TEXAS TECH UNIVERSITY SYSTEM™

Office of Audit Services

Annual Audit Report
For the Year Ended August 31, 2012

Kimberly F. Turner, CPA
Chief Audit Executive

October 31, 2012

Transmittal Letter

October 31, 2012

Mr. L. Frederick "Rick" Francis, Chair
Board of Regents Audit Committee
Texas Tech University System

Dear Mr. Francis:

We are pleased to submit the annual report of the Office of Audit Services of Texas Tech University System for the year ended August 31, 2012. This report fulfills the requirements set out in the Texas Internal Auditing Act (V.T.C.A., Government Code § 2102.009, Annual Report). It provides information related to our audit plan, a list of completed engagements, a copy of our most recent peer review, a list of external audit services procured, and a list of our other activities.

We believe the work of our office has contributed to the efficient and effective operation of Texas Tech University System by making positive contributions to risk management efforts, control systems, and governance processes. During the year ended August 31, 2012, we issued 54 reports related to various engagements, and the results of our work have been communicated to the Board of Regents Audit Committee and to the administration.

For further information about the contents of this report or any engagement report mentioned herein, please contact me.

Sincerely,

Kimberly F. Turner, CPA
Chief Audit Executive

Copies: Texas Tech Board of Regents Audit Committee
          Chancellor Kent Hance
          Legislative Budget Board
          Office of the Governor
          State Auditor's Office
          Sunset Advisory Commission

Table of Contents

Annual Plan for Fiscal Year 2012

The annual audit plan for Texas Tech University System for the year ended August 31, 2012, which is included in this report, was approved by the Audit Committee of the Board of Regents on August 4, 2011. There were 48 engagements included on the annual plan and 3 engagements added during the year as a result of changing risks and priorities, which were discussed with the Audit Committee. Of the planned and added audits, 35 were completed, 11 were in progress at year-end, 1 was carried forward to fiscal year 2013, and 4 were cancelled.

The additional and cancelled engagements were as follows:

Texas Tech University System
Campus Youth Safety Program—added
TeamMate Suite Implementation—added

Texas Tech University
Responsibility Center Management—cancelled

Texas Tech University Health Sciences Center
Lubbock Department of Surgery—cancelled

Angelo State University
College of Business—added
Investments—cancelled
Office of Environmental Health, Safety and Risk Management—cancelled

In addition to the planned engagements and other risk-based engagements included above, 10 planned projects and 2 special projects in progress at September 1, 2011, were completed during the year as well as 2 State Comptroller's Office and Texas Higher Education Coordinating Board audits which were in progress at year-end. Our office began 6 special projects or investigations during the year because of changing risks and priorities, reports on the Texas Tech Compliance Hotline, or other factors. All but one of these engagements were completed prior to August 31, 2012.

We also performed follow-up work during the year to monitor whether management's plans of action had been effectively implemented. Status reports of all outstanding audit observations and recommendations were issued at each Audit Committee meeting.

Annual Plan for Fiscal Year 2012

Office of Audit Services

Annual Audit Plan

For the Year Ending August 31, 2012

Kimberly F. Turner, CPA
Chief Audit Executive

August 4, 2011

Annual Plan for Fiscal Year 2012

Table of Contents

Annual Plan for Fiscal Year 2012

Transmittal Letter

August 4, 2011

Mr. Rick Francis

Audit Committee Chair, Texas Tech Board of Regents

We are pleased to submit the annual plan of the Office of Audit Services of Texas Tech University System for the year ending August 31, 2012. The plan includes audits that are required by statute or administrative policy, assistance required by external auditors, audits that are currently in progress, and planned engagements based on our assessment of risk. We have scheduled approximately twenty-five percent of our time for assisting management with additional requests, special investigations, follow-up on implementation of prior audit recommendations, and other value-added work.

We appreciate the support you offer us in the performance of our responsibilities and formally request that you approve this plan.

Sincerely,

Kimberly F. Turner, CPA

Chief Audit Executive

Approved by: _____ August 4, 2011

Mr. Rick Francis

3

Annual Plan for Fiscal Year 2012

Mission Statement

The staff members of the Office of Audit Services agreed that we should have a mission statement that reflects Texas Tech's commitment to educational excellence, as well as our commitment to our professional standards. The result of our contemplation is a mission statement that emphasizes proactive quality service provided by our staff for the benefit of the Board of Regents and management throughout the Texas Tech University System.

> **Mission Statement**
>
> **The mission of the Office of Audit Services is to assist the Board of Regents and other units of the Texas Tech University System in identifying, avoiding, and mitigating risks**

4

Annual Plan for Fiscal Year 2012

Quality Assurance

We have instituted a continuous quality improvement control effort as required by internal auditing standards. We evaluate the quality of our services by

- completing a self-assessment questionnaire at the end of each engagement;

- measuring our performance against predetermined benchmarks that we believe will encourage excellence;

- surveying our clients regarding their level of satisfaction with the services we have provided;

- completing an annual assessment of our quality assurance program as required by generally accepted government auditing standards;

- completing a periodic self-evaluation of our office's operations to gauge compliance with internal auditing standards; and

- submitting to periodic assessment by peer review teams comprised of experienced higher education audit professionals.

5

Annual Plan for Fiscal Year 2012

Performance Measures

The staff members of the OAS developed goals to encourage excellence and promote accountability. To measure our achievement of those goals, we developed a series of performance measures. We analyze our progress quarterly related to the following overall goals by reviewing the achievement of the performance measures.

- Ensure the annual risk assessment process identifies significant risks and our audit work helps mitigate those risks.

- Complete engagements outlined in the annual audit plan to cover risks identified in the risk assessment.

- Achieve superior client satisfaction.

- Achieve time budgets and internally and externally imposed engagement deadlines.

- Effectively utilize resources.

- Effectively and timely complete the audit process.

6

Annual Plan for Fiscal Year 2012

Risk Assessment Process

The Office of Audit Services allocates its resources in a manner that is consistent with the mission and goals of Texas Tech University System and its components. In accordance with the Texas Internal Auditing Act (V.T.C.A., Government Code, §2102.005), we have prepared this audit plan based on the results of a formal risk assessment process.

The risk assessment process undertaken to prepare this annual plan was multi-layered. First, management of Texas Tech University System (TTUS), Texas Tech University (TTU), Texas Tech University Health Sciences Center (TTUHSC), and Angelo State University (ASU) respectively, assessed risk across the institutions. The institutions used varying methodologies for development of their risk assessments, but all of the processes included the consideration of strategic goals and related processes.

Our office also gave input into the risk process for the components of Texas Tech based on individual interviews with senior level officials, institutional knowledge, information from past audit and management advisory engagements, and knowledge of nationwide trends and occurrences in higher education and academic healthcare.

The result of these assessments was the identification of strategic, financial, operational, compliance, reputational, and environmental risks facing each institution. In the development of this annual plan, we considered the most significant risks and included audits and other engagements that could reduce the likelihood or impact of the risks and/or assist in clarifying risks at a more granular level.

7

Annual Plan for Fiscal Year 2012

Allocation of Time

Our staff consists of 16 audit professionals. After consideration of estimated time for staff meetings, continuing professional education, holidays, and annual leave, we determined our allocable chargeable time to be approximately 18,650 hours.

Of this time, approximately 2,500 hours are dedicated to performing required audits, assisting external auditors, and completing other mandatory projects. Additionally, 2,100 audit hours are needed to complete engagements from the fiscal year 2011 annual audit plan that are in progress at year-end. We have set aside approximately 25 percent of total chargeable time (4,800 hours) for unscheduled projects and other value-added work, including board and management requests, investigations, committee service, follow-up on prior audits, and special projects. The remaining 9,200 audit hours have been allocated to the projects determined through the risk assessment process. The risk-based engagements as well as the required audits are listed on pages 9-12.

8

Annual Plan for Fiscal Year 2012

Planned Engagements

Texas Tech University System and Components

Tech Enterprise Account Management (TEAM App) System Security	IT Controls
Construction Project Expenses	Financial/Compliance
Texas Tech University Foundation	Financial
Regents, Chancellor, and Presidents Travel and Credit Cards	Compliance
Assessment of Risk Management Processes	Risk Management
Office of Audit Services Annual Report	Compliance
Office of Audit Services Annual Plan	Compliance
Office of Audit Services Quality Assurance Activities Review	Compliance
Office of Audit Services Self-Assessment	Compliance
Office of Audit Services Peer Review	Compliance
Multihazard Emergency Plan Safety and Security Audit	Compliance
State Auditor's Office Miscellaneous Projects	Miscellaneous
Audit Report Follow-Up Procedures and Reporting	Follow-Up

9

Annual Plan for Fiscal Year 2012

Planned Engagements (cont.)

Texas Tech University

Nat'l Wind Resource Ctr / Nat'l Inst for Renewable Energy Funding	**Financial/Compliance**
Student Fees	**Financial/Compliance**
Responsibility Center Management	**Management Advisory**
Physical Plant	**Operational**
Enrollment Management	**Operational**
Small Business Program (SBIR/STTR) Federal Grants	**Financial/Compliance**
Student Business Services	**Operational/Controls**
NCAA Rules Compliance Program	**Compliance**
Athletics Financial Review	**Financial**
Texas Tech Public Media Financial Statement Audit	**Financial**
KTXT-TV Financial Statement Audit	**Financial**
Football Attendance Certification	**Compliance**
Time and Effort Certification Processes	**Compliance**

10

Annual Plan for Fiscal Year 2012

Planned Engagements (cont.)

Texas Tech University Health Sciences Center

Contracting Processes	Operational/Controls
Rural and Community Health	Financial/Compliance
Anita Thigpen Perry School of Nursing	Governance/Operational
Lubbock Department of Surgery	Operational/Financial
Lubbock Department of Internal Medicine	Operational/Financial
Physical Plant	Operational
El Paso Department of Psychiatry	Operational/Financial
El Paso Campus-wide Claims Rejections	Operational
El Paso Department of Obstetrics and Gynecology	Operational/Financial
El Paso Department of Family Medicine	Operational/Financial
El Paso Department of Medical Education	Financial
Texas Higher Education Coordinating Board Residency Grants	Compliance
Correctional Managed Health Care Committee Contract	Compliance
Texas Higher Education Coordinating Board Nursing Shortage Grant	Compliance
Time and Effort Certification Processes	Compliance

11

Annual Plan for Fiscal Year 2012

Planned Engagements (cont.)

Angelo State University

Center for Security Studies	**Operational/Financial**
Enrollment Management	**Operational/Compliance**
Hispanic Serving Institution (HSI) Federal Grant Program	**Financial/Compliance**
Student Fees	**Financial/Compliance**
Office of Environmental Health, Safety, and Risk Management	**Operational**
Carr Foundation	**Financial**
Investments	**Compliance**

12

Annual Plan for Fiscal Year 2012

Nature of Work

The Office of Audit Services evaluates and contributes to the improvement of governance, risk management, and control processes. The nature of the activities is determined by a risk assessment process undertaken annually with the input of senior management and the Board of Regents. Additionally, management advisory engagements may be planned to improve the management of risks, to add value, and to improve Texas Tech's operations.

The Office of Audit Services' assessments and recommendations for improving Texas Tech's governance, risk management, and control processes are for the purpose of accomplishing the following objectives:

- promoting appropriate ethics and values within Texas Tech and its components
- ensuring effective organizational performance management and accountability
- communicating risk and control information to appropriate areas
- coordinating the activities of and communicating information among our office, the Board of Regents, external auditors, and management

13

Annual Plan for Fiscal Year 2012

Nature of Work (cont.)

The Office of Audit Services evaluates risk exposures and the effectiveness of controls relating to Texas Tech's governance, operations, and information systems regarding the

- reliability and integrity of financial and operational information;

- effectiveness and efficiency of operations and programs;

- safeguarding of assets; and

- compliance with laws, regulations, policies, procedures, and contracts.

During the planning phase of each engagement, we determine the scope of work to be performed based on a unit-level assessment of risk. For most engagements, we will conduct an entrance conference and/or provide an engagement letter in order to communicate the scope and objectives of our audit to the management personnel involved.

The Institute of Internal Auditors, International Professional Practices Framework. (Altamonte Springs: The Institute of Internal Auditors, 2011). pp 29-32

14

Audit Process

Audits are performed in three general phases: planning, fieldwork, and reporting. As indicated earlier, the success of our efforts is monitored through the completion of self-evaluation questionnaires and the compilation of information to monitor our achievement of performance measures. We believe it is important that our process is understood. The illustration on the following page documents the procedures normally employed in the performance of an audit.

15

Annual Plan for Fiscal Year 2012

Audit Process (cont.)

• Planning

- Select engagement team
- Perform preliminary risk assessment with input from the client, management, and audit team members
- Develop audit scope and objectives
- Document anticipated deliverables
- Prepare audit program
- Hold entrance conference

• Fieldwork

- Develop and perform detailed testing
- Document and evaluate processes and controls
- Interview client staff members
- Perform other audit procedures to meet audit objectives
- Communicate with client on an ongoing basis

• Reporting

- Document strengths and opportunities for improvement
- Communicate with client management regarding audit results
- Develop recommendations
- Prepare draft report
- Hold exit conference
- Obtain management's plan of action to address issues
- Prepare final report
- Evaluate audit performance
- Follow up on implementation of action plans

16

Annual Plan for Fiscal Year 2012

17

Audits Completed

Texas Tech University System and Components

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2012014	FY12 Audit Plan	10/31/2011	Office of Audit Services Annual Report	23
2012070	FY12 Special Project	12/1/2011	Donor Recognition Processes	128
2012011	FY12 Audit Plan	1/23/2012	Texas Tech Foundation, Inc. Financial Statements	105
2012012	FY12 Audit Plan	2/22/2012	Regents, Chancellor, and Presidents Travel and Credit Cards Agreed-Upon Procedures	32
2012017	FY12 Audit Plan	3/9/2012	Office of Audit Services Quality Assurance Self-Assessment	151
2012018	FY12 Audit Plan	5/8/2012	Office of Audit Services Peer Review	External
2012032	FY12 Audit Plan	6/20/2012	Tech Enterprise Account Management (TEAM) Application Security	616
2012078	FY12 Special Project	6/20/2012	Department of Minerals and Royalties Student Timesheet	34
2012033	FY12 Audit Plan	7/16/2012	Plaza Verde Residence Hall Operational Review	External
2012019	FY12 Audit Plan	7/17/2012	Multihazard Emergency Operations Plans	219
2012033	FY12 Audit Plan	7/19/2012	Plaza Verde Residence Hall Construction Cost Audit	External

Audits Completed

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2012016	FY12 Audit Plan	7/19/2012	Office of Audit Services Quality Assurance Activities	6
2012077	Added to FY12 Audit Plan	7/20/2012	Campus Youth Safety Programs	261
2012015	FY12 Audit Plan	8/9/2012	Office of Audit Services 2013 Annual Audit Plan	Hours not tracked

Audits Completed

Texas Tech University

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2011084	Added to FY11 Audit Plan	11/21/2011	Restricted Research Expenditures for Fiscal Year 2011	1,051
2012024	FY12 Audit Plan	12/1/2011	NCAA Football Attendance Requirements	4
2012069a	FY12 Special Project	12/2/2011	Procurement Card Transactions in Biological Sciences	958
2012022	FY12 Audit Plan	12/22/2011	Texas Tech Public Media Financial Statements	354
2012021	FY12 Audit Plan	1/10/2012	Intercollegiate Athletics Agreed-Upon Procedures	178
2012023	FY12 Audit Plan	1/17/2012	KTXT-TV Financial Statements	External
2011090	Added to FY11 Audit Plan	2/14/2012	Athletics Financial Processes	1,143
2012069b	FY12 Special Project	2/15/2012	Financial Processes in Electrical Engineering, Center for Pulsed Power and Power Electronics, and the Nano Tech Center	Included in 2012069a
2012025	FY12 Audit Plan	3/20/2012	Effort Certification Processes	183
2012034	FY12 Audit Plan	5/4/2012	Texas Emerging Technology Fund Grants for Renewable Energy	300
2012020	FY12 Audit Plan	5/29/2012	NCAA Rules Compliance Program	388

Audits Completed

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2012035	FY12 Audit Plan	6/21/2012	Student Fees	855

Audits Completed

Texas Tech University Health Sciences Center

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2011088	FY11 Special Project	9/23/2011	El Paso Emergency Medicine Conflict of Interest	10
2011043	FY11 Audit Plan	10/24/2011	Information Technology Governance	1,157
2011042	FY11 Audit Plan	11/2/2011	Lubbock School of Medicine	742
2012026	FY12 Audit Plan	12/19/2011	Texas Higher Education Coordinating Board Residency Grants	115
2011052	FY11 Audit Plan	1/9/2012	South Plains Oncology Consortium	348
2012037	FY12 Audit Plan	3/22/2012	Rural and Community Health	683
2012029	FY12 Audit Plan	4/13/2012	Effort Certification Processes	138
2012045	FY12 Audit Plan	4/27/2012	Anita Thigpen Perry School of Nursing	777
2011054	FY11 Audit Plan	5/3/2012	El Paso Department of Surgery	660
2011091	FY11 Special Project	5/3/2012	Investigative Report on El Paso Department of Surgery – Miller Center	1,678
2012028	FY12 Audit Plan	6/12/2012	Professional Nursing Shortage Reduction Program	12

Audits Completed

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2012054	FY12 Audit Plan	7/3/2012	Physical Plant	672
2012036	FY12 Audit Plan	7/20/2012	Contracting Processes	629
2011046	FY11 Audit Plan	7/30/2012	El Paso Department of Internal Medicine	565
2012038	FY12 Audit Plan	7/30/2012	El Paso Department of Psychiatry	538

Audits Completed

Angelo State University

Audit Number	Audit Origin	Report Date	Report Title	Audit Hours
2011037	FY11 Audit Plan	9/20/2011	Instructional Enhancement Fee	372
2011086a	Added to FY11 Audit Plan	11/3/2011	College of Education	335
2011086b	Added to FY11 Audit Plan	11/3/2011	Protection of Information Resources	Included in 2011086a
2012040a	FY12 Audit Plan	1/24/2012	Center for Security Studies	429
2012040b	FY12 Audit Plan	2/3/2012	Policies and Processes for Grants and Sponsored Agreements	Included in 2012040a
2012048	FY12 Audit Plan	2/6/2012	Hispanic Serving Institution Title V Federal Grant Program	211
2012049	FY12 Audit Plan	4/30/2012	Student Fees	315
2012075	Added to FY12 Audit Plan	5/17/2012	College of Business	241
2012079	FY12 Special Project	7/18/2012	Fraud Monitoring Procedures	55
2012041	FY12 Audit Plan	7/30/2012	Enrollment Management: Financial Aid Processes	382
2012030	FY12 Audit Plan	2/15/2012	Angelo State University Robert G. Carr and Nona K. Carr Scholarship Foundation Financial Statements	External

External Quality Assurance Review

Our most recent external quality assurance review, dated May 8, 2012, indicates that the Office of Audit Services of Texas Tech University System generally conforms with the *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* and with *Government Audit Standards* as required by the Texas Internal Auditing Act for the period reviewed. A copy of the report is included on the following page. Our next quality assurance review will be conducted during fiscal year 2015.

External Quality Assurance Review

Consulting Engagements Completed

Texas Tech University System and Components

Audit Number	Report Date	Report Title	High-Level Engagement Objectives	Observations and Recommendations	Status with brief description if not yet implemented	Fiscal Impact/ Other Impact
2012073	2/21/2012	Risk Assessment Related to the FQHC Expansion	To identify, understand, and assess risks related to possible expansion of the Federally Qualified Healthcare Center (FQHC) at Texas Tech University Health Sciences Center	Texas Tech University Health Sciences Center set up several task forces to work through challenges and make recommendations on the expansion efforts. Our assessment was not intended to replace that work, but instead was to provide additional information from an independent source about internal and external governance risks, financial risks, operational risks, and compliance risks for consideration by both senior management and the task forces.	No recommendations to implement	Increase management's awareness of risks
2011032	3/30/2012	Academic Department Reconciliation Processes	To develop a resource to assist chairpersons and department heads at Texas Tech University in understanding the importance of reconciliation and implementing sound financial controls	Many departments across Texas Tech University do not regularly reconcile their accounts and have not implemented key controls, including appropriate segregation of duties. Departments who have not established sound internal control structures create a situation that allows fraud or errors to occur and/or remain undetected. Thus, the Office of Audit Services developed a resource that will be distributed to both department management and employees during entrance and exit conferences, interviews, meetings, and training sessions. Similar resource documents are planned for Texas Tech University Health Sciences Center and Angelo State University.	No recommendations to implement	Strengthen the control environment and reduce the risk of fraud, error, and abuse

Other Value-Added Activities

Activity	Impact
Served on the TTUHSC Institutional Compliance Working Committee	Contributed to the oversight of the Texas Tech University Health Sciences Center Institutional Compliance Program and provided guidance to the Institutional Compliance Officer
Participated in implementation meetings for the El Paso Electronic Medical Records (EMR) system	Contributed to the implementation team's oversight of implementation of the EMR system
Served on the Enterprise Applications' Executive Steering Committee, Council, Work Group, and the Enterprise Cognos Reporting Work Group	Contributed to Texas Tech University System's efforts to enhance services to students, faculty, and staff
Presented fraud prevention training for all levels of employees on the TTU, TTUHSC, and ASU campuses	Heightened the awareness of fraud indicators, strengthened fraud prevention efforts, and contributed to an ethical environment
Presented control environment and cash controls training for TTUS, TTU, TTUHSC, and ASU employees	Heightened the awareness of the need for a strong control environment and presented specific best practices related to cash controls
Facilitated ethics discussions and presented the Statement of Ethical Principles at TTU new employee orientation events	Increased new employees' understanding of the ethics policy at Texas Tech University and Office of Audit Services' role at Texas Tech University System
Assisted administration with the annual risk assessment	Contributed to Texas Tech University System's risk assessment and risk management efforts
Served as a member of the Texas Tech Federal Credit Union Supervisory Committee	Reinforced community relationships and strengthened professional commitments and knowledge base
Served as committee chairperson and committee members for the Association of College & University Auditors (ACUA)	Strengthened professional commitments and knowledge base
Served as Executive Sponsor for the ACUA *Leads!* leadership development program	Strengthened professional commitments and knowledge base
Served as a Director-at-Large for the Texas Society of Certified Public Accountants (TSCPA) Board of Directors	Strengthened professional commitments and knowledge base
Served as Past President and President-Elect for the El Paso Chapter of The Institute of Internal Auditors	Strengthened professional commitments and knowledge base while providing relevant, local continuing professional education opportunities
Presented training sessions for ACUA, Society of Corporate Compliance and Ethics, and Big 12 Internal Audit Conference	Strengthened professional commitments and knowledge base

Annual Plan for Fiscal Year 2013

Office of Audit Services

Annual Audit Plan
For the Year Ending August 31, 2013

Kimberly F. Turner, CPA

Chief Audit Executive

August 9, 2012

Annual Plan for Fiscal Year 2013

Table of Contents

Annual Plan for Fiscal Year 2013

Transmittal Letter

August 9, 2012

Mr. Rick Francis
Audit Committee Chair, Texas Tech Board of Regents

We are pleased to submit the annual plan of the Office of Audit Services of Texas Tech University System for the year ending August 31, 2013. The plan includes audits that are required by statute or administrative policy, assistance required by external auditors, audits that are currently in progress, and planned engagements based on our assessment of risk. We have scheduled approximately twenty-five percent of our time for assisting management with additional requests, special investigations, follow-up on implementation of prior audit recommendations, and other value-added work.

We appreciate the support you offer us in the performance of our responsibilities and formally request that you approve this plan.

Sincerely,

Kimberly F. Turner, CPA   Approved by:_____ August 9, 2012
Chief Audit Executive   Mr. Rick Francis

3

Annual Plan for Fiscal Year 2013

Mission Statement

The mission of the Office of Audit Services is to assist the Board of Regents and other units of the Texas Tech University System in identifying, avoiding, and mitigating risks.

4

Annual Plan for Fiscal Year 2013

Quality Assurance

We have instituted a continuous quality improvement control effort as required by internal auditing standards. We evaluate the quality of our services by

- completing a self-assessment questionnaire at the end of each engagement;

- measuring our performance against predetermined benchmarks that encourage excellence;

- surveying our clients regarding their level of satisfaction with the services we have provided;

- completing an annual assessment of our quality assurance program as required by generally accepted government auditing standards;

- completing a periodic self-evaluation of our office's operations to gauge compliance with internal auditing standards; and

- submitting to periodic assessment by peer review teams comprised of experienced higher education audit professionals.

5

Annual Plan for Fiscal Year 2013

Performance Measures

The staff members of the OAS developed goals to encourage excellence and promote accountability. To measure our achievement of those goals, we developed a series of performance measures. We analyze our progress quarterly related to our overall goals by reviewing the achievement of the following performance measures.

- Ensure the annual risk assessment process identifies significant risks and our audit work helps mitigate those risks.

- Complete engagements outlined in the annual audit plan to cover risks identified in the risk assessment.

- Achieve superior client satisfaction.

- Achieve time budgets and internally and externally imposed engagement deadlines.

- Effectively utilize resources.

- Effectively and timely complete the audit process.

6

Annual Plan for Fiscal Year 2013

Risk Assessment Process

The Office of Audit Services allocates its resources in a manner that is consistent with the mission and goals of Texas Tech University System and its components. In accordance with the Texas Internal Auditing Act (V.T.C.A., Government Code, §2102.005), we have prepared this audit plan based on the results of a formal risk assessment process.

The risk assessment process undertaken to prepare this annual plan was multi-layered. First, management of Texas Tech University System (TTUS), Texas Tech University (TTU), Texas Tech University Health Sciences Center (TTUHSC), and Angelo State University (ASU) respectively, assessed risk across the institutions. The institutions used varying methodologies for development of their risk assessments, but all of the processes included the consideration of strategic goals and related processes.

Our office also gave input into the risk process for the components of Texas Tech based on individual interviews with senior level officials, institutional knowledge, information from past audit and management advisory engagements, and knowledge of nationwide trends and occurrences in higher education and academic healthcare.

The result of these assessments was the identification of strategic, financial, operational, compliance, reputational, and environmental risks facing each institution. In the development of this annual plan, we considered the most significant risks and included audits and other engagements that could reduce the likelihood or impact of the risks and/or assist in clarifying risks at a more granular level.

7

Annual Plan for Fiscal Year 2013

Allocation of Time

Our staff consists of 16 audit professionals. After consideration of estimated time for staff meetings, continuing professional education, holidays, and annual leave, we determined our allocable chargeable time to be approximately 19,000 hours.

Of this time, approximately 2,100 hours are dedicated to performing required audits, assisting external auditors, and completing other mandatory projects. Additionally, 1,900 audit hours are needed to complete engagements from the fiscal year 2012 annual audit plan that are in progress at year-end. We have set aside 25 percent of total chargeable time (approximately 5,000 hours) for unscheduled projects and other value-added work, including board and management requests, investigations, committee service, follow-up on prior audits, and special projects. The remaining 10,000 audit hours have been allocated to the projects determined through the risk assessment process. The risk-based engagements as well as the required audits are listed on pages 9-13.

8

Annual Plan for Fiscal Year 2013

Planned Engagements

Texas Tech University System and Components

Payment Card Industry Data Security Standards	IT/Compliance
Construction Project Expenses	Financial/Compliance
Texas Tech University Foundation	Financial
Regents, Chancellor, and Presidents Travel and Other Expenses	Compliance
Office of Audit Services Annual Report	Compliance
Office of Audit Services Annual Plan	Compliance
Office of Audit Services Quality Assurance Activities Review	Compliance
State Auditor's Office and Comptroller's Office Misc. Projects	Miscellaneous
Audit Report Follow-Up Procedures and Reporting	Follow-Up

9

Annual Plan for Fiscal Year 2013

Planned Engagements (cont.)

Texas Tech University

Institutional Compliance and Ethics Program	Compliance/Operational
Payment Card Industry Data Security Standards	IT/Compliance
Barnes & Noble Contract	Financial/Compliance
Graduate School	IT/Operational/Financial
University Libraries	IT/Operational/Financial
United Spirit Arena Operations	Operational/Financial
President's Office	Management Advisory
Vacation and Sick Leave Reporting	Compliance
Texas Higher Education Coordinating Board ARP Grants	Compliance
Texas Higher Education Coordinating Board Facilities Audit	Compliance
NCAA Rules Compliance Program	Compliance
Athletics Financial Review	Financial
Texas Tech Public Media Financial Statement Audit	Financial
Joint Admission Medical Program Grants	Compliance
Football Attendance Certification	Compliance

10

Annual Plan for Fiscal Year 2013

Planned Engagements (cont.)

Texas Tech University Health Sciences Center

Institutional Compliance and Ethics Program	Compliance/Operational
Payment Card Industry Data Security Standards	IT/Compliance
Lubbock Clinical Research Administration	Controls/Compliance
Lubbock Department of Ophthalmology	IT/Operational/Financial
Laura W. Bush Institute for Women's Health	Governance/Financial
IDX Services	IT/Operational
Libraries of the Health Sciences	IT/Operational/Financial
Lubbock Graduate School of Biomedical Sciences	Operational/Financial
Lubbock Department of Medical Education	Financial
Texas Higher Education Coordinating Board ARP Grants	Compliance
Texas Higher Education Coordinating Board Residency Grants	Compliance
Correctional Managed Health Care Committee Contract	Compliance

11

Annual Plan for Fiscal Year 2013

Planned Engagements (cont.)

Texas Tech University Health Sciences Center (continued)

El Paso Southwest Endocrine Consultants	Controls
El Paso Gail Greve Hunt School of Nursing	Operational/Financial
El Paso Department of Anesthesiology	Operational/Financial
El Paso Department of Orthopaedic Surgery and Rehabilitation	Operational/Financial
El Paso Clinical Research Administration	Controls/Compliance
El Paso EMR Post-Implementation Review	IT Controls
El Paso Department of Medical Education	Financial

12

Annual Plan for Fiscal Year 2013

Planned Engagements (cont.)

Angelo State University

Enrollment Management	**Operational/Compliance**
Office of Business Services and Special Events	**Operational/Financial**
HIPAA Compliance	**IT Controls/Compliance**
Payment Card Industry Data Security Standards	**Compliance**
Payroll Processes	**IT Controls/ Operational**
Human Resource Processes	**Operational/Compliance**
President's Office	**Management Advisory**
Carr Foundation	**Financial**
SACS Financial Statement Review	**Financial**

13

Annual Plan for Fiscal Year 2013

Nature of Work

The Office of Audit Services evaluates and contributes to the improvement of governance, risk management, and control processes. The nature of the activities is determined by a risk assessment process undertaken annually with the input of senior management and the Board of Regents. Additionally, management advisory engagements may be planned to improve the management of risks, to add value, and to improve Texas Tech's operations.

The Office of Audit Services' assessments and recommendations for improving Texas Tech's governance, risk management, and control processes are for the purpose of accomplishing the following objectives:

- Promoting appropriate ethics and values within Texas Tech and its components
- Ensuring effective organizational performance management and accountability
- Communicating risk and control information to appropriate areas
- Coordinating the activities of and communicating information among our office, the Board of Regents, external auditors, and management

14

Annual Plan for Fiscal Year 2013

Nature of Work (cont.)

The Office of Audit Services evaluates risk exposures and the effectiveness of controls relating to Texas Tech's governance, operations, and information systems regarding the

- **reliability and integrity of financial and operational information;**

- **effectiveness and efficiency of operations and programs;**

- **safeguarding of assets; and**

- **compliance with laws, regulations, policies, procedures, and contracts.**

During the planning phase of each engagement, we determine the scope of work to be performed based on a unit-level assessment of risk. For most engagements, we will conduct an entrance conference and/or provide an engagement letter in order to communicate the scope and objectives of our audit to the management personnel involved.

The Institute of Internal Auditors, International Professional Practices Framework. (Altamonte Springs: The Institute of Internal Auditors, 2011). pp 29-32

15

Annual Plan for Fiscal Year 2013

Audit Process

Audits are performed in three general phases: planning, fieldwork, and reporting. As indicated earlier, the success of our efforts is monitored through the completion of self-evaluation questionnaires and the compilation of information to monitor our achievement of performance measures. We believe it is important that our process is understood. The illustration on the following page documents the procedures normally employed in the performance of an audit.

16

Annual Plan for Fiscal Year 2013

Audit Process (cont.)

Planning

Select engagement team
Perform preliminary risk assessment with input from the client, management, and audit team members
Develop audit scope and objectives
Document anticipated deliverables
Prepare audit program
Hold entrance conference

Fieldwork

Develop and perform detailed testing
Document and evaluate processes and controls
Interview client staff members
Perform other audit procedures to meet audit objectives
Communicate with client on an ongoing basis

Reporting

Document strengths and opportunities for improvement
Communicate with client management regarding audit results
Develop recommendations
Prepare draft report
Hold exit conference
Obtain management's plan of action to address issues
Prepare final report
Evaluate audit performance
Follow up on implementation of action plans

17

External Audit Services

Institution	Service	Firm
Texas Tech University System and Components	Credit Card and Travel Expenses of Board of Regents, Chancellor, and Presidents Agreed-Upon Procedures	Bolinger, Segars, Gilbert & Moss, LLP
Texas Tech University System	Texas Tech Foundation, Inc. Financial Statement Audit	Bolinger, Segars, Gilbert & Moss, LLP
Texas Tech University	Texas Tech Public Media Financial Statement Audit	Davis, Kinard & Co., PC
Texas Tech University	KTXT-TV Financial Statement Audit	Davis, Kinard & Co., PC
Texas Tech University	Intercollegiate Athletics Program Agreed-Upon Procedures	Grant Thornton, LLP
Angelo State University	Robert G. Carr and Nona K. Carr Scholarship Foundation Financial Statement Audit	Oliver, Rainey & Wojtek, LLP

Reporting Fraud and Abuse

Texas Tech University System and its component institutions have developed several mechanisms for reporting fraud to the State Auditor's Office. These mechanisms satisfy the requirements included in the General Appropriations Act and the Texas Government Code. Specifically, actions address the following requirements:

- Fraud Reporting. Article IX, Section 7.10, the General Appropriations Act (82nd Legislature).
- Texas Government Code, Section 321.022.

The Chief Audit Executive or designee report to the State Auditor's Office if there is reasonable cause to believe that misappropriation or misuse of funds or other fraudulent or unlawful conduct has occurred. The Regents' Rules of the Texas Tech University System include a fraud policy. The policy references state law and requires the Office of Audit Services to notify the State Auditor's Office of suspected fraudulent activity. Additionally, all three institutions have operating policies that include information on reporting suspected fraud.

In addition, Texas Tech University, Texas Tech University Health Sciences Center, and Angelo State University have links on their main websites at www.ttu.edu, www.ttuhsc.edu, and www.angelo.edu to the State Auditor's Office fraud reporting site. These links meet the reporting requirements for higher education institutions that receive appropriated funds as well as the reporting requirements for institutions that receive federal American Recovery and Reinvestment Act funds.