FY16 Departmental Change in Management Review

Center for Space Research

September 2016

The University of Texas at Austin
Office of Internal Audits
UTA 2.302
(512) 471-7117
The University of Texas at Austin
Institutional Audit Committee

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FY16 Departmental Change in Management Review: Center for Space Research
Project Number: 16.202
September 19, 2016

President Gregory L. Fenves  
The University of Texas at Austin  
Office of the President  
P.O. Box T  
Austin, Texas 78713

Dear President Fenves,

We have completed our review of the Center for Space Research, unit code #2290-000. Our scope included controls and operations in place for fiscal year 2016.

Based on limited procedures performed, we conclude that the Center for Space Research has reasonable to strong controls in most of the areas reviewed. However, opportunities for improvement were noted in the areas of Account Reconciliations, Cash and Cash Equivalent Handling, Inventory, Procurement Cards, Travel, and Entertainment Expenditures. Our report provides detailed observations for each area under review. Please note that Information Technology results will be reported separately. Suggestions are offered throughout the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of the Center for Space Research throughout the review and hope that the information presented herein is beneficial.

Sincerely,

[Signature]

Michael W. Vandervort, CPA  
Chief Audit Executive

cc: Institutional Audit Committee Members  
Ms. Nancy Brazzil, Deputy to the President and Chief of Staff, Office of the President  
Dr. Sharon Wood, Dean, Cockrell School of Engineering  
Dr. Byron Tapley, Director (Interim), Center for Space Research  
Ms. Patricia Ohlendorf, Vice President for Legal Affairs  
Mr. Jeff Treichel, Associate Director, Office of Internal Audits
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EXECUTIVE SUMMARY

The Office of Internal Audits has completed a review of internal controls and basic operating procedures in the Center for Space Research (CSR), unit code #2290-000. This unit was chosen as part of our annual audit plan for fiscal year 2016. The review consists principally of an examination of the unit’s completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the International Standards for the Professional Practice of Internal Auditing and with Government Auditing Standards.

Conclusion
Based on the limited procedures performed, we conclude that the CSR has reasonable controls in most of the areas reviewed. However, opportunities for improvement were noted for account reconciliations, cash equivalent handling, inventory, procurement cards, travel, and entertainment expenditures.

Summary of Recommendations
Each issue found has been ranked according to The University of Texas System Administration Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions. Internal Audits identified one notable issue which led to the following recommendation:

- Inventory (Audit Issue Ranking: High)

 Nine additional recommendations are also provided, but are considered minor in significance. Information Technology issues will be reported separately.

Management agreed with our observations and has provided a corrective action plan that is expected to be implemented on or before September 30, 2016.

Scope and Objective of Limited Review
Departmental Change in Management reviews are conducted annually, and units are chosen based on assessment of risk when a change in management has occurred during the period reviewed. The objective is to evaluate the adequacy and effectiveness of the unit’s structure, processes, and internal controls and to determine compliance with relevant policies and procedures.

Background Summary
Center for Space Research was established in 1981 in the Cockrell School of Engineering, to conduct research in orbit determination, space geodesy, the Earth and its environment, exploration of the solar system, as well as expanding the scientific applications of space systems data.¹ CSR has approximately 45 faculty and staff, and a FY15 total departmental budget of approximately $7.89 million.

¹ Center for Space Research Website
PURPOSE OF REVIEW

The Office of Internal Audits (Internal Audits) has completed a limited review of internal controls and basic operating procedures in the Center for Space Research, unit code #2290-000. This unit was chosen as part of our annual audit plan for fiscal year 2016. The review consists principally of an examination of the unit’s completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the International Standards for the Professional Practice of Internal Auditing and with Government Auditing Standards. The purpose of this review is to inform the department of areas that can be strengthened to improve the overall internal control environment.

BACKGROUND

The Center for Space Research (CSR) was established in 1981 in the Cockrell School of Engineering, to conduct research in orbit determination, space geodesy, the Earth and its environment, exploration of the solar system, as well as expanding the scientific applications of space systems data. CSR has approximately 45 faculty and staff, and their FY15 departmental budget was approximately $7.89 million.

In FY16, CSR’s founding director retired and with the appointment of a new director, it was recognized that there was a need to revise and update the policies and procedures in accordance with The University of Texas at Austin’s (UT Austin’s) Handbook of Operating Procedures as well as the Handbook of Business Procedures. In the last six months, CSR staff members have been diligent making improvements to their policies and procedures.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this limited review included controls and operations of the department in place during fiscal year 2016. Our objectives were to evaluate the adequacy and effectiveness of the unit’s structure, processes, and internal controls and to determine compliance with relevant policies and procedures.

To achieve these objectives, Internal Audits:

- Surveyed the unit via a questionnaire to ascertain reported strength in internal controls and compliance with UT Austin rules;
- Reviewed the department’s electronic office structure and employees’ appointment statuses;
- Conducted limited testing on account certifications, account reconciliations, payroll/HR, cash and cash equivalent handling, inventory, purchasing, procurement card expenditures, travel expenditures, and entertainment and official occasion expenditures; and
- Clarified follow-up issues through e-mails, meetings, and other correspondence.

2 Center for Space Research Website
REVIEW RESULTS

We conducted a limited review of internal controls in 19 areas regarding departmental operations and financial processes, of which six areas were not applicable to CSR. The overall assessment for each of the remaining 13 areas reviewed can be found in Appendix A and is summarized below:

- 5 (36%) areas had reasonable to strong controls in place,
- 7 (50%) areas had overall opportunity for minor improvement,
- 1 (14%) area had overall opportunity for significant improvement, and
- 0 (0%) areas had a priority weakness.

Recommendations were made in areas where opportunities for improvements were noted and are detailed in the remainder of this report. Cash and Cash Equivalent Handling and Inventory have multiple issues noted and ranked. Information technology results will be reported separately. Each issue found has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see Appendix B for ranking definitions.

Inventory – Equipment Transfer
Issue Ranking: High

Multiple inventory items were found to be on permanent loan outside the country or fabricated for equipment off-campus without appropriate documentation. CSR stated that they were aware of these transfers and lack of documentation. These transfers occurred 10-20 years ago and by this point the equipment value had depreciated to zero. CSR stated they were in the process of removing these items from their inventory list. If proper documentation is not completed for the transfer and removal of equipment from inventory, then the record of inventory is inaccurate, and a monetary penalty could be charged if the department reports more than 2% of their inventory missing.

Section 16.3.1.C of UT Austin’s Handbook of Business Procedures states “Approval of the property manager or designee must be obtained prior to the transfer of any University equipment to another state agency or institution. A written explanation for the transfer, along with any charges that will be assessed for the equipment, must accompany a Property Transfer Receipt-Outgoing form and sent to Inventory Services.”

**Recommendation 1:** Management should ensure that documentation is completed and approved before equipment is transferred or removed from inventory, or moved off campus.

**Management’s Corrective Action Plan:** A checklist and activity log procedure will be employed to ensure proper processing of all transfers of equipment, removal of equipment from inventory, and removal of equipment from campus.
Regarding the last activity, both the person seeking such removal and a director-level Center representative will sign a document stating the terms under which the removal from campus is conditioned, including the date by which the item is to be returned.

This policy has been, and is currently, in effect. Lapses in its practice in recent years have been largely due to financial constraints that prevented replacing an employee who had assisted in the day-to-day inventory process. Recently, resources have been found and dedicated to hiring a part-time assistant to support responsible personnel in fully implementing this practice.

**Responsible Person:** Regarding timely implementation of the policy, CSR ITS Support Manager, as supervised by the CSR Associate Director for Business Operations; regarding the hiring of a part-time employee to assist in the inventory process, CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; the needed part-time person has been hired and is assisting in both the inventory process, as well as in resolving past transfer/removal anomalies.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

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**Account Reconciliation – Separation of Duties**  
**Issue Ranking:** Medium

Eighteen of 191 accounts are reviewed and certified by the same individual. CSR was not aware that the accounts were reviewed and certified by the same individual. When account reconciliation is performed by one person, there is an increased risk of misuse or loss of funds without a secondary review.

UT Austin’s *Segregation of Duties and Reconciliation of Accounts Monitoring Plan* states, "As part of University account reconciliation (review) controls, University Business Officers (Officers) will determine that reconciliation (review) duties are segregated and that required account reconciliations (reviews) are completed in the departments/units within their schools."

**Recommendation 2:** Management should ensure that account reconciliations are reviewed and certified by separate individuals.

**Management’s Corrective Action Plan:** Within one (1) business day of preparation, the CSR Project Support Manager will send a monthly account reconciliation report with a request to acknowledge receipt of same to both the CSR Director and the CSR Associate Director for Business Operations. At least one report recipient will review, seek correction when needed, and when correct, certify each such report received. The CSR Project Support Manager will file
each report and related correspondence documenting acknowledgement of receipt, any corrections, and certification, within CSR back-up documentation files.

**Responsible Person:** CSR Project Support Manager, as supervised by the CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

**Cash and Cash Equivalent Handling – Written Procedures**

**Issue Ranking:** Medium

CSR does not have written departmental cash handling procedures on file. CSR staff relied on cash handling procedures available in UT Austin’s Handbook of Business Procedures. When departmental cash handling policies are not documented and available to staff, then there is increased risk of misuse or loss of UT Austin funds.

Section 6.1.D of UT Austin’s *Handbook of Business Procedures* states “Each department accepting cash shall maintain a documentation file. This file shall include: Departmental cash handling procedures.”

**Recommendation 3:** Management should ensure that cash handling procedures are documented and kept on file in the department.

**Management’s Corrective Action Plan:** A CSR Cash Management Policy will be written, published and implemented that ensures compliance with, and appropriately supplements, all applicable University cash handling procedures. This policy will be accessible by all CSR personnel within a restricted-access section of the CSR website, as well as in paper form at the CSR reception desk.

**Responsible Person:** CSR Project Support Manager, as supervised by the CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; with policy text accessible to all CSR personnel by September 30, 2016.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

**Cash and Cash Equivalent Handling – Deposits**

**Issue Ranking:** Medium
Deposits of $500 or more are not made on a daily basis. In addition, deposits are not made at least weekly when the total is less than $500. When deposits are not made in a timely manner and according to policy, there is an increased risk of misuse or loss of funds.

Section 6.5.B of UT Austin’s *Handbook of Business Procedures* states “Deposits should be made daily if they are equal to or greater than $500. Deposits should be made at least weekly even if the accumulated total is less than $500.”

**Recommendation 4:** Management should ensure that cash and cash equivalents of $500 or more are deposited daily at the Bursar’s Office and that all cash and cash equivalents are deposited at least weekly, even if the accumulated total is less than $500.

**Management’s Corrective Action Plan:** The CSR Cash Management Policy will include supplemental procedures that require that all cash and cash equivalents received are promptly secured in CSR’s locked safe and remain secured there until transferred to the Bursar’s Office (a) within 24 hours if over $500 or (b) within five business days if $500 or less.

**Responsible Person:** CSR Project Support Manager, as supervised by the CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; with policy text accessible to all CSR personnel by September 30, 2016.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

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**Cash and Cash Equivalent Handling – Collections**

**Issue Ranking:** Medium

One of three transactions tested was not documented in the check log or with pre-numbered receipts. The funds for this transaction were deposited by UT Austin employees who contribute to a common fund for departmental meetings and were not aware that these funds were required to be documented. Without the use of pre-numbered receipts/logged checks, it may be difficult to determine whether all funds received were deposited.

Section 6.1.E.1 of UT Austin’s *Handbook of Business Procedures* states, “All over-the-counter collections of money must be supported by pre-numbered receipts, pre-numbered tickets, or cash register tapes.”
**Recommendation 5:** Management should ensure that all collections of funds are supported by pre-numbered receipts for adequate documentation of funds received and for reconciling accounts.

**Management’s Corrective Action Plan:** The CSR Cash Management Policy will include supplemental cash and cash equivalent handling procedures that require, upon their receipt, (a) preparation by the CSR employee-recipient of a signed receipt, (b) registration of each such receipt, and (c) confirmation in writing that all funds received were promptly secured in CSR’s locked safe, where they are to remain secured until transferred to the Bursar’s Office according to University and CSR requirements.

Responsible Person: CSR Project Support Manager, as supervised by the CSR Associate Director for Business Operations.

Planned Implementation Date: Currently in effect; with policy text accessible to all CSR personnel by September 30, 2016.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

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**Inventory – Annual Physical Inventory**

**Issue Ranking:** Medium

CSR’s FY14-FY16’s Annual Physical Inventory deadlines were not met and no extension was filed. CSR was unaware that they were not completing inventory by the deadline. When inventory isn’t completed in a timely manner, there is an increased risk of loss or misuse of inventory.

Inventory Services’ *Guidelines for Inventory Contacts* states, “Inventory contact responsibilities: Meet inventory certification deadlines.”

**Recommendation 6:** Management should ensure that inventory is completed by the given date. If they are not able to complete inventory by the given deadline, an extension should be requested and documented.

**Management’s Corrective Action Plan:** This policy has been, and is currently, in effect. Lapses in its practice in recent years have been largely due to financial constraints that prevented replacing an employee who had assisted in the annual inventory process. Recently, resources have been found and dedicated to hiring a part-time assistant.

Responsible Person: Regarding timely implementation of the policy, CSR ITS Support Manager, as supervised by the CSR Associate Director for Business Operations.
Operations; regarding the hiring of a part-time employee to assist in the inventory process, CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; the needed part-time person has been hired and will be assisting in the annual inventory process.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

### Inventory – Inventory Item not on File

**Issue Ranking:** Medium

An inventory item located off campus was assigned an inventory tag number, but that inventory number was not located in *DEFINE or FRMS. CSR was not aware that the inventory number was not in *DEFINE or FRMS. There is an increased risk of loss or misuse of inventory if inventory numbers are not recorded in the proper systems.

Section 16.1.B of UT Austin’s *Handbook of Business Procedures* states “Capital, controlled, and federally owned assets are placed on the university's inventory system as they are acquired and are accounted for each year by a physical inventory.”

**Recommendation 7:** Management should ensure that inventory is placed in the university’s inventory system when acquired.

**Management’s Corrective Action Plan:** This policy and practice have been, and are currently, in effect. Lapses in its practice in recent years have been largely due to financial constraints that prevented replacing an employee who had assisted in the inventory management process. Recently, resources have been found and dedicated to hiring a part-time assistant.

**Responsible Person:** Regarding timely implementation of the policy, CSR ITS Support Manager, as supervised by the CSR Associate Director for Business Operations; regarding the hiring of a part-time employee to assist in the inventory process, CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; the part-time person has been hired and is assisting in the day-to-day inventory process.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

### Procurement Cards – SDN List

**Issue Ranking:** Medium
The Specially Designated Nationals (SDN) list is not checked before making a Procurement Card (Procard) purchase with new vendors. If the SDN list is not checked before using a new vendor, then there could be a misuse of the Procard and a loss of UT Austin funds.

*Procurement Card Program*, Rules states, “For all purchases, the cardholder is responsible for verifying that a potential vendor does not appear on the list of Specially Designated Nationals (SDN) issued by the United States Treasury's Office of Foreign Assets Control (OFAC). Under Executive Order (EO) 13224 issued by the President of the United States, all government entities are prohibited from doing business of any kind with people, organizations, businesses, countries or other entities that appear on this list. This verification can be made by searching for the vendor's name on the SDN List.”

**Recommendation 8:** Management should ensure that all new vendors are checked against the SDN list before making Procard purchases.

**Management’s Corrective Action Plan:** All CSR Procard holders (a) will be informed that all new vendors are to be checked against the SDN list before they make a purchase from such a vendor, (b) must state in writing that this condition has been fully met for each and every new vendor, and (c) upon request, are to be instructed by qualified CSR personnel regarding how to check whether a prospective vendor is on the SDN list.

**Responsible Person:** CSR Project Support Manager, as supervised by the CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; with policy text accessible to all CSR personnel by September 30, 2016.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

**Travel Expenditures – Request for Travel Authorization**

**Issue Ranking: Medium**

One of three travelers tested did not have a Request for Travel Authorization (RTA) created prior to travel. Without submission of an RTA to appropriate personnel, the supervisor may not be aware that an employee is absent from campus for business travel.

Section 11.2.A of UT Austin’s *Handbook of Business Procedures* states, “Prior approval for all business travel is required for absences of employees from the campus or other designated headquarters for periods of half a day or more during the normal working period, whether or not there is a cost to The University”, and “An electronic Request for Travel Authorization (RTA) should be completed. Approval is delegated to the immediate supervisor.”
**Recommendation 9:** Management should ensure that all RTAs are submitted to be approved by an immediate supervisor prior to travel.

**Management’s Corrective Action Plan:** All CSR personnel, as well as authorized individuals participating in or otherwise involved in official CSR activities, will be informed that RTAs for their travel must be submitted to and approved by his/her immediate supervisor prior to travel. Assigned CSR personnel will check for and confirm such supervisor approval has been secured before the travel itself occurs.

**Responsible Person:** CSR Staff Support Manager, as supervised by the CSR Associate Director for Business Operations.

**Planned Implementation Date:** Currently in effect; with policy text accessible to all CSR personnel by September 30, 2016.

**Post Review:** Internal Audits will follow-up in the second quarter of FY17.

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**Entertainment/Official Occasion Expenditures – Official Occasion Expense Form**

**Issue Ranking:** Medium

One of five transactions tested did not have an Official Occasion Expense Form (OOEF) created for an interdepartmental transfer for entertainment. CSR staff members stated that an OOEF had not been completed for this event. Without an OOEF, there is an increased risk of improper use of funds.

Section 9.1.1.M.1.c of UT Austin’s *Handbook of Business Procedures* states, “When using UT Market for entertainment and official occasion-related items, or for entertainment IDT charges from The Carillon and Housing and Food 40 Acres Catering, departments are not required to send the signed Official Occasion Expense Form (OOEF) to the Office of Accounting. Departments must attach a signed OOEF for each purchase and include the form as a basic part of the back-up documentation retained at the departmental level. Backup documentation is subject to review and must be provided upon request for auditing purposes.”

**Recommendation 10:** Management should ensure that an OOEF is created and retained at the departmental level as a basic part of back-up documentation.

**Management’s Corrective Action Plan:** CSR Staff Support Manager will create an OOEF for every event for which it is required and will retain a copy of each within CSR back-up documentation files.

**Responsible Person:** CSR Staff Support Manager, as supervised by the CSR Associate Director for Business Operations.
Planned Implementation Date: Currently in effect; with policy text accessible to all CSR personnel by September 30, 2016.

Post Review: Internal Audits will follow-up in the second quarter of FY17.

**CONCLUSION**

Based on the procedures performed, we conclude that CSR has reasonable controls in most of the areas reviewed. However, opportunities for improvement were noted for Account Reconciliations, Cash and Cash Equivalent Handling, Inventory, Purchasing Activities, Procurement Card, Travel Expenditures, and Entertainment Expenditures.

A Unit Head Report Card can be found in Appendix A. The evaluation is based on our understanding of the controls currently in place in CSR. If fully implemented, then the recommendations above would improve the overall evaluation.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that recommendations have been implemented.
### APPENDIX A

**UNIT HEAD REPORT CARD**

<table>
<thead>
<tr>
<th>Areas Reviewed</th>
<th>Issue Ranking: Priority&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Issue Ranking: High</th>
<th>Issue Ranking: Medium</th>
<th>Overall Assessment&lt;sup&gt;b&lt;/sup&gt;</th>
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<td>Authorization for Individual Services</td>
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<tr>
<td>Entertainment and Official Occasion</td>
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<sup>a</sup> A priority weakness that significantly impacts UT Austin’s operations or finances will be reported to UT System.

<sup>b</sup> Overall assessment is determined by the number of issues in one area or by the highest level ranking across multiple areas.

### Overall Assessment

<table>
<thead>
<tr>
<th>Overall Assessment</th>
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<tr>
<td>Reasonable to Strong Controls</td>
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<tr>
<td>Opportunity for Minor Improvement</td>
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<td>Priority Weakness</td>
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</tr>
<tr>
<td>Not Applicable</td>
<td>6</td>
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* The Office of Internal Audits has completed a review of internal controls and basic operating procedures in this department. The review consists principally of an examination of the unit’s completed Unit Head Questionnaire. A review is substantially less in scope than an audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*. 

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APPENDIX B

Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, UT Austin, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Austin or the UT System as a whole.

- **High** – An issue that is considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.

- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

- **Low** – An issue that is considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.