Internal Audit Department

March 15, 2022

Dr. Kirk Calhoun
President
The University of Texas at Tyler
3900 University Blvd.
Tyler, TX 75799

Dr. Calhoun,

We have completed the Controlled Property Audit as part of our Fiscal Year (FY) 2022 Audit Plan. The objective of this audit was to verify the existence and location of State controlled equipment and property, with a focus on Information Technology (IT) hardware, and to evaluate the completeness and accuracy of inventory records. The scope of the audit was limited to the current inventory records, purchases of controlled IT equipment made from January 1, 2021 through October 8, 2021, and the associated policies and procedures for both the University of Texas at Tyler's (UTT) Main campus and the Health Science Center (HSC) campus.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Stephen Ford
Vice President, Chief Audit Executive

Enclosure
cc:
Ms. Kris Kavasch, Senior Vice President, Finance, Chief Financial Officer / Interim Chief Business Officer
Dr. Kimberly Laird, Senior Vice President, Business Affairs, Chief Operating Officer
Dr. Sherri Whatley, Senior Vice President, IT/CIO
Mr. John Yoder, Vice President of Information Technology & CIO, Health Affairs
Ms. Natalie Harms, AVP/Controller
Mr. Paul Fitts, Procurement Manager and HUB Coordinator
Mr. Tom Ward, State Treasury & Property Specialist
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The University of Texas at Tyler
Controlled Property Audit

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Controlled Property Audit

March 15, 2022

INTERNAL AUDIT DEPARTMENT
3900 UNIVERSITY BOULEVARD
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AUDIT OBJECTIVE

The objective of the audit was to verify the existence and location of State controlled equipment and property, with a focus on Information Technology (IT) hardware, and to evaluate the completeness and accuracy of inventory records. This audit included testing on both the University of Texas at Tyler's (UTT) Main campus and the Health Science Center (HSC) campus.

CONCLUSION

The audit revealed opportunities to strengthen both its policies and procedures, and the associated controls that are in place to ensure these policies and procedures are followed.

Management should review current policies and procedures to ensure they adhere to state requirements, specific UT System policy requirements, and best practices. These include primary and secondary internal controls as follows:

➢ **Define controlled property** with dollar amount and examples of items (laptop, tablet, iPad, desktop, smart phones, and other hand-held devices).

➢ **Train campus** to record purchases with correct account codes, report missing or disposed devices, submit changes in room numbers and/or custodians, and how to conduct an annual inventory.

➢ **Provide inventory tags** to the IT department to apply to each required device after purchase.

➢ **Install** encryption and password protection to all devices and ensure inventory tags are applied to all devices as required by policy.

➢ **Reconcile purchases** of controlled property to inventory and work with the specific departments if purchases have not been added to the inventory list.

➢ **Perform an annual inventory** requiring departments to verify the accuracy and completeness of its inventory records and the existence of the items.

➢ **Conduct random verifications** of departmental inventory throughout the year.

➢ **Develop and communicate** policies and procedures for each control.

OBSERVATIONS

Testing revealed that 1 of the 26 selected devices at UTT's Main campus and 3 of the 31 selected devices at HSC could not be located by Management; that 4 of the 25 selected purchases at HSC were not recorded in inventory or processed through the IT Department; and that UTT's Main campus had inventory that was assigned to three (3) *Budget Authorities whose employment had been terminated.

* Please note that each Budget Authority / Account Owner is responsible for both the department's budget and its inventory.

Following is a summary of testing results:

Main Campus	HSC Campus	Description
Existence and Location Testing		
1 (4%)	3 (10%)	Items not located. It is further noted, 1 of the 3 items identified for HSC campus was communicated to Internal Audit Department (IAD) as being disposed; however, remained on inventory records. Disposal documentation was submitted to the inventory department during the audit.
Complete and Accurate Inventory Testing		
0	3 (12%)	Purchase reimbursed without an inventory tag, and without IT approval and processing.
0	1 (4%)	Equipment purchased through approved purchase process but did not have an assigned inventory tag.
1 (4%)	1 (3%)	Disposal was properly documented but the device was not removed from inventory records.
Inactive Budget Authority		
3 (2%)	0	Inventory assigned to a Budget Authority whose employment had been terminated.

This audit identified the following opportunities for improvement		
1	High	Define "Controlled" property consistently
2	High	Train employees on inventory procedures
3	High	Reconcile IT equipment purchases to inventory records
4	High	Develop policies and procedures for employees who transfer between campuses
5	High	Strengthen controls for reimbursement of IT purchases
6	High	Process, confirm, and record disposals
7	Medium	Reassign inventory when there is a change in Budget Authority
8	Medium	Complete Property Removal Forms

Strengths:

A list of some of the strengths identified during the course of this audit are listed below:

- ➢ Both campuses performed the required annual inventory;
- ➢ Main campus performs a reconciliation between its purchases and its inventory records;
- ➢ HSC campus inventory was assigned to active Account Owners only;
- ➢ Main campus records and tags all IT electronic devices in inventory regardless of cost; and
- ➢ IT electronic devices selected during onsite testing at both campuses were properly recorded on the inventory listing.

#1: Define "Controlled" Property Consistently

High: IT electronic devices not recorded as "controlled" could be unencrypted, lack password protection and security updates, and be lost or stolen without the Institution's knowledge.

Testing revealed an inconsistency in the "Controlled Asset" definition between UTT Main campus and UTT HSC campus within their respective policies. The State Property Accounting System (SPA) and HSC campus both define "Controlled Asset" to include IT devices that cost $500 to $4,999.99. The State of Texas policy allows management to determine if lower priced IT devices should be considered a "Controlled Asset" based on risk. The UTT Main campus policy, based on risk, defines controlled assets to include all computers, smartphones, tablets, and other handheld devices costing $0.00 to $4,999.99. It's important to note, Controlled Assets, specifically electronic devices, costing less than $500 may not be financially significant; however, they pose data security risks similar to higher priced equipment. If the electronic devices less than $500 are not included in the "Controlled Asset" category, it will be difficult to ensure these devices are encrypted, password protected, receive required security updates, and tracked in inventory.

> **Opportunity for Improvement #1:** As part of the Institution's policy integration process, Management should consider removing the dollar value threshold of its "Controlled Asset" to ensure all IT electronic devices are tagged and processed through the IT Department for encryption and password protection.
>
> **Management Response –Title of Responsible Person:**
> We concur with this opportunity for improvement. Main and HSC campus responsible parties will collaborate to standardize the policy threshold for controlled IT electronic devices to ensure they are tagged and appropriately processed by the IT department.
>
> **Responsible Persons:**
>
> Main Campus:
> Manager, Procurement and Property Services/HUB Coordinator
> Inventory and Property Control Coordinator
>
> HSC Campus:
> State Treasury and Property Specialist
> VP, Information Technology, Chief Information Officer

Anticipated Implementation Date: September 1, 2022

Opportunity for Improvement #2: Management should review prior and current years' controlled and expensed purchases to ensure all controlled items are tagged for inventory and have been processed through the IT Department. This review should be conducted on a risk-basis to determine which payment methods (purchase orders, reimbursements, etc.) and periods should be included.

Management Response –Title of Responsible Person:
We concur with this opportunity for improvement. Both campuses will conduct a risk-based review of prior and current years' controlled and expensed purchases, including purchase card transactions on the main campus and reimbursement payments on both campuses. Any controlled items identified during the review will be retroactively processed through the IT department and tagged for inventory.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer

Anticipated Implementation Date: September 1, 2022

Opportunity for Improvement #3: Management should establish a monitoring process for purchases to ensure proper account codes are used to ensure all controlled items are included in inventory.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. Both campuses will expand their existing monitoring procedures to include a consistent review of all purchase transactions to ensure correct account codes are used and controlled items are included in inventory. Existing queries and reporting tools will be modified and expanded.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer
Director of Supply Chain

Anticipated Implementation Date: December 31, 2022

#2: Train Employees on Inventory Procedures

High: Missing devices may not be identified timely if inventory records are incorrect.

Our testing revealed 1 of 26 selected Main campus and 3 of 31 selected HSC campus items could not be located, 4 of 25 selected HSC campus items were not recorded on inventory, and 1 of 26 Main campus and 1 of 31 HSC campus items were disposed and still listed on inventory records. Additionally, testing identified instances where the location and custodian on the inventory record were incorrect, including four (4) instances where the custodian was no longer employed by the Institution, two (2) for each of the Main and HSC campuses.

Opportunity for Improvement: Management should ensure training is provided to all departments to ensure the correct account codes are utilized when purchasing items, that inventory records are properly updated for custodian and location changes, that disposed and missing items are accurately reported, and that the annual inventory review is complete and accurate. The annual inventory review process should include Management performing a spot check review of selected inventory items from selected departments.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. Both campuses will collaborate to expand campus training opportunities and identify new delivery methods to enhance communication with and educate the campuses on the importance of accurate accounting for inventory items. Additionally, both campuses will supplement the annual inventory review process with inventory spot checks to ensure procedures are being followed and inventoried items are indeed on hand.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer
Director of Supply Chain

Anticipated Implementation Date: September 1, 2022

#3: Reconcile IT Equipment Purchases to Inventory Records

High: Purchases not properly included in inventory increases the risk that data on IT equipment is not protected.

Testing revealed 4 of 25 selected HSC campus IT equipment purchases were not recorded on inventory records or processed through IT. UT System, HSC campus, and Main campus policies in effect at the time of testing, require that all University business be conducted on password protected

and encrypted devices only. To ensure compliance with these policies, a reconciliation between purchases and inventory records should be performed to ensure all purchases are properly recorded in inventory records.

Opportunity for Improvement: Management should develop reconciliation procedures of controlled property purchases to inventory records in order to ensure records are complete and accurate, and items are processed through the IT Department.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. Both campuses have processes to reconcile accounting records to inventory records, with the main campus performing this process monthly using purchase orders to track new and existing Inventory, and the HSC campus performing a similar process on a periodic basis. The main campus reconciliation will be expanded to include purchase card and expense reimbursement transactions, and the HSC process will be risk-adjusted to focus on expense reimbursement transactions, which was an identified area of weakness during this audit.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer

Anticipated Implementation Date: September 1, 2022

#4: Develop Policies and Procedures for Employees Transferred Between Campuses

High: Transferred employees retaining their former campus computer increases the risk of inadequate inventory tracking and security updates.

Testing revealed 4 of the 31 selected HSC campus employees whose employment was terminated, upon further review, were in fact transferred to the employment of Main campus and retained their HSC campus Controlled Asset electronic devices for use in their new appointment at Main campus. These devices remained on HSC campus' inventory records and there is no tracking of these devices by the Main campus, from either Accounting (e.g., Inventory), Information Technology, or Information Security.

Opportunity for Improvement: Management should consider transferring each of the identified devices to the campus where the employee is appointed or document other appropriate controls. Policies should be created to address transferred employees and related equipment as deemed necessary. Management should further ensure that security updates on IT devices from each campus are being installed.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. The two campuses will collaborate to establish an effective inter-campus transfer and tracking process. Additionally, both campuses will collaborate to ensure any transferred inventory between campuses is accurately recorded and tracked in our respective inventory records. Finally, both campuses will add a step to their respective annual inventory processes to ensure records corresponding to interagency controlled property transfers reconcile between the two entities.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer

Anticipated Implementation Date: September 1, 2022

5: Strengthen Controls for Reimbursement of IT Purchases

High: IT equipment purchased without IT approval could allow inappropriate equipment to be purchased.

Testing revealed 3 of the 25 selected HSC campus employees were reimbursed for either a laptop or an iPad without obtaining the required approval from the IT Department, as per policy. The HSC campus and the Main campus policies require all IT acquisitions to be approved by IT prior to purchase.

Opportunity for Improvement: Reimbursement processes for IT related purchases should be strengthened to ensure all required approvals are obtained prior to an employee being reimbursed and equipment being placed into service.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. Both campuses will develop training tools and check points for expense report approvers, administrative staff, and central departments that process reimbursements to emphasize the criticality of IT approval for IT-related equipment.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer
Director of Supply Chain

Anticipated Implementation Date: September 1, 2022

#6: Process, Confirm, and Record Disposals

High: Disposed equipment not processed through the IT Department or deleted from inventory records could put data at risk.

Testing revealed that 1 of the 31 HSC campus employees whose computer was selected for testing, informed IAD that their computer had been previously disposed. However, there was no documentation that this device had been processed through the IT Department for data removal or reported to the Inventory Department for deletion from the inventory records.

Opportunity for Improvement: As part of the Institution's policy integration process, Management should consider requiring specific procedures for the disposal of IT electronic devices consistently across both campuses. It is recommended the procedures include processing through the IT Department to ensure all data, especially protected health information (PHI), has been removed from IT electronic devices. Each item should be deleted from inventory records after confirmation that data has been removed.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. Both campuses will collaborate to establish or refresh procedures to ensure IT manages the disposal of all data devices. The new property transfer workflow application implemented on the main campus ensures that items identified for disposal cannot be physically transferred to the disposal unit until IT has signed off that all data has been removed.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer

Anticipated Implementation Date: September 1, 2022

#7: Reassign Inventory when there is a Change in Budget Authority

Medium: Inventory records not assigned to an active Budget Authority could result in inadequate monitoring of equipment.

Testing identified 3 of the 126 Main campus Budget Authorities with inventory assigned to them as being terminated.

Opportunity for Improvement: Management should develop processes to ensure inventory is assigned to only an active Budget Authority / Account Owner.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. Main campus procurement and property control leaders will collaborate with Financial Services, Human Resources, and IT to enhance the termination notification process. Property Services will be added to the off-boarding distribution list. Property Services will check to see if the terminated individual has assigned inventory. Main campus procurement and property control leaders will also work with departments to immediately assign an interim budget authority to ensure the assigned inventory remains the responsibility of an active authority. Upon the assignment or reassignment of a new authority, the assigned departmental inventory contact person will be instructed to request a report of inventory assigned to that authority to review for accuracy.

Additionally, main campus procurement and property control leaders will work with developers to establish a report of budget/inventory authorities that includes employment status. Property Services will monitor this report and take appropriate action for any terminated authorities to which inventory is assigned.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

Anticipated Implementation Date: The addition of Property Services to the off-boarding notification distribution is expected to be complete by April 1, 2022. Related Property Services procedures related to the notification will be implemented by June 1, 2022. Finally, the monitoring tool is expected to be implemented by September 1, 2022.

#8: Complete Property Removal Forms

Medium: Property removed from campus without authorization increases risk of lost equipment and data security.

SPA, HSC campus, and Main campus all have policies to identify where controlled equipment is located at all times whether it is on or off campus. However, HSC campus excludes portable computing devices such as laptops, tablets, and personal digital assistant (PDA) from this policy. During our review 5 of the 26 Main campus devices selected were located off-campus and had to be returned to campus for verification of existence while others submitted photos of the inventory tags. Property removal forms were not on file for these devices as required by policy on Main campus.

Opportunity for Improvement: As part of the Institution's policy integration process, Management should develop a consistent policy for each campus, and at a minimum document the process for tracking controlled equipment on or off campus as required by SPA.   Training should be provided to employees to ensure compliance with the requirements.

Management Response – Title of Responsible Person:
We concur with this opportunity for improvement. As part of the Institution's policy integration process, both campuses will collaborate to ensure development of a consistent policy that

emphasizes the SPA requirement to be able to track equipment at all times. Each campus will also document its process for tracking controlled equipment, whether on or off campus. Upon finalization of these policies and procedures, both campuses will train employees on these requirements to foster compliance.

Responsible Persons:

Main Campus:
Manager, Procurement and Property Services/HUB Coordinator
Inventory and Property Control Coordinator

HSC Campus:
State Treasury and Property Specialist
VP, Information Technology, Chief Information Officer

Anticipated Implementation Date: September 1, 2022

BACKGROUND
This Controlled Property Audit was part of the UTT Fiscal Year (FY) 2022 Audit Plan as a risk-based audit. Securing and protecting University IT equipment mitigates the risk of data loss. Several State, UT System and UT Tyler policies exist related to maintaining correct inventory records of equipment inclusive of Budget Authority / Account Owner, location, and assigned custodian. Policies also require encryption and password protection of certain types of IT equipment. IT Controlled Property equipment should be identified by using specific account codes during the purchase process. The purchase process marks the beginning of the process of adding items to inventory records. IT Controlled Property equipment should be processed through the IT Department in order to ensure an inventory tag is attached to the device, password protection is installed, the device is encrypted, and security updates are pushed to the device timely.

STANDARDS
The audit was conducted in accordance with guidelines set forth in _The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing_ and _Generally Accepted Government Auditing Standards_.

SCOPE and PROCEDURES
The scope of this audit included reviewing purchases from January through October 2021 and inventory records as of November 2021 to verify records were complete and accurate. Procedures included, but were not limited to:
- ✓ Gaining an understanding of policies and procedures related to IT inventory,
- ✓ Testing purchases to verify they were recorded on inventory,
- ✓ Observing a sample of items on inventory records,
- ✓ Observing a sample of items to verify they were recorded on inventory, and
- ✓ Verifying inventory was assigned only to active Budget Authorities / Account Owners.

The Internal Audit Department (IAD) will work with Management to verify the implementation status of management responses and target implementation dates to each opportunity for improvement noted above. The goal of this process is to help ensure that timely action is taken to address each observation.

OBSERVATION RANKINGS
Internal audit across the UT System uses a consistent process to evaluate audit results based on risk factors and the probability of a negative outcome.

Legend	
Priority	_A finding is defined as an issue that if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Tyler._
High	_A finding that is considered to have a medium to high probability of adverse effects to UT Tyler as a whole or to a significant college or department._
Medium	_A finding that is considered to have a low to medium probability of adverse effects to UT Tyler as a whole or to a college or department._
Low	_A finding that is considered to have a minimal probability of adverse effects to UT Tyler as a whole or to a college or department. These findings are communicated separately to management._