

Physical Inventory Audit

School of Law



March 2017

The University of Texas at Austin
Office of Internal Audits
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This report has been distributed to Internal Audit Committee members, the Legislative Budget Board, the State Auditor's Office, the Sunset Advisory Commission, the Governor's Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**Law School Inventory
Project Number: 17.406**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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March 29, 2017

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 audit of Inventory at the Law School. Our scope included Law's annual physical inventory processes and controls in place from FY15 to FY16.

Based on interviews with relevant staff, a review of policies, procedures, past inventory certifications, and an independent count of inventory assets, we conclude that the Law School has not been in full compliance with The University of Texas at Austin's inventory policies. Our audit report provides detailed observations for each area under review. Suggestions are offered throughout the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of the Law School staff throughout the audit and hope that the information presented herein is beneficial.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael W. Vandervort".

Michael W. Vandervort, CPA
Chief Audit Executive

cc: Institutional Audit Committee Members
Mr. Carlos Martinez, Chief of Staff, Office of the President
Dr. Maurie McInnis, Executive Vice President and Provost
Mr. Ward Farnsworth, Dean, School of Law
Ms. Patricia Ohlendorf, Vice President for Legal Affairs
Mr. Jeff Treichel, Associate Director, Office of Internal Audits



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EXECUTIVE SUMMARY

Conclusion

Based on interviews with relevant staff, a review of policies, procedures, past inventory certifications, and an independent count of inventory assets, Texas Law (Law School) has not been in full compliance with The University of Texas at Austin's (UT Austin) inventory policies. With regard to data security, the encryption and hard drive disposal procedures were found to comply with UT Austin policies. Opportunities for improvement were noted in the areas of tagging, reporting, removing, and tracking assets among others. Six recommendations were made to improve controls over inventory.

Summary of Recommendations

Each issue has been ranked according to The University of Texas System Administration Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions.

The Office of Internal Audits (Internal Audits) identified six notable issues which led to the following recommendations:

- Tag assets (*Audit Issue Ranking: High*)
- Report tag information to Inventory Services (*Audit Issue Ranking: High*)
- Remove obsolete assets (*Audit Issue Ranking: High*)
- Track off-campus assets (*Audit Issue Ranking: High*)
- Establish and document inventory controls (*Audit Issue Ranking: High*)
- Submit inventory certification (*Audit Issue Ranking: High*)

Audit Scope and Objective

The scope of this audit included the Law School's annual physical inventory processes and controls in place from FY15 to FY16. Specific audit objectives were to determine whether:

- The inventory process at the Law School was in compliance with UT Austin policies and procedures;
- Annual inventory had been completed in a timely manner for the past five years; and
- The Law School had adequate controls over inventory and the management of state property.

Background Summary

UT Austin's Office of Legal Affairs and Financial and Administrative Services asked Internal Audits to review the Law School's inventory processes and procedures. In recent years, Inventory Services raised concerns about the Director of Law Facilities' completion of annual inventory. In September 2016, pallets of computers could not be located during certification, and there were hundreds of computers listed as 'unfound' on their inventory records. A primary concern was whether the missing computers were susceptible to data breaches because of a lack of encryption or hard drives left intact.



BACKGROUND

The University of Texas at Austin's (UT Austin) Office of Legal Affairs and Financial and Administrative Services (FAS) asked the Office of Internal Audits (Internal Audits) to review Texas Law's (Law School) inventory processes and procedures. In recent years, Inventory Services raised concerns about the Director of Law Facilities' (Inventory Contact) completion of annual physical inventory. Although Inventory Services provided significant assistance and training to Law School staff for the FY14, FY15, and FY16 reporting periods, Inventory Certification reports show that found rates were 83% for FY14 and 84% for FY15. No report was submitted for FY16.

In September 2016, three pallets of retired computers went missing during certification; they were taken to Surplus without proper transfer documentation and could not be located after being brought back to the Law School. A primary concern was whether the missing computers were susceptible to data breaches because of a lack of encryption or hard drives left intact. The FAS office also raised concerns about the number of unfound desktops, laptops, and tablets (402). At that time, inventory certification progress reflected a 52% (562 of 1087 items) found rate. Historical cost of the 525 unfound items (1087-562=525) was \$1.6 million; depreciated value was \$131,226. Similar sized departments have reported found rates of 89% to 98% over the past three reporting periods.

When the audit began in January 2017, the Law School found rate was 62% (739 of 1191), and the number of unfound desktops, laptops, and tablets was 307.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this audit included the Law School's annual physical inventory processes and controls in place from FY15 to FY16. Specific audit objectives were to determine whether:

- The inventory process at the Law School was in compliance with UT Austin policies and procedures;
- Annual inventory had been completed in a timely manner for the past three years; and
- The Law School had adequate controls over inventory and the management of state property.

To achieve these objectives, Internal Audits:

- Reviewed UT Austin and UT Regents' Rules and Regulations regarding state-owned property;
- Reviewed encryption policies for UT Austin computer devices;
- Reviewed inventory certification data;
- Interviewed relevant staff, and
- Conducted a separate inventory count of Law School property.



This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and with *Government Auditing Standards*.

AUDIT RESULTS

Inventory controls of state property was the focus of this audit. Internal Audits reviewed all facets of the Law School's inventory process, controls, and related UT Austin policies, conducted an independent inventory count, and reviewed data security procedures. Law School staff located the missing pallets of retired computers, and after Internal Audits and Inventory Services conducted the inventory count, the found rate was 83% (937 of 1128 items). Based on the preceding, Internal Audits concludes that while the Law School was in compliance with encryption and hard drive disposal policies, they were not in compliance with inventory policies for the past three inventory cycles the Inventory Contact has been employed in that role. The following six recommendations were made to enhance controls related to the Law School's inventory processes. Each issue has been ranked according to The University of Texas System Administration Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions.

Inventory - Tag Assets

Audit Issue Ranking: High

During the independent inventory process, Internal Audits found capital equipment items that had no inventory tag. The oversight is a result of a lapse in the tagging process on the part of the Inventory Contact. When assets are not tagged, they cannot be monitored during the annual inventory process and there is increased risk of misappropriation or loss of UT Austin assets.

Section 16.2.F of UT Austin's *Handbook of Business Procedures* states, "Self-tagging departments must affix a barcode numbered property tag to the property (or assign an inventory number for intangible or art items)."

Recommendation 1: Management should ensure that all assets are tagged.

Management's Response and Corrective Action Plan:

Regarding non-IT Assets - The Project Coordinator with Law Operation Services (LOS) will serve as the Inventory Manager for all non-IT assets. Once implemented, Project Coordinator will follow the Inventory Management Plan for all Law School non-IT assets. The plan will include a section on **Self-Tagging** for all Law School non-IT assets. A draft of the Inventory Management Plan and related sections will be submitted to LTS and the Dean on or before 03/15/2017. Following the new plan for all non-IT assets will ensure compliance with Section 16.2.F of UT Austin's *Handbook of Business Procedures* which states, "Self-tagging departments must affix a barcode numbered property tag to the property (or assign an inventory number for intangible or art items)." The Self-Tagging portion of the plan will include a Phase 1 action which will identify all current non-IT assets which are not in compliance with Section 16.2.F of UT Austin's *Handbook of Business Procedures*. Once the out of compliance assets are identified they will be tagged in accordance with Section 16.2.F of UT Austin's *HOP*.



Regarding IT Assets - Law Technology Services (LTS) will take responsibility for all IT assets requiring inventory tags, starting from the point LTS signs for delivered assets through to completing CCARTs and coordinating asset transfers to UT Surplus. This responsibility will include LTS documenting a process to ensure consistent, compliant and comprehensive tagging. The document will be completed and made available to Law Facilities and the Dean no later than 3/15/17. The documented process for fulfilling this recommendation will include ensuring purchased items are tagged upon arrival before any setup or deployment actions occur. The process will also cover IT staff being educated to confirm proper tags are in place when first deploying a new purchase and at any time an item returns to LTS for repair, etc.

Responsible Person: Director of Operations (Non-IT Assets) / Assistant Dean for Technology (IT Assets)

Planned Implementation Date: 03/15/2017

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

Inventory - Report Tag Information to Inventory Services

Audit Issue Ranking: High

During the independent inventory count, Internal Audits found tagged items that had not been reported to Inventory Services, and reported this information to the Law School. The items were not in the Inventory system because the Inventory Contact did not report them. When tag information is not reported to Inventory Services, assets cannot be monitored during the annual inventory process and reports to the State of Texas are inaccurate.

Section 16.2.F of UT Austin's *Handbook of Business Procedures* states that "self-tagging departments must...submit the required information to Inventory Services at INVselftag@austin.utexas.edu for processing within 30 days of paying for the capitalized or controlled item. If the property is U.S. Government-owned, then it must be tagged and the information received by Inventory Services within 10 days of acquiring the property."

Recommendation 2: Management should ensure that the required information for self-tagged items is sent to Inventory Services within the required timeframe.

Management's Response and Corrective Action Plan:

Regarding non-IT Assets - The Project Coordinator with Law Operation Services (LOS) will serve as the Inventory Manager for all non-IT assets. Once implemented, Project Coordinator will follow the Inventory Management Plan for all Law School non-IT assets. The plan will include a section on **Self-Tagging** for all Law School non-IT assets. A draft of the Inventory Management Plan including a Self-Tagging section, will be submitted to LTS and the Dean on or before 03/15/2017. Following the new plan for all non-IT assets will ensure compliance with Section 16.2.F of UT Austin's *Handbook of Business Procedures* which states that "self-tagging departments must...submit the required information to Inventory Services at INVselftag@austin.utexas.edu for processing within 30 days of paying



for the capitalized or controlled item. If the property is U.S. Government-owned, then it must be tagged and the information received by Inventory Services within 10 days of acquiring the property."

Regarding IT Assets - The manager of Computer Services with Law Technology Services (LTS) will maintain and submit required information for all IT self-tagged items. He will ensure that the required information is sent to Inventory Services within the required timeframe. Information Technology Manager will document a process for ensuring this occurs. The document will be completed and made available to Law Facilities and the Dean no later than 3/15/17. This process will include promptly recording self-tagged item, and the required information, as each arrives and then submitting those records in a timely fashion.

Responsible Person: Director of Operations (Non-IT Assets) / Information Technology Manager (IT Assets)

Planned Implementation Date: 03/15/2017

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

Inventory - Remove Obsolete Assets

Audit Issue Ranking: High

Pallets of computers were taken to Surplus without a Capitalized and Controlled Asset Removal and Transfer (CCART) document. There is no record of a CCART initiated by the Inventory Contact. When obsolete items are not removed from inventory using a CCART, there is increased risk of misappropriation or loss of assets.

Section 16.4 of UT Austin's *Handbook of Business Procedures* states, "When equipment is transferred from one university department to another, including Surplus Property, the department must create a CCART/NT1 electronic document to process the transaction." Section 16.4.A.1 elaborates further:

Extraordinary care must be taken when discarding The University of Texas at Austin equipment that is no longer needed. If unnecessary equipment cannot be sold, traded in, or transferred, it must be sent to Surplus Property or considered for cannibalization or scrap metal sale. Worn, obsolete, unserviceable, and otherwise useless equipment must not be disposed of by any other procedure. If it is not practical or economically feasible to transfer unserviceable or obsolete property to Surplus Property, departments must not arbitrarily discard such items. The property manager or designee must be advised of the circumstances and the department's recommendation for disposal.

Recommendation 3: Management should ensure that obsolete assets are removed using the CCART system and processed in a timely manner.

Management's Response and Corrective Action Plan:



Regarding non-IT Assets - The Project Coordinator with Law Operation Services (LOS) will serve as the Inventory Manager for all non-IT assets. Once implemented, Project Coordinator will follow the Inventory Management Plan to include the section regarding **Removing Obsolete Assets** for all Law School non-IT assets. A draft of the Law School Inventory Management Plan will be submitted to LTS and the Dean on or before 03/15/2017. Abiding by the new plan for all non-IT assets will ensure compliance with Section 16.4 of UT Austin's *Handbook of Business Procedures* which states, "When equipment is transferred from one university department to another, including Surplus Property, the department must create a CCART/NT1 electronic document to process the transaction." Section 16.4.A.1 elaborates further:

Extraordinary care must be taken when discarding The University of Texas at Austin equipment that is no longer needed. If unnecessary equipment cannot be sold, traded in, or transferred, it must be sent to Surplus Property or considered for cannibalization or scrap metal sale. Worn, obsolete, unserviceable, and otherwise useless equipment must not be disposed of by any other procedure. If it is not practical or economically feasible to transfer unserviceable or obsolete property to Surplus Property, departments must not arbitrarily discard such items. The property manager or designee must be advised of the circumstances and the department's recommendation for disposal.

Regarding IT Assets - Information Technology Manager will ensure that obsolete assets are removed using the CCART system and processed in a timely manner. Information Technology Manager will document a process for ensuring this occurs. This document will be completed and made available to Law Facilities and the Dean no later than 3/15/17. This process will include creating specific and secure storage areas for obsolete assets. The process will also cover IT staff being educated to ensure that the information needed to CCART obsolete assets is properly recorded. In addition, CCARTS for removal of obsolete assets will be created on a regular interval that satisfies Inventory Services and UT Surplus requirements and reduces the risk of assets going missing.

Responsible Person: Director of Operations (Non-IT Assets) / Information Technology Manager (IT Assets)

Planned Implementation Date: 03/15/2017

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

Inventory – Track Off-Campus Assets

Audit Issue Ranking: High

The Law School does not track UT Austin-owned assets taken off-campus. IT Staff and the Inventory Contact did not maintain logs to track assets removed from campus because adhering to UT Austin inventory policies and procedures was not a priority in the department. Without maintaining checkout logs or off-campus forms, staff are unable to verify their existence during the annual inventory process. There is also an increased risk of misuse or loss of UT Austin assets when they are not tracked.



Section 16.3.C.2 of UT Austin’s *Handbook of Business Procedures* states, “For any property that is checked out, kept at someone’s home, or housed out in the field and not on campus, a checkout log or off-campus form must be completed and kept by the department in addition to any other departmental liability forms.”

In addition, Section 16.6.A states:

For removal of equipment other than personal computers, an Equipment Located Off-Campus form must be completed, signed by the department head, and sent to Inventory Services... For removal of personal computers, logs must be maintained and should include the name of the employee who will have custody of the equipment, description of the equipment, inventory number(s), date checked out, estimated date to be returned, the signature of the department head, and the signature of the employee who checks out the equipment. These logs must be maintained in the department office and shall be made available for inspection by representatives the Office of Internal Audits, and Inventory Services.

Recommendation 4: Management should ensure that checkout logs (for personal computers – smaller items) and off-campus forms (other than personal computers – larger items) are completed and kept by the department for assets removed from UT Austin premises. Management should also ensure that logs and forms are available for inspection.

Management’s Response and Corrective Action Plan:

Regarding non-IT Assets - The Project Coordinator with Law Operation Services (LOS) will serve as the Inventory Manager for all non-IT assets. Once implemented, Project Coordinator will follow the Inventory Management Plan to include the section regarding **Tracking Off-Campus Assets** for all Law School non-IT assets. A draft of the Law School Inventory Management Plan will be submitted to LTS and the Dean on or before 03/15/2017. Abiding by the new plan for all non-IT assets will ensure compliance with Section 16.3.C.2 of UT Austin’s *Handbook of Business Procedures* which states, “For any property that is checked out, kept at someone’s home, or housed out in the field and not on campus, a checkout log or off-campus form must be completed and kept by the department in addition to any other departmental liability forms.”

In addition, Section 16.6.A states:

For removal of equipment other than personal computers, an Equipment Located Off-Campus form must be completed, signed by the department head, and sent to Inventory Services... For removal of personal computers, logs must be maintained and should include the name of the employee who will have custody of the equipment, description of the equipment, inventory number(s), date checked out, estimated date to be returned, the signature of the department head, and the signature of the employee who checks out the equipment. These logs must be maintained in the department office and shall be made available for inspection by representatives the Office of Internal Audits, and Inventory Services.

¹ “Personal” does not mean personally-owned; it refers to UT Austin–owned mobile computing devices, such as laptops, phones and tablets. “Other than personal” refers to larger devices, not mobile in nature.



Regarding IT Assets - Information Technology Manager will ensure that proper checkout logs and off-campus forms are completed and retained by LTS. Information Technology Manager will document a process for ensuring this occurs. This document will be completed and made available to Law Facilities and the Dean no later than 3/15/17. This process will include creating a compliant checkout log and off-campus form available for all IT staff to access and use. Also, IT staff will be educated to ensure the log and form are completed in all cases that apply.

Responsible Person: Director of Operations (Non-IT Assets) / Information Technology Manager (IT Assets)

Planned Implementation Date: 03/15/2017

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

Inventory - Establish and Document Controls

Audit Issue Ranking: High

The Inventory Contact could not provide documented inventory controls. The absence of documented controls was a result of unfamiliarity with UT Austin policy. When inventory controls are not established and documented, there is increased risk of loss of UT Austin assets.

Section 16.1.C of UT Austin's *Handbook of Business Procedures* states:

Unit administrators must establish internal controls that ensure the following:

- Assets are kept physically secure at all times.
- Capitalized and controlled equipment is tagged with a university barcode tag, and federal equipment is additionally tagged with a federal tag for identification and tracking purposes.
- Inventory is taken periodically with documented changes (e.g., location, barcode, condition, etc.), reconciliation, and annual physical inventory certification.
- All Inventory Services policies and procedures are followed and adapted as appropriate to meet each department's needs.

Recommendation 5: Management should ensure inventory controls reflecting UT Austin's policies are established and documented.

Management's Response and Corrective Action Plan:

Regarding non-IT Assets - The Director of Operations will implement the Inventory Management Plan for all non-IT assets. A draft of the Law School Inventory Management Plan will be submitted to LTS and the Dean on or before 03/15/2017. Once implemented, Director of Operations will ensure the Inventory Management Plan is followed. following



the Inventory Management Plan for all non-IT assets will play a vital role in addressing all areas concerning inventory which will be used to **Establish and Document Controls** conforming to Section 16.1.C of UT Austin's *Handbook of Business Procedures* which states:

Unit administrators must establish internal controls that ensure the following:

1. Assets are kept physically secure at all times.
2. Capitalized and controlled equipment is tagged with a university barcode tag, and federal equipment is additionally tagged with a federal tag for identification and tracking purposes.
3. Inventory is taken periodically with documented changes (e.g., location, barcode, condition, etc.), reconciliation, and annual physical inventory certification.
4. All Inventory Services policies and procedures are followed and adapted as appropriate to meet each department's needs.

Regarding IT Assets - The Assistant Dean of Technology will learn, document and implement inventory controls within LTS compliant with UT Austin's policies. This document will be completed and made available to Law Facilities and the Dean no later than 3/15/17. All IT staff will be required to learn and abide by these inventory controls. In February, the Assistant Dean for Technology and Information Technology Manager proactively attended an educational session with Inventory Services. Also in February, all Inventory Services online tutorial documents were viewed.

Responsible Person: Director of Operations (Non-IT Assets) / Assistant Dean for Technology (IT Assets)

Planned Implementation Date: 03/15/2017

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

Annual Inventory- Certification Submission

Audit Issue Ranking: High

Annual Physical Inventory certification deadlines have not been met for the past three inventory cycles. The Inventory Contact did not prioritize inventory responsibilities, and did not follow UT Austin policies and procedures to allow for an accurate count. When annual inventory is not completed, accurate property records cannot be maintained.

Section 16.1.A of UT Austin's *Handbook of Business Procedures* states, "University unit administrators are responsible for all personal property in their care in accordance with established inventory policies and procedures. They are also responsible for ensuring that the annual physical inventory of property assigned to their department is completed each year. The annual physical inventory process and timeline are prescribed by Texas state law and are administered by the property manager."

Recommendation 6: Management should ensure that inventory certification is submitted annually by the due date.



Management’s Response and Corrective Action Plan:

The Director of Operations will prioritize inventory responsibilities immediately. A draft of the Law School Inventory Management Plan will be submitted to LTS and the Dean on or before 03/15/2017. Once implemented, following the Inventory Management Plan for all non-IT assets will play a vital role in accomplishing **Certification Submission** within compliance to Section 16.1.A of UT Austin’s Handbook of Business Procedures which states, “University unit administrators are responsible for all personal property in their care in accordance with established inventory policies and procedures. They are also responsible for ensuring that the annual physical inventory of property assigned to their department is completed each year. The annual physical inventory process and timeline are prescribed by Texas state law and are administered by the property manager.”

Responsible Person: Director of Operations

Planned Implementation Date: 03/15/2017

Post Audit Review: Internal Audits will follow-up in the second quarter of FY18.

CONCLUSION

Based on interviews with relevant staff, a review of policies, procedures, past inventory certifications, and an independent count of inventory assets, the Law School has not been in full compliance with UT Austin’s inventory policies. With regard to data security, encryption and hard drive disposal procedures were found to comply with UT Austin policies. Opportunities for improvement were noted in areas of tagging, reporting, removing, and tracking assets among others. Six recommendations were made to improve controls over inventory.

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 audit recommendations have been implemented.



APPENDIX A

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.