

**The University of Texas System  
System Audit Office**

**Annual Audit Report  
Fiscal Year 2005**



The System Audit Office  
The University of Texas System  
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Austin, Texas 78701

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## I. Internal Audit Plan for Fiscal Year 2005

**System Administration – part 1 of 2**  
 FY 2005 Budgeted Expenditures: \$139,115,649  
 12.75 Budgeted Audit Positions

Audit Areas	Priority Budgeted Hours	% of Total
<b>Key Financial and Operating</b>		
<i>Audits</i>		
Independent Financial Statement Audit	800	
UTIMCO:		
Internal Controls Evaluation (Sarbanes-Oxley)	600	
Investment Management	300	
Derivative Applications	150	
Investment Policy/Contract Compliance	280	
Payroll/Incentive Compensation Audit	40	
External Management Fees/Entertainment Expenses (Including Performance based fees)	150	
Securities Lending	80	
UTIMCO Audit Follow-Up	40	
Joint Admission Medical Program (JAMP)	80	
<i>Consulting</i>		
UTIMCO:		
Board of Regents/Consultants Working Group	40	
<b>Subtotal</b>	<b>2,560</b>	<b>25%</b>
<b>Institutional Compliance</b>		
<i>Audits</i>		
High-risk Areas	100	
Educational System Alignment	300	
Executive Travel and Entertainment	100	
<b>Subtotal</b>	<b>500</b>	<b>5%</b>
<b>Information Technology</b>		
<i>Audits</i>		
UTIMCO Internal Controls Testing - Sarbanes-Oxley	300	
Security Audit - Access Controls	300	
UTIMCO CRIS System	300	
University Lands West Texas Operations Enertia System	300	
Office of Facilities Planning and Construction - Integrated Information Platform Initiative - Application Security	200	
TAC 202 Compliance Audit	300	
Information Technology Operational Security Review Follow-up	100	
Information Technology Audit Follow-up	100	
<i>Consulting</i>		
HIPAA Compliance Committee - IT Security Rule Implementation	50	
Office of Facilities Planning and Construction - Integrated Information Platform Initiative	50	
Server Configuration Review	50	
Special Requests - Consulting	97	

<i>Carryforward</i>			
	Workers Compensation Insurance "STARS" System - Application Security	100	
	<b>Subtotal</b>	<b>2,247</b>	<b>22%</b>
<b>Core Business Processes</b>			
<i>Audits</i>			
	Oil and Gas Producers on Permanent University Fund Lands	800	
	Employee Group Insurance - Contract Administration	400	
	Employee Group Insurance - Disease Management Programs	230	
	Office of Facilities Planning and Construction - Construction	400	
	Procurement & Contract Administration	300	
	Self Insurance Funds	300	
	Salary Setting Process Review	300	
<i>Consulting</i>			
	Oil and Gas Producers Follow-up	100	
<i>Special Requests</i>			
		200	
	<b>Subtotal</b>	<b>2,730</b>	<b>26%</b>
<b>Change in Management</b>			
<i>Change in Management Audits</i>			
	Executive Vice Chancellor for Business Affairs	100	
	Executive Director for Real Estate	100	
	Vice Chancellor and General Counsel	100	
	Historically Underutilized Business Program	100	
<i>Special Requests</i>			
	Office of the Board of Regents	100	
	<b>Subtotal</b>	<b>500</b>	<b>5%</b>
<b>Follow-up</b>			
<i>Audits</i>			
	Follow-up on System Administration Audit Recommendations (non-Information Technology)	200	
	<b>Subtotal</b>	<b>200</b>	<b>2%</b>
<b>Audit Projects</b>			
<i>Reporting</i>			
	2006 Audit Plan	120	
	2004 Annual Audit Report	80	
	Internal Audit Committee	200	
	Recommendation Tracking System	160	
<i>Department Enhancements</i>			
	Proficiency and Awareness	200	
	External Peer Review	300	
	Strategic Plan	350	
<i>Special Requests</i>			
		150	
<i>Carryforward</i>			
	2005 Audit Plan	39	
	<b>Projects Total</b>	<b>1,599</b>	<b>15%</b>
<b>Total Hours</b>		<b>10,336</b>	<b>100%</b>
	System Administration Hours (Part 1 of 2)	63%	10,336
	Oversight Hours (Part 2 of 2)	37%	6,130
	<b>Total Hours</b>	<b>100%</b>	<b>16,466</b>

## Oversight – part 2 of 2

Audit Areas	Priority Budgeted Hours	% of Total
<b>Key Financial and Operating</b>		
<i>Audits</i>		
Guidance/Assistance for External Auditors	400	
<b>Subtotal</b>	<b>400</b>	<b>7%</b>
<b>Institutional Compliance</b>		
<i>Consulting</i>		
System-wide Compliance Program Support	200	
<b>Subtotal</b>	<b>200</b>	<b>3%</b>
<b>Information Technology</b>		
<i>Audits</i>		
Annual Financial Audit (Information Technology General Controls) - UT Austin	200	
Annual Financial Audit (Information Technology General Controls) - Institutional Audit Support	450	
UT Brownsville – Information Technology Security Audit	200	
UT Brownsville – Information Technology Application Audit	100	
UT Arlington – Information Technology Audit	200	
UT Tyler – Information Technology Audit	100	
<i>Consulting</i>		
UT Pan American - ORACLE Implementation Project	200	
Institutional Consulting	100	
<i>Special Requests</i>		
	100	
<b>Subtotal</b>	<b>1,650</b>	<b>27%</b>
<b>Core Business Processes</b>		
<i>Audits</i>		
UTPB Internal Audit Support	500	
NCAA Audits	800	
<i>Special Requests - Unknown</i>		
	250	
<b>Subtotal</b>	<b>1,550</b>	<b>25%</b>
<b>Change in Management</b>		
<i>Consulting</i>		
	150	
<b>Subtotal</b>	<b>150</b>	<b>2%</b>
<b>Audit Projects</b>		
<i>Reporting</i>		
2005 System-wide Audit Plan	200	
Audit, Compliance, and Management Review Committee ("ACMR")	300	
Recommendation Tracking System (Red, Yellow, Green)	400	
Internal Audit Council	200	
<i>Consulting</i>		
Institutions	500	

<i>Special Requests</i>		
Institutional Peer Reviews	100	
Unknown	400	
<i>Carryforward</i>		
2004 Audit Plan	80	
<b>Projects Total</b>	<b>2,180</b>	<b>36%</b>
<b>Total Hours</b>	<b>6,130</b>	<b>100%</b>

## **Deviations from the Audit Plan**

### *Overall*

A majority of the fiscal year *2005 Audit Plan* was completed. Reports were issued for five fiscal year 2005 audits in fiscal year 2006. Several smaller audits in the *2004 Audit Plan* related to UTIMCO were replaced with a Sarbanes Oxley 404 audit and support for several institutional information technology audits was not needed.

The primary reasons for the deviation from the plan were executive management requests and institutional personnel with the appropriate skill sets to complete the audits.

## **I. External Quality Assurance Review (Peer Review)**

The University of Texas System  
Internal Auditing Department  
Quality Assurance Review – March 2005

### **Executive Summary**

#### The Review

At the request of the Director of Audits a Quality Assurance Review of The University of Texas System Audit Office. The review was conducted February 28 - March 3, 2005, and covered the period from September 1, 2003 through August 31, 2004. The objective of the Quality Assurance Review was to provide reasonable assurance that the internal auditing program at The University of Texas System generally complied with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*. The objective of the review was achieved by means of interviews with selected customers, System executive management, campus internal audit directors, the current Chair of the Board of Regents' Audit, Compliance, and Management Review Committee, current and former members of the System Audit Office; use of an employee survey conducted by the System Audit Office, review of the Office's quality control processes; and evaluation of the Office's working papers, reports, and correspondence.

#### Overall Conclusion

The University of Texas System Audit Office generally complied with the Institute of Internal Auditors' standards in all material respects during the period under review.

## II. List of Audits Completed

U. T. System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
Aug-04	The University of Texas at Austin John A. and Katherine G. Jackson School of Geosciences Geology Foundation's Jackson Estate Trust Minerals Audit Report	<ul style="list-style-type: none"> <li>Evaluate the administration of ownership records;</li> <li>Evaluate the controls surrounding receipt of oil and gas royalty payments;</li> <li>Evaluate the controls to ensure reported production accurately reflects actual production;</li> <li>Evaluate the controls to ensure appropriate royalty interest payments have been received.</li> </ul>	<p><i>Observations:</i> For its initial efforts in management of its royalties, the Foundation has developed and implemented adequate policies, procedures and internal controls, and is formulating plans to enhance them. The database has been well-designed to account for royalty payments and satisfy information needs. Amounts collected have been appropriately deposited and recorded. Additional opportunities exist to enhance the control environment.</p> <p><i>Recommendations:</i> The Foundation should continue to collect and research ownership records to ensure that all royalties are being received. Volumes and values reported by operators should be independently confirmed, and identified variances should be investigated. Reconciliation of the deposit process and segregation of duties surrounding the deposit process can be strengthened. Written procedures should be prepared for database management and control. A reconciliation of royalties received should be performed at least annually, and procedures should be updated as the needs of the Foundation change.</p>	Scheduled follow-up to be performed 1 <sup>st</sup> Quarter, Fiscal Year 2006	Enhance the internal control environment.
Oct-04	EVC for Business Affairs – Change in Management Audit	<ul style="list-style-type: none"> <li>The reliability and integrity of the department's key financial information;</li> <li>Whether controls are adequate and effective in safeguarding assets; and</li> <li>Whether internal control procedures are in place and functioning as intended.</li> </ul>	<p><i>Observations:</i> A control conscious environment exists. Internal controls have been established and are functioning as intended.</p> <p><i>Recommendations:</i> None</p>	N/A	Improve internal controls at the departmental level.

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
Oct-04	UT Pan American NCAA 8/31/03	<ul style="list-style-type: none"> <li>Assist UTPA in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31,2003.</li> <li>Determine whether statements of revenue and expenditures were reported within the guidelines of the agreed-upon procedures</li> <li>Determine the presence of an internal control structure and test whether the department operates according to the structure</li> <li>Follow-up on prior audit recommendations</li> </ul>	<p><i>Observations:</i> Exclusions and misclassifications of certain revenue and expense items, receipt and recording of receivables was inconsistent, documentation for approval of purchases was missing</p> <p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>Athletics Program be responsible for the preparation of the Statement of Revenues and Expenses (SRE) and ensure that all accounts benefiting the Athletic Program are appropriately reported on the SRE.</li> <li>Athletics Program, working with the Office of Accounting, should ensure that all transactions have appropriate transaction codes assigned and are recorded in the appropriate fiscal year to ensure that the SRE is properly reported.</li> <li>The Athletic Program should take steps to ensure that appropriate monitoring systems are established to track all anticipated revenues to ensure receipts are received in a timely manner. Systems should be established for tracking anticipated receipts related to game guarantees, corporate sponsorships, and concession income contracts and that subsequent receipts are received in a timely manner. A monitoring system for tracking non-cash sponsorships should be established to ensure inclusion on the SRE.</li> <li>Athletics Program reconcile its listing of gifts to the Development Office’s listing of athletic gifts on a quarterly basis. This reconciliation should be concurrent with reconciliations of gift accounts listed in the monthly statement of account. Athletics Program comply with the <i>Rules and Regulations of the Board of Regents</i> in regards to purchases from employees - either seek reimbursement of the \$700 paid to the former Head Men’s Baseball Coach and return the purchased equipment to him, or satisfy all criteria related to this purchase that are contained in the</li> </ul>	Scheduled follow-up to be performed during 2006.	Reduce the risk of non-compliance with NCAA regulations and incomplete revenue and expenditure reporting on athletic department activities.

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			<i>Rules and Regulations.</i>		
Nov-04	Follow up of the post Payment Audit Report from the Office of the Comptroller	<ul style="list-style-type: none"> <li>Review of 12 outstanding recommendations from the August 2003 Post Payment Audit Report for UT System Administration</li> <li>Determine the implementation status of recommendations included in the audit reports to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</li> </ul>	<p><i>Observations:</i> All 12 recommendations have been addressed and resolved</p> <p><i>Recommendations:</i> None</p>	N/A	Ensure implementation of recommendations to enhance compliance with Comptroller regulations.
Nov-04	Review of Security Controls for the STARS Risk Management System	<ul style="list-style-type: none"> <li>Determine whether System Administration security policies and procedures were appropriately considered during the software acquisition process</li> <li>Evaluate the STARS <i>Request for Proposal</i>, along with the executed software contract, against applicable System Administration policies and procedures</li> </ul>	<p><i>Observations:</i> Security controls are working as intended</p> <p><i>Recommendations:</i> None</p>	N/A	Ensure security measures/controls are in place and functioning appropriately
Nov-04	UT El Paso NCAA FYE 8/31/03	<ul style="list-style-type: none"> <li>Assist UTEP in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31,2003.</li> <li>Determine whether the statements of revenue and expenditures were reported within the guidelines of the agreed-upon procedures</li> <li>Determine the presence of an</li> </ul>	<p><i>Observations:</i> We identified unreconciled differences regarding actual ticket sales and the general ledger, misclassifications and inaccurate recording of revenue, reconciliations are not being followed-up, recommendations from last fiscal year’s audit are not being implemented</p> <p><i>Recommendations:</i> To ensure the following:</p> <ul style="list-style-type: none"> <li>the team travel policy is enhanced to include detailed guidance on the selection and appropriateness of</li> </ul>	Scheduled follow-up to be performed during 2006.	Reduce the risk of non-compliance with NCAA regulations and incomplete revenue and expenditure reporting on athletic department activities.

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		<p>internal control structure and test whether the department operates according to the structure</p> <ul style="list-style-type: none"> <li>Follow-up on prior audit recommendations</li> </ul>	<p>individuals who: 1) travel with the team; 2) are not employees of the Athletics Program or student athletes; and 3) have their travel expenses paid with Athletic Program funds.</p> <ul style="list-style-type: none"> <li>Any taxable benefit received by UTEP faculty and staff, including coaches, is reported as such for the employee when the University pays for the travel of spouses and children.</li> <li>Reconciliation of travel expenditures are enhanced to include verification that the expenditures are for appropriate individuals who meet criteria outlined in the team travel policy and have received proper approval.</li> <li>All gifts are properly recorded in the general ledger and that the reconciliation process between the Athletics Program and the Office of Institutional Advancement includes timely resolution of any reconciling items.</li> <li>Account reconciliations include a review of account and object codes for appropriateness as well as the intended purpose for classification.</li> <li>All account reconciliations are signed and dated by the preparer and reviewer(s).</li> <li>Receivables and payables are accrued, so that these amounts are recorded in the correct year.</li> <li>All expenditures are properly approved.</li> <li>Athletic sport camp expenditures presented on the SRE include all expenditures, including salaries and maintenance and operations.</li> <li>Any discrepancies between the TicketMaster reports and general ledger entries are adequately explained in the supporting documentation.</li> <li>Traveling lists are submitted to the Athletics Business Office prior to departure.</li> <li>Student-athletes sign for their meal money.</li> <li>Travel reconciliations are dated and turned in to the</li> </ul>		

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			<p>Athletics Business Office within 7 days.</p> <ul style="list-style-type: none"> <li>• Individuals requesting travel advances have completed an <i>Authorization to Deduct Outstanding Travel Advance from Payroll Checks</i> form prior to receiving the advance.</li> <li>• Approval for traveling guests is documented in writing</li> </ul>		
Dec-04	Compliance Review and Change in Management of the HUB Program	<ul style="list-style-type: none"> <li>• Determine whether controls are adequate and effective to ensure the reliability and integrity of the departmental key financial information;</li> <li>• Determine whether controls are adequate and effective in safeguarding assets; and</li> <li>• Determine whether the program adheres to selected regulatory guidelines, specifically reporting.</li> </ul>	<p><i>Observations: HUB Reporting:</i> A separate list of purchases made under a group purchasing program was not included in the biennial reports sent to the Texas Building and Procurement Commission as required by the Texas Government Code. Also, some of the information contained in the reports could not be readily agreed to the supporting documentation provided by the department.</p> <p><i>Recommendation:</i> The HUB Office should improve the reporting process to ensure that adequate supporting documentation is maintained for all reports filed. In addition, the HUB Office should review reporting requirements to ensure all information required is included in the reports.</p>	Scheduled follow-up to be performed during 2006.	Ensure/improve internal controls at the department level and ensure regulatory guidelines compliance
Dec-04	Joint Admission Medical Program	<ul style="list-style-type: none"> <li>• Determine the reliability and integrity of key financial information reported by JAMP in its financial statement,</li> <li>• Provide assurance of compliance with requirements in the agreements between the JAMP participant schools and the JAMP Council as well as the agreement between the JAMP Council and the Texas Higher Education Coordinating Board ("THECB").</li> </ul>	<p><i>Observations:</i> JAMP Office did not receive all audit reports from the participant schools, that several reports were not received by the stipulated due date, and that nine of the participant schools noted issues of non-compliance in the general areas of expenditures, internal controls, monitoring, and time and effort reporting.</p> <p><i>Recommendations:</i> The JAMP Office should provide a summary of the participant schools' audit opinions to the JAMP Council, so the JAMP Council may determine the appropriate course of action, if any, that should be taken with participant schools in regards to non-submission of an audit opinion, submission of only an audit opinion on FY 2004 expenditures, and other areas identified in the audit reports.</p>	Scheduled follow-up to be performed during 2006.	Ensuring compliance with inter-entity agreements

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Dec-04	UTIMCO Fees	<ul style="list-style-type: none"> <li>To perform sufficient test work on management fees, custody fees, and securities lending income to allow E&amp;Y to opine on these line items in its audits of the UT System Funds.</li> <li>To provide assurance that the processes associated with management fees, custody fees, and securities lending are adequate and operating effectively and to determine the reasonableness of entertainment expenses.</li> </ul>	<p><i>Observations:</i> UTIMCO only began preparing the financial statements for the PUF, GEF, and UTX in accordance with the requirements of the Governmental Accounting Standards Board (“GASB”) for the year ended August 31, 2004. Previously, UTIMCO had followed the reporting requirements of the Financial Accounting Standards Board (“FASB”). Paragraph 8 of GASB 28 requires securities lending income to be reported gross, with expenses reported separately; however, UTIMCO with the approval of its external auditor has historically reported all securities lending income on a net basis.</p> <p><i>Recommendations:</i> Beginning with the 2005 financial statements, UTIMCO should the follow guidance from GASB and report securities lending income on a gross basis.</p> <p><i>Observations:</i> Although UTIMCO is accounting for securities lending income for a full 12 months, the August 31, 2004, financial statements for the year then ended reflect income for the period August 1, 2003 through July 31, 2004, instead of September 1, 2003 through August 31, 2004. UTIMCO has been unable to obtain the August income from its custodian bank in time to meet its required closing schedule.</p> <p><i>Recommendations:</i> Although one month of securities lending income is not material to any of the UT System Funds managed by UTIMCO, UTIMCO should estimate the income earned in August of each year and record the estimate at year-end to more accurately reflect the annual income and year-end receivable from the custodian bank.</p> <p><i>Observations:</i> To remain in compliance with the Securities Lending Agreement, collateral that is a time deposit (“TD”), certificate of deposit (“CD”), or banker’s acceptance (“BA”) should be issued by a financial institution that is rated</p>	Scheduled follow-up to be performed during 2006.	Improve fiscal responsibilities.

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			<p>Aa3, AA-, or better by Standard &amp; Poor's and/or Moody's. UTIMCO's compliance check uses the commercial paper rating of the entity issuing the TD, CD, or BA, not the underlying entity rating.</p> <p><i>Recommendations:</i> UTIMCO should use the entity rating instead of its commercial paper rating in the compliance test for TDs, CDs, and BAs, so the results are relevant and useful in the analysis of compliance of the securities lending program. Further, since the Securities Lending Agreement outlines specific criteria for collateral sufficiency and UTIMCO analyzes shortfalls by analyzing the dollar value, UTIMCO should establish a policy outlining amounts that are considered de minimus and the actions required when shortfalls exceed acceptable amounts.</p> <p><i>Observations:</i> We could not completely verify a portion of the custody fees (specifically transaction charges), as transactions number in the thousands and UTIMCO does not obtain detailed supporting information from Mellon to review these charges. Instead, UTIMCO looks at the transaction sub-totals and compares balances to previous billings.</p> <p><i>Recommendations:</i> UTIMCO should periodically request applicable supporting information from Mellon to validate that the transaction charges are legitimate and consistent with the fees outlined in the custody agreement.</p> <p><i>Observations:</i> There have been several mergers and consolidations among banks that provide custody services. We understand that fees for these services are very competitive and there may be opportunities for UTIMCO to lower the fees paid for such services.</p>		

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			<p><i>Recommendations:</i> Over the next several months, UTIMCO should review the services being provided by its current custodian bank and meet with the other large service providers to determine services and cost structures available in the marketplace. The UTIMCO staff should develop a process and timeline for developing a review of custodian services, including cost benefit analysis and evaluation criteria in anticipation of re-bidding the custodian contract in 2006. UTIMCO staff should periodically update UT System staff of their progress.</p> <p><i>Observation:</i> while reviewing the controls over payments to external managers, we noted that the Authorization Letter to Mellon, which specifies the individuals at UTIMCO who are authorized to direct Mellon on behalf of the UT Board, was authorized by one individual and therefore could be changed by a single UTIMCO employee.</p> <p><i>Recommendation:</i> The Authorization Letter to Mellon should be signed by the President and the Managing Director of Accounting, Finance, and Administration.</p> <p><i>Observation:</i> UTIMCO has consistently recorded income for commingled (e.g. mutual funds), absolute return, and hedge funds net of any manager fees. Several years ago, UTIMCO obtained opinion letters from its external independent auditor and attorney indicating that recording income for limited partnerships net of manager fees was appropriate. Although UTIMCO has not obtained separate opinion letters for commingled (e.g. mutual funds), absolute return, and hedge funds, UTIMCO has received unqualified opinions on the PUF, GEF, etc. from its independent auditors each year. Recently, there have been newspaper articles that have raised the issue of the appropriateness of netting the fees. We are not aware of any</p>		

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			<p>accounting pronouncement, which would require or suggest that UTIMCO estimate these fees and report them in the PUF, GEF, etc. financial statements. We concur with UTIMCO’s decision to obtain an updated opinion from its external independent auditor on the correct recording of income for commingled (e.g. mutual funds), absolute return, and hedge funds.</p> <p><i>Recommendation:</i> In addition to obtaining an external opinion on the proper presentation and accounting for management fees that have historically been netted against income, UTIMCO should continue to enhance its disclosure on all fee information. It also should consider enhancing the presentation of the “Public Markets Managers Investment Performance Detail Summary” to provide the UTIMCO Board of Directors with management fee information in a form that allows meaningful analysis of the fees being paid versus performance.</p> <p><i>Observations: <u>Entertainment and Travel Expenses</u></i></p> <ul style="list-style-type: none"> <li>• The Travel Guidelines (which have not been revised for several years) are general guidelines and do not provide specific or detailed guidance for travelers.</li> <li>• Four of the selected payments were identified to have either unclear supporting documentation of certain expenses, such as transportation costs, or incomplete documentation of reason for the travel.</li> <li>• We noted that the level of detail of documentation submitted for reimbursement was not consistent from traveler to traveler.</li> </ul> <p><i>Recommendations:</i> consider the following modifications to the Travel Guidelines:</p> <ul style="list-style-type: none"> <li>• provide stricter guidance on the definition of approved expenses;</li> <li>• provide more detailed guidance on the level of detail in the supporting documentation required when submitting</li> </ul>		

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			reimbursement requests, such as including all destinations of the travel with reasons for travel to each location and destination and starting points for transportation costs over a certain amount; <ul style="list-style-type: none"> <li>include guidelines on expenses eligible for reimbursement, such as parking, phone charges, etc.;</li> <li>describe the pre-approval process for all employee travel ("Travel Approval Form") and the approval process for expense reimbursements.</li> </ul>		
Jan-05	Contract Administration	<ul style="list-style-type: none"> <li>To provide reasonable assurance that the U. T. System Administration processes associated with contractor selection, contract approval, contractor payment, and contractor oversight were adequate and operating effectively</li> </ul>	<p><i>Observations:</i> noted inconsistencies from department to department in the level of documentation maintained related to the reasons for awarding the contract</p> <p><i>Recommendations:</i> The Office of Business Affairs should develop and offer training on the contracting process. The training topics could include an overview and update on U. T. System Administration policies and procedures, contracting laws, bidding procedures, vendor selection, price negotiation, and contractor monitoring. Training on the development of clear product specifications and specific deadlines along with providing an overview of the various tools available for obtaining vendor bids (i.e. Texas Register and the Electronic State Business Daily) would also be beneficial.</p> <p><i>Observations:</i> there appears to be some confusion within certain departments on authorization limits.</p> <p><i>Recommendations:</i> The Office of Business Affairs should clarify authorization limits for each department and include the clarification in any future contract training.</p> <p><i>Observations:</i> The terms and conditions of a particular contract</p>	Scheduled follow-up to be performed during 2006.	Enhance operations of the department and provide assurance that contract management is effective.

U. T. System Administration					
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			<p>required U. T. System Administration to prepay the vendor \$1.35 million, the entire value of the contract, on the date that the contract was signed. To the extent possible, the <i>State of Texas Contract Management Guide Version 1.1</i> states that the institution should make payments as work is completed.</p> <p><i>Recommendation:</i> To the extent possible, contract terms should not be written where a vendor is paid the entire amount up front. Some money should be withheld until the final product is delivered, reviewed, and determined to be in accordance with the specifications.</p> <p><i>Observations:</i> we noted some confusion as to who is the responsible individual for providing oversight and monitoring of certain contracts.</p> <p><i>Recommendations:</i> U. T. System Administration would benefit from assigning a single responsible individual to provide oversight and monitoring of U. T. System Administration's contract policies and procedures. This individual would be responsible for monitoring authorizations, ensuring all contracts are imaged into FileNet, filing appropriate reports with various State Agencies, providing contract administration training, and ensuring that appropriate monitoring of the contract is completed. This person(s) would also be a resource for the various departments in their contracting activities.</p>		
Feb-05	UTSA Intercollegiate Athletics Agreed Upon Procedures FY 2004	<ul style="list-style-type: none"> <li>Assist UTSA in complying with the National Collegiate Athletics Association ("NCAA") Constitution 6.2.3.1. for the year ended August 31, 2004</li> <li>Determine whether statements of revenue and expenditures were</li> </ul>	<p><i>Observations:</i> Several accounts were inaccurately recorded (revenue/expense accounts). The adjustments were made to the financials</p> <p><i>Recommendations:</i> None</p> <p><i>Observations:</i> Follow-up on prior year's recommendations –</p>	N/A	Assist UTSA in complying with the National Collegiate Athletics Association ("NCAA") Constitution 6.2.3.1. for the year ended August 31, 2004

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
		<p>reported within the guidelines of the agreed-upon procedures</p> <ul style="list-style-type: none"> <li>• Determine the presence of an internal control structure and test whether the department operates according to the structure</li> <li>• Follow-up on prior audit recommendations</li> </ul>	<p>procedures have been implemented</p> <p><i>Recommendations:</i> None</p>		
Mar-05	Application Access and Administration	<ul style="list-style-type: none"> <li>• Determine whether the process for managing The University of Texas System Administration information resources provides appropriate assurance that access to critical or sensitive information is granted in accordance with organizational policy and business requirements.</li> </ul>	<p><i>Observations:</i> Ownership responsibility of information resources is found at different authoritative levels. Assignment or ensured identification of owners of information resource is a fundamental step in ensuring the security of information resources not directly controlled by Office of Technology and Information Services (OTIS).</p> <p><i>Recommendation:</i> We recommend the Chief Information Officer (CIO) and the U.T. System Administration Information Resources Manager (IRM) assign ownership for information resources or educate identified owners regarding their responsibilities, as applicable</p> <p><i>Observations:</i> We found that security responsibilities within U.T. System Administration departments containing information resources is not always formally assigned and that individuals in areas outside of OTIS did not always have a clear understanding of their security role in regards to their information resources. Some individuals with the responsibilities of Technical Managers also thought that they may be Owners. The departments that we reviewed considered OTIS to have primary responsibility for the security of their information resources; however, BPM 53 recognizes the security of information resources as a cooperative effort.</p> <p><i>Recommendation:</i> We recommend the CIO and the U.T.</p>	C Scheduled follow-up to be performed during 2006.	Ensure security measures/controls are in place and functioning appropriately

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			<p>System Administration IRM develop a communicative process for information resources outside of their custodial or constructive control that allows OTIS to obtain stronger oversight assurance about the security of those information resources</p> <p><i>Observation:</i> Although employees were generally aware of what may be confidential or sensitive information in their areas, we found that formal identification and classification of information had not been performed in the areas that we reviewed.</p> <p><i>Recommendation:</i> We recommend the CIO and the U.T. System Administration IRM request owners to identify confidential information on their records retention schedules. The CIO and U.T. System Administration may also wish to consider asking owners to identify sensitive information on their records retention schedules that require special integrity controls (i.e. controls that limit the ability to create, change, or delete the information).</p> <p><i>Observation:</i> Our audit results indicated processes for approving and removing access to U.T. System Administration information resources outside of OTIS were inconsistent and generally inadequate. While Owners give approval before access is provided to users, processes used to provide and remove access are not always limited to single points of contact for each department, and email messages are the typical method of recording requests and approvals for access. Departments often do not provide notification to Owners of information resources when their employees no longer require access.</p> <p><i>Recommendation:</i> We recommend the CIO and the U.T. System Administration IRM work with information resource</p>		

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			Owners to implement approval and removal processes that will ensure standardized and appropriate access to information		
Mar-05	Real Estate Office – Change in Management	<p>To determine:</p> <ul style="list-style-type: none"> <li>• The reliability and integrity of the department’s key financial information;</li> <li>• Whether controls are adequate and effective in safeguarding assets; and</li> <li>• Whether internal control procedures are in place and functioning as intended.</li> </ul>	<p><i>Observations:</i> it appears that duties are not adequately segregated in the check receipt process.</p> <p><i>Recommendations:</i> We recommend that the REO enhance its check receipt process so that no one person is responsible for opening the mail, logging the checks, bringing the checks to UTIMCO, and then reconciling the bank deposit slips and remittance sheets.</p>	Scheduled follow-up to be performed during 2006.	Improve internal controls at the departmental level.
Mar-05	Texas Administrative Code Section 202 Compliance	To evaluate the UT System Administration information security program’s compliance with TAC 202 information security standards.	<p><i>Observations:</i> The physical security in some of the data centers housing critical information resources could be improved</p> <p><i>Recommendations:</i> The Office of Technology and Information Services (OTIS) should review the adequacy of physical security in its data centers and consider relocating its information resources to a more appropriate facility.</p> <p><i>Observations:</i> The Business Continuity Plan (BCP) has not been updated or approved since 2000. Additionally, the BCP and required elements do not completely comply with TAC 202 requirements, as it lacks a risk assessment and a recovery strategy. The DRP includes all of the required elements but has not been formally tested. In addition, certain sections such as the application inventory and the Activity Sheets for recovery teams have not been updated.</p> <p><i>Recommendations:</i> The Information Security Officer should work with The Office of Risk Management to ensure that the BCP is kept up to date and includes a risk assessment and</p>	Scheduled follow-up to be performed during 2006.	Ensure security measures/controls are in place and functioning appropriately and ensure regulatory guidelines compliance

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			recovery strategy. In addition, OTIS should update the DRP and test the plan formally or informally on an annual basis.		
Apr-05	Follow-up Audit 1 <sup>st</sup> Quarter FY 2005 (non-IT)	<ul style="list-style-type: none"> <li>Determine the implementation status of recommendations included in 19 previously issued audit reports to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</li> </ul>	<p><i>Observation:</i> Out of 60 outstanding recommendations, 4 recommendations remain not implemented</p> <p><i>Recommendation:</i> None</p>	Scheduled follow-up to be performed during 2006.	Monitor and communicate the level of implementation of recommendations included in audit reports.
May-05	Employee Group Insurance	<ul style="list-style-type: none"> <li>Provide assurance that the processes associated with contract selection, approval and monitoring are adequate and operating effectively by ensuring compliance with applicable rules and regulations</li> <li>Review the current status of the EGI disease management program to ensure that the overall design of the program is in compliance with Texas Insurance Code requirements.</li> </ul>	<p><i>Observations:</i> Contract selection – fairly consistent process requiring minimal recommendations for improvement</p> <p><i>Recommendations:</i> EGI should consider making the following enhancements:</p> <ul style="list-style-type: none"> <li>Require completion of annual financial disclosure and conflict of interest statements by: <ul style="list-style-type: none"> <li>All review committee members participating in vendor selection on a per contract basis</li> <li>The employee charged with overall contracting monitoring responsibilities.</li> </ul> </li> <li>Expand the contract selection process to include review and verification of potential conflicts of interest between the Chancellor and vendors included in the selection process.</li> <li>Expand the interrogatory in the RFP, which asks bidders to “confirm that no member of the UT System Board of Regents has a financial interest, directly, or indirectly if your organization would be awarded the contract for...” to include any conflicts of interest (not limited to financial interest) for which bidders are aware not only with the UT System Board of Regents but also the Chancellor, Vice Chancellor for Administration and high level EGI management (Director of EGI and the Assistant Vice Chancellor for Employee Services).</li> </ul>	Scheduled follow-up to be performed during 2006.	Ensure program compliance with state requirements and effectiveness of processes.

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May-05	Institute for Public School Initiatives	To determine whether IPSI was in compliance with policies, plans, procedures, laws, and regulations specifically pertaining to the requirements of current grants and System Administration policies and procedures.	<p><i>Observations:</i> Although controls appear to be functioning as designed currently, we noted that the above tasks are numerous for one person to perform and do not provide a mechanism to achieve segregation of duties and transfer of knowledge. Additionally, many of the functions noted above may be beyond the scope of the original job description. By hiring another accountant, the Senior Accountant would be able to review the work performed by that employee, transfer knowledge, and work in a position matching her current training and background.</p> <p><i>Recommendations:</i> We understand that IPSI has requested a job audit of the Senior Accountant's position by OHR and that this request has been approved. Therefore, we recommend that IPSI establish a deadline for performing this task and make the adjustments recommended by OHR.</p> <p><i>Observation: Expenditures</i> - During our audit of maintenance, operations, equipment, and consultant transactions, we noted that one of 50 vouchers was not properly approved.</p> <p><i>Recommendation:</i> IPSI should consider cross-training staff in the area of purchase requisition procedures to ensure these procedures are followed consistently.</p> <p><i>Observation: Expenditures</i> - During our audit of travel transactions, we noted incorrect and inconsistent use of object codes for 10 of 29 vouchers. Accounting and Purchasing Services codes travel requests from a form entitled, <i>Request for Payment of Business Expense</i>, submitted by IPSI.</p> <p><i>Recommendation:</i> Because the source of funds for IPSI comes from federal, state, and local sources with compliance</p>	Scheduled follow-up to be performed during 2006.	Improve internal controls at the departmental level and enhance compliance with grant requirements and System Administration policies and procedures.

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			requirements that may vary from System Administration requirements, it is especially important that all information is coded accurately. Therefore, we recommend that IPSI work with Accounting and Purchasing Services to amend the form submitted by IPSI to include the object code.		
Jun-05	UT Arlington NCAA 8/31/2004	<ul style="list-style-type: none"> <li>Assist UTA in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31,2004</li> <li>Determine whether statements of revenue and expenditures were reported within the guidelines of the agreed-upon procedures</li> <li>Determine the presence of an internal control structure and test whether the department operates according to the structure</li> <li>Follow-up on prior audit recommendations</li> </ul>	<p><i>Observations: <u>SRE Reporting and Reconciliation of SRE to G/L</u> - The following items were omitted or incorrectly reported on the SRE:</i></p> <ul style="list-style-type: none"> <li>Account numbers and interest earned on two scholarships and one endowment fund for \$803, \$597 and \$1200, respectively</li> <li>Sales and service for \$175 and other income from the Athletic Administration account for \$800</li> <li>Fee income and other income for the Dance Team and Cheerleaders for \$71,805</li> <li>Two gift in kind corporate sponsorships for \$6,000.</li> </ul> <p><i>Recommendations: We recommend that the Athletic Department improve its process for compiling the SRE to ensure completeness. Elements of a good process include:</i></p> <ul style="list-style-type: none"> <li>Reviewing all accounts under Athletics to ensure that all are included on the SRE</li> <li>Comparing internal documentation to transaction information that can be downloaded from DEFINE</li> <li>Using proper object codes in account processing to assist in classification of items and in reconciliation</li> <li>Reviewing the SRE by a separate person upon completion.</li> </ul> <p><i>Observations: <u>Game Guarantees</u> - All game guarantees tested were recorded under object code 3701, Sales and Services. Object codes that identify both game guarantees received (3711) and guarantees paid (3712) are available and should be used to properly account for the transactions. Additionally, two receipts were not deposited in a timely manner.</i></p>	Scheduled follow-up to be performed during 2006.	Assist UTA in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31, 2004

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><i>Recommendations:</i> To ensure that deposits are made in accordance with UTA regulations, a responsible party should be designated to ensure that deposits are compiled daily in the event the person(s) normally responsible for deposits is(are) absent. Any extenuating circumstances should be documented on the deposit receipts.</p> <p><i>Observations:</i> Corporate Sponsorships We noted that two deposits were not deposited timely.</p> <p><i>Recommendations:</i> To ensure that deposits are made in accordance with UTA regulations, a responsible party should be designated to ensure that deposits are compiled daily in the event the person(s) normally responsible for deposits is(are) absent. Any extenuating circumstances should be documented on the deposit receipts.</p> <p><i>Observations:</i> <u>Conference and NCAA Income</u> – Distributed NCAA revenue was recorded under object code 3701, Sales and Services. The appropriate object code is 3717, NCAA Distribution of Income.</p> <p><i>Recommendations:</i> We recommend the Athletic Department record the distribution of NCAA revenue under object code 3717 – NCAA Distribution of Income.</p> <p><i>Observations:</i> <u>Gifts-In-Kind</u> – Two gift in-kind corporate sponsorships totaling \$6,000 were not recorded on the SRE.</p> <p><i>Recommendations:</i> In order to ensure that the Athletic Department reports all corporate sponsorships and gifts on the SRE, they should perform regular reconciliations of their gift listings with the Office of Development.</p>		

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			<p><i>Observations:</i> Follow-up on previous findings: both recommendations from previous audits have been implemented.</p> <p><i>Recommendations:</i> None</p>		
Jul-05	UT Pan American NCAA 8/31/2004	<ul style="list-style-type: none"> <li>• Assist UTPA in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31,2004</li> <li>• Determine whether statements of revenue and expenditures were reported within the guidelines of the agreed-upon procedures</li> <li>• Determine the presence of an internal control structure and test whether the department operates according to the structure</li> <li>• Follow-up on prior audit recommendations</li> </ul>	<p><i>Observations:</i> <u>SRE Preparation</u> – Expenditures were underreported by a total amount of \$1,390. Amounts for transfers in the SRE supporting worksheets had not been accurately reported on the SRE. The total amount of transfers-in to the Intercollegiate Athletics Program reported on the SRE was \$104,521. The total amount of transfers-in to the Intercollegiate Athletics Program reported in the SRE supporting worksheets was \$398,933 and was determined to be the correct amount. The total amount of game guarantees of \$199,500 was reported in the “Non-Program Specific” column of the SRE. The generation of game guarantees revenue is program-specific.</p> <p><i>Recommendations:</i> We recommend the SRE and its supporting worksheets be reviewed for accuracy and completeness by the Intercollegiate Athletics Program prior to delivery to external auditors for performance of the NCAA agreed-upon procedures. The management representation letter that will be introduced for fiscal year 2005 for submission to external auditors performing the NCAA agreed-upon procedures will contain a specific management attestation that “all revenues and expenditures related to the Intercollegiate Athletics Program have been properly recorded in UTPA’s financial accounting system and are accurately presented on the SRE in conformity with the NCAA agreed-upon procedures guidelines.”</p> <p><i>Observations:</i> <u>Gifts</u> – One cash gift contribution represented more than 10% of the total amount of gifts. The amount of the</p>	Scheduled follow-up to be performed during 2006.	Assist UTPA in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31, 2004

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			<p>cash gift contribution was \$14,800 and was reported on the SRE as an unrestricted gift; however, the gift had a restricted purpose.</p> <p><i>Recommendations:</i> We recommend the Intercollegiate Athletics program ensure that the amount of gifts reported as “Unrestricted” and “Restricted” accurately coincides with the purposes of the gifts. Gifts made for restricted purposes should be reported as restricted gifts.</p> <p><i>Observations:</i> <u>Outside Organizations</u> – A previously existing outside organization within the scope of the agreed-upon procedures had not been identified to us. The outside organization did not have a statement of revenues and expenditures.</p> <p><i>Recommendations:</i> We recommend the Intercollegiate Athletics Program ensure that all of its affiliated and outside organizations prepare statements of revenues and expenditures that should all revenues received and all expenditures made for or on behalf of the Intercollegiate Athletics Program or its employees. The NCAA requires that UTPA prepare a summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Program’s affiliated and outside organizations to be included with the agreed-upon procedures report for the fiscal year 2005. This summary would be based upon statements of revenues and expenditures received by the Intercollegiate Athletics Program from its affiliated and outside organizations.</p> <p><i>Observations:</i> Follow-up on previous findings: both recommendations from previous audits have been implemented.</p> <p><i>Recommendations:</i> None</p>		

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
Jul-05	UT El Paso NCAA FYE 8/31/2004	<ul style="list-style-type: none"> <li>Assist UTEP in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31,2004</li> <li>Determine whether statements of revenue and expenditures were reported within the guidelines of the agreed-upon procedures</li> <li>Determine the presence of an internal control structure and test whether the department operates according to the structure</li> <li>Follow-up on prior audit recommendations</li> </ul>	<p><i>Observations:</i> We compared the amount of season tickets reported by ARCHTICS to DEFINE, which resulted in variances totaling approximately \$18,000 for both Football and Men’s Basketball. We also noted that reconciliations for FY 2004 had not been finalized.</p> <p><i>Recommendations:</i> The MAC office should identify discrepancies between ARCHITICS and DEFINE and adequately explain the differences in supporting documentation. In additions, the Athletic Business Office should finalize their reconciliations of season tickets for FY 2004.</p> <p><i>Observations:</i> An additional \$51 from gate receipts was incorrectly included in game guarantees. All game guarantees paid were recorded as Contract Services instead of game guarantees paid. In addition, tow of the game guarantees received were recorded as miscellaneous revenue.</p> <p><i>Recommendations:</i> Athletics should record game guarantees received and game guarantees paid with object codes 3711 and 3712, respectively. This would help ensure that actual game guarantees are reported accurately on the SRE.</p> <p><i>Observations:</i> Vending income for FY 04 included receipts in the mount of \$8,582 that belongs in FY 2003, and does not include receipts of \$9,430 received in FY05 that belongs in FY04. In addition, a correction of \$156 was recorded in FY05 that belongs in FY04.</p> <p><i>Recommendations:</i> The Athletic department should ensure that deposits made to the vending account are reconciled to the commission spreadsheet provided by the VPFA’s Office. Adjusting entries should be made so that commissions received are classified in the correct fiscal year.</p>	Scheduled follow-up to be performed during 2006.	Assist UTEP in complying with the National Collegiate Athletics Association (“NCAA”) Constitution 6.2.3.1. for the year ended August 31, 2004

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><i>Observations:</i> We noted four receipts that were not deposited timely according to Miner Athletic Club (“MAC”) cash management procedures.</p> <p><i>Recommendations:</i> Management should review deposits occasionally for timeliness. Reasons for untimely deposits should be documented.</p> <p><i>Observations:</i> We reconciled the two listings within \$20,450, which is less than 1% of the total restricted and unrestricted gifts reported on the SRE. WE noted that the Athletics Business Office fgift account reconciliations were not complete and did not identify all variances. We also noted that \$2,250 received from track ticket sales was recorded in the 30-6590-8093 gift account.</p> <p><i>Recommendations:</i> The Athletics’ department should ensure that:</p> <ul style="list-style-type: none"> <li>• Reconciliation of the gift listings be performed on a monthly basis.</li> <li>• Differences between gifts recorded by Institutional Advancement and be investigated in a timely manner and the reasons for the difference documented.</li> <li>• A cut off date at year-end should be agreed to with Institutional Advancement to properly record gifts in the correct fiscal year.</li> <li>• An adjustment should be made to the SRE for the \$2,250 in ticket receipts.</li> </ul> <p><i>Observations:</i> A salary increase effective March 29, 2004 was not reported in DEFINE at the time of the change. As a result, the coach was not paid the appropriate salary for the rest of the fiscal year. A lump sum payment was made in April 2005 to</p>		

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p>correct the error.</p> <p><i>Recommendation:</i> Athletics should ensure that appointments agree to signed contracts, appointment changes are promptly recorded in DEFINE, and the adequate documentation is maintained.</p> <p><i>Observation:</i> The SRE did not include fringe benefits totaling \$826</p> <p><i>Recommendation:</i> The SRE should be adjusted to include fringe benefits of \$826. The SRE should also be subject to a secondary review after initial completion to verify that all amounts are properly included.</p> <p><i>Observations:</i> One travel transaction was charged to the wrong account and two transactions were coded with the wrong object code. We also noted that two travel advances were incorrectly reported on the SRE as Football Training Table and Men's Basketball post Season Game expenses.</p> <p><i>Recommendations:</i> UTEP should ensure that correct accounts are charged for travel expenditures and correct object codes are used. Adjustments should be made to the SRE to correct the errors.</p> <p><i>Observations:</i> We noted that a camp held for Men's Basketball in FY 2003 had not been closed out. As a result, funds due to the coaches for the camp were not actually transferred until FY 2004.</p> <p><i>Recommendations:</i> Athletics should ensure that coaches close out all camps in a timely manner by performing a subsequent review of all completed camps.</p>		

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			<p><i>Observations:</i> Follow-up on previous findings: two recommendations from previous audits have been fully implemented, two have been partially implemented</p> <p><i>Recommendations:</i> Partially implemented recommendations will be followed-up on in next year's audit.</p>		
Aug-05	Office of General Council	<p>To determine:</p> <ul style="list-style-type: none"> <li>• The reliability and integrity of the department's key financial information;</li> <li>• Whether controls are adequate and effective in safeguarding assets; and</li> <li>• Whether internal control procedures are in place and functioning as intended</li> </ul>	<p><i>Observations:</i> evidence of reconciliation preparation and department head approval was not documented. Other types of accounts were being reconciled, though the majority were not performed and reviewed timely. The timeliness of review of reconciliations for the Professional Medical Liability Insurance Plan could not be determined, because they were not dated by the reviewer. In addition, we observed an instance where corrections were made to a travel reimbursement request in Accounting and Purchasing Services, but the corrected documentation was not used in performing the reconciliation.</p> <p><i>Recommendations:</i> The Office of General Counsel should ensure that all accounts are being reconciled monthly. Each monthly account reconciliation should be signed and dated by the preparer and signed and dated by the reviewer. The department should ensure that accurate supporting documentation is used to perform reconciliations, and any differences between the supporting documentation and the account information should be investigated.</p> <p><i>Observations:</i> <u>Cash Management</u> - According to the UT System Regents' Rules and Regulations Administrative Rule, Series 22201: Deposits and Loans, receipts of \$200 or more should be deposited daily, and at least weekly even if the accumulation is less than \$200. Two real estate sale transaction fees checks totaling \$6,000 were not timely delivered to</p>	Scheduled follow-up to be performed during 2006.	Ensure accurate reporting of financial information and improve internal controls at the departmental level

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Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p>Accounting and Purchasing Services (“APS”) for deposit in accordance with this rule.</p> <p><i>Recommendations:</i> Deposits should be made in accordance with the UT System <i>Regents’ Rules and Regulations</i> Administrative Rule Series 22201: Deposits and Loans.</p> <p><i>Observations:</i> <u>Segregation of Duties</u> - In the Claims and Bankruptcy section, one person sends quarterly bills for reimbursement of legal fees, accepts incoming checks and logs them in a database, and delivers them to APS for deposit. The same person also reconciles the income accounts. Separating responsibility for physical security of assets from related record keeping is a critical control.</p> <p><i>Recommendations:</i> OGC should enhance its check receipt process so that custodial functions and related record-keeping functions for checks received are the responsibility of different people. For example, at least one person should open the mail and log the checks, and a different person should prepare the deposit and reconcile the account. The reconciliations of both the check log and the account should be reviewed by a supervisor.</p>		
Aug-05	Office of Development & Gift Services	To assist DGPS in ensuring that all checks received for the period September 1, 2004 through June 30, 2005 were deposited.	<p><i>Observations:</i> We located all but two checks in the accounting records and recommended that DGPS further research these checks to determine if they were deposited. Additionally, we noted that many checks were not deposited in accordance with Board of Regents’ <i>Administrative Rule</i> Series 22201 - Deposits and Loans</p> <p><i>Recommendations:</i> DGPS implemented new procedures for logging and depositing checks. Over the next couple of weeks, we will meet with you and your staff to review these new procedures to determine if they are effective.</p>	Scheduled follow-up to be performed during 2006.	Ensure accurate reporting of financial information

### III. List of Consulting Engagements and Non-Audit Services Completed

U. T. System Administration Consulting Engagements					
Report Date	Name of Engagement	High-Level Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/Other Impact
Sept-04	Management Review of The University of Texas at Dallas	<ul style="list-style-type: none"> <li>To identify strengths and weaknesses of the institution in order to assist executive management at U.T. Dallas and U.T. System during the transition to a new president</li> </ul>	<p><i>Observation:</i> Academic Support, Student Affairs, Financial Management, Auxiliary Enterprises and Services Areas are strengths at U.T. Dallas.</p> <p><i>Recommendation:</i> None</p> <p><i>Observation:</i> Strategic Planning is a minor weakness.</p> <p><i>Recommendation:</i> build and expand the Compact process to include more institutional integration, detailed action items, timelines, and responsible parties.</p> <p><i>Observation:</i> Human Resource Management is a minor weakness</p> <p><i>Recommendation:</i> Consideration should be given to succession management planning and appropriating staffing levels for the Business and Student Affairs infrastructures with U.T. Dallas' expected growth</p> <p><i>Observation:</i> Information Technology is a weakness.</p> <p><i>Recommendation:</i> A comprehensive vision for the role of TI in the future growth of the institution should be established. Additional opportunities for improvement exist in establishing software development standards and a change management process in preparation for replacement of the institution's legacy computer systems. U.T. Dallas would also benefit from the establishment of key performance measures and monitoring activities to evaluate the effectiveness of the management of the</p>	N/A	Ensure/improve presidential transition and maintain control over management initiatives

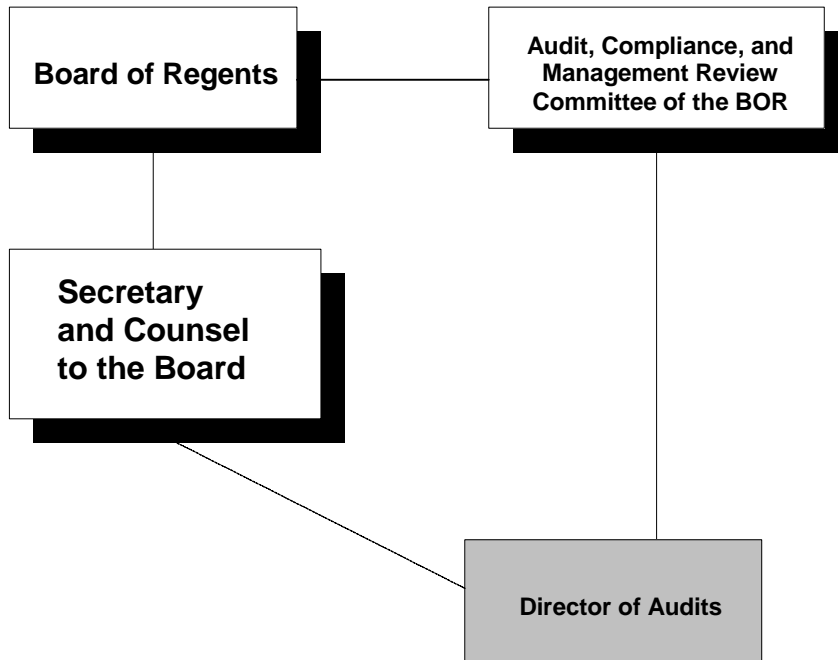
U. T. System Administration <b>Consulting Engagements</b>					
Report Date	Name of Engagement	High-Level Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/Other Impact
			<p>institution's overall IT investment.</p> <p><i>Observation:</i> University Advancement is a minor weakness.</p> <p><i>Recommendation:</i> Establish an overall strategy for institutional fundraising and limited development personnel resources.</p> <p><i>Observation:</i> Plant Operations and maintenance is a weakness.</p> <p><i>Recommendation:</i> Address significant issues such as the ability to create enough space compensate for growing enrollment and academic programs, campus egress, parking, and maintenance and management of the existing physical plant and environmental issues.</p>		
Apr-05	Results of Compensation Setting Process for Highly Compensated Individuals Consulting Services	<ul style="list-style-type: none"> <li>To assist the Office of the Chancellor in obtaining the necessary information to assess the established procedures for setting compensation levels for certain individuals to ensure compensation is reasonable, adequate documentation is maintained, and that the established process is in agreement with the "spirit" of Sarbanes Oxley Act of 2002 (Sarbanes Oxley) and the Internal Revenue Service (IRS) factors</li> </ul>	<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>A single individual in consultation with the Executive Vice Chancellors for Academic Affairs and Health Affairs, should be responsible for reviewing an monitoring the salary setting process.</li> <li>The Office of Academic Affairs should establish an appropriate salary setting process for highly compensated individuals at the academic institutions. Obtain approval by the Executive Vice Chancellor for Academic Affairs for those whose total compensation exceeds an established threshold.</li> <li>Each health institution should establish an appropriate salary setting process that considers the institution's size, operations, and culture. Establish a formal compensation philosophy, an executive compensation committee, centralized personnel files supporting the compensation decision for those individual considered highly compensated.</li> <li>The Office of the Board of Regents should review the current process of using the docket to obtain Board</li> </ul>	Implemented	Identifying appropriate compensation levels for highly paid employees under the guidance of Sarbanes Oxley Act of 2002 and the IRS

U. T. System Administration <b>Consulting Engagements</b>					
Report Date	Name of Engagement	High-Level Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/Other Impact
			approval of compensation or compensation changes for individuals with tenure and all head athletic coaches' contracts. If a threshold is established, a review of the threshold should be performed on a periodic basis to ensure it maintains an appropriate level of review.		
Apr-05	Facilities, Planning, and Construction (OFPC) Fee Benchmarking Consulting Engagement Results	<ul style="list-style-type: none"> <li>To assist OFPC in obtaining information to benchmark the current OFPC fee schedule. The information will be used by OFPC in determining whether their fees are reasonable and current in comparison to similar fee structures for construction project management in industry</li> </ul>	<p><i>Results:</i> The UT system fees for the scope of services, as defined by OFPC, range from 66% to 38% of the average fee of private providers of similar services. This is based on the responding companies' information of their estimated fees for the scope of services to be provided.</p>	N/A	Budgeting/bidding for construction projects with benchmark fees
May-05	Review of the Financial Condition of the University of Texas at Dallas	<ul style="list-style-type: none"> <li>To assist the Office of Academic Affairs and UTD President Designate Daniel in assessing the financial condition of UTD, including a high-level analysis of the unrestricted fund balance.</li> </ul>	<p><i>Observations:</i> During our discussions with executive management, they indicated that the institution has been focusing its resources in the Academic Division as it strives to reach its goal of a top tier research institution. We noted that UTD does allocate a greater percent of its budgetary funds to the Academic Division in comparison with other similar sized UT institutions and the Chronicle of Higher Education FY 2001 benchmark information for 4-year public schools. During FY 2004, UTD spent approximately 77 percent of its budget in the Academic Division, which is around 10 – 12 percent more of the total budget than comparable institutions. It appears that the focus of funds on the Academic Division has resulted in an under funding of the administrative infrastructure, including Student Affairs, Institutional Support, and Physical Plant.</p> <p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>Request that the Interim SVPBA assess the current organizational structure to determine the most appropriate</li> </ul>	N/A	Align spending and other costs with the ultimate goals of the institution

U. T. System Administration **Consulting Engagements**

Report Date	Name of Engagement	High-Level Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/Other Impact
			<p>structure for the institution. When performing this assessment, UTD should consider a benchmark study with comparable schools to evaluate the organization and staffing of the business affairs/administration function while factoring in the estimated growth and institution goals.</p> <ul style="list-style-type: none"> <li>• Request a detailed review of the unrestricted fund balance, including those accounts identified as committed, to fully assess UTD's financial condition and the level of funds available for unrestricted use.</li> <li>• Develop appropriate high-level user-oriented reports of the financial condition for the executive management team that provides sufficient and understandable information to fully assess the institution's financial condition.</li> <li>• Request that Internal Audit perform a review of all Auxiliary Operation contracts to ensure the institution is receiving best value.</li> </ul>		

## IV. Organizational Chart



## VI. Report on Other Internal Audit Activities

<i>Activity</i>	<b>Impact</b>
Entered into consulting agreements with executive management to review areas that they requested our services in.	Provided executive management valuable feedback in the following consulting projects: U. T. Dallas Management Review, U.T. Pan American Oracle Implementation Project; Results of Compensation Setting Process for Highly Compensated Individuals Consulting Services;
Presentations to Other Organizations	Share knowledge gained in internal controls, internal auditing, and institutional compliance techniques and models through presentation for professional organizations such as The Institute of Internal Auditors, the Association of College and University Auditors, National Association of College and University Business Officers, National Association of College and University Attorneys, and the Texas Association of College and university Auditors.
Provided the Audit, Compliance, and Management Review Committee, information on the internal audit function for fiscal year 2004	Improved communication with Board of Regents on the activities of internal audit.
Provided consultation, guidance, assistance and in some cases oversight to the components' internal audit departments	Improved independence, expertise, and audit oversight. Specifically, we were involved in peer reviews of UT System institutions. We provided a staff member as interim Director to UT Medical Branch at Galveston. We also provided assistance to UT System institutions on information technology audits/projects.
The Director of Audits is the System-wide compliance Officer. He and members of his staff act as the day-to-day liaison with the Institutional compliance Officers at each component and System Administration.	In fiscal year 2005, the System Audit Office continued to develop and facilitate the high-risk areas work groups (i.e., Human Resources; Environmental Health and Safety; Student Financial Aid, HIPAA, Medical Billing, and Clinical Research). Additionally, the office has organized and coordinated periodic meetings of the Compliance Officers.

## VII. Internal Audit Plan for Fiscal Year 2006

### SYSTEM ADMINISTRATION - Part 1 of 3

FY 2006 Budgeted Expenditures: \$164,613,006

16.7 Budgeted Audit Positions

FY 2006 Audit Plan - <i>Audit</i>		2006	%
Audit/Project		Budgeted	of
		Hours	Total
<b>UT System Requested</b>			
<i>Audits</i>			
	Staffing Provided to System Administration related to the System-wide Financial Audit	400	
	<b>Subtotal</b>	<b>400</b>	<b>5%</b>
<b>Externally Required</b>			
<i>Audits</i>			
	IT System and Hardware Inventory	200	
	Governor's Fraud Initiative	200	
	<b>Subtotal</b>	<b>400</b>	<b>5%</b>
<b>Risk-based Audits: UTIMCO (Non-IT)</b>			
<i>Audits</i>			
	Internal Controls Evaluation (SOX)	1000	
	Investment Management Oversight	300	
	Investment Compliance	300	
	Pricing (Non-Marketables)	80	
	Fees and Expenses	120	
	Financial Statement Audit Assistance	160	
<i>Consulting</i>			
	Attendance at board and audit committee meetings	160	
	Models		
	<b>Subtotal</b>	<b>2120</b>	<b>25%</b>
<b>Risk-based Audits: System Administration (Non-IT)</b>			
<i>Audits</i>			
	High-Risk Areas TBD	500	
	Oil & Gas Producers on PUF Lands	800	
	EGI-Contract Administration	400	
	OFPC Construction Procurement & Contract Administration	400	
<i>Consulting</i>			
	Oil & Gas Producers Follow up	100	
<i>Special Requests</i>			
	Office of the Board of Regents	150	
	Other Special Requests	200	
<i>Carryforward</i>			
	Miscellaneous	100	
	<b>Subtotal</b>	<b>2650</b>	<b>32%</b>

**Risk-based Audits: IT***Audits*

Disaster Recovery	250	
Network Security and Availability	400	
ULAO Enertia System	300	
OFPC Integrated Info Platform Initiative- Application Security	200	
IT Operational Security Review Follow-up	100	
<b>Subtotal</b>	<b>1250</b>	<b>15%</b>

**Change in Management***Audits*

Unknown	550	
<b>Subtotal</b>	<b>550</b>	<b>7%</b>

**Follow-up***Audits*

UTIMCO	40	
System Administration (non-IT)	240	
IT	100	
<i>Carryforward</i> Q3/Q4	120	
<b>Subtotal</b>	<b>500</b>	<b>6%</b>

**Audit Projects***Reporting*

2007 Audit Plan	120	
Annual Audit Report (Texas Internal Auditing Act)	40	
Recommendation Tracking System	160	

*Special Requests*

	150	
<b>Subtotal</b>	<b>470</b>	<b>6%</b>

<b>Total Hours</b>	<b>8340</b>	<b>100%</b>
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## COMPLIANCE – Part 2 of 3

FY 2006 Audit Plan - Compliance		2006	%
Audit Areas		Budgeted Hours	of Total
<b>Compliance Projects</b>			
<i>Oversight</i>			
Peer Reviews & Peer Review Follow up		600	
High-risk Working Group Facilitation		400	
Updating of Action Plan and BPM		20	
Compliance Policy Development and Identification of Best Practices		300	
<b>Subtotal</b>		<b>1320</b>	<b>42%</b>
<i>Reporting</i>			
Quarterly/Annual Activity Reporting		200	
<b>Subtotal</b>		<b>200</b>	<b>6%</b>
<i>Communication</i>			
Website updates/maintenance		250	
Institutional Compliance Advisory Committee Coordination		200	
Compliance Newsletters		200	
Emerging Issues Reviews		200	
<b>Subtotal</b>		<b>850</b>	<b>27%</b>
<i>Promote</i>			
Effective Compliance Systems Conference		250	
<b>Subtotal</b>		<b>250</b>	<b>8%</b>
<i>Contribute</i>			
National Conference Presentations		100	
University Compliance Group Participation		60	
Participation in the Open Compliance and Ethics Group		100	
<b>Subtotal</b>		<b>260</b>	<b>8%</b>
<i>Special Requests</i>			
Non-profit Panel Review - CTS		24	
Unknown		250	
<b>Subtotal</b>		<b>274</b>	<b>9%</b>
<b>Total Hours</b>		<b>3154</b>	<b>100%</b>

### OVERSIGHT – Part 3 of 3

FY 2006 Audit Plan - Oversight		2006 Budgeted Hours	% of Total
Audit/Project			
<b>UT System Requested</b>			
<i>Audits</i>			
Guidance/Assistance Provided to the Institutions related to the System-wide Financial Audit		600	
<b>Subtotal</b>		<b>600</b>	<b>10%</b>
<b>Externally Required</b>			
<i>Audits</i>			
NCAA Audits at UT Arlington, UT El Paso, UT San Antonio, and UT Pan American		1000	
<b>Subtotal</b>		<b>1000</b>	<b>17%</b>
<b>Risk-based Institutional Audits</b>			
<i>Audits</i>			
A-133 Research Compliance		500	
UTHC Tyler Financial Review		500	
UT Arlington - IT Audit		50	
UT Tyler - IT Audit		50	
<i>Consulting</i>			
UTHSC-H PerSe Contract		200	
UT Pan American - ORACLE Implementation Project		80	
MD Anderson - IT Auditing Co-Sourcing		250	
System-wide IT Consulting		100	
<i>Special Requests</i>			
		200	
<b>Subtotal</b>		<b>1930</b>	<b>33%</b>
<b>Audit Projects</b>			
<i>Reporting</i>			
2007 System-wide Audit Plan		100	
Audit, Compliance, and Management Review Committee ("ACMR")		350	
Recommendation Tracking System (Red, Yellow, Green)		250	
Internal Audit Council		160	
<i>In the News</i> - Newsletter		100	
<i>Consulting</i>			
Component Institutions		1000	
<i>Special Requests</i>			
Component Peer Reviews		75	
Unknown		200	
<i>Carryforward</i>			
2006 Audit Plan		62	
<b>Subtotal</b>		<b>2297</b>	<b>39%</b>
<b>Total Hours</b>		<b>5827</b>	<b>100%</b>

## **VII. External Audit Services**

The University of Texas System has contracted with Deloitte & Touch to perform an independent audit of the Fiscal Year 2005 System-wide Financial Statements. Work on the beginning balances was completed by Deloitte during the 2005 fiscal year.

The University of Texas Investment Management Company contracted with Ernst & Young to perform an independent audit of the Fiscal Year 2004 Financial Statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, and Short Term Intermediate Fund.