Audit recommendations were categorized according to the State Auditor's Office Key Accountability Systems Model.

Information collected to accomplish our objectives included the following:

- Texas Internal Auditing Act
- Documentary evidence including:
  - Agency findings and recommendations
  - Descriptions of management actions taken in response to audit findings and recommendations
  - Fiscal impact of audit recommendations
  - External peer reviews of internal audit functions



Criteria used:

- *Codification of Standards for The Professional Practice of Internal Auditing*
- State Auditor's Office Key Accountability Systems Model (See Appendices 5 and 6.)
- The Texas Internal Auditing Act, Texas Government Code, Chapter 2102

Fieldwork was conducted between November 1996 and January 1997.

This review was conducted in accordance with generally accepted government auditing standards.

This project was conducted by the following members of the State Auditor's staff:

- Mark E. Dan, CPA (Project Manager)
- Henrietta Cameron-Mann, CPA
- Paul J. Liberto
- Rena M. Martin
- Larry Vinyard, CPA (Quality Control Reviewer)
- Leslie P. Ashton, CPA (Audit Manager)
- Craig D. Kinton, CPA (Director)

## Background

For fiscal years 1995 and 1996, agency and university appropriations were approximately \$36 billion and \$40 billion respectively, making Texas government comparable in size to some of the country's largest corporations. The internal audit function has become an important tool for the efficient and effective management of state resources.

The State spent more than \$32 million on internal auditing during fiscal year 1995. This amount includes salaries, travel, training, and other expenditures for 447 internal auditors and 48 administrative staff members.

The purpose of internal audit is to assist agency and university administrators by furnishing independent analyses, appraisals, and recommendations concerning the adequacy and effectiveness of an entity's systems of internal control policies and procedures as well as the quality of performance in carrying out assigned responsibilities.

The Texas Internal Auditing Act requires agencies that meet any one of the following three criteria to have a "full-time program of internal auditing":

- Has an operating budget exceeding \$10 million annually
- Has a staff of more than 300 employees
- Receives and processes cash items in excess of \$10 million annually

(See Appendix 3 for the text of the Texas Internal Auditing Act.)

## The Texas Internal Auditing Act

Government Code, Chapter 2102

### Section 2102.001. Short Title.

This chapter may be cited as the Texas Internal Auditing Act.

### Section 2102.002. Purpose.

The purpose of this chapter is to establish guidelines for a program of internal auditing to assist agency administrators by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of an agency's systems of internal control policies and procedures and the quality of performance in carrying out assigned responsibilities.

### Section 2102.003. Definitions.

In this chapter:

- (1) "Administrator" means the executive head of a state agency.
- (2) "Audit" means:
  - (A) a financial audit described by Section 321.0131;
  - (B) a compliance audit described by Section 321.0132;
  - (C) an economy and efficiency audit described by Section 321.0133;
  - (D) an effectiveness audit described by Section 321.0134; or
  - (E) an investigation described by Section 321.0136.
- (3) "State agency" includes a department, board, bureau, institution, commission, or other agency of the state.

### Section 2102.004. Applicability.

This chapter applies only to a state agency that:

- (1) has an operating budget exceeding \$10 million annually;

- (2) has a staff of more than 300 employees;
- (3) receives and processes cash items in excess of \$10 million annually.

#### **Section 2102.005. Internal Auditing Required.**

A state agency shall conduct a full-time program of internal auditing that includes:

- (1) an annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year; and
- (2) periodic audits of the agency's major systems and controls, including:
  - (A) accounting systems and controls;
  - (B) administrative systems and controls; and
  - (C) electronic data processing systems and controls.

#### **Section 2102.006. Internal Auditor; Staff.**

- (a) The governing board of an agency or its designee, or the administrator of an agency without a governing board, shall appoint an internal auditor.
- (b) An internal auditor must:
  - (1) be a certified public accountant or a certified internal auditor; and
  - (2) have at least three years of auditing experience.
- (c) The state agency shall employ additional professional and support staff the administrator determines necessary to implement an effective program of internal auditing.

#### **Section 2102.007. Duties of Internal Auditor.**

- (a) The internal auditor shall:
  - (1) report directly to the state agency's governing board;
  - (2) develop an annual audit plan;
  - (3) conduct audits as specified in the audit plan and document deviations;
  - (4) prepare audit reports;

- (5) conduct quality assurance reviews in accordance with professional standards and periodically take part in a comprehensive external peer review; and
  - (6) conduct economy and efficiency audits and program results audits as directed by the state agency's governing board.
- (b) The program of internal auditing conducted by a state agency must provide for the auditor to:
- (1) have access to the administrator; and
  - (2) be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the state agency's operation.

#### **Section 2102.008. Approval of Audit Plan and Audit Report.**

The annual audit plan developed by the internal auditor must be approved by the state agency's governing board or its designee, or by the administrator of a state agency without a governing board. Audit reports must be reviewed by the state agency's governing board and the administrator.

#### **Section 2102.009. Annual Report.**

- (a) The internal auditor shall prepare an annual report and submit the report before November 1 of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator.
- (b) The report must contain:
  - (1) a copy of the annual audit plan;
  - (2) a list of the audits completed;
  - (3) an explanation of any deviation from the approved annual audit plan;
  - (4) a narrative description of the most significant findings and recommendations for each audit;
  - (5) a narrative description of the management actions taken in response to the audit findings and recommendations;

- (6) a table listing the auditor's audit recommendations and the five-year fiscal impact for each recommendation;
  - (7) a table of the audit recommendations from the previous fiscal year's report and an explanation of the status of each recommendation; and
  - (8) a statement of the last date on which an external peer review of the agency's internal audit program was conducted.
- (c) Each recommendation must show whether:
- (1) the recommendation has been implemented;
  - (2) the recommendation is in the process of implementation;
  - (3) action on implementation of the recommendation has been delayed; or
  - (4) the agency does not intend to take action on the recommendation.
- (d) The report must emphasize the findings in important areas that are difficult to quantify, including weaknesses in management controls or quality of services.

#### **Section 2102.010. Consultations.**

An internal auditor may consult with the state agency's governing board, the governor's office, the state auditor, and legislative agencies or committees about matters affecting duties or responsibilities under this chapter.

#### **Section 2102.011. Internal Audit Standards.**

The internal audit program shall conform to the *Standards for the Professional Practice of Internal Auditing*, generally accepted governmental auditing standards, the Certified Internal Auditor Code of Professional Ethics, and the Statement of Responsibilities of Internal Auditing of the Institute of Internal Auditors.

#### **Section 2102.012. Professional Development.**

- (a) The state auditor shall make available and shall coordinate a program of training and technical assistance to ensure that state agency internal auditors have access to current information about internal audit techniques, policies, and procedures and to provide general technical and audit assistance to agency internal auditors upon request.

- (b) The state auditor is entitled to reimbursement for costs associated with providing the services under the terms of interagency cooperation contracts negotiated between the state auditor and each agency. The costs may not exceed those allowed by the General Appropriations Act.

**Amendment to the State Auditor's Law Relating to Section 2102.009, Annual Report.**

- (J) The State Auditor shall, before December 1 of each year, comprehensively analyze each annual report prepared under Section 2102.009, Texas Internal Auditing Act (Article 6252-5d, Vernon's Texas Civil Statutes), and publish a summary of the State Auditor's findings. The summary must include all major internal audit findings, conclusions, and recommendations and must identify and analyze issues that are common to more than one state agency.

Appendix 4:

## Table of Agencies and Universities Required to Comply With the Texas Internal Auditing Act

Footnotes listed on page 16.

Agency Number	Agency/University	Have an Internal Audit Function?	Report Submitted		Peer Review in Last 3 Years?	
			1995	1996	1995	1996
401	Adjutant General's Department	Yes	Yes	Yes	Yes	Yes
477	Advisory Commission on State Emergency Communications	Yes	Yes	Yes	Yes	Yes
556	Agricultural Experiment Station, Texas <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
555	Agricultural Extension Service, Texas <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
737	Angelo State University	Yes	Yes	Yes	No	No
302	Attorney General, Office of the	Yes	Yes	Yes	Yes	Yes
409	Commission on Jail Standards	No	No	No	No	No
304	Comptroller of Public Accounts	Yes	Yes	Yes	Yes	Yes
313	Department of Information Resources	Yes	Yes	Yes	Yes	Yes
530	Department of Protective and Regulatory Services	Yes	Yes	Yes	B	B
751	East Texas State University <sup>C</sup>	Yes	Yes	No	Yes	Yes
327	Employees Retirement System of Texas	Yes	Yes	Yes	Yes	Yes
305	General Land Office	Yes	Yes	Yes	Yes	Yes
303	General Services Commission	Yes	Yes	Yes	Yes	Yes
301	Governor, Office of the	Yes	Yes	Yes	No	No
529	Health and Human Services Commission	Yes	Yes	Yes	Yes	Yes
734	Lamar University - Beaumont	Yes	Yes	Yes	Yes	Yes
786	Lamar University System	Yes	Yes	D	Yes	D
735	Midwestern State University	Yes	Yes	Yes	Yes	Yes
715	Prairie View A&M University <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
473	Public Utility Commission of Texas	Yes	Yes	Yes	No	No
455	Railroad Commission of Texas	Yes	Yes	Yes	Yes	Yes
753	Sam Houston State University	Yes	Yes	Yes	Yes	Yes
307	Secretary of State	Yes	Yes	Yes	No	No
754	Southwest Texas State University	Yes	Yes	Yes	Yes	Yes
202	State Bar of Texas	Yes	Yes	Yes	Yes	Yes
809	State Preservation Board	No	No	No	No	No
312	State Securities Board	Yes	Yes	Yes	Yes	Yes
755	Stephen F. Austin State University	Yes	Yes	Yes	Yes	Yes
756	Sul Ross State University	Yes	Yes	Yes	No	No



Agency Number	Agency/University	Have an Internal Audit Function?	Report Submitted		Peer Review in Last 3 Years?	
			1995	1996	1995	1996
713	Tarleton State University <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
323	Teacher Retirement System of Texas	Yes	Yes	Yes	Yes	Yes
761	Texas A&M International University <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
711	Texas A&M University	Yes	Yes	Yes	Yes	Yes
718	Texas A&M University at Galveston <sup>E</sup>	Yes	Yes	Yes	Yes	Yes
709	Texas A&M University Health Science Center <sup>E</sup>	Yes	Yes	Yes	Yes	Yes
760	Texas A&M University - Corpus Christi <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
732	Texas A&M University - Kingsville <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
710	Texas A&M University System: Administrative and General Offices	Yes	Yes	Yes	Yes	Yes
458	Texas Alcoholic Beverage Commission	Yes	Yes	Yes	Yes	Yes
554	Texas Animal Health Commission	Yes	Yes	Yes	Yes	Yes
318	Texas Commission for the Blind	Yes	Yes	Yes	Yes	Yes
517	Texas Commission on Alcohol and Drug Abuse	Yes	Yes	Yes	Yes	Yes
551	Texas Department of Agriculture	Yes	Yes	Yes	Yes	Yes
451	Texas Department of Banking	No	No	No	F	F
465	Texas Department of Commerce	Yes	Yes	Yes	Yes	Yes
696	Texas Department of Criminal Justice	Yes	Yes	Yes	Yes	Yes
501	Texas Department of Health	Yes	Yes	Yes	Yes	Yes
332	Texas Department of Housing and Community Affairs	Yes	Yes	Yes	Yes	Yes
324	Texas Department of Human Services	Yes	Yes	Yes	Yes	Yes
454	Texas Department of Insurance	Yes	Yes	Yes	Yes	Yes
452	Texas Department of Licensing and Regulation	No	No	No	No	No
655	Texas Department of Mental Health and Mental Retardation	Yes	Yes	Yes	Yes	Yes
405	Texas Department of Public Safety	Yes	Yes	Yes	Yes	Yes
601	Texas Department of Transportation	Yes	Yes	Yes	Yes	Yes
340	Texas Department on Aging	Yes	Yes	Yes	Yes	Yes
701	Texas Education Agency	Yes	Yes	Yes	No	No
712	Texas Engineering Experiment Station <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
716	Texas Engineering Extension Service <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
576	Texas Forest Service <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
781	Texas Higher Education Coordinating Board	Yes	Yes	Yes	No	Yes
532	Texas Interagency Council on Early Childhood Intervention	Yes	Yes	Yes	Yes	Yes
665	Texas Juvenile Probation Commission	Yes	Yes	Yes	Yes	Yes

Agency Number	Agency/University	Have an Internal Audit Function?	Report Submitted		Peer Review in Last 3 Years?	
			1995	1996	1995	1996
362	Texas Lottery Commission	Yes	Yes	Yes	C	C
350	Texas National Research Laboratory Commission	Yes	Yes	G	G	G
582	Texas Natural Resources Conservation Commission	Yes	Yes	Yes	Yes	Yes
802	Texas Parks and Wildlife Department	Yes	Yes	Yes	No	No
347	Texas Public Finance Authority <sup>H</sup>	No	H	H	H	H
329	Texas Real Estate Commission	Yes	Yes	Yes	Yes	Yes
330	Texas Rehabilitation Commission	Yes	Yes	Yes	Yes	Yes
771	Texas School for the Blind and Visually Impaired	Yes	Yes	Yes	Yes	Yes
772	Texas School for the Deaf	Yes	Yes	Yes	Yes	Yes
717	Texas Southern University	Yes	Yes	Yes	Yes	Yes
503	Texas State Board of Medical Examiners	No	No	No	No	No
457	Texas State Board of Public Accountancy	Yes	No	Yes	I	I
306	Texas State Library and Archives Commission	Yes	Yes	Yes	Yes	Yes
719	Texas State Technical College System	Yes	Yes	Yes	Yes	Yes
758	Texas State University System	Yes	H	H	H	H
733	Texas Tech University	Yes	Yes	Yes	Yes	Yes
739	Texas Tech University Health Science Center <sup>J</sup>	Yes	Yes	Yes	Yes	Yes
727	Texas Transportation Institute <sup>A</sup>	Yes	Yes	Yes	Yes	Yes
580	Texas Water Development Board	Yes	Yes	Yes	Yes	Yes
731	Texas Woman's University	Yes	Yes	Yes	Yes	Yes
453	Texas Workers' Compensation Commission	Yes	Yes	Yes	Yes	Yes
320	Texas Workforce Commission (Previously the Texas Employment Commission)	Yes	Yes	Yes	Yes	Yes
694	Texas Youth Commission	Yes	Yes	Yes	Yes	Yes
714	The University of Texas at Arlington	Yes	Yes	Yes	Yes	Yes
721	The University of Texas at Austin	Yes	Yes	Yes	Yes	Yes
747	The University of Texas at Brownsville	Yes	Yes	Yes	Yes	K
738	The University of Texas at Dallas	Yes	Yes	Yes	Yes	Yes
724	The University of Texas at El Paso	Yes	Yes	Yes	Yes	Yes
743	The University of Texas at San Antonio	Yes	Yes	Yes	Yes	Yes
750	The University of Texas at Tyler	Yes	Yes	Yes	Yes	Yes
745	The University of Texas Health Science Center at San Antonio	Yes	Yes	Yes	Yes	Yes
744	The University of Texas Health Science Center at Houston	Yes	Yes	Yes	Yes	Yes
785	The University of Texas Health Center at Tyler	Yes	Yes	Yes	Yes	Yes

Agency Number	Agency/University	Have an Internal Audit Function?	Report Submitted		Peer Review in Last 3 Years?	
			1995	1996	1995	1996
506	The University of Texas M.D. Anderson Cancer Center	Yes	Yes	Yes	Yes	Yes
723	The University of Texas Medical Branch at Galveston	Yes	Yes	Yes	Yes	Yes
736	The University of Texas - Pan American	Yes	Yes	Yes	Yes	Yes
742	The University of Texas of the Permian Basin <sup>L</sup>	Yes	Yes	Yes	Yes	Yes
729	The University of Texas Southwestern Medical Center at Dallas	Yes	Yes	Yes	Yes	Yes
720	The University of Texas System: System Administration	Yes	Yes	Yes	Yes	Yes
310	Treasury Department	Yes	Yes	Yes	Yes	M
730	University of Houston <sup>N</sup>	Yes	Yes	Yes	Yes	Yes
759	University of Houston - Clear Lake <sup>N</sup>	Yes	Yes	Yes	Yes	Yes
784	University of Houston - Downtown <sup>N</sup>	Yes	Yes	Yes	Yes	Yes
783	University of Houston System: System Administration	Yes	Yes	Yes	Yes	Yes
752	University of North Texas	Yes	Yes	Yes	Yes	Yes
763	University of North Texas Health Science Center at Fort Worth	Yes	Yes	Yes	Yes	Yes
757	West Texas A&M University <sup>A</sup>	Yes	Yes	Yes	Yes	Yes

<sup>A</sup> Agency covered by Texas A&M University System. (710)

<sup>B</sup> Not applicable because the internal audit function has only recently been established.

<sup>C</sup> East Texas State University merged with the Texas A&M University System on September 1, 1996. The Texas A&M University System audit function will now provide coverage for the University.

<sup>D</sup> The Lamar University System merged with the Texas State University System on September 1, 1995.

<sup>E</sup> Agency covered by Texas A&M University. (711)

<sup>F</sup> The Department of Banking is in the process of establishing an internal audit function.

<sup>G</sup> The Texas National Research Laboratory Commission has been abolished. The agency is closing down operations.

<sup>H</sup> Although activity at the Texas State University System and the Texas Public Finance Authority exceeds \$10 million, a majority of the transactions relate to the processing of bond-related funds.

<sup>I</sup> The Texas State Board of Public Accountancy's internal audit function was established in fiscal year 1996. No peer review required yet.

<sup>J</sup> Agency covered by Texas Tech University System. (733)

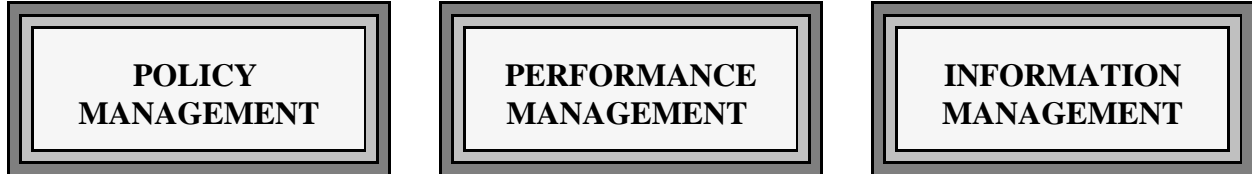
<sup>K</sup> Internal audit function established in fiscal year 1995. Prior years were covered by The University of Texas System internal audit function. (720)

<sup>L</sup> Agency covered by The University of Texas System. (720)

<sup>M</sup> The State Treasury has been merged into the Comptroller of Public Accounts beginning September 1, 1996.

<sup>N</sup> Agency covered by University of Houston System. (783)

## Key Accountability Control Systems of State Agencies and Universities



Planning and Budgeting

Effectiveness: Goals,  
Objectives, Strategies

Information  
Flow/Communication

Policies and Procedures

Automation

Human Resources and  
Organizational Structure

Performance Measurement  
Systems



Cash	Bonds	Taxes	Personnel	Transfers In
Investments	Payables	Fees	Program	Transfers Out
Loans and Contracts	Other	Grants, Contracts	Operating	
Receivables		Operating		
Inventories		Miscellaneous		
Property and Equipment				
Plant and Other Assets				

***Themes Pervading All Control Systems:***

- |   |                            |
|---|----------------------------|
| ★ Integrity and Ethical Values              | ★ Commitment to Competence |
| ★ Management Philosophy and Operating Style | ★ Compliance               |

## Accountability Systems Definitions

The following definitions explain the elements of each control area and process identified in the Key Accountability Control Systems of State Agencies and Universities

### Policy Management

#### Planning and Budgeting

The processes in this control area should be designed to ensure that the agency or university has identified what it should be doing and how it should be done. The “how” includes how available resources are allocated.

#### Policies and Procedures

The processes in this control area should be designed to ensure that the agency or university has provided the policies and procedures that are necessary to operate. This includes policies and procedures for internal operations and those related to external parties.

#### Human Resources and Organizational Structure

The processes in this control area should be designed to ensure that the employees have the skills to do their jobs, know what their jobs are, are trained so that they can do their jobs effectively, and are evaluated on their performances. In addition, the processes should be designed to ensure that management has structured the agency or university in a manner conducive to communication and accomplishment of the strategic plan, and that provides for appropriate supervision and oversight.

### Performance Management

#### Effectiveness: Goals, Objectives, Strategies

The processes in this control area should be designed to ensure that programs and operations are evaluated to determine whether the agency or university is meeting goals and that adjustments are made as needed.

### Information Management

#### Information Flow and Communication

The processes in this control area should be designed to ensure that the agency or university knows what its information needs are, that this information is available and accurate, and that it is appropriately maintained. Information systems may be automated, manual, or a combination of both.

**Automation** The processes in this control area should be designed to ensure that the general environment and computer applications are developed, maintained, and protected.

**Performance Measurement Systems** The processes in this control area should be designed to ensure that progress toward achievement of objectives is routinely and accurately measured.

### **Resource Management - Assets**

**Cash** The processes in this control area should be designed to ensure that the cash activity of the agency or university is adequately controlled. “Cash” is a resource with a high risk of fraud or abuse and should be controlled accordingly.

**Investments** The processes in this control area should be designed to ensure that sound investment decisions are made and that investments are protected, authorized, and maximized.

**Loans and Contracts** The processes in this control area should be designed to ensure that amounts due from loans the agency or university has made are collected. The processes for this asset are closely tied to the Miscellaneous Revenues processes. Generally the assessments for loans and contracts will be the same as the assessments for the revenues from loan repayment processes.

**Receivables** The processes in this control area should be designed to ensure that amounts due to the agency or university from sources other than loans are collected. The processes for this asset are closely tied to the related Revenues processes. Generally, the assessments for receivables will be the same as the assessments for the related revenue processes.

**Inventories** The processes in this control area should be designed to ensure that inventories are effectively managed—economically purchased and used, protected against waste and abuse. The cost effectiveness of inventory management should be considered.

**Property and Equipment** The processes in this control area should be designed to ensure that property and equipment—both capitalized and non-capitalized—are economically purchased, appropriately used, and adequately protected against waste and abuse.

**Plant and Other Assets** The processes in this control area should be designed to ensure that plant and other assets are economically purchased/constructed, appropriately recognized and valued, and adequately protected from waste and abuse.

### **Resource Management - Liabilities**

**Bonds** The processes in this control area should be designed to ensure that it is appropriate to issue debt and that there is proper authorization and repayment of bonds and long-term debt.

**Payables** The processes in this control area should be designed to ensure that obligations related to operating or program expenses, as applicable, are appropriate. The processes for this liability are closely tied to the applicable Operating and Program Expenditures processes. Generally the assessments for payables will be the same as the assessments for the related expenditures processes.

**Other Liabilities** The processes in this control area should be designed to ensure that other liabilities of the agency or university are recognized, appropriately valued, and adequately protected. Often the “other liabilities” correspond to assets that the agency or university is holding in a fiduciary capacity and as such has an obligation to protect.

### **Resource Management - Revenues**

**Taxes** The processes in this control area should be designed to ensure that all tax revenues due to the State have been received and processed appropriately.

**Fees** The processes in this control area should be designed to ensure that all revenues from licenses, fees, tuition, and permits that are due to the State have been received and processed appropriately.

**Grants and Contracts** The processes in this control area should be designed to ensure that the State receives as much revenue as possible from available grants and contracts. This includes ensuring that grant revenues are properly requested and that reimbursements or advances are appropriately calculated.

<b>Operating</b>	The processes in this control area should be designed to ensure that all other operating-type revenues that are due to the State have been received and processed appropriately. Operating revenues include investment income, sales of goods and services, and lottery collections.
<b>Miscellaneous</b>	The processes in this control area should be designed to ensure that all other revenues have been received and processed appropriately. These revenues are generally unique to the agency or university and should be assessed accordingly. The largest revenues in this area are loan repayments.

### **Resource Management - Expenditures**

<b>Personnel Costs</b>	The processes in this control area should be designed to ensure that compensation systems effectively control labor costs, improve employee productivity, and boost quality of services.
<b>Operating</b>	The processes in this control area should be designed to ensure that expenditures for operating activities are legitimate and appropriate uses of agency or university funds. Operating expenditures include travel, rent, supplies, telephone, utilities, etc.
<b>Program</b>	The processes in this control area should be designed to ensure that purchased services and other program costs are legitimate and appropriate uses of agency or university funds. Program expenditures include payments to service providers as well as other costs specifically associated with an agency's or university's programs. Some examples of program expenditures are human service and unemployment benefits, university instruction and research, highway construction and maintenance, allocations to school districts, and Medicaid payments.

### **Resource Management - Transfers**

<b>Transfers In</b>	The processes in this control area should be designed to ensure that transfers from other funds, agencies, or universities are appropriate.
<b>Transfers Out</b>	The processes in this control area should be designed to ensure that transfers to other funds, agencies, or universities are appropriate.



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