

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

**Annual Audit Report  
Fiscal Year 2007**



The University of Texas System  
System Audit Office  
201 West 7<sup>th</sup> Street, CLB 3.100  
Austin, Texas 78701

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Part I

**THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION**  
**Fiscal Year 2007 Audit Plan**  
SYSTEM ADMINISTRATION - Part 1 of 2

Audit/Project		2007 Budgeted Hours	% of Total
<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	
		300	
	Office of Employee Benefits financial reporting		
		150	
	Business continuity/disaster recovery		
	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>
Follow-up		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>

**THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION**

**Fiscal Year 2007 Audit Plan**

Oversight – Part 2 of 2

Audit/Project		2007 Budgeted Hours	% of Total
<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>			
<i>Special Requests</i>			
<i>Carryforward</i>			
	<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>			
<i>Carryforward</i>			
	<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>			

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<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>

**Deviations from the Audit Plan**

The System Audit Office performed all FY 2007 System Administration Priority Audits with two exceptions. Certain UTIMCO audits were not conducted due to the transition in UTIMCO executive management, changes in their operations, negotiations with an investment auditing consultant and the timing of the external financial audit work due to the change in auditors. These audits have been carried forward to the FY 2008 audit plan. Additionally, the Office of Employee Benefits financial reporting audit was carried forward to FY 2008 in order to accommodate client schedule and customize the audit to better add value to the client.

Four audits are currently in progress and will be carried forward to be completed in the early part of FY 2008. The System Audit Office also performed several special request projects deviating from the plan as part of the oversight function and executive management requests during the fiscal year.

**Part II**  
**External Quality Assurance Review**

The University of Texas System Administration  
System Audit office  
Quality Assurance Review – March 2005

The Review

At the request of the Director of Audits a Quality Assurance Review (QAR) of The University of Texas System Audit Office. The QAR was conducted February 28 - March 3, 2005, and covered the period from September 1, 2003 through August 31, 2004. The objective of the QAR was to provide reasonable assurance that the internal auditing program at The University of Texas System generally complied with the Institute of Internal Auditors' *International 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.

The University of Texas System Administration  
System Audit office  
Quality Assurance Review Follow Up – September 2006

The Review

At the request of the Director of Audits, a follow up to the Quality Assurance Review (QAR) of The University of Texas System Audit Office conducted in March 2005 was performed August 30 – September 1, 2006. The objective of the QAR Follow Up was to evaluate if timely and reasonable actions to correct/eliminate issues identified in the QAR completed in March 2005 had been taken. The objective of the review was achieved by means of interviews with System executive management, one institutional internal audit director, the Internal Audit Committee, the Executive Compliance Committee, and current members of the System Audit Office.

Overall Conclusion

The University of Texas System Audit Office was found to have fully implemented or made substantial progress on all of the recommendations made from the previous QAR conducted in March 2005.

The System Audit Office will undergo another Quality Assurance Review in the spring of 2008.

Part 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
9/1/06	West Texas Operations Company Audit – Conoco Phillips	The objectives of this audit were to determine whether production reported to the University was reasonable, To determine whether proceeds from oil and gas sales were reasonable, and that the corresponding royalties have been remitted to the University, To determine whether gas sales meters and Lease Automated Custody Transfer ("LACT") meters 1 were calibrated regularly; and To determine whether gas stream sampling is conducted every six months in accordance with the Board for Lease Rules ("BFL") and Regulations.	Details on the observations/findings, recommendations, and implementation status from oil and gas company audit reports are confidential pursuant to Texas Education Code, Section 66.81, and thus not included.		



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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>each proposed investment, regardless of the investment's dollar amount. Accounting staff maintains a checklist of completed Certificate of Compliance forms. While Certificate of Compliance forms were not obtained for the Bridgewater Pure Alpha Fund II and Farallon's FCOI I fund, during the audit we noted that none of the Board members or key personnel had a pecuniary interest in the two funds. Therefore, we do not believe it is necessary that Certificate of Compliance forms be distributed to and signed by Board members and staff for these two funds to validate the absence or disclosure of a conflict of interest. However, we recommend that certificates of compliance be obtained for every new fund in the future.</p>		appropriately and ensure regulatory guidelines compliance
11/3/06	Academic Affairs Change in Management	The specific objectives of this audit were to determine: a) The reliability and integrity of the department's key financial information b) The adequacy and effectiveness of controls in safeguarding assets; and c) Whether internal control procedures have been established and are functioning as intended.	<p><b>Observation:</b> Overall, the financial information of the Office of Academic Affairs appears reliable and accurate, and internal controls are adequate and effective in safeguarding assets.</p> <p><b>Recommendation:</b> none.</p>	No recommendations	n/a

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
11/17/06	Follow-up Q3 FY 2006	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> n/a</p>	Scheduled follow-up to be performed during FY 2008	Monitor and communicate the level of implementation of recommendations included in audit reports.
11/28/06	Chancellor's Travel, Entertainment and Housing Expense	To determine whether the travel, entertainment, and housing expenses paid on behalf of or reimbursed to the Chancellor or his spouse are appropriate and accurate. Our audit procedures included testing controls to determine whether applicable policies and procedures were followed and performing substantive tests to determine whether expenses were appropriate and correct amounts were processed.	<p><b>Observation:</b> We found that all transactions appeared to be appropriate and accurate and processed in accordance with applicable policies, namely the UT System Administration Travel Policy and Entertainment Policy, and that controls were working as intended.</p> <p><b>Recommendation:</b> none.</p>	No recommendations	n/a

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
12/12/06 & 1/22/07	JAMP- Financial & Compliance	<p><b>Financial-</b> To determine the reliability and integrity of key financial information reported by JAMP in its financial statement, which details revenues and expenditures of the JAMP Office at UT System Administration.</p> <p><b>Compliance-</b> The secondary objective of this audit was to provide assurance of compliance with requirements in the agreements between the JAMP participant schools and the JAMP Council as well as the agreement between the JAMP Council and the Texas Higher Education Coordinating Board ("THECB").</p>	<p><b>Observation (Financial)</b> - In our opinion, the financial information reported in the accompanying JAMP financial statement is materially correct and fairly represents JAMP activity for FY 2005 and 2006.</p> <p><b>Compliance Finding:</b> The audit reports for 12 of the public undergraduate and three of the medical participant schools noted issues of non-compliance in the general areas of expenditures, internal controls, and time and effort reporting.</p> <p><b>Recommendation:</b> The JAMP Office should continue to communicate the identified issues to the JAMP Council so that the Council may determine the appropriate course of action, if any, that should be taken with participant schools regarding issues identified in the audit reports.</p> <p><b>Finding:</b> Section 2254.021 of Texas Governmental Code and BPM 43 define a major consulting services contract as one for which it is reasonably foreseeable that the value of the contract will exceed \$25,000 for an institution of higher education. Both the Texas Governmental Code and BPM 43 further define that if the original consulting service contract was not a major consulting services contract, but the original contract and the proposed renewal, amendment or extension together have a reasonably foreseeable value of more than \$25,000, the institution shall comply with the requirements of a major consulting services contract.</p>	<p>No recommendations</p> <p>Implemented</p>	<p>n/a</p> <p>Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance</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>Recommendation:</b> We recommend that JAMP Office work with OGC to determine the proper treatment of this service contract, including any corrective action, if necessary, that may need to be taken. Prospectively, the JAMP Office should work with OGC to determine whether any proposed work by external entities falls under the definition of consulting services. If so, the consulting service contracts should meet the requirements of the appropriate statute(s) as well as the appropriate UT System policies and procedures.</p>	Implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance
1/10/07	OFPC Memorandum of Understanding-UTSW and UTMDACC	The objectives of this engagement were to determine whether Southwestern, MD Anderson and OFPC complied with the terms and conditions set forth in the MOU; OFPC's participation in the MOU contributed value in assuring Southwestern's compliance with state law and Regents' Rules and Regulations; and OFPC fees invoiced for monitoring of MOU projects appropriately align with the costs of providing such services.	<p><b>Southwestern Finding:</b> Clarification of Responsibility for Compliance: The MOU currently states that Southwestern is responsible for executing capital construction projects in full compliance with all applicable federal and state laws and Regents' Rules and Regulations. The MOU also states that OFPC has responsibility to the Board for project compliance with applicable laws and established rules and regulations through monitoring of Southwestern management activities. As written, project compliance responsibility appears to be shared by both Southwestern and OFPC. OFPC expressed concern that it is being held accountable for compliance on a project that it does not manage. Although OFPC can monitor and report on Southwestern's compliance activities to the Board, it should not be held accountable for projects that it does not control.</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>Recommendation:</b> Any future MOU should retain its statement that the President of Southwestern is responsible for executing major CIP projects in full compliance with all applicable federal and state laws and Regents' Rules and Regulations. As part of the MOU, OFPC should continue to monitor Southwestern-managed construction and be prepared to report to the Board on the status of Southwestern-managed construction. OFPC monitoring should continue until UT System and Southwestern executive management determine that Southwestern is ready to manage all of its own major construction.</p> <p><b>Finding:</b> The monitoring plan defined in the MOU is based on the Risk Mitigation and Monitoring Plan that was developed and last updated by OFPC in 2004. That risk assessment took into consideration the 2000 Uniform General and Supplementary General Conditions for UT System Construction Contracts ("UGSGC") as amended in 2004. The UGSGC includes the laws, responsibilities, criteria, and guidelines for the parties involved in construction. The UGSCC are included as part of construction contracts and were recently updated in November 2005.</p> <p><b>Recommendation:</b> OFPC's monitoring plan should focus on high risk areas based on a risk assessment performed jointly by OFPC and Southwestern. The risk assessment should be used to identify</p>	Partially implemented	Ensure compliance with contract agreements and ensure regulatory guidelines compliance
			<p><b>Recommendation:</b> OFPC's monitoring plan should focus on high risk areas based on a risk assessment performed jointly by OFPC and Southwestern. The risk assessment should be used to identify</p>	Partially implemented	Ensure compliance with contract agreements and ensure regulatory

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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>both "A" and "B" risks and should consider changes to the UGSGC that were updated in November 2005. The project "A" risks should be determined as part of Southwestern's institution-wide risk assessment process.</p> <p><b>Finding:</b> OFPC should continue to monitor Southwestern's management of its major CIP project "A" risks as determined by the risk assessment process. However, OFPC should change its approach from check-list monitoring to providing assurance to the Board that Southwestern's project compliance system to manage its "A" risks has been implemented and is operating effectively.</p> <p><b>Recommendation:</b> To provide assurance that Southwestern has implemented a project compliance system to manage its "A" risks, OFPC should determine whether:</p> <ul style="list-style-type: none"> <li>a) A responsible party has been designated;</li> <li>b) Risk assessments are being conducted;</li> <li>c) A monitoring plan is in place that is measurable and is sufficient to ensure compliance;</li> <li>d) A reporting plan on the "A" risks to OFPC is in place, and</li> <li>e) A specialized training plan has been developed.</li> </ul> <p>To provide assurance that Southwestern's compliance activities are effective, OFPC should determine whether:</p> <ul style="list-style-type: none"> <li>a) The designated responsible party is</li> </ul>	Not implemented	<p>guidelines compliance</p> <p>Ensure compliance with contract agreements and ensure regulatory guidelines compliance</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>monitoring compliance according to the monitoring plan;                      b) Periodic reporting is being performed in accordance with the reporting plan;                      c) Corrective actions for detected instances of significant non-compliance are taken;                      d) Planned training is being performed, and                      e) Assurance activities are taking place that increase the confidence level that executive management has in its project compliance risk management</p> <p><b>Finding:</b> OFPC is currently responsible for rerouting significant instances of non-compliance to the Board on institutionally managed CIP projects. To date, OFPC has had no significant instances to report related to the ACBG project. Because Southwestern is responsible for implementing an effective project compliance system and OFPC is responsible for reporting on the effectiveness of that system to the Board, Southwestern will need to implement a dual reporting structure from the designated responsible party to Southwestern's institutional compliance officer and to OFPC.</p> <p><b>Recommendation:</b> OFPC should work with Southwestern to ensure that the designated responsible party reports the status of identified "A" risks on a quarterly basis, prior to meetings with the Facilities Planning and Construction Committee ("FPCC") of the Board. The report to OFPC and the institutional compliance</p>	Not implemented	Ensure compliance with contract agreements 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>officer should include the following:</p> <ul style="list-style-type: none"> <li>a) Supervisory control activities as specified in the monitoring plan;</li> <li>b) Instances of non-compliance associated with "A risks, which should be reported soon after detection;</li> <li>c) Identified causes of failure and action taken to mitigate repeated failure;</li> <li>d) Consequences of noncompliance;</li> <li>e) Process improvement recommendations to reduce the risk of repeated failure; and</li> <li>f) Training related to "A" risks conducted taken.</li> </ul> <p>Additionally, Southwestern should inform OFPC regarding whether a delegated major CIP project is progressing on-time and within budget. OFPC should be prepared to report to the Board the overall status of institutionally-managed "A" risks, including:</p> <ul style="list-style-type: none"> <li>a) Whether there are any significant instances of non-compliance;</li> <li>b) Whether the "A" risks are well controlled, minimally controlled, or poorly controlled;</li> <li>c) Any findings and/or recommendations from reviews or assurance activities conducted by OFPC to validate information reported by Southwestern;</li> <li>d) A summary of actions taken by the designated responsible party to manage the "A" risks; and</li> <li>e) Whether the project is progressing on time and within budget.</li> </ul> <p><b>Finding:</b> Currently, verification that</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>conflicts of interest are appropriately addressed is not included within the MOU.</p> <p><b>Recommendation:</b> Given the size and scope of a major CIP project activity, Southwestern should develop processes similar to OFPC's internal processes that assure that conflicts of interest during the vendor selection process are avoided on future MOU projects.</p> <p><b>Finding:</b> OFPC and Southwestern agreed to an MOU fee of \$258,281. This amount considered the size, scope, project requirements, and was determined by multiplying estimated staff hours to monitor the ACBG project by the hourly salary (including benefits) rate plus 50% of this product as an overhead charge. Based on our calculation, the MOU fee is approximately 17.8% of the fee that OFPC would have charged (\$1,449,998) had it managed the project. The MOU states that Southwestern pay 17.3% of OFPC's regular project management fee for OFPC to monitor the project. Consequently, the agreed-to fee was not determined by applying a fixed percentage to the regular OFPC management fee and is unique to the ACBG project. To determine the reasonableness of the fee amount, we obtained the actual time spent by OFPC on the ACBG project, as of July 18, 2006, and added the projected total time that OFPC may spend on the project until substantial completion. Using actual and projected project hours, we recalculated the fee to be \$130,509, or approximately 51% of OFPC fee assessed to monitor the</p>	Not implemented	Ensure compliance with contract agreements 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>project. Consideration should also be given to including agreed-upon value-added services in any future MOU. According to Southwestern's DDC, more value was obtained from the consultative relationship between the OFPC PM and the DDC than the checklist-based monitoring approach. Value added services may include but are not limited to providing updates on changes in the Regent's Rules and Regulations, project management training, contract review, and access and updates to the eManual.</p> <p><b>Recommendation:</b> Any fee structure developed for project management support should be re-examined by both OFPC and Southwestern to determine a more equitable methodology that ensures that OFPC's services and overhead are covered and that the institution receives value for services received. Fees assessed to provide subject matter expertise for audits or reviews of any institution-managed project should be developed individually and not be assigned a fixed rate. To enhance accountability, OFPC should provide Southwestern an accounting of time spent on monitoring of institutionally-managed major CIP projects. Southwestern and OFPC should consider value-added activities and training related to project management and/or compliance that OFPC can provide as part of agreed-upon, compensated services.</p>	Partially implemented	Ensure compliance with contract agreements 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>MD Anderson</b>  <b>Finding:</b> The MOU currently states that M. D. Anderson is responsible for executing capital construction projects in full compliance with all applicable federal and state laws and Regents' Rules and Regulations. The MOU also states that OFPC has responsibility to the Board for project compliance with applicable laws and established rules and regulations through monitoring of M. D. Anderson management activities. As currently written, project compliance responsibility appears to be shared by both M. D. Anderson and OFPC. OFPC should not be held accountable for projects that it does not control. Additionally, M. D. Anderson has the appropriate resources and experience in project management to be held exclusively responsible for its major CIP projects.</p> <p><b>Recommendation:</b> UT System executive management should terminate the current MOU process in its present form. M. D. Anderson has the resources and experience to manage its own projects. Any future MOU or agreement between UT System and M. D. Anderson should state that the President of M. D. Anderson is responsible for executing the institution's major CIP projects in full compliance with all applicable federal and state laws and Regents' Rules and Regulations, including monitoring and reporting on its management of the critical project risks to the Board without OFPC oversight. M. D. Anderson should be exclusively</p>	Implemented	Ensure compliance with contract agreements 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>responsible for providing assurance to the Board regarding whether M. D. Anderson has major CIP project activities in place and whether those activities are effective. Consequently, M. D. Anderson should ensure that it has a major CIP project compliance function in place and implement assurance activities such as internal or external audits of its major CIP projects. Additionally, M. D. Anderson's compliance activities should focus on critical risk areas that are based on a risk assessment. Given the size and scope of major CIP project activities, M. D. Anderson should also ensure that conflicts of interest during the contracting process are avoided.</p> <p><b>Finding:</b> Both OFPC and M. D. Anderson agreed to an estimated fee based on the size, scope, and requirements of the projects. The original MOU stated that M. D. Anderson pay OFPC a fee based on 37.5% of OFPC's normal management fee. The fee percentage was determined by estimating OFPC staff hours that would be devoted to monitor the MOU projects by the hourly salary (including benefits) rate plus 50% of this product as an overhead charge. The MOU was subsequently amended to reduce the fee to 23%. During the audit, the MOU fees for six M. D. Anderson-managed projects were \$1,367,834.</p> <p>To determine the reasonableness of this amount, we obtained the actual time spent by OFPC on all MOU projects, as of September 8, 2006, and added the projected total time that OFPC may spend</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>on the project until substantial completion. Based on actual and estimated projected hours, the OFPC fees for monitoring the projects do not appropriately align with the costs of providing such services. When the fee structure was determined, OFPC had anticipated spending significantly more time monitoring the MOU projects. Although the fees assessed did not align with the cost of providing MOU monitoring services, M. D. Anderson did indicate that it received value from OFPC's coordination of the Board's review of the Design Development drawings, assistance with-Storm Water Pollution Prevention Plan inspections, substantial completion checks, and access to the OFPC eManual. The eManual condenses and outlines project process delivery guidelines within an online, password-protected website. The guidelines contained within the eManual were developed to assist OFPC project management staff understand and comply with the various procedures, rules, regulations, laws, policies and best practices associated with the effective delivery of UT System capital projects.</p> <p><b>Recommendation:</b> Given the overall recommendation to terminate the current MOU, OFPC and M. D. Anderson will need to work together to determine a mutually agreeable disposition of the current MOU fees paid. At its discretion, M. D. Anderson may consider project management services that OFPC could provide on a fee-for-service basis.</p>	Partially implemented	Ensure compliance with contract agreements 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
1/23/07	Office of Finance	The specific objectives of this audit were to determine the reliability and integrity of the department's key financial information; the adequacy and effectiveness of controls in safeguarding assets; and whether internal control procedures have been established and are functioning as intended.	<p><b>Observation:</b> Overall, the financial information of the Office of Finance appears reliable and accurate, and internal controls are adequate and effective in safeguarding assets.</p> <p><b>Recommendation:</b> none.</p>	No recommendations	n/a
2/27/07	Office of Employee Benefits	The objectives of this audit were to validate OEB's report submitted to the UT System Administration Office of Compliance regarding the implementation status of BPM 66 for the year ended December 31, 2005, to determine if all confidential data was identified and adequately protected by performing scans, and to determine whether enhancements were needed to the risk identification and assessment process and the ongoing use and monitoring of confidential data.	<p><b>Finding:</b> Appropriate Usage of FTP Sever- OEB uses an FTP server to share data files containing confidential information with benefit vendors and UT institutions. We reviewed the usage of the FTP server by OEB and identified several issues. OEB has made considerable efforts to address most of these issues:</p> <p>Files Stored on Server - We observed files on the FTP server on August 28, 2006 and noted files with confidential information. We also noted one large plain text file (unencrypted), which had stayed on the server for at least 33 days. Upon our notification of this issue, OEB took prompt actions to implement new automated processes to ensure OEB files do not become stagnant on the FTP server.</p> <p>Limiting FTP Sessions by IP Addresses – At the time of our audit, FTP sessions were open to all IP addresses. This security weakness was subsequently addressed by OTIS by limiting FTP sessions to IP addresses of authorized benefit vendors.</p>		

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			<p>Insecure Transfer of Files - The FTP server supports both FTP and SFTP file transfers. SFTP is a more secure method to transfer files. To compensate for the inherent security weaknesses of FTP file transfers, OEB uses SFTP with clients who accept it, and uses a software encryption tool to encrypt files before placing them on the FTP server with clients who do not accept SFTP. The drawback of using the encryption tool is that it only encrypts files transferred, not login credentials. Currently, OEB is working with UT Austin Information Technology Services (ITS) to develop processes to transfer files with confidential data securely between UT Austin mainframe and OTIS' FTP/SFTP server.</p> <p>Shared Logon IDs - We reviewed 80 active FTP user profiles and noted that generic credentials were used as login user names. This makes it difficult to identify specific persons who accessed the server.</p> <p>Passwords without Expiration Dates - We noted that not all FTP user passwords were set to expire one year from the time of last change. The UT System Administration Information Resources and Security Policy requires that passwords should be changed at least annually. Upon our notification, OTIS agreed to enforce strong password rules by limiting the expiration period to one year for FTP user accounts.</p>		

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			<p><b>Recommendation:</b> We recommend that OEB work with OTIS and the Office of General Counsel (OGC) at UT System Administration to require that benefit vendors and UT institutions follow best practices when sharing confidential information through FTP servers to mitigate the risk of SSNs being compromised. These best practices include, but are not limited to assigning a unique user name for each person who is granted access rights to the FTP server; Ensuring that FTP servers are only used for file sharing and not for file storage, and with the assistance of OTIS, monitoring files stored on the FTP server to ensure prompt removal of files successfully transferred; and Mandating usage of SFTP by benefit vendors through contractual requirements when confidential data is transferred.</p>	Scheduled follow-up to be performed during FY 2008.	Improve network and data security.
04/03/07	TAC 202	The objectives of this audit were to determine whether the UT System Administration information resources security program complies with the information security standards prescribed by TAC 202 and to satisfy the requirement for a biennial compliance review of the information security program pursuant to §202.71(e).	<p><b>Finding:</b> Although OTIS has performed a risk assessment of centralized information systems, we found that there is not currently a comprehensive, entity-wide UT System Administration information security risk management plan to be formally approved by the Chancellor or his designee.</p> <p><b>Recommendation:</b> UT System Administration should perform a consolidated information security risk analysis and create a comprehensive security risk management plan that encompasses all offices of UT System Administration, including those which maintain systems on the UT Austin</p>	Scheduled follow-up to be performed during FY 2008	Improve network and data security.

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			<p>mainframe or offsite. The security risk management plan should be submitted to the Chancellor or his designee for formal acknowledgement and approval.</p> <p><b>Finding:</b> The current UT System Administration Disaster Recovery Plan (DRP) is a lengthy manual document, which is cumbersome to keep updated and includes elements of a business continuity plan (BCP). A DRP without current and correct contact information for key personnel may cause confusion should a disaster occur, leading to increased response times.</p> <p><b>Recommendation:</b> We recommend that OTIS continue to work with the Office of Risk Management to ensure that the disaster recovery plan is updated and is incorporated into the business continuity plan.</p> <p><b>Finding:</b> UT System Administration has a designated Information Security Officer (ISO) with information security responsibilities as required by TAC §202.71(d). However, the required duty to monitor the effectiveness of defined controls for mission critical information is missing from the current version of the ISO's job description. Without a complete documentation of the duties of the ISO, it may be difficult to hold this individual accountable for certain duties that are required of this position by the state.</p> <p><b>Recommendation:</b> We recommend that OTIS work with the Office of Employee</p>	<p>Scheduled follow-up to be performed during FY 2008</p> <p>Scheduled follow-up to be performed</p>	<p>Improve network and data security.</p> <p>Improve network and data security.</p>

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			Services (OES) to incorporate the monitoring responsibility into the ISO's job description.	during FY 2008	
05/18/2007	ODOP Change in Management	This audit was performed as a result of a change in management in the department. Change in management audits primarily focus on financial controls, such as capital asset tracking, account reconciliations, and proper expenditure approval, as well as operational controls, such as safeguarding of assets and proper segregation of duties.	<p><b>Observation:</b> Overall, financial information of ODOP appears reliable and accurate, controls within the department are adequate and effective in safeguarding assets, and internal controls are in place and functioning as intended.</p> <p><b>Recommendations:</b> None.</p>	No recommendations	n/a
05/24/07	UT Airplane Operations	The audit objectives were to evaluate compliance with applicable policies, procedures, rules, and regulations relating to the U.T. System aircraft operations using state-owned and chartered aircraft, and to review the new reporting requirements regarding such operations issued on March 12, 2007 to the U.T. System and all institutions.	<p><b>Finding:</b> An overall review of all flights to determine whether approval was obtained prior to the flight revealed 4 instances (2 U.T. Austin; 2 Bureau of Economic Geology) in which the reservation forms were not approved. These flights were taken by U.T. System personnel on TXDOTAD aircraft and the reservations were made through the TXDOTAD.</p> <p><b>Recommendation:</b> New reporting requirements dated March 12, 2007 were established regarding the use of U.T. System state-owned and chartered aircraft. All chartered aircraft used while conducting business on behalf of The University of Texas System including those by administrators, athletic teams or staff members, and aerial photography flights taken for geological surveys should be reported to and reserved by OSS. The amendments to the existing policies and procedures, if properly implemented and</p>	Partially implemented	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

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			closely monitored, should correct the lack of approval noted.		
06/01/07	Exxon Mobil	The objectives of our audit were to determine whether production reported to the University was reasonable; whether proceeds from oil and gas sales were reasonable, and the corresponding royalties have been remitted to the University; whether gas sales meters and Lease Automated Custody Transfer ("LACT") meters were calibrated regularly; and whether gas stream sampling is conducted every six months in accordance with the Board for Lease Rules ("BFL") and Regulations.	Details on the observations/findings, recommendations, and implementation status from oil and gas company audit reports are confidential pursuant to Texas Education Code, Section 66.81, and thus not included		
06/01/07	Business Continuity Plan	The audit objective was to assess the completeness of the UT System Administration Business Continuity Plan.	<p><b>Finding:</b> Based on the comparison with EDUCAUSE, we found that all elements of the UT System BCP are partially implemented. A formal action plan for successful implementation and maintenance of all elements of a BCP does not exist. TAC §202 recommends that all State of Texas institutions of higher education have a BCP and guidance on the elements of an effective BCP is readily available.</p> <p><b>Recommendation:</b> Membership of the BCP steering committee should be periodically evaluated by executive management to ensure adequate representation is in place. The steering committee should prepare a formal action plan and have the plan approved by</p>	Scheduled follow-up to be performed during FY 2008	Ensure continuity of business operations

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			executive management. The Business Continuity Coordinator position should be filled and the job classification should be reconsidered in order to ensure a qualified candidate can be hired. The BCP should be compared against best practices and state law (TAC §202) to ensure it is comprehensive. The Office of the Board of Regents should be included in the action plan due to their responsibility for ensuring governance for all UT institutions. The Compliance Working Group should add Business Continuity Planning to its high risk list to ensure that the Executive Compliance Committee is informed of its status.		
06/18/07	Jackson Estate	To evaluate the Administration of ownership records; receipt of oil and gas royalty payments; controls to ensure reported production accurately reflects actual production; and controls to ensure appropriate royalty interest payments have been received.	<p><b>Finding:</b> <i>Royalty Payments</i> -The Foundation does not reconcile these amounts to the deposit slips. The Foundation maintains a check log but does not use it in the check reconciliation process, and there were several instances where deposits were recorded in the database and in the DEFINE accounts but not recorded in the check log. We noted that there is only one person that opens the mail and prepares the check log. The Foundation does not have adequate procedures in place to ensure that royalty payments are deposited in a timely manner.</p> <p><b>Recommendation:</b> Have two people open the mail and prepare the check log and ensure that the check log is complete. Reconcile the royalty income accounts to the maintained check log, database, and deposit documentation; and train an</p>	Scheduled follow-up to be performed during FY 2008	Ensure compliance with contract agreements and ensure the accuracy of royalty payments.

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			<p>additional employee to review checks received and appropriately code the oil and gas royalties to ensure the checks are deposited in accordance with the U. T. Austin deposit policy.</p> <p><b>Finding: Volume</b> - The Foundation is using the RRC primarily for monitoring production trends. In lieu of the monthly RRC comparison, the Foundation has an alternative process where it compares the volume reported to the Texas State Comptroller's Office ("Comptroller") to the volume received by the Foundation.</p> <p><b>Recommendation:</b> Because the Foundation compares production volumes reported to the Comptroller to the database on a monthly basis, the Foundation should consider revising the production reconciliation procedures of the volumes reported to the RRC to the volumes recorded in the database from the check stubs from a monthly to a quarterly or annual basis. The person who prepares the reconciliation should initial and date the report, and the reviewer should initial and date the reconciliation as evidence of review.</p> <p><b>Finding: Reporting</b> - Currently, the Foundation does not maintain a mapping or other supporting documentation that details how the Financial Report is developed. Additionally, the Financial Report provided can be improved. Finally, we reviewed the estimated value of the mineral interest. We reviewed the</p>	Scheduled follow-up to be performed during FY 2008	Ensure compliance with contract agreements and ensure the accuracy of royalty payments.

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			<p>assumptions used in this calculation and found that the Foundation estimated the fiscal year 2006 value of the mineral interest using the same historical oil and gas prices for the fiscal year 2005 estimate. The prices were the same since the historical prices were based on a trend of decades of oil and gas price history. That history does not reflect recent trends in oil and gas prices</p> <p><b>Recommendation:</b> To enhance the annual financial reporting process, the Foundation should maintain supporting documentation for the expense amounts reported on the Financial Report and develop a mapping of how the report is developed from the accounting records; enhance the Financial Report by eliminating unnecessary detail and incorporate quantitative and qualitative features similar to those included in the monthly newsletter and consider utilizing a 12 month trailing average for oil and gas prices when calculating the estimated mineral interest value.</p>	Scheduled follow-up to be performed during FY 2008	Ensure compliance with contract agreements and ensure the accuracy of royalty payments.
06/26/07	UTHCT IT Audit Work	The objective of this engagement was to assess compliance with the requirements of PCI DSS, BPM	<b>Finding:</b> <i>Compliance with PCI DSS</i> - We inspected two payment card terminals on campus to determine whether payment		

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		66, BPM 75, and TAC 202.	<p>card information is stored and protected as required by PCI DSS. Based on the work performed, we found that UTHCT, as a whole, is not in compliance with PCI DSS</p> <p><b>Recommendation:</b> UTHCT should establish a process to address PCI DSS compliance issues that includes identifying where payment card numbers are stored. Storage of payment card numbers should be justified by business, legal, or record retention purposes. Payment card numbers not stored for these valid purposes should be promptly purged. Legitimately-stored payment card numbers should be protected by appropriate security measures as required by PCI DSS.</p> <p><b>Finding:</b> <i>Protect Files with SSNs</i> - While performing audit fieldwork in UTHCT's internal audit office on March 22, 2007, we were able to access old files with multiple records of personal information, including SSNs. The largest file contained 1,205 records with employee names and SSNs. These files did not have sufficient logical controls to limit access to employees with legitimate needs. This control weakness places sensitive information at a higher risk of being compromised.</p> <p><b>Recommendation:</b> Upon our notification, UTHCT personnel took prompt actions to secure the files. We recommend a scan of UTHCT network servers for stored sensitive or confidential information (SSNs</p>	<p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p> <p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p>	<p>Improve information security measures and ensure regulatory guidelines compliance</p> <p>Improve information security measures and ensure regulatory guidelines compliance</p>

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			<p>and/or payment card numbers) to determine whether commensurate logical access controls exist to protect the information from inappropriate access.</p> <p><b>Finding:</b> We requested all forms that collect SSNs from patients or employees from UTHCT and received 19 forms. A review of these forms found that the following three forms requested SSNs when this information was not needed for a valid business purpose. For all forms we reviewed, appropriate federal and state notices are provided as required.</p> <p><b>Recommendation:</b> Upon our notification, UTHCT took appropriate actions to remove the SSN-requesting fields from the above-mentioned forms. We do not recommend further action.</p> <p><b>Finding:</b> UTHCT uses an application system called Meditech to manage patients' protected health information (PHI). Users of Meditech access PHI, including SSNs, through screen displays, and screen displays visited by users are logged by Meditech. Currently, Meditech logs are not reviewed by UTHCT employees on a regular basis to detect potential unauthorized disclosures of PHI.</p> <p><b>Recommendation:</b> We recommend that UTHCT develop a manual or automated process to review Meditech logs on a regular basis. This process will satisfy BPM 66 requirements regarding the protection of SSNs as well as HIPAA security standards.</p>	<p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p> <p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p>	<p>Improve information security measures and ensure regulatory guidelines compliance</p> <p>Improve information security measures and ensure regulatory guidelines compliance</p>

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			<p><b>Finding:</b> <i>Compliance with BPM 75</i> - We noted the following weaknesses with the current backup practice: backup media is not validated; backup media provided by the researchers are not stored offsite; backup was not performed consistently prior to March 2007. Only one backup CD was received in January 2007 and no backup media were received in February 2007; the key to the safe where backup media are stored is not escrowed.</p> <p><b>Recommendation:</b> To minimize interruption caused by data loss due to disasters, virus infections, hardware failures, and similar instances, research information should be backed up consistently as required by UTHCT's Backup and Recovery Procedures and Research Backup Server Procedures. We also recommend that UTHCT's central IT department monitor backup practices in the basic science research labs</p> <p><b>Finding:</b> We examined lab computers and identified the following weakness: Screen saver protection was set to different time lengths; Virus definitions were not kept updated for some computers; Daily virus scans were not scheduled for some computers; User passwords were not set to expire for some computers.</p> <p><b>Recommendation:</b> We recommend that UTHCT's central IT department monitor IT controls in basic science research labs to</p>	<p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p> <p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p>	<p>Improve information security measures and ensure regulatory guidelines compliance</p> <p>Improve information security measures and ensure regulatory</p>

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			<p>ensure that security controls consistently exist on lab computers and that computers or network segments in the basic science areas will not become vulnerable points to the entire UTHCT network to be exploited by outside attackers.</p> <p><b>Finding:</b> <i>Compliance with TAC 202</i> – UTHCT does not have an adequate, comprehensive information technology security program. UTHCT has performed a risk assessment which included information technology risk; however, the risk assessment results did not identify specific information resources as prescribed by TAC 202. Furthermore, it does not appear that action was taken based on the risks identified to develop an action plan to mitigate those risks, as there was also no formal evidence of communicating the risk assessment results to the President, other than individuals reporting that the President is apprised of the risks at Internal Audit Council meetings.</p> <p><b>Recommendation:</b> We recommend that a risk assessment be performed based on the inherent risk of specifically-identified information resources, the results of which should be formally documented and presented to the President. Work should continue on the comprehensive information security program (action plan), including the completion of IT security policies and procedures, to mitigate the risks identified by the risk assessment results. The security program, along with</p>	<p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p>	<p>guidelines compliance</p> <p>Improve information security measures and ensure regulatory guidelines compliance</p>

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			<p>periodic reports on its effectiveness, should be communicated to executive management.</p> <p><b>Finding:</b> <i>Enhance Campus-wide Physical Security</i> - A physical walkthrough of the UTHCT premises to observe physical security measures revealed a lack of security cameras in several areas and several unlocked or open doors (after business hours) leading into buildings which housed information resources. University Police confirmed that open doors have been a persistent problem, which may have been a factor in recent thefts of notebook computers and personal digital assistants (PDAs). Police also noted other physical control weaknesses, such as cameras which do not provide high-quality pictures.</p> <p><b>Recommendation:</b> We recommend that management develop a plan to ensure that appropriate physical security measures are implemented. We further recommend that management explore the possibility of enhancing video monitoring capabilities.</p> <p><b>Finding:</b> <i>Maintain the Disaster Recovery Plan (DRP)</i> - The DRP was not up to date and incomplete. The plan contained outdated personnel contact information in several places. A binder containing an inventory of applications and systems used to provide the information needed for system recovery contained incomplete documentation (for example, no telephone numbers in the space for contacting</p>	<p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p>	<p>Improve information security measures and ensure regulatory guidelines compliance</p>

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			<p>vendors, question marks used as placeholders throughout the documents) and outdated information. The process by which the DRP is updated is also unclear.</p> <p><b>Recommendation:</b> We recommend that management ensure that the disaster recovery plan is updated and incorporated into the business continuity plan. We further recommend that UTHCT update and maintain the DRP to ensure its completeness and accuracy.</p> <p><b>Finding:</b> <i>Maintain Documentation of Removal of Data and Disposal of Equipment</i> - IT staff use a program to remove data from data processing equipment prior to transfer or disposal. Inventory records track the transfer or disposition of the assets, but a log documenting the data removal processes is not maintained. Without a process that adequately documents the removal of data, there is possibly an increased risk of having confidential or sensitive data being acquired by unauthorized parties.</p> <p><b>Recommendation:</b> We recommend that IT staff maintain a log that documents the data removal process and the subsequent transfer or disposal of data processing equipment. This log should include the date, description of the items and serial numbers, inventory number, the process and sanitization tools used to remove the data or method of destruction, and the name and address of the organization to which the equipment was transferred.</p>	<p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p> <p>Follow-Up will be done by UT Health Center at Tyler Internal Audit.</p>	<p>Improve information security measures and ensure regulatory guidelines compliance</p> <p>Improve information security measures and ensure regulatory guidelines compliance</p>

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07/05/07	Time & Effort Reporting	The objective of this audit was to determine whether System Administration has made satisfactory progress in implementing UTS163, Guidance on Effort Reporting Policies, and to make recommendations for improving compliance.	<p><b>Finding:</b> <i>UTS163, Appendix A (Training)</i></p> <p>First, it appears that some material may have been borrowed from another source and not customized for UT System institutions. Also, we noted areas containing statements such as "This module needs to be customized. Additional instructions will be forthcoming." and places where examples were referred to, but were missing. Finally, in taking the exam following the training module, the results indicated that we answered one question incorrectly. However, upon reviewing the question that was purportedly incorrect, we found that the answer feedback supported our answer choice and the material from the training and was inconsistent with the "correct" answer.</p> <p>Furthermore, in conducting a sample survey of 31 IPSI employees, we found that the training was delivered appropriately, but many participants expressed concerns with its relevancy with respect to their job responsibilities (with a weighted average of 5.49 out of 10 in terms of relevancy, with 10 being extremely relevant), effectiveness, and accessibility on the Blackboard online course management system.</p>		

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			<p><b>Recommendation:</b> We recommend that the Office of the Controller work with the Office of Health Affairs to explore ways to improve the required time and effort training, possibly by communicating these issues to determine a practical method to resolve the issues. Possible areas of improvement are increased tailoring of the material for UT System institutions and correction of inaccurate test items. While acknowledging that technical limitations exist which prevent the training module from being hosted on System Administration servers, we also recommend exploring the possibility of creating an online training module similar to existing online modules which are hosted on our servers, which will increase control and monitoring capabilities for System Administration.</p>	Scheduled follow-up to be performed during FY 2008	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance

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07/26/07	University Lands Departmental Audit	Departmental audits primarily focus on financial controls such as capital asset tracking, account reconciliations, and proper expenditure approval, as well as operational controls such as safeguarding of assets and proper segregation of duties. The specific objectives of this audit were to determine the reliability and integrity of the department's key financial information; the adequacy and effectiveness of controls in safeguarding assets; and whether internal control procedures have been established and are functioning as intended.	<p><b>Observation:</b> We noted no exceptions or lack of controls in any of our procedures.</p> <p><b>Recommendation:</b> None</p>	No recommendations	n/a
08/23/07	UTIMCO Internal Controls Over Financial Reporting - ITF	The audit objectives were to provide assurance to UTIMCO management and the UTIMCO Board of Directors' Audit and Ethics Committee that internal controls over ITF financial reporting are adequately documented and to determine whether these controls are sufficient and functioning as intended.	<p><b>Observation:</b> Overall, we found that the ITF processes were documented adequately and that the controls that we tested were adequate and working as intended.</p> <p><b>Recommendation:</b> None</p>	No recommendations	n/a

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08/23/07	Self Insurance Plans and ORM Protection of Social Security Numbers	Perform a financial audit of certain self-insurance plans whose funds are managed by ORM and verify ORM's compliance with UTS165, Section 10 in protecting Social Security Numbers by validating the implementation status reported to the Compliance Office to ensure accuracy.	<p><b>Finding:</b> ORM publishes a widely-distributed annual report providing highlights of accomplishments of ORM in managing the plans and financial status of each plan. We obtained the annual report for FY 2006 and were able to agree financial information in WCI and UCI to supporting documentation. The structure of the report has not changed in some time, and we believe opportunities exist for report enhancement to make it more reader-friendly and provide additional valuable information.</p> <p><b>Recommendation:</b> Enhance financial reporting and annual report disclosures. Similar to health plans administered through the Office of Employee Benefits, we recommend that ORM prepare a balance sheet, income statement, and cash flow statements for each plan periodically for review by the newly-formed governance committee</p> <p><b>Finding:</b> The Risk Management Advisory Committee (RMAC), composed of representatives from each institution, serves the important purpose of communicating self-insurance plan requirements and changes with the institutions; however, opportunities exist for increased strategic decision-making and executive input into the direction and management of the self-insurance funds.</p> <p><b>Recommendation:</b> Form a governance committee for the self-insurance plans. Similar to PLI (Medical Liability), we recommend that a governance committee</p>	<p>Scheduled follow-up to be performed during FY 2008</p> <p>Scheduled follow-up to be performed during FY 2008</p>	<p>Ensure accuracy of reporting and improve internal controls at a departmental level</p> <p>Ensure accuracy of reporting and improve internal controls at a departmental level</p>

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			<p>be formed for the other self-insurance plans to assume oversight and strategic decision-making duties currently performed by ORM management. Members of the governance committee should include representatives from executive management within UT System Administration.</p> <p><b>Finding:</b> When we began our fieldwork, the reasonableness of WCI plan net assets (fund balance) had not been reviewed by the actuary since 1998 (although a test is performed annually to ensure compliance with funding limitations set forth in the State of Texas Labor Code). On April 10, 2007, Rudd and Wisdom, the WCI actuaries, set forth several alternatives for determining the appropriate level of net assets (net assets approximated \$39 million at August 31, 2006)</p> <p><b>Recommendation:</b> Conclude on methodology for determining the reasonableness of net assets and need for reinsurance for catastrophic events. The governance committee should review the April 10, 2007 letter from the actuary regarding the appropriate level of net assets in order to conclude on the methodology for determining their reasonableness. Additionally, the committee should determine whether reinsurance of catastrophic events should be purchased.</p>	Scheduled follow-up to be performed during FY 2008	Ensure accuracy of reporting and improve internal controls at a departmental level

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			<p><b>Finding:</b> Internal controls relating to the self-insurance plans are decentralized and often reside with the institutions and other departments within UT System. Personnel within the accounting, information technology, and claims functions monitor certain key controls and heavy reliance is placed on system-generated exception reports. Because of their decentralized nature and ORM management's ultimate responsibility for ensuring the adequacy of controls for the plans, we believe that ORM management would benefit from a review of these controls to ensure their ongoing effectiveness and whether documentation evidencing monitoring is being retained.</p> <p><b>Recommendation:</b> Review key controls over financial reporting and document retention policies supporting evidence of controls. ORM should perform an assessment of the key controls needed to support financial information and implement procedures to ensure their adequacy and eliminate redundancies. The assessment should document whether controls are in place to ensure completeness, accuracy, authorization, and segregation of duties in all areas of the plans including financial reporting, premium setting and collection, claims payments, IBNR estimates, investment decisions and reporting, reserves, and clean desk procedures. The frequency and timing of the controls should also be assessed. Responsibility for ensuring internal controls for the self-insurance plans ultimately resides with ORM</p>	Scheduled follow-up to be performed during FY 2008	Ensure accuracy of reporting and improve internal controls at a departmental level

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>management, and the status of the controls should be reported to the governance committee periodically. Evidence of assessment of controls effectiveness should be retained.</p> <p><b>Finding:</b> During our visits with WCI claims staff, we noted that certain office doors and cabinets did not contain locks and claims information was not always secured.</p> <p><b>Recommendation:</b> Develop a clean desk policy. We recommend that ORM develop an informal "clean desk policy" for those responsible for handling paper files containing confidential information. File cabinets and file rooms containing confidential information should be locked, both during and after office hours, and compliance with the policy should be periodically verified at ORM and the field offices by a responsible party.</p>	Scheduled follow-up to be performed during FY 2008	Ensure accuracy of reporting and improve internal controls at a departmental level
08/24/2007	Follow Up FY 2007 / IT	Perform a follow-up audit of all open information technology (IT) observations and recommendations with implementation dates on or before May 31, 2007.	<b>Observation:</b> From six IT-related audit reports, we identified 15 outstanding recommendations for review. We determined that 10 recommendations were fully implemented and 5 of the recommendations were partially implemented with satisfactory progress made.	Scheduled follow-up to be performed during FY 2008	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
08/24/2007	Follow Up FY 2007 / Non-IT	Perform a follow-up audit of all open recommendations with implementation dates on or before May 31, 2007	<b>Observation:</b> Of the 35 recommendations identified for review, we determined that 18 recommendations were fully implemented and 17 of the recommendations were either partially or not implemented with satisfactory progress made.	Scheduled follow-up to be performed during FY 2008	Monitor and communicate the level of implementation of recommendations included in audit reports.
8/29/07	Confidential Data	The audit objective was to assess the progress made by UT System Administration toward complying with UTS166 requirements by verifying the accuracy of the UTS166 Compliance Report compiled by the Compliance Office.	<p><b>Finding:</b> Use and collect SSNs only as reasonably necessary - UTS166. Section 1.2 OES no longer requests that prospective employees disclose their SSNs on job applications. All applicants apply for positions on-line through the U.T. System Job Search website, except for employees seeking temporary positions, who must submit paper applications instead. On the OES website, we noted two options for printing out and completing a paper job application. The individual can print out either a PDF document or a Word document. We noted that the PDF form of the job application still requests the disclosure of an SSN.</p> <p><b>Recommendation (OES):</b> Since OES no longer requests that prospective employees disclose their SSN on job applications, the PDF job application form should not request an SSN of applicants.</p> <p><b>Finding:</b> Provide notices required by the Federal Privacy Act and the Texas Government Code - UTS166, Sections 2.1 and 2.2 UTTC requests SSNs from students each semester through the web-based TeleCampus Information System ("TIS") registration</p>	Scheduled follow-up to be performed during FY 2008	Ensure accuracy of reporting and improve internal controls at a departmental level

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>form. A disclosure complying with Section 7 of the Federal Privacy Act is listed; however, a disclosure outlining Section 559.003 of the Texas Government Code is not included.</p> <p><b>Recommendation</b> (UTTC): The required Section 559.003 of the Texas Government Code disclosure should be included on the web-based TIS registration form that requests SSNs from students each semester.</p> <p><b>Finding:</b> The required Federal Privacy Act and Section 559.003 of the Texas Government Code disclosures are not provided on the employment and insurance paper forms completed by new employees who have not previously provided their SSNs prior to their first day of employment.</p> <p><b>Recommendation</b> (OES): The required Federal Privacy Act and Section 559.003 of the Texas Government Code notices should be provided on the employment and insurance paper forms completed by new employees who have not provided their SSNs prior to their first day of employment.</p> <p><b>Finding:</b> Monitor access to records containing SSNs - UTS166, Section 4.2 We found that 5 out of 19 users with access to SSNs in the TMDSAS application, which is accessible through the web, no longer require access. Applications accessible through the web are at higher risk than applications that</p>	<p>Scheduled follow-up to be performed during FY 2008</p> <p>Scheduled follow-up to be performed during FY 2008</p>	<p>Ensure accuracy of reporting and improve internal controls at a departmental level</p> <p>Ensure accuracy of reporting and 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>are on the UT System Administration network because they are more easily accessible from any location.</p> <p><b>Recommendation</b> (TMDSAS): A monitoring process to ensure access is appropriate should be established for the TMDSAS web-accessible application.</p>	Scheduled follow-up to be performed during FY 2008	Ensure accuracy of reporting and improve internal controls at a departmental level

Part IV

List of Consulting Engagements and Non-audit Services 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
1/5/07	UTSA NCAA FYE 8/31/06	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<b>None</b>	No recommendations	n/a
1/8/07	UTEP NCAA FYE 8/31/06	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<b>None</b>	No recommendations	n/a
1/9/07	UTA NCAA FYE 8/31/06	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<p><b>Finding:</b> Object codes are being distributed inconsistently among MO&amp;E line items in the SRE. In preparing the SRE, UTA examines each athletic account and manually assigns transactions to line items, instead of assigning accurate object codes to transactions at the time they are recorded, and assigning specific object codes to specific line items.</p> <p><b>Recommendation:</b> Devise and implement a system that maps object codes to specific SRE line items. By assigning specific object codes to line items, and following this template when coding transactions throughout the year, UTA will be able to increase the efficiency of the SRE preparation process.</p> <p><b>Finding:</b> All game guarantee payments were incorrectly entered to object code 3719 (Contract Services) in DEFINE, the Institution's accounting system.</p>	<p>Scheduled follow-up to be performed during NCAA audit in FY 2008.</p> <p>Scheduled follow-up</p>	<p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p> <p>Reduce the risk of</p>

			<p><b>Recommendation:</b> We recommend that the Athletics Department properly code game guarantees paid to object code 3712. This will allow these expenses to be tracked more efficiently and will help ensure the accuracy of those revenues reported on the SRE.</p> <p><b>Finding:</b> There was not significant documentation supporting fifth-year tuition waivers awarded to two student athletes totaling \$18,000.</p> <p><b>Recommendation:</b> Work with financial aid office to ensure that award letters are completed and signed for all fifth-year tuition waiver recipients.</p> <p><b>Finding:</b> Travel expenses were not divided between team and professional travel. Non-program specific travel expenses totaling \$41,822 are currently classified in the SRE as "Team Travel," instead of "Other Operating Expenses."</p> <p><b>Recommendation:</b> We recommend that UTA develop a process for identifying and tracking professional travel expenses to ensure they are accurately reported in the SRE.</p>	<p>to be performed during NCAA audit in FY 2008.</p> <p>Scheduled follow-up to be performed during NCAA audit in FY 2008.</p> <p>Scheduled follow-up to be performed during NCAA audit in FY 2008.</p>	<p>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> <p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p>
1/9/07	UTPA NCAA FYE 8/31/06	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<p><b>Finding:</b> SRE Omissions - During our review we noted some revenue and expense items that were omitted from the amounts received and expensed by the Athletic initial SRE submitted to our office.</p> <p><b>Recommendation:</b> The Athletics Department should ensure that all amounts received and expensed by the Athletic Department during the fiscal year are recorded on the SRE. In addition, we recommend that a third party Direct Institutional Support: Transfer (e.g. UTPA Controller's Office) review the SRE for completeness prior to submittal.</p>	<p>Scheduled follow-up to be performed during NCAA audit in FY 2008.</p>	<p>Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities</p>

**Finding:** We noticed several transactions recorded under Other Revenues that should have been recorded under Contributions. The total of these transactions was approximately \$47,715. The reclassification was made on the adjusted SRE presented in Appendix B.

**Recommendation:** We recommend UTPA pay special attention to revenues that it records in Other Revenues in the SRE to ensure that those revenues are appropriately classified.

Scheduled follow-up to be performed during NCAA audit in FY 2008.

Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

**Finding:** Courtesy Cars  
The benefits provided from a third party for courtesy cars were not recorded on the SRE as prescribed by the NCAA agreed-upon procedures. The personal usage should be recorded as revenue on the Compensation and Benefits Provided by a Third Party line item and as an expense on the Coaching Other Compensation and Benefits Paid by a Third Party, and Support Staff Administrative Other Compensation and Benefits Paid by a Third Party line items. The business use should be recorded as revenue on the Contributions line item and as an expense on the Other Expense line item.

**Recommendation:** We recommend UTPA record the value of the business use and personal use of Courtesy Cars on the SRE as prescribed by NCAA procedures.

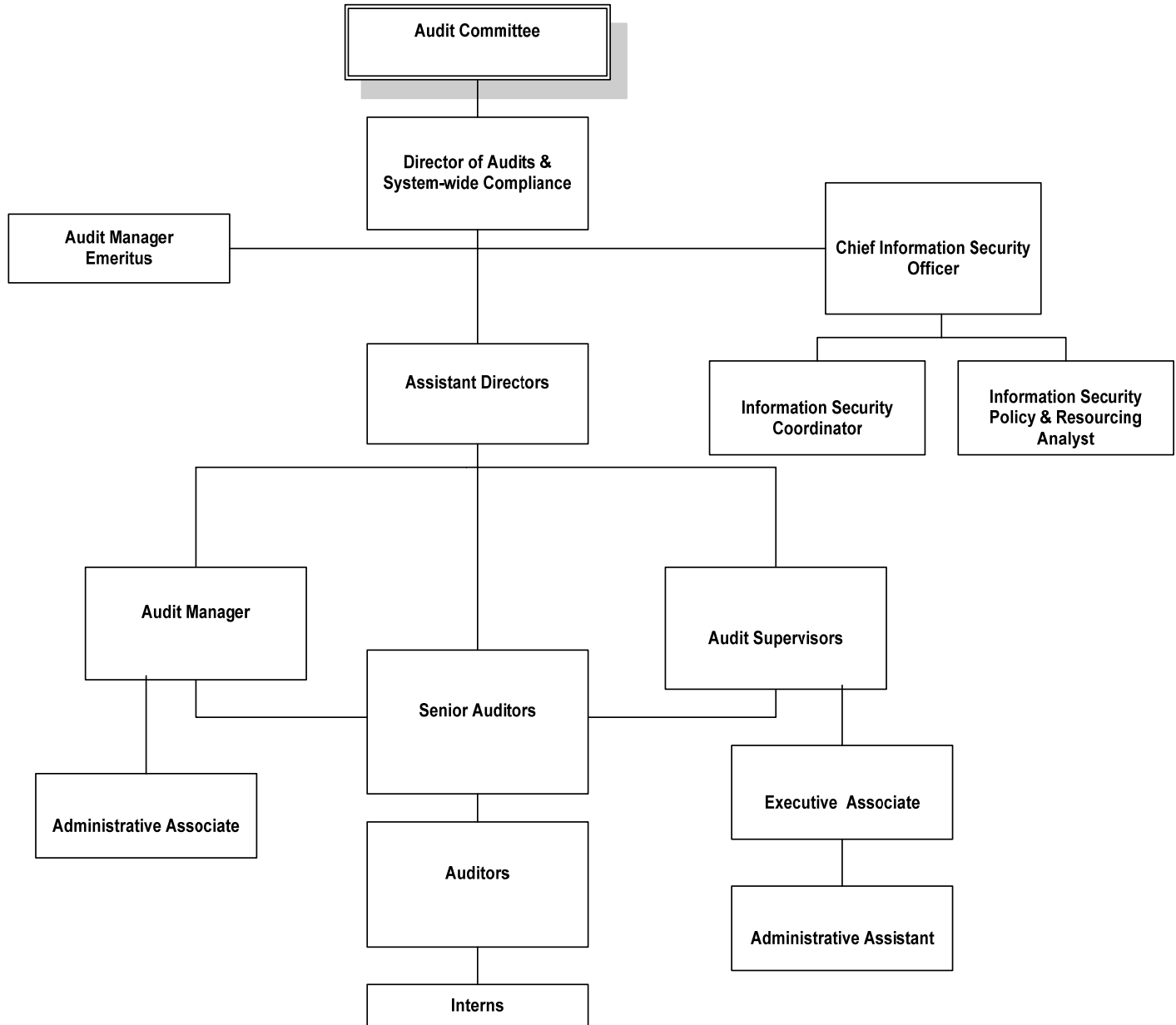
Scheduled follow-up to be performed during NCAA audit in FY 2008.

Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

Part V

Organizational Charts

UT System Audit Office



**Part 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 through performance of special request projects at the institutions, including UT San Antonio, UT Austin, UT Pan American, UT Health Science Center – Houston, as well as at System Administration.
Presentations to Other Organizations	Shared knowledge gained in information security, internal controls, and internal auditing through presentations 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, 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 2007	Improved communication with Board of Regents on the internal audit activities, including oversight at the institutions.
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 financial audit work and information technology audits/projects.

Part VII

**UT System Administration Audit Plan  
Fiscal Year 2008  
System Administration Audits  
Approved Priority Budgeted Hours**

FY 2008 Audit Plan System Administration Audits	Audit/Project	Hours
<b>UT System Requested</b>		
Audits		-
Consulting	Financial audit - FY07	1,400
	Financial audit - FY08	400
	Chancellor's travel & entertainment	200
	Conflict of interest	30
	<b>Subtotal</b>	<u>2,030</u>
	<b>Externally Required</b>	
Audits		
	None	
	<b>Subtotal</b>	<u>0</u>
<b>UTIMCO</b>		
Audits		
	Investment activities - TBD	500
	Asset allocation	300
	Code of ethics	100
	Investment management contracts	
	Meetings/oversight activities	200
	Financial statement assistance	500
	CEO travel and entertainment	100
	Follow-up	100
	Carryforward	100
	<b>Subtotal</b>	<u>1,900</u>
<b>Institutional Risk-based</b>		
Audits		

	Oil and gas producers (500 hrs each)	1,000
	OEB Medicare Part D	300
	OFPC conflict of interest	300
	OFPC compliance monitoring	300
	IPSI	400
	Bauer House	200
	Advisory councils	
	<b>Subtotal</b>	<u>2,500</u>
<b>IT Institutional Risk-based</b>		
Audits		
	Filenet	200
	Texas Medical & Dental Schools Application Service (TMDSAS) IT Systems	200
	Risk-based TBD	100
	Student project TBD	50
	<b>Subtotal</b>	<u>550</u>
<b>Change in Management/Departmental</b>		
	OEB	150
	Research and Technology Transfer	150
	Federal Relations	150
	Controller's Office	
	Telecampus	150
	<b>Subtotal</b>	<u>600</u>
<b>Follow-up</b>		<u>300</u>
<b>Audit Projects</b>		
	Carry forward	580
	Audit committee	150
	State reporting	40
	Audit plan and risk assessments	50
	<b>Subtotal</b>	<u>820</u>
<b>TOTAL</b>		<u>8,700</u>

UT System Administration Audit Plan  
Fiscal Year 2008  
Oversight  
Approved Priority Budgeted Hours

FY 2008 Audit Plan Oversight	Audit/Project	Hours
<b>UT System Requested</b>		
<i>Audits</i>		
	Guidance/Assistance Provided to the Institutions related to the System-wide Financial Audit - FY 2007	300
	Guidance/Assistance Provided to the Institutions related to the System-wide Financial Audit - FY 2008	50
	Assistance to UT Permian Basin related to the Financial Audit - FY 2007	300
	Assistance to Health Center - Tyler related to the Financial Audit - FY 2007	250
<i>Consulting</i>		
<i>Special Requests</i>		
<i>Carryforward</i>		
	<b>Subtotal</b>	<b>900</b>
<b>Externally Required</b>		
<i>Audits</i>		
	NCAA Agreed Upon Procedures at UT Arlington, UT El Paso, UT San Antonio, and UT Pan American	1600
<i>Consulting</i>	-	
<i>Special Requests</i>		
<i>Carryforward</i>		
	<b>Subtotal</b>	<b>1600</b>
<b>Risk-based Institutional Audits</b>		

<i>Audits</i>	-	
	IT Audits - Various institutions	250
<i>Consulting</i>	-	
	System-wide IT Consulting	100
	Student Health Center Audits Consulting	50
<i>Special Requests</i>		300
<i>Carryforward</i>		
	<b>Subtotal</b>	<b>700</b>
<b>Change in Management</b>		
<i>Audits</i>	-	
<i>Consulting</i>	-	
<i>Special Requests</i>		100
	Texas International Education Consortium (TIEC) Change in Management	
<i>Carryforward</i>		
	<b>Subtotal</b>	<b>100</b>
<b>Follow-up</b>		
<i>Audits</i>	-	
<i>Consulting</i>	-	
<i>Special Requests</i>		
<i>Carryforward</i>		
	<b>Subtotal</b>	<b>0</b>
<b>Audit Projects</b>		
<i>Reporting</i>	-	
	2009 System-wide Audit Plan	50
	Audit, Compliance, and Management Review Committee (ACMR)	250

	Recommendation Tracking System (Red, Orange, Yellow, Green - ROYG)	250
	Internal Audit Council	150
	<i>In the News</i> - Newsletter	45
<i>Consulting</i>	-	
	Institution Liaison Activities	1200
<i>Special Requests</i>		
	Institutional Peer Reviews	50
	System Audit Office Peer Review Self-Assessment and Preparation	400
	To Be Determined	200
<i>Carryforward</i>		
	2008 System-wide Audit Plan	45
	<b>Subtotal</b>	<b>2640</b>
<b>Total Hours</b>		<b>5940</b>

**Part VIII**

**External Audit Services**

The University of Texas Investment Management Company (UTIMCO) contracted with Deloitte & Touche to perform an independent audit of the Fiscal Year 2007 Financial Statements of UTIMCO Corporation, the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund.