

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

**Annual Audit Report  
Fiscal Year 2006**



The System Audit Office  
The University of Texas System  
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# I. Internal Audit Plan for Fiscal Year 2006

## System Administration – part 1 of 2

FY 2006 Audit Plan - <i>Audit</i>		2006 Budgeted Hours	% of Total
Audit/Project			
<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>4%</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>4%</b>
<b>Risk-based Audits: UTIMCO (Non-IT)</b>			
<i>Audits</i>	-		
	Internal Controls Evaluation (SOX)	1000	
	Investment Management Oversight (Marketable and Nonmarketable)	300	
	Investment Compliance	300	
	Pricing (Non-Marketables)	80	
	Fees and Expenses	120	
	Financial Statement Audit Assistance	160	
	Institutional Compliance	80	
<i>Consulting</i>	-		
	Attendance at board and audit committee meetings	160	
	Models	40	
<i>Special Requests</i>	-	200	
	<b>Subtotal</b>	<b>2440</b>	<b>23%</b>
<b>Risk-based Audits: System Administration (Non-IT)</b>			
<i>Audits</i>	-		
	High-Risk Areas TBD	500	
	Compliance Inspections - Procard & Reconciliations	200	
	Oil & Gas Producers on PUF Lands:		
	Pure Energy	500	
	ConocoPhillips	500	
	EGI-Contract Administration	500	
	OFPC Construction Procurement & Contract Administration	500	
	Insurance and Loss Control	250	
	Self-Insurance Funds (UCI and WCI)	500	

FY 2006 Audit Plan - <i>Audit</i>		2006	%
		Budgeted	of
Audit/Project		Hours	Total
<i>Consulting</i>			
	Consulting West Texas Operations	100	
	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>4100</b>	<b>39%</b>
<b>Risk-based Audits: IT</b>			
<i>Audits</i>	-		
	Disaster Recovery	250	
	Network Security and Availability	400	
	U LAO Enertia System	300	
	OFPC Integrated Info Platform Initiative- Application Security	200	
	Records Management	250	
	IT Operational Security Review Follow- up	100	
	<b>Subtotal</b>	<b>1500</b>	<b>14%</b>
<b>Change in Management</b>			
<i>Audits</i>	Unknown	750	
	<b>Subtotal</b>	<b>750</b>	<b>7%</b>
<b>Follow-up</b>			
<i>Audits</i>	UTIMCO	40	
	System Administration (non-IT)	240	
	IT	100	
<i>Carryforward</i>	Q3/Q4	120	
	<b>Subtotal</b>	<b>500</b>	<b>5%</b>
<b>Audit Projects</b>			
<i>Reporting</i>	-		
	2007 Audit Plan	120	
	Annual Audit Report (Texas Internal Auditing Act)	80	
	Recommendation Tracking System	160	
<i>Consulting</i>	-		
<i>Special Requests</i>	-	150	
<i>Carryforward</i>	-		
	<b>Subtotal</b>	<b>510</b>	<b>5%</b>
<b>Total Hours</b>		<b>10600</b>	<b>100%</b>
	<b>System Administration Hours (Part 1 of 2)</b>	<b>10,600</b>	<b>57%</b>
	<b>Oversight Hours (Part 2 of 2)</b>	<b>7,862</b>	<b>43%</b>
	<b>Total Hours</b>	<b>18,462</b>	

## Oversight – part 2 of 2

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>9%</b>
<b>Externally Required</b>			
<i>Audits</i>			
	NCAA Audits at UT Arlington, UT El Paso, UT San Antonio, and UT Pan American	1200	
	<b>Subtotal</b>	<b>1200</b>	<b>15%</b>
<b>Risk-based Institutional Audits</b>			
<i>Audits</i>			
	A-133 Research Compliance	500	
	UTHC Tyler Financial Review	500	
	UT Arlington - IT Audit	100	
	UT Tyler - IT Audit	100	
<i>Consulting</i>			
	UTHSC-H PerSe Contract	250	
	UT Pan American - ORACLE Implementation Project	100	
	MD Anderson - IT Auditing Co-Sourcing	250	
	System-wide IT Consulting	200	
<i>Special Requests</i>			
	<b>Subtotal</b>	<b>2300</b>	<b>29%</b>
<b>Change in Management</b>			
<i>Special Requests</i>			
	<b>Subtotal</b>	<b>200</b>	<b>3%</b>
<b>Audit Projects</b>			
<i>Reporting</i>			
	2007 System-wide Audit Plan	150	
	Audit, Compliance, and Management Review Committee ("ACMR")	500	
	Recommendation Tracking System (Red, Yellow, Green)	400	
	Internal Audit Council	200	
	<i>In the News</i> - Newsletter	200	
<i>Consulting</i>			
	Institutions	1500	
<i>Special Requests</i>			
	Institution Peer Reviews	150	
	Unknown	400	
<i>Carryforward</i>			
	2006 Audit Plan	62	
	<b>Subtotal</b>	<b>3562</b>	<b>45%</b>
<b>Total Hours</b>		<b>7862</b>	<b>100%</b>

## **Deviations from the Audit Plan**

### *Overall*

A majority of the fiscal year 2006 *Audit Plan* was completed. Reports for five fiscal year 2006 audits will be issued in fiscal year 2007.

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.

## II. 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.

### III. List of Audits Completed

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
Sep-05	<b>UTIMCO Sarbanes-Oxley Act Section 404 Audit Report</b>	To provide assurance to UTIMCO management and the UTIMCO Board of Directors' Audit and Ethics Committee that internal controls over financial reporting of UTIMCO's corporate operations and PUF processes were adequately documented and to determine whether these controls were sufficient and working as intended; and our work was designed so that Ernst & Young, LLP, UTIMCO's external auditor, could rely on it to reduce the extent of their procedures in preparation for their attestation on the controls over financial reporting of UTIMCO's corporate operations and PUF processes.	<p><b>Observation:</b> According to UTIMCO's fixed assets and expenditures process narratives, each fixed asset acquisition must be approved in advance. We found that some telephones had been purchased, but there was no documentation indicating that these purchases had been pre-approved. In addition, the purchasing/approval processes and documentation were inconsistent and untimely.</p> <p><b>Recommendation:</b> We recommend variances from policy be approved in writing.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> According to UTIMCO's fixed assets process narrative, each new fixed asset is added to UTIMCO's fixed asset inventory system, and a bar code label is attached to it. We found that most fixed assets purchased in calendar year 2005 had not yet been added to the inventory system.</p> <p><b>Recommendation:</b> We recommend that UTIMCO ensure that all assets have been added to the inventory system.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> According to UTIMCO's payroll process narrative, Office Manager routes leave balance information to each supervisor on a quarterly basis for them to review. We determined this procedure wasn't being done.</p> <p><b>Recommendation:</b> We recommend that the procedure be implemented or an analysis be performed to determine whether mitigating controls are in place.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> The corporate operations IT systems process narrative states that access to the Solomon general ledger and accounts payable software is limited to those individuals requiring access to perform their accounting duties. Our testing showed that some employees who are no longer involved in accounting still had access to this software.</p> <p><b>Recommendation:</b> We recommend that these people be removed from the Solomon authorized users lists.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> For the payroll process, UTIMCO relies on ADP. We reviewed SAS 70 reports for April - September 2004 as well as for October 2004 – March 2005, and test exceptions were noted in both reports for ADP's AutoPay Payroll System.</p> <p><b>Recommendation:</b> We recommend that UTIMCO discuss these exceptions with ADP in order to assure that ADP corrects them.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> As part of the payroll process, UTIMCO maintains spreadsheets to track employees' vacation time, sick leave, and personal leave. According to UTIMCO's process narrative, an accounting manager is supposed to review these spreadsheets for accuracy each month. For one of the months tested, we were unable to see evidence that this review occurred.</p> <p><b>Recommendation:</b> We recommend that an accounting manager review these spreadsheets each month and indicate his/her approval by initialing them.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> UTIMCO's control environment documentation does not link to audit evidence.  <b>Recommendation:</b> UTIMCO should improve the control environment documentation so that audit evidence is linked to the statements about the environment.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> In order to prevent conflicts of interest, UTIMCO Board members and key employees are required to complete Certificate of Compliance forms for each new investment. When we tested the controls documented in the marketable alternative investment purchases process, we found that one of these forms was not filled out completely.  <b>Recommendation:</b> Although we later determined that this internal employee did not have a pecuniary or personal interest in the investment, we recommend that UTIMCO review these forms more carefully in order to assure that conflicts do not exist.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> The securities lending process narrative covers the activities UTIMCO performs to ensure that Mellon is in compliance with the Securities Lending Agreement. However, the narrative does not address how the collateral and fees are reflected in the PUF's financial statements and the controls in place to ensure that this data is complete and accurate.  <b>Recommendation:</b> We recommend that the process narrative be expanded to describe the accounting for collateral and fees relating to securities lending.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> The narrative regarding the PUF's general computer controls and application controls has yet to be completed.</p> <p><b>Recommendation:</b> UTIMCO should complete this document and use the "IT Control Objectives for Sarbanes-Oxley, The Importance of IT in the Design, Implementation and Sustainability of Internal Control Over Disclosure and Financial Reporting" as a guide.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> Although UTIMCO has an ethics hotline, the number is not disclosed in the Employee Handbook.</p> <p><b>Recommendation:</b> We recommend that the number be included in the handbook. Additionally, we recommend that the hotline be tested periodically and that a communication mechanism be developed to report calls to the Audit and Ethics Committee. Finally, documentation of the hotline process should be developed.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> In 2004, UTIMCO staff completed an enterprise-wide risk assessment and ranked risks from high to low, linking controls to the risks. UTIMCO staff tested certain controls and noted control deficiencies.</p> <p><b>Recommendation:</b> We recommend UTIMCO staff take the next steps to do the following:</p> <ol style="list-style-type: none"> <li>1. Link the controls identified in the risk assessment to the controls tested as part of the Sarbanes-Oxley Section 404 audit.</li> <li>2. Follow up on exceptions to determine whether they have an impact on the Section 404 audit.</li> </ol>	Partially Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>3. Develop a policy for how often the risk assessment will be updated.</p> <p>4. Present the high-risk areas to the Audit and Ethics Committee and identify the controls that were tested as part of the Section 404 audit and those that were not.</p>		
			<p><b>Observation:</b> In regards to the revenue recognition process, people frequently make open records requests, and UTIMCO occasionally charges a fee for making copies of the requested documents. Currently, there is a lack of segregation of duties in this area. The Manager of Finance and Administration determines when and how much the requestors will be charged. He creates and mails letters to the requestors informing them of the charges, and he also receives the payment checks.</p>	Waived After Further Review	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Recommendation:</b> We recommend that the manager delegate the task of fulfilling the requests to another individual and that he review the transactions.</p>		
			<p><b>Observation:</b> In regards to the payroll process, the Office Manager is currently the only employee who knows how to use the ADP software and to process the payroll.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Recommendation:</b> We recommend that management identify and cross-train another employee as a backup.</p>		

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> In regards to the fixed assets and corporate IT processes, every UTIMCO employee has the ability to read, write, and delete records in the Microsoft Access database used for inventory tracking. The database is not password protected either.</p> <p><b>Recommendation:</b> We recommend that access be restricted to selected employees.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> UTIMCO does not currently have a capital asset budget.</p> <p><b>Recommendation:</b> In regards to the budget process, UTIMCO should consider developing a capital asset budget and requiring approval from the UTIMCO Board of Directors. In addition, the UTIMCO Board of Directors should monitor the budget to actual expenses for capital assets as well as for operating expenses.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> In regards to the fixed assets and expenditures processes, the President/CEO/CIO, all managing directors, and the Manager of Finance and Administration currently have the authority to approve any fixed asset purchase.</p> <p><b>Recommendation:</b> As a best practice, we recommend that dollar limits be established. For example, managing directors and the Manager of Finance and Administration should be able to approve all purchases up to \$X. Purchases over \$X and up to \$Y should be approved by the President/CEO. Purchases over \$Y should be approved by the UTIMCO Board of Directors.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> In regards to the fixed assets and expenditures processes, we learned that UTIMCO has issued formal requests for proposals and obtained multiple bids for certain services, such as external auditing. However, UTIMCO does not have a policy requiring that multiple bids be obtained for purchases over a certain dollar limit.</p> <p><b>Recommendation:</b> We recommend that a policy be developed for obtaining bids over a certain threshold.</p>	Not Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> According to UTIMCO's fixed assets process narrative, surplus computer equipment is sometimes sold to employees at a price that approximates fair value. The IT department determines the sale prices based on third party sources. However, no one outside of the IT department verifies that the prices are reasonable.</p> <p><b>Recommendation:</b> We recommend that a person outside of IT be designated to review the determination of fair value.</p>	Waived After Further Review	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> According to the expenditures and investments process narratives, the list of authorized bank accounts to which Dreyfus can wire money includes a Bank One account that was closed and a Deutsche Bank account that is no longer used.</p> <p><b>Recommendation:</b> We recommend that the Dreyfus list be updated regularly and that a process be implemented to ensure that inactive accounts are identified and closed in a timely manner.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
Sept-05	<b>WTO Pure Resources</b>	<ol style="list-style-type: none"> <li>To determine that production reported to the University was reasonable.</li> <li>To determine that proceeds from oil and gas sales were reasonable and that the corresponding royalties had been remitted to the University.</li> <li>To determine that gas sales meters and Lease Automated Custody Transfer ("LACT") meters were calibrated regularly.</li> </ol>	<p><b>Observation:</b> In total, the findings related raw field deductions, residue gas, and lease-use gas have resulted in over \$75,000 in gas royalty underpayments to the University, excluding statutory penalties and interest.</p> <p><b>Recommendation:</b> We recommend that West Texas Operation ("WTO") request the following actions from Pure:</p> <ol style="list-style-type: none"> <li>Remit the underpaid royalty to the University and remit its gas royalty payments based on 100% production, in accordance with the lease agreements.</li> <li>Include the entire residue value when reporting and paying the royalty due to the University.</li> <li>Report all lease-use dispositions to the university and remit royalty due on those leases for which royalty is due on gas volumes consumed at the lease.</li> </ol>	Partially Implemented	Ensure compliance with contract agreements and ensure the accuracy of royalty payments.
			<p><b>Observation:</b> Based on our recalculation and comparison, we determined that the residue prices were lower than expected for the State "AM", U Tex "KK", State "AK", State "AL", West Caprito #2 Unit, and Graham "J" leases. Each of these leases was covered by the same gas purchase contract.</p> <p><b>Recommendation:</b> We recommend that ULAO bill Pure in the amount of \$4,680 for the residue price variances between the purchase statements and contract. WTO should investigate any other University leases covered by this gas purchase contract that were not in the audit scope to ensure the proper price is used in determining gas value.</p>	Implemented	Ensure compliance with contract agreements and ensure the accuracy of royalty payments.

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> Approximately one-fifth of the gas calibration inspection reports indicate that gas calibration events were not witnessed. Additionally, Pure has several check meters used primarily to measure low pressure gas volumes, or "flash gas." Only one of the check meters was not calibrated once every six months.</p> <p><b>Recommendation:</b> We recommend that West Texas Operation request the following actions from Pure:</p> <ol style="list-style-type: none"> <li>1. Ensure that gas sales meters and check meters are calibrated once every six months, in accordance with Board for Lease Rules.</li> <li>2. Consider developing a process to determine the percent error for gas sales meters that do not currently have error percentages recorded on calibration reports.</li> <li>3. Take appropriate corrective action for gas sales meters that are not calibrated within the acceptable tolerance of +/- 2%, as established by Board for Lease Rules.</li> <li>4. Ensure that the gas sales meter calibrations performed by the gas purchasers are witnessed.</li> </ol>	<p>Scheduled follow-up to be performed during FY 2007</p>	<p>Ensure compliance with contract agreements and ensure the accuracy of royalty payments.</p>

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> Board for Lease Rules and Regulations require that lessees on University lands calibrate each LACT meter at least quarterly, and at any other time requested by West Texas Operations. For both the University "5" commingled group (five leases), and the Brangus commingled group (three leases), Pure was not able to provide evidence of calibration for a ten month period between December 2003 and October 2004. In addition, Pure was not able to provide evidence of calibrations for the State "AK/AL" commingled group (two leases) and the Graham "J" lease for any time during the scope of this engagement. Pure indicated that the calibration events did occur, but cited a transition of oil pipeline ownership, from Mobil Pipeline to Centurion Pipeline, L.P., as the reason the supporting documentation could not be found.</p> <p><b>Recommendation:</b> We recommend that West Texas Operations require that Pure ensure that LACT meter calibration inspections are performed every 90 days, in accordance with Board for Lease Rules and Regulations. Additionally, West Texas Operations should request that Pure maintain copies of the calibration events. Over the next six months or two most recent calibration events, whichever comes first, West Texas Operations should consider requesting copies of the LACT calibrations from Pure to provide itself reasonable assurance that the oil production is being measured accurately.</p>	<p>Scheduled follow-up to be performed during FY 2007</p>	<p>Ensure compliance with contract agreements and ensure the accuracy of royalty payments.</p>

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
Sep-05	<b>OFPC Change in Management</b>	<ol style="list-style-type: none"> <li>1. Determine the reliability and integrity of the department's key financial information</li> <li>2. Determine the adequacy and effectiveness of controls in safeguarding assets</li> <li>3. Determine whether internal control procedures have been established and are functioning as intended.</li> </ol>	<p><b>Observation:</b> During testing, we noted that fifteen items with an original cost of \$38,500 and a net book value of \$699 were listed as missing on the most current inventory taken in May 2005 and have not been located. One of the missing items may have been stolen. This item and seven other items considered missing are fully depreciated and are scheduled to be removed from the inventory list in fiscal year 2006. The net book value of the missing items represents &lt; 1% of the net book value of OFPC inventory.</p> <p><b>Recommendation:</b> We recommend OFPC develop a process to minimize the occurrence of missing inventory and follow the UT System Inventory Policy for items considered stolen.</p> <p><b>Observation:</b> We noted that five accounts for the month of February 2005 and one account for September 2004 were reconciled over 100 days after the end of the month. According to the UT System Manager and Supervisor Reference Guide, account reconciliations should be completed monthly and discrepancies should be resolved within 60 days after their identification or before fiscal year-end, whichever is sooner. Reconciliations not performed in a timely manner could result in the loss of funds or delay the identification of potential errors or irregularities.</p> <p><b>Recommendation:</b> We recommend OFPC ensure its monthly reconciliations are completed in a timely manner. Outstanding circumstances resulting in delays should be documented.</p>	<p>Implemented</p> <p>Scheduled follow-up to be performed during FY 2007</p>	<p>Improve internal control at the departmental level</p> <p>Improve internal control at the departmental level</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
Dec-05	<b>Executive Travel and Entertainment Expense Audit</b>	Determine the reliability and integrity of executive travel and entertainment expenses; and	<p><b>Observation:</b> Although we did not find any errors during the testing of the Chancellor's travel and entertainment expenses, we noted that reimbursements of these expenses are approved by someone who reports directly to the Chancellor.</p> <p><b>Recommendation:</b> Reimbursements of the Chancellor's travel and entertainment expenses should be approved by someone who does not directly report to him, specifically, the Counsel and Secretary to the Board of Regents, to avoid any appearance of impropriety and reduce reputational risk.</p>	Implemented	Ensure security measures/controls are in place and functioning appropriately and ensure regulatory guidelines compliance
Dec-05	<b>Office of the Board of Regents - Departmental Audit</b>	<ol style="list-style-type: none"> <li>1. Determine the reliability and integrity of the department's key financial information</li> <li>2. Determine whether controls are adequate and effective in safeguarding assets.</li> <li>3. Determine whether internal control procedures are in place and functioning as intended.</li> </ol>	<p><b>Observations:</b> A control conscious environment exists. Internal controls have been established and are functioning as intended.</p> <p><b>Recommendations:</b> None</p>	N/A	N/A
Dec-05	<b>Follow-Up 1<sup>st</sup> Quarter FY 2006</b>	Determine the implementation status of recommendations included in 18 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.	<p><b>Observation:</b> Out of 50 outstanding recommendations, 25 recommendations remain not implemented or partially implemented.</p> <p><b>Recommendation:</b> none.</p>	Scheduled follow-up to be performed during 2007.	Monitor and communicate the level of implementation of recommendations included in audit reports.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
Jan-06	<b>UT System Medical Liability Benefit Plan</b>	<ol style="list-style-type: none"> <li>1. Determine whether governance provides effective oversight of the Plan.</li> <li>2. Determine whether the data submitted to the Plan's actuary for calculation of premiums and liabilities appears complete and accurate.</li> <li>3. Determine the Plan liability recorded in the accounting system at August 31, 2004 is supported by an actuarial calculation and appears reasonable.</li> </ol>	<p><b>Observation:</b> While the Plan designates a Plan Administrator, in practice the Plan Administrator shares administrative duties with other departments at UT System with functional and operational expertise in certain areas. As mentioned above, governance of the Plan is largely carried out by the Committee. Evidence supporting decisions reached by the Committee is not recorded in minutes. Some decisions regarding the Plan are reflected in the agendas of monthly meetings between OGC and Health Affairs. Also, major decisions, such as the setting of annual premium rates, are documented in letters to the institutions signed by the Plan Administrator and the Executive Vice Chancellor for Health Affairs.</p> <p><b>Recommendation:</b> We recommend that the Plan Administrator officially authorize the Committee to oversee all Plan governance, with the exception of action on legal matters, which should remain under the authority of the Plan Administrator. The process for action regarding legal matters is set out in the rules of the Board of Regents and is structured to preserve legal privileges and patient confidentiality. The Committee should adopt a regulation to formalize membership, meeting dates, and action items. Evidence of important Committee decisions - monitoring investment allocation, accepting actuarial assumptions, reviewing financial information, determining premium returns and establishing reserve levels should be documented in Committee meetings minutes as appropriate.</p>	Implemented	Ensure the program's accuracy and effectiveness of processes.

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> Roles and Responsibilities. Personnel appear to understand their responsibilities regarding Plan management and input of data. However, it is difficult to determine ownership in certain areas. For example, we found it difficult to determine who is responsible for ensuring the updating of investment policy, that adequate controls over the input of data at the institutions are in place, and that data submitted to the actuary reconciles to System Administration records. Delegation of Roles. Additionally, responsibilities for certain functions of the Plan have developed based on preferences of previous Plan Administrators. Given the change in management, now is a good time to consider reallocation of effort. Certain daily administrative tasks may be assigned to the Office of Business Affairs.</p> <p><b>Recommendation:</b> The Plan Administrator (or his designee) should review roles and responsibilities and document job descriptions. Additional personnel may be required based on the review. Given the significance of the Plan and the adequacy of funding, we believe additional staff is warranted. Additionally, the Plan Administrator should consider delegating administrative functions to the Office of Business Affairs. These tasks include ownership of the computer systems, inputting historical claims data used by the actuary, obtaining certifications from the institutions, reconciling data with the actuary and supporting the Committee by creating documentation on decisions, etc.</p>	<p>Scheduled follow-up to be performed during 2007.</p>	<p>Ensure the program's accuracy and effectiveness of processes.</p>

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> Plan assets as of 11/30/05 were invested 67% in the Long Term Fund (“LTF”), 26% in the Short Intermediate Term Fund (“SITF”) &amp; 7% in the Short Term Fund (“STF”). The Plan’s Investment Policy Statement (“Policy”) requires investments to be allocated 60% to equities and 40% to debt instruments. UTIMCO certifies that the investments are allocated based on policy guidelines; however, since funds are invested in many categories such as commodities, private equity funds, and hedge funds, the policy has not kept pace with the changing investment environment. It is our understanding that the investment policy is being reviewed and updated.</p> <p><b>Recommendation:</b> We encourage the update of the investment policy and recommend rethinking the investment strategy. Effective 2/1/06, the Plan assets will be invested 85% in the Intermediate Term Fund (“ITF”) and 15% in the STF, pursuant to the UT System Allocation policy for Non-Endowment Funds. This interim strategy is a result of the elimination of the SITF. The ITF will be invested in assets similar to the LTF except private equity will not be included, thereby making the assets slightly more liquid than the LTF. Although Plan assets have remained stable historically, the increased liquidity of the ITF appears to make sense for the Plan because assets can be more readily called upon to satisfy claims. The Office of Finance has agreed to review the Plan’s Policy and, in consultation with the Plan actuary, determine an appropriate asset allocation for the Plan’s assets.</p>	Implemented	Ensure the program’s accuracy and effectiveness of processes.

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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><b>Observation:</b> Although an annual report for the Plan is produced and provides a nice overview of Plan results, the report does not contain certain financial data that might be useful to readers and the Committee and enhance transparency. This information includes types of operating expenses charged to the Plan and the financial position of the Plan, including investment allocations and reserve balances.</p> <p><b>Recommendation:</b> In order to strengthen transparency of the Plan, management should prepare financial statements for the Plan annually, including a balance sheet and a statement of revenues, expenses, and changes in net assets. If preparation of financial statements is cost prohibitive, the annual report should at least provide a breakdown of operating expenses charged to the Plan, investment allocations, receivables, payables and liabilities in excess of reserves.</p>	<p>Scheduled follow-up to be performed during 2007.</p>	<p>Ensure the program's accuracy and effectiveness of processes.</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><b>Observation:</b> The Plan is financially sound and maintains significant investments in excess of liabilities (reserves). Currently, reserves are established and maintained as if the Plan were a stand-alone insurance company even though full costs typical of a stand-alone business may not be paid by this Plan. For example, a stand-alone business would incur costs for advertising, marketing, support services and Department of Insurance regulatory requirements to which our Plan is not subject. Additionally, based on our limited review of expenses charged to the Plan, we were unable to determine if all indirect costs associated with facilities and administration are charged to the Plan.</p> <p><b>Recommendation:</b> The Committee should review the current assumptions used for required reserve levels. They may do this by comparing overhead expenses charged to the Plan with other stand-alone insurers to determine if the Plan has similar reserve needs to cover expenses. The Committee should document basis for their conclusion.</p>	Scheduled follow-up to be performed during 2007.	Ensure the program's accuracy and effectiveness of processes.
			<p><b>Observation:</b> Controls Regarding Actuarial Data. Based on our discussion with ORM, staff stated that informal controls exist to check the accuracy of data submitted to the actuary and to reconcile Plan data maintained at System Administration with data maintained by the actuary. Controls Regarding Institutional Data. Additionally, each institution is responsible for inputting hours and risk classifications of the physicians in order for the actuary to determine premiums annually.</p>	Scheduled follow-up to be performed during 2007.	Ensure the program's accuracy and effectiveness of processes.

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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><b>Recommendation:</b> In order to ensure the actuary is making estimates based on correct data, we recommend that informal procedures currently in place for reconciling our Plan data with actuarial Plan data be formalized. Procedures should include obtaining key information used by the actuary for producing the actuarial report and agreeing the data with our records at least annually. Evidence of this process should be documented and maintained. Additionally, in order to ensure each institution has proper controls in place to ensure accuracy and completeness of data, the Plan Administrator should obtain certifications from each stating that there are controls in place and that the data has been reviewed for completeness and accuracy. The Controller's Office obtains similar certifications for preparation of the annual financial report and these might provide useful guidance.</p> <p><b>Observation:</b> Actuarial Assumptions in General: The actuary uses many assumptions in determining premiums and liabilities. These assumptions include adequacy of reserves, discount rates, and settlement trends, among others. In addition, the Plan Administrator seeks to reduce volatility in premium rates and ensure hospital admitting privileges for all Plan physicians. Assumptions are the responsibility of the Plan's management and their basis is reviewed by the Plan's Committee and discussed with the actuary; however, no documentation exists supporting the conclusions reached by the Committee.</p>	<p>Scheduled follow-up to be performed during 2007.</p>	<p>Ensure the program's accuracy and effectiveness of processes.</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>Actuarial Assumptions for IBNR: IBNR, as calculated by the actuary at August 31, 2004, was based on an assumption that claims settlements were limited to \$500,000 per physician even though these claims are limited by state law to \$100,000. For financial reporting purposes only, Generally Accepted Accounting Principles ("GAAP"), specifically, Financial Accounting Standards Board ("FASB") Statement No. 5, Accounting for Contingencies, require recognition of the liability in the financial statements when an event is "probable and estimable." At August 31, 2004, management determined that an appropriate assumption used for calculating and reporting the IBNR was the \$500,000 limit due to an uncertain legal climate. While this assumption is thoughtful and conservative, we were unable to determine if the actuarial estimate met the probability standard for recognition in the annual financial report.</p> <p><b>Recommendation:</b> Management should document the basis for actuarial assumptions selected. Additionally, the Plan Administrator or his designee should determine whether the assumptions used in reporting the IBNR in the annual financial report meet the probability standard established by FASB No. 5 to ensure proper recognition in that report. A brief summarization of these conclusions would provide helpful documentation to evidence these conclusions.</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
Apr-06	<b>Inventory of IT Data Centers</b>	Determine whether the inventory data reported captures the full size, scope, and cost of data center services based on the format and level of detail determined by DIR.	<b>Observation:</b> A control conscious environment exists. Internal controls have been established and are functioning as intended. <b>Recommendations:</b> None	N/A	N/A
Apr-06	<b>UT Austin Office of the President Audit</b>	<ol style="list-style-type: none"> <li>1. Determine the reliability and integrity of the department's key financial information.</li> <li>2. Determine whether controls are adequate and effective in safeguarding assets</li> <li>3. Determine whether internal control procedures are in place and functioning as intended.</li> <li>4. Review overall departmental operations.</li> </ol>	<p><b>Observation:</b> We observed inadequate segregation of duties in several areas. <b>Recommendation:</b> The Office of the President should enhance its segregation of duties and system of internal controls over departmental financial management to ensure the reliability and integrity of financial information and safeguarding of assets.</p> <p><b>Observation:</b> Although we did not find any errors during the testing of the President's travel and entertainment expenses, we noted that reimbursements of these expenses are approved by the Deputy to the President. <b>Recommendation:</b> Reimbursements of the President's travel and entertainment expenses should be approved by someone within the Office of the President who does not directly report to him in order to avoid any appearance of impropriety and to reduce reputational risk. The Office of the President should consider having either the Vice President for Institutional Relations and Legal Affairs or the Vice President and Chief Financial Officer approve the President's travel and entertainment expense reimbursements or implementing a dual approval process which includes one of the previously identified vice presidents and an upper level Office of the President staff person.</p>	<p>Follow-Up will be done by UT Austin Internal Audit.</p> <p>Follow-Up will be done by UT Austin Internal Audit.</p>	<p>Improve internal controls at a departmental level</p> <p>Improve internal controls at a departmental level</p>

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> We found inadequate supporting documentation for several expenditure transactions, including travel expenses, non-routine inter-departmental transfers and direct bill charges. However, we were able to determine that expenditures were appropriately made for university business. Additionally, a Removal of Equipment form was not maintained for a laptop computer located at an employee's residence.</p> <p><b>Recommendation:</b> The Office of the President should ensure adequate and accurate documentation is maintained for every transaction paid from an Office of the President account by increasing the detail of its transaction support (e.g. invoices, receipts, itineraries, emails, documentation of manual approval for items processed by the Office of Accounting, etc.), which will assist in the performance of account reconciliations. In addition, all Removal of Equipment forms should be retained for off-campus inventory.</p>	<p>Follow-Up will be done by UT Austin Internal Audit.</p>	<p>Improve internal controls at a departmental level</p>
			<p><b>Observation:</b> While the Office of the President monitors personal use of University property and services and collects reimbursements from employees, we noted that employees regularly reimburse the office for personal use of long distance calls and postage.</p>	<p>Follow-Up will be done by UT Austin Internal Audit.</p>	<p>Improve internal controls at a departmental level</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
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**Recommendation:** The UT System Board of Regents' Rules and Regulations, Series 80203, states, "Personal toll calls shall not be charged to institutional telephones". The Office of the President employees should discontinue the use of office telephones for personal long distance calls, except for true emergency situations. If an employee must make a personal long distance call, we recommend a personal cellular phone or telephone calling card be used. Management should reiterate the Regents' Rule to employees and continue to discourage the practice of making personal long distance calls on office telephones. Also, employees should discontinue the personal use of postage.

**Observation:** We noted that the Office of the President pays all charges incurred on the President's university issued Diner's Club credit card and private club account. The President then reviews the account statements and reimburses the university for personal expenses incurred.

**Recommendation:** The Office of the President should modify and enhance the handling of the President's personal expenses related to club memberships and business credit cards whereby the university only pays the charges related to official business expenses and the President pays directly the charges for personal expenses.

Follow-Up will be done by UT Austin Internal Audit.

Improve internal controls at a 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><b>Observation:</b> The Office of the President projects appear to be monitored through the knowledge of upper level management and different types of documentation held primarily by the Senior Executive Associate as well as other employees, depending on the project. Overall, project tracking is informal and non-systematic.</p> <p><b>Recommendation:</b> The Office of the President should consider implementation of a formal project tracking system, which includes items such as responsible party, recommendation/goals, regular status requests, projected completion date, follow-up comments, etc. to ensure all projects are monitored systematically.</p>	<p>Follow-Up will be done by UT Austin Internal Audit.</p>	<p>Improve internal controls at a departmental level</p>
			<p><b>Observation:</b> We were informed that the daily briefings with the President were very useful; however, similar communication among the upper level staff members did not occur in the President's absence. Additionally, we observed that although employees found staff meetings helpful, the meetings were held inconsistently and did not always include staff input into the meeting agenda or staff discussion of issues.</p> <p><b>Recommendation:</b> In addition to continuing the daily briefing meetings with President Powers, the upper level staff members should consider implementing a mechanism to communicate on a periodic basis in the President's absence in order to be informed of project progress, upcoming items, public affair issues, etc. Further, efforts should be made to conduct staff meetings on a more regular and</p>	<p>Follow-Up will be done by UT Austin Internal Audit.</p>	<p>Improve internal controls at a departmental level</p>

UT System Administration

Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>consistent basis in order to integrate communication of initiatives and activities throughout the office among all employees. Specifically, communication and/or discussion of what is going on, how it is been handled, and who is handling it would be valuable. It may also be beneficial to provide staff advance notice of the agenda and allow them to provide input into it.</p> <p><b>Observation:</b> During our interviews with the departmental staff members and review of various documents, including organizational charts and job descriptions, we observed potential opportunities for enhancements in the areas of reporting, organization, and operations.</p> <p><b>Recommendation:</b> During President Powers' transition and establishment of an organizational structure that compliments his management style, he should consider the following changes to enhance the operations of the Office of the President:</p> <p><b>1).</b> The current Senior Executive Associate and Director position has two distinct functions and consideration should be given to separating this position into two with one position being responsible for managing the daily operations of the office and the other position supporting the needs of the President.</p> <p><b>2.)</b> The current operational reporting structure should be assessed to ensure appropriate alignment of employees with their daily supervisor based on job responsibilities and interaction. Restructuring can provide better access for staff to their supervisor and</p>	<p>Follow-Up will be done by UT Austin Internal Audit.</p>	<p>Improve internal controls at a departmental level</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>increase opportunities for staff development and cross-training.</p> <p><b>3.)</b> Currently, the Deputy to the President manages the financial operations of the office in addition to his responsibilities for supporting the President's strategic initiatives, including researching issues, preparing reports, drafting responses to inquiries requiring complex answers, serving on or chairing committees at the direction of the President, processing legislation of the Faculty Council or General Faculty directed to the Office of the President, and managing student and staff appeals to the President among other duties as assigned by the President. The Office of the President should consider adding a dedicated high-level financial position to lessen the financial responsibilities of the Deputy to the President allowing him to focus on presidential projects or other such items, as well as to provide the President with financial expertise within the office for global and strategic decisions.</p> <p><b>4.)</b> While the leadership for the Hearts of Texas campaign is appropriately placed in the Office of the President, the administrative requirements of the campaign are significant during a concentrated time frame requiring diversion of a staff member from her daily responsibilities, thereby negatively impacting the timeliness of completion of necessary office functions. Consideration should be given to hiring temporary staff during the campaign to alleviate the work load or moving the administration of the campaign to a different department with adequate staffing.</p>		

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
May-06	<b>Office of Employee Services Change in Management Audit</b>	<ul style="list-style-type: none"> <li>Determine the reliability and integrity of the department's key financial information;</li> <li>Determine whether controls are adequate and effective in safeguarding assets; and</li> <li>Determine whether internal control procedures are in place and functioning as intended.</li> </ul>	<p><b>Observation:</b> Although we did not find any errors during the testing of the Director of Employee Services' travel and entertainment expenses, we noted someone who reports to her approves her expense reimbursements.</p> <p><b>Recommendation:</b> To avoid any appearance of impropriety and reduce reputational risk, reimbursements of the Director of Employee Services' travel and entertainment expenses should be approved by an appropriate member of executive management, namely the Assistant Vice Chancellor for Employee Benefits and Services, as opposed to someone who directly/indirectly reports to her.</p> <p><b>Observation:</b> It was noted that Lunch and Learn payments received in person are generally recorded in the receipt log only when the payer requests a receipt, and documentation is not maintained for payments that are refunded. Additionally, the current process does not require logging of checks received by mail from UT institutions for salary survey reimbursements.</p> <p><b>Recommendation:</b> Office of Employee Services (OES) should ensure all deposits are made in a timely manner consistent with the Regents' Rule. For Lunch and Learn receipts, OES should consider collecting payments only up to one week in advance of the date of the session to allow ease of refunds, as necessary. Additionally, OES should log the receipt of all cash and checks and ensure that the following information is documented for proper record keeping and to assist in the monthly reconciliation process:</p>	<p>Scheduled follow-up to be performed during 2007.</p> <p>Scheduled follow-up to be performed during 2007.</p>	<p>Improve internal controls at a departmental level</p> <p>Improve internal controls at a departmental level</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
			<ol style="list-style-type: none"> <li>1. Amount, date received, name of collector, name of payer;</li> <li>2. Form of payment (e.g. cash, check) and check number, if applicable;</li> <li>3. Purpose of payment (e.g. Lunch and Learn session name, etc.);</li> <li>4. Any other applicable information (e.g. payment refund or cancellation); and</li> <li>5. The name of the specific Lunch and Learn session on the deposit memo.</li> </ol>		
			<p><b>Observation:</b> We found that the same employee collects cash/check receipts that are paid in person and makes these deposits. In addition, another employee deposits checks received by mail and performs account reconciliations. The performance of these duties by the same employee creates inadequate segregation of duties.</p> <p><b>Recommendation:</b> OES should adjust its receipt handling process so that the same employee does not collect and deposit receipts and the same employee does not make deposits and perform account reconciliations.</p>	Scheduled follow-up to be performed during 2007.	Improve internal controls at a departmental level
			<p><b>Observation:</b> We found that the reconciler and reviewer did not sign a few of the monthly account reconciliations and did not date any of the reconciliations. Without signature and date, it is difficult to determine accountability and timeliness of the completion and review of the reconciliations. We also noted areas where the reconciliation process could be improved. For example, the cash/check receipt log was not being reconciled to the deposit and accounting records, and a minor exception</p>	Scheduled follow-up to be performed during 2007.	Improve internal controls at a 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>was identified during expenditure testing related to inadequate approval of an office supply purchase that should have been identified during reconciliation.</p> <p><b>Recommendation:</b> As instructed by the UT System Administration training for account reconciliations, "Basic Steps for Account Reconciliations," the account reconciler and reviewer for OES should ensure that they sign and date monthly reconciliations upon completion. Additionally, reconciliation procedures should include verification of proper approval of all expenditures and comparison of deposit and accounting records to the receipt log.</p> <p><b>Observation:</b> One travel expense reimbursement to a UT institution for staff attending an Employee Advisory Council meeting included a reimbursement for lodging that exceeded the maximum allowed limit when using State funds.</p> <p><b>Recommendation:</b> OES should perform adequate review of reimbursements using the related supporting documentation prior to payment to ensure State funds are not used to pay for reimbursements over the maximum amount allowed per the State Comptroller.</p>	<p>Scheduled follow-up to be performed during 2007.</p>	<p>Improve internal controls at a departmental level</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
May-06	<b>Network Security and Availability Audit</b>	To determine whether UT System has appropriate measure to ensure its network is available and secure for its users.	<p><b>Observation:</b> The UT System Administration Help Desk, which manages Network accounts, does not periodically review the full list of Network accounts to ensure that only authorized users have access to the Network. OTIS relies on notifications of changes in the payroll system from the Office of Employee Services to identify users that should no longer have access, and these notifications do not include non-UT System Administration employees.</p> <p><b>Recommendation:</b> The full list of the network accounts should be reviewed periodically, at minimum annually, to ensure that only authorized users have Network accounts. This review would allow OTIS to independently manage the list of user accounts and would reduce reliance on periodic updates provided by the Office of Employee Services.</p>	Scheduled follow-up to be performed during 2007	Improve network security.
			<p><b>Observation:</b> All Network users have administrator access privileges to their computers (desktops or laptops) which allow users to change their computers' security settings or download and install software from the Internet. Such software may contain viruses, spyware or other harmful codes that could jeopardize the entire Network.</p> <p><b>Recommendation:</b> OTIS should consider restricting general user's access privileges and granting administrator access privileges to those needing this high level of access to perform their jobs.</p>	Scheduled follow-up to be performed during 2007	Improve network security.

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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><b>Observation:</b> Network operators log on to the firewall system and critical routers using the same user identification and password. As a result, it is difficult to trace changes to the person who performed them or identify whether unauthorized or inappropriate modification of firewall or router configurations occurred. OTIS' Change Management Policy requires that all Network changes be documented and reviewed by OTIS management. A unique identification for individual operators will facilitate the change management and review.</p> <p><b>Recommendation:</b> OTIS employees should use a unique identification and password when logging on to critical security devices, such as firewalls and routers so that changes can be tracked to the individual who made them. OTIS may also consider using advanced authentication methods, such as token based and biometric based techniques, for access to key Network components.</p> <p><b>Observation:</b> OTIS should strengthen controls over dial-up remote access to the Network. UT System Administration provides dial-up remote access to all users of the Network including group accounts. NIST guidelines recommend that an organization documents, monitors, and controls all methods of remote access to the information system including remote access for privileged functions and that appropriate organization officials authorize each remote access method for the</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Improve network security.</p>

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			<p>information system and authorize only the necessary users for each access method. The Remote Access Policy published on OTIS' website requires authorization from department heads for dial-up remote access, but OTIS does not currently follow this policy. In addition, OTIS's dial-up terminal is placed behind the firewall inside the protected section of the Network. NIST guidelines recommend that the dial-up terminal be placed on an external DMZ so that the incoming traffic passes through the firewall.</p> <p><b>Recommendation:</b> OTIS should limit dial-up access privilege to those users with legitimate business needs and remove dial-up access for all group accounts. It should also follow its Remote Access Policy, which requires the department head to approve this type of access or update this policy to reflect current practices. OTIS should consider following the NIST guidelines by moving the dial-up terminal to an external DMZ so that the remote dial-up traffic passes through the firewall.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Improve network security.</p>

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			<p><b>Observation:</b> The Network diagram was not current or complete at the time of our audit. NIST guidelines recommend that an organization ensures that adequate documentation for the information system and its constituent components are available, protected when required, and distributed to authorized personnel.</p> <p><b>Recommendation:</b> OTIS should review and revise the Network diagram whenever major network reconfiguration occurs or at least annually. Additionally, different diagrams showing the Network structure at various detail levels might be helpful.</p>	Scheduled follow-up to be performed during 2007	Improve network security.
Jun-06	<b>UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities</b>	<ol style="list-style-type: none"> <li>1. To determine whether the Institutional Compliance Program adheres to the goals and objectives of BPM 63.</li> <li>2. To determine whether monitoring of investment compliance activates ensures that all investment policies, as set forth by the UT System Board of Regents, are followed.</li> </ol>	<p><b>Observation:</b> The internal Institutional Ethics and Compliance Committee serve as UTIMCO's equivalent of an Institutional Compliance Committee ("ICC"). This committee is composed of the president and CEO, the Chief Compliance Officer, and a managing director from each operational area. As required by the Code of Ethics policy, the Chief Compliance Officer serves as the committee chair. Meetings of the committee are held periodically. However, the committee does not operate under a formal charter documenting it duties and responsibilities.</p> <p><b>Recommendation:</b> Develop charter for the internal Institutional Compliance Committee - In order to comply with the goals and objectives of BPM 63, we recommend the drafting of a formal charter for the ICC. The charter should formalize the duties and responsibilities of the committee, its members, and require routine meetings (at least each quarter).</p>	Scheduled follow-up to be performed during 2007	Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.

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			<p><b>Observation:</b> A comprehensive risk assessment is performed annually. Although the institutional risk assessment appears thorough and comprehensive, only a summarized risk inventory has been presented to the UTIMCO Audit and Ethics Committee. In addition, the investment risk process has been enhanced during the previous year, so it was not included in the risk inventory presentation. Management has indicated that they will incorporate investment risk into the risk assessment in the fall of 2006. We also noted that, as part of their enterprise risk assessment, UTIMCO staff identified the need for trading policies.</p> <p><b>Recommendation:</b> Review risk inventory with the Board committees - In order to enhance the effectiveness of the ERM process, we recommend that the detailed inventory of risks be presented to the respective board committees (institutional risks to the Audit and Ethics Committee; investment risks to the Risk Committee) for their input, suggestions, and analysis. Also, management should ensure the timely completion of the investment risk assessment for presentation, review, and approval by the Risk Committee.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</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><b>Observation:</b> Although UTIMCO does have written and documented compliance processes for each of the operating functions within the organization, it does not have an institutional compliance manual for the program as a whole. A compliance manual is one of the essential components of a compliance program as set forth by the UT System 2003 Action Plan to Enhance Institutional Compliance. Furthermore, it is our belief that a compliance manual would assist compliance personnel in performing their tasks more efficiently.</p> <p><b>Recommendation:</b> Develop a comprehensive manual for the institutional compliance program - A compliance manual should be developed that provides documentation of management's consideration of compliance, sets forth expectations and standards of conduct, and outlines methodologies to be employed to annually assess the effectiveness of the plan and the Compliance Officer. This manual should also document the compliance program structure, include examples of monitoring and reporting activities and forms, and document the processes for evaluation the Compliance Officer and for the Compliance Committee to annually self-assess its performance.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</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><b>Observation:</b> UTIMCO does not require compliance activities in job descriptions of personnel who spend a significant amount of time performing compliance-related functions. We noted that certain personnel did include compliance in their annual goals. Absent detailed job descriptions, no documentation exists of specific compliance-related duties and responsibilities for those positions for which a significant portion of time is devoted to the institutional compliance program.</p> <p><b>Recommendation:</b> Enhance job descriptions and personal goals statements to include compliance objectives. We recommend that job descriptions of all personnel involved in compliance be expanded to include more details of their individual compliance responsibilities. Additionally, individual performance goals should contain an investment compliance element, such that achievement of compliance objectives is factored into the incentive compensation plan.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</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><b>Observation:</b> UTIMCO's Code of Ethics requires signed Financial Disclosures Statements to be submitted by directors no later than January 31st of each year. However, at the time of our review, not all 2006 financial disclosures had been received. This delay is a result of the state legal requirement that directors who also serve as members of the UT System Board of Regents submit personal financial statements to the Texas Ethics Commission. As a result, updated financial disclosures for the regent members of the UTIMCO Board are not updated until May of each year.</p> <p><b>Recommendation:</b> Align financial disclosure statement due date with state requirements. We recommend that the Code of Ethics be amended to change the due date for financial disclosures to April 30, the date by which PFS are to be filed with the Texas Ethics Commission.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</p>
			<p><b>Observation:</b> Recently, all UT institutions have agreed to undergo their first compliance peer review. UTIMCO's institutional compliance program has been reviewed by the UT System Audit Office, but has not yet undergone an external peer review. The UT System 2003 Action Plan to Enhance Institutional Compliance mandated that mechanisms be established that provide for regular assessments of the compliance function, and UTIMCO has agreed to abide by this mandate. Chief among these mechanisms are peer reviews. Peer reviews</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</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>are a significant source of appraisal and assurance for any compliance program and vastly expand the available resources for the highest level of assurance- external assistance.</p> <p><b>Recommendation:</b> We recommend that UTIMCO's institutional compliance program submit itself to a peer review as soon as practicable.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</p>
			<p><b>Observation:</b> During our testing, we noted several instances where language contained in the PUF and GEF investment policies could be clarified. As a result, we were not able to determine whether certain areas were in compliance with the respective policies. We also found that investment policies do not provide guidance as to the basis for asset write-offs and write-downs, which require approval by the Chief Investment Officer and reporting to the Board.</p> <p><b>Recommendation:</b> Work with Policy Committee to clarify the specificity of policy language. We recommend that the Chief Compliance Officer work with the Policy Committee to determine the optimum level of specificity to be contained in the investment policies. We believe increased specificity in the policies help to ensure that policy language is clear and auditable.</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><b>Observation:</b> UTIMCO uses Mellon Investment Monitor to run various reports monthly to assist in determining whether investment practices are in compliance with policy. However, we noted several areas where some adjustment of the query criteria may be necessary to enhance the validity of the investment compliance process.</p> <p><b>Recommendation:</b> We recommend that the category criteria be reviewed and clarified to appropriately classify certain investment vehicles. If necessary, the Mellon program criteria may need to be modified.</p>	Scheduled follow-up to be performed during 2007	Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.
			<p><b>Observation:</b> UTIMCO's audited financial statements do not include an asset allocation that is presented in the same format as that outlined in Exhibit A of the investment policies. In addition, the investments comprising each asset classification have not been reviewed with the risk committee to confirm its agreement with the classifications. As a result, assuring compliance with asset allocations approved by the UT System Board of Regents is more difficult, since the classifications listed in the financial statements do not mirror the classifications listed in the investment policies of the funds. Furthermore, the existing condition makes it possible that some assets are not allocated under the correct asset classification.</p>	Scheduled follow-up to be performed during 2007	Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.

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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><b>Recommendation:</b> In order to ensure the clear reporting of asset allocations, we recommend including in the annual financial statements a year-end asset allocation schedule in investment policy format so that it is subjected to independent verification by the external auditors or other external consultants. Additionally, we recommend that investments comprising each asset classification be reviewed with the risk committee to confirm its agreement with the classifications.</p> <p><b>Observation:</b> UTIMCO monitors the risk level of the derivatives portfolio and compliance with depravities policies through calculation of downside risk and downside risk decomposition. No validation of the model is performed by the compliance staff.</p> <p><b>Recommendation:</b> Obtain external assurance on risk models- In order to obtain the highest level of assurance as to the validity of risk models, we recommend that an external consultant be engaged to review and validate the risk models.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</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><b>Observation:</b> Management decisions made under the Delegation of Authority Policy are to be monitored by the Chief Compliance Officer. Any exceptions are to be reported to the CEO immediately. The CEO then develops a remedy to the exception, if possible, and should report the exception and the remedy to the UTIMCO Board "promptly."</p> <p><b>Recommendation:</b> Determine timeframe for reporting policy exceptions- In order to ensure that exceptions are dealt with as timely and efficiently as possible, we recommend enhancing the compliance reporting requirements in the delegation of Authority Policy. We believe the policy should be revised to require the Chief Compliance Officer to report exceptions to the board chairman within a specific timeframe.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</p>
			<p><b>Observation:</b> UTIMCO's compliance staff regularly indicated to us that they review regularly the investment portfolio for compliance with the Delegation of Authority Policy; however, documentation of this review is not maintained in the central location.</p> <p><b>Recommendation:</b> Document monitoring of compliance with Delegation of Authority Policy- Consistent with other investment policies, we recommend that the compliance staff maintain documentation supporting their assertion of compliance or non-compliance with the Delegation of Authority Policy.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.</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><b>Observation:</b> As a result of our review of compliance with the provisions of the Securities Lending Agreement in effect between UTIMCO and their custodian, Mellon Financial Corporation, we discovered the two key agreement guidelines were not being reviewed by UTIMCO personnel to determine compliance.</p> <p><b>Recommendation:</b> Perform additional testing of contractual provisions of securities lending agreement- In order to ensure compliance with the SLA, we recommend that UTIMCO monitor the two aforementioned guidelines for compliance on a monthly basis.</p>	Implemented	Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.
			<p><b>Observation:</b> Monitoring of external investment managers is accomplished by reviewing performance reports, receiving annual compliance statements from the external managers, manager queries, reviewing annual reports of external managers, and performing initial due diligence. However, no formal policies or procedures are documented. External managers are required to annually sign and submit certifications of compliance with contractual provisions. However, as of the date of fieldwork, only five of 12 certifications due by January 31st had been received.</p> <p><b>Recommendation:</b> Strengthen monitoring of outside managers- We recommend that the monitoring of external investment managers be strengthened by developing formal policies and procedures with respect to these monitoring activities, ensuring that annual certifications of compliance with contractual</p>	Scheduled follow-up to be performed during 2007	Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.

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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
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provisions are received from the external managers by 1/31 of each year, and exercising the contractually granted right to have an audit of external managers performed periodically.

**Observation:** A watch list of external investment managers is prepared and reviewed with the Board. However, the criteria used to determine whether a manager should be included on the list is subjective, unverifiable, and not documented. Without clearly defined criteria, validity of manager's status cannot be verified independently.

**Recommendation:** Develop objective criteria for investment managers watch list- We recommend that UTIMCO staff discuss this matter with the Board and determine whether the Board is still interested in reviewing the watch list on a regular basis. If the determination is that the Board no longer believes that a watch list is necessary, we recommend the elimination of the list. However, if the Board wishes to continue to review the watch list, we recommend the development and documentation of criteria to be used in determining whether a particular investment manager should be added to the list. We further recommend that the following be considered when developing the criteria: **1.)** using a rating system whereby criteria are weighted; **2.)** Use standard areas of evaluation such as performance, SEC investigations, responsiveness, site visit findings, SAS 70 reports, and audit findings; and **3.)** Determine frequency of review and reporting.

Implemented

Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.

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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
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**Observation:** Monitoring investment compliance involves numerous time-consuming duties and responsibilities. These duties and responsibilities include, but are not limited to, annual updating of investment risk assessment and testing, timely monitoring of high risk areas, development and updating of investment compliance policies, monitoring compliance by internal and external managers, and reporting to the CCO and board. Timely completion of these tasks requires the dedication of significant resources. Accounting staff currently perform compliance duties in addition to full time accounting responsibilities.

**Recommendation:** Hire a full-time investment compliance staff to report to the Chief Compliance Officer- We recommend the hiring of a full time investment compliance staff that would report to the Chief Compliance Officer. Responsibilities of that staff would include:

- (1) annual updating of investment risk assessment and testing;
- (2) timely monitoring of high risk areas;
- (3) development and updating of investment compliance policies;
- (4) review of policies to ensure language is "clear and auditable";
- (5) monitoring compliance by internal and external managers, including performing onsite audits of external managers;
- (6) implementing new automated IT systems to prevent noncompliance

Scheduled follow-up to be performed during 2007

Ensure UTIMCO Institutional Compliance Program and Investment Compliance Monitoring Activities are functioning as intended.

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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
June-06	<b>Occidental Petroleum Corporation Audit</b>	<ol style="list-style-type: none"> <li>1. To determine whether production reported to the University was reasonable;</li> <li>2. To determine whether proceeds from oil and gas sales were reasonable, and that the corresponding royalties have been remitted to the University;</li> <li>3. To determine whether gas sales meters and Lease Automated Custody Transfer ("LACT") meters were calibrated regularly; and</li> <li>4. To determine whether gas stream sampling is conducted every six months in accordance with the Board for Lease Rules and Regulations</li> </ol>	<p><b>Observation:</b> Gas production reports were incorrectly filed for the University "CG" lease for the production months of March and May 2005. Gas production reports were incorrectly filed for the University "YZ" lease for August 2005. Gas production reports were not filed for the State University "CH" leases for August 2005. Any royalty payments due as a result of misfiled reports will be reflected in the underpayment of gas royalty calculation.</p> <p><b>Recommendation:</b> We recommend that University Lands require Oxy to file the appropriate oil production reports for January 2004 and the appropriate gas production reports for March, May, and August 2005. University Lands should consider charging Oxy document penalties for untimely and materially incorrect reports.</p> <p><b>Observation:</b> Ozona Pipeline Energy Company ("Ozona"), Belvan Partners ("Belvan"), and Duke Energy ("Duke") purchase the gas on the University leases operated by Oxy. We recalculated the gas royalties using gross volumes and prices obtained from the gas purchase statements. We compared the recalculated royalties to the amount paid by Oxy. We found that Oxy underpaid by \$11,285, excluding statutory penalties and interest. The underpayments were a result of gathering fees, fuel and unaccountable charges, compression, dehydration, and treating fees being deducted from the gross gas values. Oxy also failed to</p>	<p>Scheduled follow-up to be performed during 2007</p> <p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure compliance with contract agreements and ensure the accuracy of royalty payments.</p> <p>Ensure compliance with contract agreements and ensure the accuracy of royalty payments.</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>make a payment in May 2005 for the University "CG" lease. Based on the applicable lease agreements, the University should be paid royalties on all gas produced without deducting cost of producing, gathering, storing, separating, treating, dehydrating, compressing, transporting, and otherwise making the oil and gas ready for sale or use.</p> <p><b>Recommendation:</b> We recommend that University Lands request that Oxy remit the underpaid royalty to the University and remit royalties on a go-forward basis without deductions as stated in the lease agreements.</p> <p><b>Observation:</b> Oxy was unable to provide us with any meter calibrations for our audit scope. Also, there were no LACT meters used to measure the volume of oil sold on any of the leases tested. So, we did not need to test the frequency of LACT meter calibrations.</p> <p><b>Recommendation:</b> We recommend University Lands require that Oxy:</p> <ul style="list-style-type: none"> <li>◆ Ensure that gas stream sampling occurs once every six months, in accordance with Board for Lease Rules ("Rules"); and</li> <li>◆ Ensure that gas sales meters are calibrated once every 6 months, in accordance with Rules</li> </ul> <p>To verify that Oxy has taken corrective action, University Lands should require that Oxy provide to University Lands evidence of at least the next two gas stream lab analyses and gas sales meter calibrations for each lease that it operates on University Lands.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure compliance with contract agreements and ensure the accuracy of royalty payments.</p>

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			<p><b>Observation:</b> Oxy was unable to provide us with tank gauge reports, gas meter calibration records, gas analysis records (with the exception of University "CG"), and Howard's Creek sales meter volume statements, which is a violation of the Board for Lease Rules and Regulations and subject to penalty.</p> <p><b>Recommendation:</b> We recommend that University Lands inform Oxy of their obligation to provide requested documents in a timely manner and consider enforcing a penalty for not providing the requested information documenting measurement activities in accordance with Board for Lease Rules.</p>	Scheduled follow-up to be performed during 2007	Ensure compliance with contract agreements and ensure the accuracy of royalty payments.
Jun-06	<b>Office of Governmental Relations Change in Mgmt Audit</b>	<ol style="list-style-type: none"> <li>1. Determine the reliability and integrity of the department's key financial information;</li> <li>2. Determine whether controls are adequate and effective in safeguarding assets; and</li> <li>3. Determine whether internal control procedures are in place and functioning as intended.</li> </ol>	<p><b>Observation:</b> We identified three inter departmental transfers ("IDTs") from OGR to UT Austin for catering, UIL event tickets, and UT Austin football game tickets, which were not supported by evidence of adequate approval. The approvals provided were either verbal or given by an authorized signer who did not have adequate dollar limit approval authority for the expenditure amount.</p> <p><b>Recommendation:</b> Since IDTs with UT Austin are generally not routed through Accounting and Purchasing Services for review, or are there any system controls for approval in DEFINE for IDTs, OGR should ensure IDTs are manually approved by an authorized signer with the appropriate dollar limit for the account charged and maintain documentation of this for use in the account reconciliations. Reconciliation reviewer should ensure proper approval is obtained and documented.</p>	Implemented	Improve internal controls at a 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><b>Observation:</b> Currently, one employee is primarily responsible for the majority of operations related to event tickets (both purchased and complimentary), including custody and distribution of tickets, collection and deposit of payments, and ticket reconciliations for each event. Although no errors in the distribution of complimentary tickets were found, with one person responsible for most aspects of the event ticket process, there is a risk that the employee could accept cash for tickets and record them as complimentary or use complimentary tickets for personal benefit.</p> <p><b>Recommendation:</b> OGR should review its current process for event ticket handling and implement appropriate changes to ensure mitigation of the risk described above through the enhancement of segregation of duties. During restructuring of this process, OGR should take steps to log cash/check receipts immediately upon receipt and reconcile deposits of receipts to payment log after rather than before deposits are made to APS.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Improve internal controls at a departmental level</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p><b>Observation:</b> During our review of event tickets, we noted that certain administrative and professional OGR staff was provided two complimentary tickets to UT Austin home football games. Currently, the face value of the two complimentary tickets is not reported as taxable income for the employees who receive them. Per discussion with the Office of General Counsel (“OGC”), there may be a potential for the full amount of the tickets to be taxable under IRS rules and regulations. Through our research, we found several other universities (e.g. Texas A&amp;M, California State University, and University of Colorado) have documented policies for the tax treatment of complimentary tickets to employees.</p> <p><b>Recommendation:</b> OGR should work with OGC to determine the appropriate tax treatment of the complimentary tickets provided to OGR administrative and professional staff members.</p>	Scheduled follow-up to be performed during 2007	Improve internal controls at a departmental level
Aug-06	<b>UTIMCO CEO Expense Audit</b>	Determine whether expense payments and reimbursements to or on behalf of the CEO and any elements of compensation and benefits not included in the UTIMCO Compensation Plan were appropriate and accurate.	<p><b>Observation:</b> We found that the CEO’s reimbursement requests for the fiscal year were in various stages of processing. Most requests were not made in the reasonable timeframe recommended in the UTIMCO Travel Guidelines, and only two of the 23 reimbursement requests examined were fully processed (prepared, approved, and paid).</p> <p><b>Recommendation:</b> UTIMCO should ensure reimbursement requests are made within the time period described in the Travel Guidelines, reimbursements are processed in a timely manner, and payments are made by the invoiced due dates to avoid late charges.</p>	Scheduled follow-up to be performed during 2007	Ensure security measures/ controls are in place and functioning appropriately and ensure regulatory guidelines compliance

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			<p><b>Observation:</b> In statements made publicly and with System Administration staff related to the office lease and move, the CEO offered, as 'a show of good faith,' to cover the difference between the cost of furniture for his office and the average cost for the other 40-some staff offices once all the expenses have been tallied. He said he expected the difference to be \$3,000 to \$4,000. UTIMCO began work to calculate the exact difference, however, a final amount has not been assessed and the CEO has not made a reimbursement payment to UTIMCO.</p> <p><b>Recommendation:</b> UTIMCO should complete its analysis of the CEO's office furnishings to determine the amount that should be refunded to UTIMCO by the CEO and then ensure collection of this amount.</p>	Scheduled follow-up to be performed during 2007	Ensure security measures/ controls are in place and functioning appropriately and ensure regulatory guidelines compliance
			<p><b>Observation:</b> The current UTIMCO travel policy does not require prior approval for the CEO's foreign travel. In addition, while UTIMCO's Managing Director of Accounting, Finance and Administration reviews and approves all of the CEO's expense reports, there is not an examination of these expenses by an executive level above the CEO.</p> <p><b>Recommendation:</b> With regard to the CEO's travel, UTIMCO should follow the spirit of Regents' Rules and Regulations Series 20205. Specifically, the UTIMCO Board of Director Chairman should review the CEO's travel expenses quarterly and approve the CEO's foreign travel (excluding Canada and Mexico) prior to travel.</p>	Scheduled follow-up to be performed during 2007	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
			<p><b>Observation:</b> Based on a recommendation from a previous audit, UTIMCO has drafted a revised travel policy, which provides better guidance and structure for travelers; however, internal management and the UTIMCO Policy Committee has not yet approved it.</p> <p><b>Recommendation:</b> UTIMCO internal management and the UTIMCO Policy Committee should approve and formally issue the revised travel policy.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure security measures/ controls are in place and functioning appropriately and ensure regulatory guidelines compliance</p>
			<p><b>Observation:</b> UTIMCO directly pays the total monthly dues for two club memberships held in the name of the CEO, and a pro-rata amount related to personal usage of these club memberships is not included in the CEO's taxable income reported on the Form W-2. We noted that the CEO uses one of these clubs for personal purposes, specifically for meals. For the current fiscal year, we identified roughly 34% of total club expenses of approximately \$1,375 (excluding monthly dues), were personal. The cost of the personal meals are often paid by UTIMCO initially and then reimbursed by the CEO.</p> <p><b>Recommendation:</b> UTIMCO should work with outside counsel to determine the appropriate tax treatment for dues paid by UTIMCO for club memberships in the name of the CEO.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure security measures/ controls are in place and functioning appropriately and ensure regulatory guidelines compliance</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><b>Observation:</b> As a 501(c) (3) organization, UTIMCO is exempt from paying certain taxes, including state sales tax and possibly state hotel occupancy tax. We noted instances of the CEO paying these taxes, even though UTIMCO may be exempt from doing so.</p> <p><b>Recommendation:</b> UTIMCO should take advantage of its tax-exempt status and strive to ensure that taxes are not paid where exempt. Employees should be made aware of this and encouraged to have available the proper certification of tax-exempt status when making purchases on behalf of UTIMCO and when traveling for UTIMCO-related business purposes.</p>	<p>Scheduled follow-up to be performed during 2007</p>	<p>Ensure security measures/ controls are in place and functioning appropriately and ensure regulatory guidelines compliance</p>

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

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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
Jan-06	<b>The University of Texas-EI Paso NCAA</b>	Evaluate whether the accompanying Statement of Revenue and Expenses of UTA is in compliance with the NCAA Bylaw 6.2.3.1	<b>Observation:</b> Athletics was unable to resolve differences between ticket sales reported in Ticketmaster and sales recorded in BIS for the secondary box office ticket sales for Men's Football and Men's basketball. The amount reported in BIS was \$3,775 more than Ticketmaster for Men's Football and \$567 more than Ticketmaster for Men's Basketball. <b>Recommendation:</b> Athletics should resolve differences between ticket sales reported in Ticketmaster and sales recorded in BIS.	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
Jan-06	<b>The University of Texas at San Antonio- NCAA</b>	Evaluate whether the accompanying Statement of Revenue and Expenses of UTA is in compliance with the NCAA Bylaw 6.2.3.1	<b>Observation:</b> UTSA Athletics' methodology for calculation of the Indirect Facilities & Administrative Support amount has not been formally approved or documented. Also, there was not a solid basis for the 3% of all expenses less Athletic Student Aid methodology used for FY 2005. <b>Recommendation:</b> Athletics management should discuss the methodology and basis behind the calculation of the Indirect Facilities and Administrative Support amount with the business office in order to formalize process for next fiscal year. Athletics management should consider using a methodology specific to UTSA and its Athletics program, including factors such as UTSA's indirect cost recovery rate (specifically the facilities and administrative cost), square footage, depreciation, administrative overhead, etc. Athletics management should also develop a method to allocate the Indirect Facilities and Administrative Support amount among the various sports.	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> Some of the scholarship athletes' entire files were missing, and some files were missing copies of the individual financial award letters and student acceptance forms. Further, not all of the approvals were present on the different approval sections of the summer school application forms.</p> <p><b>Recommendation:</b> Athletics should ensure all supporting documentation related to scholarships for student athletes is maintained, including award letters and student acceptance forms. Additionally, for every scholarship, there should be evidence of approval by the coach, the Assistant Athletic Director for Academic Services (who handles the process), the Compliance Director (evidence to ensure eligibility and that athletes are not over-awarded), and Assistant Athletic Director for Business Affairs (who ensures funds are available for applicants). This may be done by a secondary review of completed scholarship files before scholarships are processed and funds distributed.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> While ticket sales are reconciled to cash received and deposited, review of these reconciliations is not being performed.</p> <p><b>Recommendation:</b> Athletics should ensure reconciliations of ticket sales to cash are being reviewed for each game.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> Some of the corporate sponsorship agreements involving cash payments stated an interest penalty would be charged if payments were not made by a particular date. It was found that Athletics received late or partial payments past the due date for two of the agreements tested but did not charge the sponsor interest.</p> <p><b>Recommendation:</b> It is reasonable that Athletics does not charge minimal interest amounts on late payments from corporate sponsors to avoid the risk of losing the entire sponsorship. However, Athletics should then consider revising the wording of future corporate sponsorship agreements to include "at their discretion" or "may charge interest" when discussing interest charges.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> During the sample revenue and expense testing, adequate documentation could not be found for several transactions, including sport camp and other various deposits, credit card payments, etc.</p> <p><b>Recommendation:</b> Athletics should ensure that adequate supporting documentation, such as itemized listings, cash logs, registration forms, and reconciliations of cash collected to items sold, etc. is maintained with deposit and expense vouchers through some type of secondary review during the purchasing, deposit and/or reconciliation processes.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
Jan-06	<b>The University of Texas Pan American NCAA</b>	Evaluate whether the accompanying Statement of Revenue and Expenses of UTA is in compliance with the NCAA Bylaw 6.2.3.1	<p><b>Observation:</b> The Athletics Department's policy manual has not been updated in a few years. As a result, UTPA's current policies differ from those documented in the manual.</p> <p><b>Recommendation:</b> We recommend that Athletics Department update its policy manual so that the policies in the manual are consistent with its current policies.</p> <p><b>Observation:</b> UTPA was unable to locate supporting documentation for some game expenses and some recruiting expenses.</p> <p><b>Recommendation:</b> We recommend Athletics Department improve internal controls to ensure adequate supporting documentation for expenses is obtained and kept.</p>	<p>Scheduled follow-up to be performed during NCAA audit in 2007.</p> <p>Scheduled follow-up to be performed during NCAA audit in 2007.</p>	<p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p> <p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> Camp expenses, which can be reasonably determined at year end, are not accrued. Administrative fees for volley ball were not recorded in the SRE. For men's basketball, approximately half of the men's basketball camp expenses recorded in FY 2005 was attributable to FY 2004 activity. Although no women's basketball camps were held in FY 2005, revenues and expenses associated with camps held in FY 2004 were recorded in the FY 2005 SRE. For all camps, Workers' Compensation Insurance and Unemployment Compensation Insurance premiums were recorded under Sports Camp Expenses. Instead, these should have been recorded under Coaches' Salaries and/or Staff Salaries. The Athletics Department did not purchase liability insurance for baseball camps held in FY 2005. Some expenses, such as memberships, were initially paid out of the camp accounts, but correctly classified under Membership and Dues on the SRE.</p> <p><b>Recommendation:</b> We recommend that the Athletics Department: Accrue its camp expenses so that activity recorded in the SRE accurately reflects the activity in that SRE period; Assure that salaries paid to coaches for a camp do not exceed the net revenues realized by the camp. Assure that camp expenses and expenses related to camp salaries are classified correctly and that camp accounts are not to be used for expenses not related to camp. Purchase an appropriate amount of liability insurance for its camps.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> Our testing identified several items that were incorrectly recorded under the Other Expenses category.</p> <p><b>Recommendation:</b> We recommend UTPA pay attention to expenses that it records as Other Expenses in its SRE to ensure those expenses are appropriately classified.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> Several transactions recorded under Other Revenues that should have been recorded under Contributions.</p> <p><b>Recommendation:</b> We recommend UTPA pay attention to revenues that it records in Other Revenues in its SRE to ensure that those revenues are appropriately classified.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> We determined revenues and expenses related to the Association were overstated in the SRE by \$13,332. The \$5,000 corporate sponsorship was counted twice (recorded in Royalties, Advertisements, and Sponsorships and Other Revenues in the SRE). \$5,000 was recorded as an expense in Fundraising, Marketing and Promotion resulting in an overstatement of expenses. The \$8,332 donated to the endowed scholarship donation should not have been recorded as operating revenue in the SRE. However, over time the income earned from the endowment should be recorded as endowment income on subsequent SRE's. An expense should not be recorded for the scholarship donation.</p> <p><b>Recommendation:</b> UTPA should ensure revenues and expenses related to activity from its outside organization are not double counted in the SRE and they are properly classified.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
Jan-06	<b>The University of Texas Arlington-NCAA</b>	Evaluate whether the accompanying Statement of Revenue and Expenses of UTA is in compliance with the NCAA Bylaw 6.2.3.1	<p><b>Observation:</b> All ticket sales transactions are assigned the “sales and services” object code of 3701, instead of “gate receipts” object code 3740.</p> <p><b>Recommendation:</b> We recommend that each gate receipt deposit be assigned the “gate receipts” object code of 3740. This will allow gate receipts to be tracked more efficiently and will help ensure the accuracy of ticket sales revenues reported on the SRE.</p> <p><b>Observation:</b> Three contributions totaling \$9,900 were omitted from the SRE.</p> <p><b>Recommendation:</b> We recommend that the Athletic Department improve its process for compiling the SRE to ensure completeness. Elements of a good process would include a review of all accounts under Athletics to ensure that all are included on the SRE; a comparison of internal documentation to transaction information that can be downloaded from DEFINE; proper use of object codes in account processing to assist in classification of items and in reconciliation; and a review of the SRE by a separate person upon completion.</p>	<p>Scheduled follow-up to be performed during NCAA audit in 2007.</p> <p>Scheduled follow-up to be performed during NCAA audit in 2007.</p>	<p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p> <p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> UTA did not include the work study wages paid by the government on the Direct State and Other Governmental Support line item. As a result the revenues and Support Staff/Administrative Salaries were understated by \$27,354.</p> <p><b>Recommendation:</b> We recommend that the Athletic Department improve its process for compiling the SRE to ensure completeness. Elements of a good process would include a review of all accounts under Athletics to ensure that all are included on the SRE; a comparison of internal documentation to transaction information that can be downloaded from DEFINE; proper use of object codes in account processing to assist in classification of items and in reconciliation; and a review of the SRE by a separate person upon completion.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> One NCAA/Conference Distribution for \$3,535 was recorded as "sales and services" object code 3701, instead of "NCAA distribution" object code 3717.</p> <p><b>Recommendation:</b> We recommend that the Athletic Department ensure that they properly code transactions. Properly coding transactions will help identify transaction types when preparing and auditing the SRE.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> Gift in-kind expenses in the amount of \$57,932 were omitted from the SRE. The following should have been recorded on the SRE:</p> <ul style="list-style-type: none"> <li>Team Travel \$24,640</li> <li>Medical Expenses and Insurance \$2,500</li> <li>Other Expenses \$30,792</li> </ul> <p><b>Recommendation:</b> We recommend that the Athletic Department improve its process for compiling the SRE to ensure completeness. Elements of a good process would include a review of all accounts under Athletics to ensure that all are included on the SRE; a comparison of internal documentation to transaction information that can be downloaded from DEFINE; proper use of object codes in account processing to assist in classification of items and in reconciliation; and a review of the SRE by a separate person upon completion.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> Travel expenses incurred through recruitment were being coded as "team travel", instead of recruiting.</p> <p><b>Recommendation:</b> We recommend that all travel expenses resulting from recruitment be assigned the 1252 object code for "athletic recruitment".</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> The amount of \$111,988 was incorrectly classified as indirect facilities and administrative support.</p> <p><b>Recommendation:</b> We recommend that the Athletic Department improve its process for compiling the SRE to ensure completeness. Elements of a good process would include a review of all accounts under Athletics to ensure that all are included on the SRE; a comparison of internal documentation to transaction information that can be downloaded from DEFINE; proper use of object codes in account processing to assist in classification of items and in reconciliation; and a review of the SRE by a separate person upon completion.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
			<p><b>Observation:</b> \$36,753 of administrative travel was improperly recorded as team travel and should have been recorded as other expenses.</p> <p><b>Recommendation:</b> We recommend that the Athletic Department improve its process for compiling the SRE to ensure completeness. Elements of a good process would include a review of all accounts under Athletics to ensure that all are included on the SRE; a comparison of internal documentation to transaction information that can be downloaded from DEFINE; proper use of object codes in account processing to assist in classification of items and in reconciliation; and a review of the SRE by a separate person upon completion.</p>	Scheduled follow-up to be performed during NCAA audit in 2007.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
Feb-06	UTIMCO ITF Consulting	We performed consulting services related to the design and implementation of the new software to determine whether it will have adequate security and audit trials.	<p><b>Recommendation:</b> Hire the Denim Group to assess remediation of vulnerabilities identified in their report. Since the software was recently modified, the Denim Group should retest using the final version to assure that no vulnerabilities remain or have been introduced. UTIMCO staff have represented to us and to the UTIMCO Board of Directors their intent to hire Denim Group to perform the follow up procedures.</p>	N/A	Ensure the security and auditability of the software program.
			<p><b>Recommendation:</b> Monitor all login attempts since this activity is an industry best practice, and the risk of a security breach would have high impact on UT System. Unusual login activity might indicate that an intruder is attempting to gain access to the server or network.</p>	N/A	Ensure the security and auditability of the software program.
			<p><b>Recommendation:</b> Request the institutions' chief business officers to review and update list of authorized users at least once a year.</p>	N/A	Ensure the security and auditability of the software program.
			<p><b>Recommendation:</b> CPS alerts users when a transaction that will result in an overdraft is entered. (This was later added.)</p>	N/A	Ensure the security and auditability of the software program.
			<p><b>Recommendation:</b> The ability for a CMS user to reassign an institution's accounts to another institution be removed or a message be provided when this situation occurs. (This was later removed.)</p>	N/A	Ensure the security and auditability of the software program.
			<p><b>Recommendation:</b> UTIMCO complete the online help screens.</p>	N/A	Ensure the security and auditability of the software program.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Recommendation:</b> Formalize procedures for monitoring the accuracy of the STF interest income, STF negative interest, STF yield, ITF distribution, ITF net asset value, and ITF unit price calculations.</p> <p><b>Recommendation:</b> Formalize procedures for reconciling the balances recorded in the Dreyfus and Mellon systems to the balances in CMS.</p> <p><b>Recommendation:</b> Formally communicate the institutions' responsibilities for monitoring transaction status and reconciling account balances.</p>	N/A	Ensure the security and auditability of the software program.
Apr-06	<b>Raiser's Edge IT Consulting</b>	To assist UT System Administration and the Vice Chancellor of External Relations for her role as the executive sponsor of the Raiser's Edge implementation in ensuring the provisions of UT System's policies are met.	<p><b>Observation:</b> We noted an opportunity for potential cost savings.</p> <p><b>Recommendation:</b> Since OTIS has experience in negotiating System-wide software licenses, the executive sponsor should consider asking OTIS to negotiate System-wide support fees for Raiser's Edge. The Texas A&amp;M and Texas State University Systems might also be interested in participating in these negotiations.</p> <p><b>Observation:</b> The existing People and estates and trust databases were frozen on March 22, 2006, and the final data conversion was completed by Blackbaud and reviewed by UT System Administration. Some minor data inconsistencies were noted, and these are currently being corrected. Also, UT System Administration has requested Blackbaud to make two additional changes which should be covered under the existing contract.</p>	N/A	Prevent the unnecessary loss of funds by UT System
			<p><b>Observation:</b> The existing People and estates and trust databases were frozen on March 22, 2006, and the final data conversion was completed by Blackbaud and reviewed by UT System Administration. Some minor data inconsistencies were noted, and these are currently being corrected. Also, UT System Administration has requested Blackbaud to make two additional changes which should be covered under the existing contract.</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies

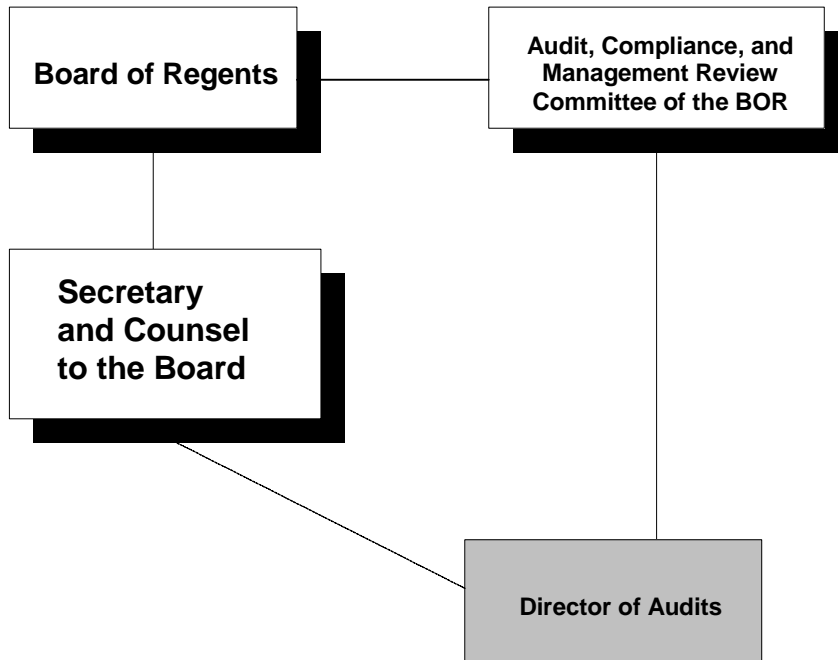
UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Recommendation:</b> UT System Administration should perform additional testing over the next few months to ensure that the change requests were properly implement and the Raiser's Edge data is consistent and accurate.</p>		
			<p><b>Observation:</b> Raiser's Edge administration screens are used to set up new user accounts and access controls. Configuration screens are used to identify which data fields are required or hidden. Since Raiser's Edge has gone into production, OTIS has set up the new user accounts and access controls.</p> <p><b>Recommendation:</b> Only two people, a primary and backup, should have access to the administration and configuration screens. The executive sponsor should designate a second person to review the user accounts and access controls to ensure that they provide adequate security.</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies
			<p><b>Observation:</b> The current version of Raiser's Edge, Version 7.8, is not web-based, reducing the risk of an outside intruder gaining access to the system. Users can connect to Raiser's Edge either by Raiser's Edge Authentication or Windows Authentication. Raiser's Edge Authentication requires a user to enter a password. Windows Authentication, on the other hand, does not require a password as long as the user is already logged into the UT System Administration local area network. UT System Administration intends to use Windows Authentication.</p> <p><b>Recommendation:</b> Although we believe that either connection method is sufficient at this time, if future versions of Raiser's Edge are</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p>web-based, then Raiser's Edge Authentication, rather than Windows Authentication, should be used to reduce the risk of an outside intruder gaining access to the system.</p> <p><b>Observation:</b> One person who had received training in Crystal Reports told us that Crystal Reports was very powerful and easy to use. Another person who had not received training in Crystal Reports told us that Crystal Reports was difficult to use.</p> <p><b>Recommendation:</b> At least two UT System Administration Raiser's Edge users should receive training in Crystal Reports. It might be cost effective to organize a class inviting the Raiser's Edge users at the UT institutions to participate.</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies
			<p><b>Observation:</b> Raiser's Edge provides interfaces allowing users to customize various input screens, queries, and reports. However, when customers upgraded from Raiser's Edge Version 6.x to 7.x, these customizations were lost. Reentering this information is time-consuming and increases the risk of errors.</p> <p><b>Recommendation:</b> Prior to the next major release of Raiser's Edge, the executive sponsor should consider having an executive officer write a letter to a Blackbaud executive on behalf of the UT System emphasizing the importance of being able to preserve our existing customization when we upgrade.</p>	N/A	Prevent the loss or resources by UT System

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> Data consistency can only be ensured by limiting the number of users able to enter data and properly training these users as to how data should be entered.</p> <p><b>Recommendation:</b> The users manuals should cover these input rules and be updated as needed. Each user should receive, read, and understand the data consistency rules before receiving a user account. The executive sponsor should also consider requiring users to sign an acknowledgement form stating that they agree to follow the input rules contained in the users' manuals.</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies
			<p><b>Observation:</b> The Office of Development and Gift Planning Services intends to enter gift data in batch mode. This data will then be reviewed by a second person before it is actually written to the database.</p> <p><b>Recommendation:</b> Although other departments will not initially be entering financial related data into Raiser's Edge, they should still establish some sort of review process to ensure data accuracy. This could involve periodically running a report that is reviewed by a person who did not enter the data.</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact Other Impact
			<p><b>Observation:</b> With multiple departments entering data into Raiser's Edge, there is the potential to create two records for the same constituent. Although the application will prompt users that a potential duplicate exists before they save their work, users can still opt to create a new record. The process for handling duplicate records is explained in the <i>Raiser's Edge Guidelines and Procedures</i> and in the <i>Constituent Data Entry Guide</i>. The Raiser's Edge administrator will be the only person with the ability to merge or delete records. When other departments notice a duplicate record, they are required to contact this person via email.</p> <p><b>Recommendation:</b> The Raiser's Edge administrator should run a duplicate records report at least once a month. If any duplicate records are identified, the departments that created the records should be contacted to determine which records is current and accurate. A form should be created for departments to complete when more complex constituent records need to be merged or deleted.</p>	N/A	Ensure the program's effectiveness and compliance with UT System policies

## V. 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. Austin Office of the President Change in Management Audit; UTIMCO Intermediate Term Fund; Raiser's Edge; and IT projects including IT Security Initiative.
Presentations to Other Organizations	Shared 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 2006	Improved communication with Board of Regents on the activities of internal audit.
Provided consultation, guidance, assistance and in some cases oversight to the institutions' internal audit departments	Improved independence, expertise, and audit oversight. Specifically, we were involved in peer reviews of UT System institutions. 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 institution and System Administration.	In fiscal year 2006, 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 2007

### SYSTEM ADMINISTRATION - Part 1 of 2

FY 2007 Audit Plan - <i>Audit</i>		2007 Budgeted Hours	% of Total
Audit/Project			
<b>UT System Requested</b>		-	-
Audits		-	-
	D&T financial statement assistance	200	
	Chancellor's travel & entertainment	150	
	Jackson Estate	150	
	<b>Subtotal</b>	<b>500</b>	<b>5%</b>
<b>Externally Required</b>			
Audits			
	JAMP	150	
	TAC 202	200	
	Confidential data	200	
	Time and effort reporting	40	
	<b>Subtotal</b>	<b>590</b>	<b>5%</b>
<b>UTIMCO</b>			
Audits			
	<i>Risk-based:</i>		
	Asset allocation	300	
	Code of ethics	200	
	Investment manager contract review	100	
	Front office activities	800	
	<i>Other:</i>		
	Meetings/oversight activities	200	
	Internal controls over financial reporting	400	
	Financial statement assistance	200	
	CEO travel and entertainment	100	
	Follow-up	200	
	Special Requests	400	
	Carryforward	100	
	<b>Subtotal</b>	<b>3,000</b>	<b>28%</b>

<b>Institutional Risk-based</b>			
Audits			
		150	
	Public Information Act response and records management		
	Self-insurance risk management	350	
		900	
	OFPC project management		
	Oil and gas producers (3 audits - 2 priority)	1,500	
	Office of Employee Benefits financial reporting	300	
	Business continuity/disaster recovery	150	
	Finance	150	
	Controller's office	150	
	West Texas Operations	150	
	TeleCampus	150	
	OFPC	150	
Consulting			
	West Texas Operations	50	
	<b>Subtotal</b>	<b>4,150</b>	<b>39%</b>
<b>IT Institutional Risk-based</b>			
Audits			
		300	
	Filenet		
	Student project TBD	50	
Consulting	Risk assessment	50	
	IT Security	100	
	<b>Subtotal</b>	<b>500</b>	<b>5%</b>
<b>Change in Management</b>			
	OTIS	150	
	Police	150	
	TBD	300	
	<b>Subtotal</b>	<b>600</b>	<b>6%</b>
<b>Follow-up</b>		300	3%
<b>Audit Projects</b>			
	Carry forward	400	
	Audit committees	150	
	State reporting	40	
	Audit plan	100	
	Special projects	435	
	<b>Subtotal</b>	<b>1,125</b>	<b>10%</b>
	<b>Total</b>	<b>10,765</b>	<b>100%</b>

**OVERSIGHT – Part 2 of 2**

FY 2007 Audit Plan - Oversight		2007 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	400	
	Assistance to UT Permian Basin	200	
	Assistance to Health Center - Tyler	350	
<i>Consulting</i>			
		0	
<i>Special Requests</i>			
		0	
<i>Carryforward</i>			
		0	
	<b>Subtotal</b>	<b>950</b>	<b>17%</b>
<b>Externally Required</b>			
<i>Audits</i>			
	-		
	NCAA Audits at UT Arlington, UT El Paso, UT San Antonio, and UT Pan American	1200	
<i>Consulting</i>			
	-	0	
<i>Special Requests</i>			
		0	
<i>Carryforward</i>			
		0	
	<b>Subtotal</b>	<b>1200</b>	<b>21%</b>
<b>Risk-based Institutional Audits</b>			
<i>Audits</i>			
	-	0	
	IT Audits - UTHC - Tyler	250	
<i>Consulting</i>			
	-		
	System-wide IT Consulting	100	
<i>Special Requests</i>			
		100	
<i>Carryforward</i>			
		0	
	<b>Subtotal</b>	<b>450</b>	<b>8%</b>
<b>Change in Management</b>			
<i>Audits</i>			
	-	0	
<i>Consulting</i>			
	-	0	
<i>Special Requests</i>			
		200	
<i>Carryforward</i>			
		0	
	<b>Subtotal</b>	<b>200</b>	<b>4%</b>
<b>Follow-up</b>			
<i>Audits</i>			
	-	0	
<i>Consulting</i>			
	-	0	

<i>Special Requests</i>		0	
<i>Carryforward</i>		0	
	<b>Subtotal</b>	<b>0</b>	<b>0%</b>
<b>Audit Projects</b>			
<i>Reporting</i>	-		
	2008 System-wide Audit Plan	100	
	Audit, Compliance, and Management Review Committee ("ACMR")	300	
	Recommendation Tracking System (Red, Yellow, Green)	300	
	Internal Audit Council	200	
	<i>In the News</i> - Newsletter	150	
<i>Consulting</i>	-		
	Institutions	1300	
<i>Special Requests</i>			
	Institutional Peer Reviews	100	
	Unknown	300	
<i>Carryforward</i>			
	2007 Audit Plan	47	
	<b>Subtotal</b>	<b>2797</b>	<b>50%</b>
<b>Total Hours</b>		<b>5597</b>	<b>100%</b>

## **VIII. External Audit Services**

The University of Texas System has contracted with Deloitte & Touch to perform an independent audit of the Fiscal Year 2006 System-wide Financial Statements.

The University of Texas Investment Management Company (UTIMCO) contracted with Ernst & Young to perform an independent audit of the Fiscal Year 2006 Financial Statements of UTIMCO Corporation, the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, Short Term Intermediate Fund and the Intermediate Term Fund.