The University of Texas System Administration
System Audit Office

Annual Audit Report
Fiscal Year 2017

The University of Texas System
System Audit Office
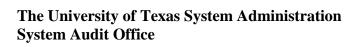210 West 7th Street
Austin, Texas 78701

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

The System Audit Office FY 2017 Internal Audit Annual Report, which includes its approved FY 2018 Annual Audit Plan (see Section V), a summary of weaknesses/concerns and related actions taken resulting from the FY 2017 Annual Audit Plan (see Section II) can be found on the UT System website (specifically, the "Reports to State" webpage http://www.utsystem.edu/documents/reports-state , choosing "Audit Reports" from the "Report Type" drop down menu). The annual report can be found at http://www.utsystem.edu/offices/system-audit/about-internal-audit

II. Internal Audit Plan for Fiscal Year 2017

FY 2017 Audit Plan – Engagements	Status of Plan
Risk Based Audits	
Contract Monitoring Audit	Cancelled
Treasury Function Audit	09/18/17
Conflicts of Interest and Commitment Audit	Moved to FY2018
GPO Accreditation Application Reviews	05/19/17
Supply Chain Alliance GPO Accreditation	08/18/17
UTIMCO IT System Audit	Moved to FY2018
Oil and Gas Producers Audit	Moved to FY2018
Data Governance and Classification	Postponed
Use of AUF Audit - UT Austin Dell Medical School	In Progress
Office of Employee Benefits Audit	01/30/17
UTHSC-SA Conflict of Interest Process Audit	10/17/16
Devon Oil and Gas Producer Audit	11/02/16; 6/9/17
Procurement and Contract Administration Audit	01/27/17
Cloud Computing and Storage Audit	02/02/17
UTMDACC Procurement Special Review	01/31/17
UTIMCO CEO/CIO & Executive Travel and Other Expenses Audit	12/21/16
Required (Externally and Internally) Audits	
UT System Administration & Consolidated FY 2016 Financial Audit Assistance	Deloitte Report
UTS142.1 Account Reconciliations & Subcertifications FY 2016 Audit	01/13/17
UT System Administration & Consolidated FY 2017 Financial Audit Assistance	Deloitte Report
Guidance to Institutions on Systemwide Financial Audit - FY 2016	Complete – Report NA
Guidance to Institutions on Systemwide Financial Audit - FY 2017	Complete – Report NA
NCAA Agreed-Upon Procedures at UT Arlington	01/17/17
NCAA Agreed-Upon Procedures at UT El Paso	01/17/17
NCAA Agreed-Upon Procedures at UT San Antonio	01/17/17
NCAA Agreed-Upon Procedures at UT Rio Grande Valley	01/17/17
Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits	In Progress
Executive Travel and Entertainment Expenses Audit	Moved to FY2018
UTIMCO CEO/CIO & Executive Travel and Other Expenses Audit	Moved to FY2018
Joint Admission Medical Program Audit	12/08/16
Texas Administrative Code Section 202 Audit	In Progress
Texas Administrative Code Section 202 Audit Assistance at UT Tyler	Complete – Report NA
UT Austin Jackson Estate Audit	06/09/17
Consulting Projects	
Quantum Leaps Consulting	Ongoing – Report NA
Organizational Change Consulting	Ongoing – Report NA
Compliance Consulting	Ongoing – Report NA
University Lands (UL) Royalty Management Consulting	Ongoing – Report NA
Uniform Guidance Audit Consulting	Ongoing – Report NA
Systemwide Title IX Audit Consulting	Cancelled
UT Share Post Implementation Review	Ongoing – Report NA
UT Share Operating and Executive Committees Participation/Consulting	Ongoing – Report NA
Institute of Transformational Learning (ITL) Consulting	08/17/17
OFPC Fee Benchmark Consulting	12/22/16

Investigations	
UTSW Procurement Special Review	Internal Memo
UTHSC-T Special Review	Internal Memo
UTMDACC Special Review	Internal Memo
Follow Up	
System Audit Office Follow Up FY 2016	Various Memos
Development – Operations	**Status of Plan**
Internal Audit Strategy	Ongoing – Report NA
Institution Liaison Activities	Ongoing – Report NA
General Communications	Ongoing – Report NA
Systemwide Internal Audit Council, Communication, and Education	Ongoing – Report NA
Online Reporting	Ongoing – Report NA
Fraud and Investigation Tracking	Ongoing – Report NA
Priority Findings	Ongoing – Report NA
Metrics	Cancelled
Data Analytics	Ongoing – Report NA
Quality Assurance Reviews at External Entities	Cancelled
ACMR Committee and Board of Regents	Ongoing – Report NA
Systemwide Annual Risk Assessment and Audit Plan	Ongoing – Report NA
General Audit Assistance to System Administration	Ongoing – Report NA
System Administration Committees and Councils	Ongoing – Report NA
Management of the Internal Audit Activity	Ongoing – Report NA
UTIMCO Meetings and Oversight Activities	Ongoing – Report NA
UT System Administration Internal Audit Committee	Ongoing – Report NA
External Reporting and Requests	Ongoing – Report NA
TeamMate Maintenance, Website Updates, SP Site Management	Ongoing – Report NA
System Audit Office Annual Risk Assessment and Audit Plan	Ongoing – Report NA
System Audit Quality Assurance Activities	Ongoing – Report NA
Development – Initiatives and Education	**Status of Plan**
Audit Governance	Ongoing – Report NA
Risk Assessment Process	Ongoing – Report NA
Systemwide IT Risk Assessment	Ongoing – Report NA
Audit Management Technology Implementation	Ongoing – Report NA
Quality Program Implementation	Ongoing – Report NA
Resource Capabilities and Knowledge/Resource Management	Ongoing – Report NA
Common Audit Reporting	Postponed
Audit Team Capabilities and Leadership Development	Ongoing – Report NA
Internal Audit Staff Training/Continuing Professional Education	Ongoing – Report NA
Professional Organizations and Associations	Ongoing – Report NA

Deviations from Audit Plan Submitted:
The System Audit Office completed its FY 2017 annual audit plan except those noted above as "in progress" and the deviations noted below. Audits in progress at the end of FY 2017 were carried forward for completion in FY 2018. Changes from the original FY 2017 annual audit plan were presented to and approved by the UT System Administration Internal Audit Committee throughout the fiscal year as follows.

Hours Cancelled, Reduced, or Postponed:
- Engagements: Contract Monitoring Audit; Conflicts of Interest and Commitment Audit; Oil and Gas Producers Audit; Data Governance and Classification; UT Rio Grande Valley School of Medicine Use of AUF Audit; Executive Travel & Entertainment Expenses Audit; UTIMCO CEO/CIO & Executive Travel and Other Expenses Audit; and Systemwide Title IX Consulting
- Development: Metrics; Quality Assurance Reviews at External Entities; Select Initiatives, and other audit activities

Hours Added:
- Engagements: Supply Chain Alliance GPO Accreditation; UTSW Procurement Special Review; UTHSCT Special Review; UTMDACC Special Review
- Development: System Audit Office Self-Assessment

TEC Section 51.9337(h):
Senate Bill 20 (84th Legislative Session) made several modifications and additions to Texas Government Code (TGC) and Texas Education Code (TEC) related to purchasing and contracting. Effective September 1, 2015, TEC §51.9337 requires that, "The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor." The System Audit Office conducted this required assessment for FY 2017, and found the following:

> Based on review of current institutional policy and the UT System Board of Regents' Rules and Regulations, UT System Administration has generally adopted all of the rules and policies required by TEC §51.9337. Review and revision of System policy is an ongoing process. These rules and policies will continue to be assessed annually to ensure continued compliance with TEC 51.9337.

Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institution:
While UT System Administration received general revenue (GR) in biennium FY2016-FY 2017 and biennium FY2018-FY 2019, it was all restricted for debt service and health programs and not for system office operations (including salaries that would be subject to benefits proportionality). Therefore, an audit was not required.

TGC Section 2102.015:
A summary table of recommendations made to address issues identified from FY 2017 engagements, the actions taken by management, and the current implementation status is included on the following pages to address web site posting requirements as required by Texas Government Code Section 2102.015.

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
10/17/16	UTHSCSA Conflict of Interest Process Audit	**Recommendation 1:** Certification of Completion The responsibility for ensuring that covered employees complete required annual disclosures is shared among various functional areas including the UTHSCSA schools and departments, the COI office, and the COIC. To this end, we recommend the following: 1. Management should ensure that the 789 employees complete their CY 2015 disclosures. 2. Management should develop a process to follow-up with the affected schools and departments to ensure that all required employees complete their annual disclosures, and management from the schools and departments should work directly with the affected faculty and staff to ensure the annual disclosures are completed. 3. The COI office should provide a status report of the annual reporting process to the COIC. The status could include the number who have disclosed, the number that have not disclosed, the number that have not disclosed that are researchers and other employees directly engaged on an active award, the affected schools and departments, and other information that could assist the COIC in determining what corrective action it could facilitate. Policy Update HOP 10.1.9 should be updated to clearly include consequences for non-disclosure. Escalation on Non-Disclosure Management should develop an escalation process in working with faculty and staff that have not completed disclosures.	**Management Response 1:** Certification of Completion Management has a process in place to engage schools throughout the annual reporting process. Prior to reporting season, each department is asked to provide or confirm a designated department go-to to assist in local efforts to manage the annual reporting process including, but not limited to, reminding their departmental faculty and staff to fulfill their reporting obligations. iDisclose gives go-to's and Department Chairs the ability to monitor the reporting progress of their employees and review the submitted reports. Prior to the close of annual reporting season, go-to's are notified again of those individuals who have yet to report. Following the reporting season, a list of all outstanding reports is available to both go-to's and department chairs. For CY2015, the majority of the 789 employees have either completed the report or left the university. The names of the remaining employees who have not completed the report will be provided to the applicable Executive Committee (EC) member (Dean/VP). The EC member will be responsible to resolve all non-disclosures. At the end of the annual reporting period, the COI Office will escalate the issue of non-disclosure to the appropriate Executive Committee member (Dean/VP). The EC member will be given a deadline for certifying completion of the report. Annual reporting statistics and status of corrective actions by the EC members will be reported to the Conflict of Interest Committee until the issue is closed. Policy Update Management should develop an escalation process in working with faculty and staff that have not completed disclosures. Escalation on Non-Disclosure At the end of the annual reporting period, the COI Office will escalate the issue of non-disclosure to the appropriate Executive Committee member (Dean/VP). The EC member will be given a deadline for certifying completion of the report.	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		Recommendation 2: To ensure that disclosures received are reasonably accurate and complete, management should: • Develop a risk-based process to validate the disclosures received. • Develop a process, to occur after the annual disclosure process and after the CMS website is updated for an applicable calendar year, to compare amounts reported by CMS to amounts self-reported by faculty, to validate whether disclosures are complete and amounts disclosed are reasonably accurate and include all third parties that have made payments to faculty. • Using iDisclose, establish a process to identify activities for which prior approval was obtained but for which the activity was not disclosed. • Update the COIC on results of monitoring activities described above so that the COIC can facilitate corrective action if needed. • Ensure that all information required to be reported to UT System Administration includes all required information.	**Management Response 2:** 1. Relying on CMS data to verify the accuracy of individual disclosures is problematic given there are no checks and balances with what industry reports to CMS. According to the AMA (July 2016), "…the CMS' Open Payments program has to date been plagued by significant shortcomings that call into question the accuracy of information published…" 2. In addition, there are feasibility issues in using the CMS data because the site cannot be queried for UTHSCSA employees. To search for UTHSCSA employees, we must perform a separate search of the database using each employee's name. 3. In the future, we will query the CMS data for specific high risk employees to compare the entities disclosed in both systems. Inconsistencies will be reconciled with the employee and reported to the COIC.	Implemented
		Recommendation 3: 1. As part of the annual disclosure, require that employees clearly indicate the start and end dates of a disclosed activity. 2. Because payments can be aggregated to get to a significant financial interest, require that covered individuals disclose before that threshold is met if they reasonably believe that the total compensated amount, whether cash or in-kind amounts, will exceed $5,000 for a calendar year. 3. Management should develop a process to monitor disclosures for timeliness. This could include comparing completed prior approvals with disclosures made by the affected faculty, with emphasis on those approved	**Management Response 3:** 1. The 2015 Annual Report functionality in iDisclose predates our implementation of the prior approval process (Spring 2016). Thus, using the system to identify whether disclosures were made in a timely manner was not possible. 2. Users have the ability to include start and end dates for each disclosed activity. iDisclose allows the COI office to compare disclosures from year to year and to determine if an activity requires prior approval. 3. Now that prior approval is documented in iDisclose, we can develop a process to monitor disclosures for timeliness.	Implemented

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		activities that result in a significant financial interest. Management could also use iDisclose to identify changes in disclosures from one year to the next. This would provide insight as to both timeliness of disclosure and whether a disclosed outside activity required prior approval. 4. Update the COIC on results of monitoring activities described above. **Recommendation 4:** • Given the observed rate of prior approvals not obtained, it is likely that there are other faculty members that have not obtained prior approvals for outside activities. The COI office and each school could work together to ensure that identified faculty and staff have completed the approval process. To identify such faculty and staff, the COI office and the schools could use the annual disclosure in iDisclose and determine whether prior approvals have been obtained for the outside activities. If it is determined that a prior approval had not been obtained, the schools should work with the affected faculty to ensure that they at least obtain approval for the activity that has occurred or is occurring or take other appropriate action. • For CY 2016 and future periods, the COI office and schools should work together to set up a process to identify activities reported in the annual disclosures that require prior approval but did not have a prior approval in iDisclose. As part of this process, the affected schools should work with the faculty to ensure the appropriate approvals are obtained or take other appropriate action. This process could be set up concurrently with or after the CY 2016 annual disclosure period. • In situations where reports identify instances of non-compliance, the information should be forwarded to the affected deans and communicated to the COIC. Additionally, regular updates should be provided on follow-up progress. • Through executive leadership, an official reminder should be provided to faculty and staff indicating that	**Management Response 4:** 1. The COI office will identify individuals who report activities in the annual report that should have been received prior approval. 2. The names of the employees who did not obtained prior approval will be provided to the applicable Department Chair for appropriate corrective action(s). 3. The Department Chair will be given a deadline for certifying completion of corrective actions. 4. Status of corrective actions by the Department Chairs will be reported to the COIC until the issue is closed.	Implemented

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		prior approvals must be obtained before engaging in an outside activity that requires prior institutional approval. • For identified faculty members that fail to seek approval for outside activities that require approval, management should consider establishing an escalation process that includes clear expectations. **Recommendation 5:** To ensure effective institutional oversight of COI for non-research activities, executive management should develop an appropriate governance and oversight structure. In so doing, executive management could consider the following alternatives: • Retain the current research focus of the current COIC and consider developing a separate COI committee, with appropriate membership, whose oversight includes non-research related COI that could potentially impact other key institutional activities, including procurement and patient care. The new committee would need its own membership and its own administrative support to obtain the information needed for effective institutional oversight. If this option is selected, the COIC may need to be renamed and COI policies contained within the HOP would need to be updated. • Retain the oversight responsibility of the current COIC and include COI related to non-research activities. If the current COIC adds this oversight responsibility, then the COI office may need additional resources to effectively monitor and facilitate management of non-research related COI. To minimize the need for additional resources, participation by the schools and departments would be needed. This would require establishing clear lines of communication, coordination, responsibilities, and authority between the schools and departments and the COIC. **Recommendation 6:** Management should seek opportunities to improve committee meeting attendance. Given the busy schedules of volunteer members, meetings held via teleconference, video conference, or a web-based	**Management Response 5:** 1. The institutional and research conflict of interest committees were merged in 2014. Our experience is that institutional conflicts, outside of research, are so rare that operating a separate committee was not practicable. Expanding the membership/expertise of the existing COIC (see bullet #3) would be an appropriate solution 2. The COI Manager receives lists from the Office of Institutional Advancement and Office of Technology Commercialization to determine institutional COI. In the past, the COI Manager compared these lists with entities identified on individual disclosures. Only where an outside entity appeared on more than one list (overlap) was the issue forwarded to the COI Committee for review. In the future, we will provide the information to the COIC and allow them to identify any potential institutional COI that requires management. 3. We will evaluate our membership and look to add member from other key institutional activities, including procurement and patient care. **Management Response 6:** 1. Unlike other federally mandated committees (e.g., Institutional Review Board), there are no regulations governing the quorum requirements for the COIC meetings. Even committees such as the IRB are allowed to approve a subset of official business by an	Implemented Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		meeting should be considered. The COIC should also establish a minimum number of live, in-person meetings. The COIC should not vote on approval of a research or institutional management plans if a quorum is not present. Email votes should not occur as it does not permit deliberation of a quorum of members. If a timely vote is necessary, the COIC could, with the assistance of the COI office, convene a meeting via teleconference, video conference, or a web-based meeting to deliberate and vote on a proposed management plan. Minutes for such a meeting should be documented and retained as evidence of action taken by the COIC. **Recommendation 7:** To ensure covered individuals receive required COI training, management should: • Ensure that the individuals identified from the audit complete the required COI training. Review internal records to determine whether there are any other covered individuals that require COI training and ensure that those covered individuals receive training. • Develop and implement a process to ensure that covered individuals are completing COI training required by institutional policy. • Ensure that the Knowledge Center's automatic notification functionality is restored and working as intended. • Establish a process to monitor completion of training of required of individuals. • Implement a process to validate whether a new employee that is transferring an award from a UT institution has completed COI training. Short of that, all new employees should complete COI training concurrent with or soon after arrival on campus. • Report results of training monitoring activities to the COIC as the COIC could help ensure that timely corrective action is taken, if needed.	expedited review process (where one member approves on behalf of the committee). Nevertheless, to increase attendance, we will provide the opportunity to attend the COIC meetings via teleconference. 2. Prior to CY2015, the COIC met only as needed. In 2015, the change to monthly meetings put a strain on our membership that resulted in our limited use of email voting out of necessity. We no longer use email voting. **Management Response 7:** 1. The Knowledge Center (KC) functionality has been corrected. 2. All new employees must complete COI training in KC. The error in our process to add new employees has been corrected. 3. Since the audit, over 6,100 employees have completed initial or continuing COI education. 4. Reports of COIC training monitoring activities will be provided to the COIC and elevated as needed. **Management Response 8:**	Implemented Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		Recommendation 8: The COI office has begun a process to monitor COI being managed. To strengthen this monitoring process, we recommend that the COI office: • Ensure that all faculty members with active management plans complete their annual disclosures and review these disclosures and validate their accuracy. • Periodically update the COIC on its monitoring activities of COI management plans, including whether faculty members have met key provisions in their respective management plans. Updates to the COIC can occur at pre-determined points during the year or after the anniversary date of active management plans. • Update the COIC on conflicts disclosed to Public Health Service (PHS) agencies that require annual disclosures of conflicts that can affect the design or conduct of PHS funded research.	1. The COI Manager will monitor all active management plans on an annual basis. Monitoring will include ensuring that all faculty with plans complete their annual disclosure and validate their accuracy. 2. The COI Manager will monitor conflicts disclosed to PHS agencies and report these issues to the COIC. 3. The COI Manager will report the findings of monitoring activities to the COIC.	
11/2/16	Oil Royalties from Selected Leases Operated by Devon Energy Production Company on University Lands	The report contains confidential information and is not subject to the disclosure requirements of the Texas Public Information Act, based on the Texas Education Code Section 66.81. Specific results of the audit were provided to University Lands and appropriate members of UT System management.		
12/08/16	Joint Admission Medical Program (JAMP) Audit	Although no material misstatements were identified during the audit, opportunities for enhancement were identified and communicated verbally to department management to improve the efficiency, accuracy, and timeliness of entries in the accounting system and during financial statement preparation.		
12/21/16	UTIMCO Travel and Entertainment Expenses Audit	**Recommendation 1:** To reduce the risk of an actual or perceived conflict of interest, UTIMCO management should: -Clearly document the business purpose for entertainment or recreation events sponsored by current and prospective investment partners or business associates, why participation in the event is in the best interest of the funds managed by UTIMCO; and -Require review and approval by the CCO for third-party paid travel and entertainment expenses, in addition to the CEO's review and approval, to ensure such expenses are ordinary and necessary. **Recommendation 2:** UTIMCO management should:	**Management Response 1:** Staff will consult with the Chairman of the UTIMCO Audit & Ethics Committee to provide additional clarity related to entertainment or recreation events and provide additional guidelines for approving third-party paid travel and business-related entertainment expenses paid by current or prospective investment partner or business associate. Staff will also require CCO approval for entertainment or recreation events that, in the opinion of the CEO, may be perceived as elaborate entertainment events such as ski trips, hunting trips, or stays at expensive resorts. The CCO will also continue to review a sample of all travel and entertainment events as part of her quarterly compliance review of conflicts of interest. **Management Response 2:**	Follow-up to be performed Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		-Standardize how employees document the justification for instances in which hotel expenses exceed allowed rates. Management should also ensure that these documentation requirements are clearly defined in its travel policies. -Establish internal controls and procedures to ensure that all required documentation for entertainment expenses is retained.	Management will continue to train Staff on documentation related to hotel expenses exceeding allowable rates. Based on the Audit Office's recommendation in 2015, UTIMCO developed and implemented the Business-Related Entertainment Expenses Guidelines, effective December 31, 2015. Management will continue to train Staff related to all policies, procedures and guidelines. In addition to annual training, Management has implemented extensive new hire training in this area and will continue to explore ways to train and educate Staff on these policies, procedures and guidelines.	
01/13/17	UTS142.1 Account Reconciliations & Subcertifications FY 2016 Audit	**Recommendation 1:** The Controller's Office should: - Improve its tracking methods to provide more effective identification of individuals who participate in the reconciliation process but lack required training; including those individuals who have not yet completed PeopleSoft reconciliation training. Such methods could include requiring each office to provide a mid-year confirmation of cost centers and responsible reconcilers, reviewers, and approvers. - Coordinate with the applicable offices to ensure that all individuals currently involved in the reconciliation process receive training. Because executive officers can be involved in approval of reconciliations and subcertifications, the Controller's Office should consider providing a targeted approval-level training during a regularly scheduled executive officer meeting. - Consider developing more comprehensive training tailored to address areas identified as challenging for reconcilers. This may include offering a more interactive learning opportunity, especially for offices in remote locations, or specialized training for offices that have unique transactions. **Recommendation 2:**	**Management Response 1:** The Office of the Controller will design an online training utilizing the Learning Zone which maintains a database of individuals participating in training. Training will be expanded to include how to use and document reconciliation support documents in Content Navigator. Specific Excel on-line training courses will be recommended in the training module to participants to compliment skills needed for the reconciliation process. An executive overview of the reconciliation process will be offered during a regularly scheduled Executive Officer Meeting in order ensure that Executive Officers have received training. A mid-year notice will be sent to Department Heads reminding them of their responsibility to ensure that reconciliation preparers and reviewers receive required training. **Management Response 2:**	Follow-up to be performed Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		Innovation and Strategic Investment should ensure that all individuals involved in the reconciliation process attend reconciliation training and should notify the Controller's Office of any related personnel changes in a timely manner.	The office has created a training tracker, which monitors training requirements across functions (including reconciliations). Training has been scheduled with the Office of the Controller for the individual identified through this audit.	Implemented
		Recommendation 3: Strategic Initiatives should ensure that all individuals involved in the reconciliation process attend reconciliation training and should notify the Controller's Office of any related personnel changes in a timely manner.	**Management Response 3:** The past year has been full of change—retirement, promotions, replacements, creation of a Project Management Office, assignment of oversight of Quantum Leaps—and OSI has attempted to maintain consistency during the changes. OSI will continue to work with the Controller's office to ensure that the said individuals take the trainings this FY as and when they are offered.	Implemented
		Recommendation 4: Systemwide Information Services should ensure that all individuals involved in the reconciliation process attend reconciliation training and should notify the Controller's Office of any related personnel changes in a timely manner.	**Management Response 4:** Controller's office has been contacted to inquire about training. In reviewing the past training, we look forward to improved quality and clarity in any next generation of such training.	Implemented
		Recommendation 5: TOGI should ensure that all individuals involved in the reconciliation process attend reconciliation training and should notify the Controller's Office of any related personnel changes in a timely manner.	**Management Response 5:** Current staff involved in the reconciliation process received training in October 2016. TOGI will ensure that any additional staff that become involved in the process also complete the training.	Implemented
		Recommendation 6: University Lands should ensure that all individuals involved in the reconciliation process attend reconciliation training and notify the Controller's Office of any related personnel changes in a timely manner.	**Management Response 6:** All UL staff who are involved in the reconciliation process will make an effort to complete the reconciliation training.	Implemented
		Recommendation 7: As part of the development of the HOP, the Controller's Office should ensure that UT System's cost center reconciliations and segregation of duties expectations are clearly documented in the HOP.	**Management Response 7:** Agreed	Follow-up to be performed
		Recommendation 8: Health Affairs should strengthen its review process to ensure that reconciliations are completed on a monthly	**Management Response 8:** Given that salaries generally do not vary from month to month, we found it acceptable to complete salary	Implemented

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Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		basis and in a timely manner and that those reconciliations accurately include all applicable transaction activity.	reconciliations less frequently. Additionally, project reconciliations presented challenges for our reconcilers due to back office transactions for which it is difficult to find supporting documentation. Moving forward, Health Affairs staff will ensure that reconciliations are completed correctly within two months of the close of the month. We have also requested project specific reconciliation guidance from the Controller's Office to ensure accuracy of our reconciliations.	Implemented
		Recommendation 9: Innovation and Strategic Investment should strengthen its review process to ensure that reconciliations are completed in a timely manner and accurately include all applicable transaction activity.	**Management Response 9:** A process has been implemented to ensure that reconciliations are completed correctly within two months of the close of the month. Encumbrances are now reported on a weekly basis (via an office-created Contract/Invoice Dashboard), thus reducing the risk associated with manual error in calculating encumbrance amounts.	Implemented
		Recommendation 10: Strategic Initiatives should ensure that reconciliations are completed in a timely manner.	**Management Response 10:** The single reconciliation approved a week late during FY16 was a result of the cumulative effect of the winter holiday break coupled with additional vacation time taken during the month of December. All reconciliations will be completed, dated, and approved within two months of general ledger close.	Implemented
		Recommendation 11: Systemwide Information Services should strengthen its review process to ensure that reconciliations are completed in a timely manner and accurately include all applicable transaction activity.	**Management Response 11:** Formulas that caused the February problem noted have been confirmed and to the best of memory, the cited issue (spreadsheet error) was corrected prior to preparation of the next month's reconciliation. Management agrees that the reconciliation should accurately note the date of the reconciliation to make it clear that the reconciliation is timely.	
		Recommendation 12: TOGI should strengthen its review process to ensure that reconciliations are completed in a timely manner and accurately include all applicable transaction activity.	**Management Response 12:** TOGI staff was unaware of any reconciliation and subcertification responsibilities until we were made aware in mid-October by UT System Administration. TOGI staff was trained in October	Follow-up to be performed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
			and thereafter both processes were completed in a timely manner.	Follow-up to be performed
		Recommendation 13: University Lands should strengthen its review process to ensure that reconciliations are completed in a timely manner and that all discrepancies are adequately resolved.	**Management Response 13:** UL Staff will make an effort to complete all reconciliations in a timely manner and will investigate any PeopleSoft discrepancies until the issues are resolved.	Implemented
		Recommendation 14: The Controller's Office should develop a method to communicate reconciliation responsibilities for new cost centers and projects to responsible offices in a timely manner.	**Management Response 14:** The Office of the Controller will amend the existing new cost center email notice to departments to reiterate department cost center/project reconciliation responsibilities.	
		Recommendation 15: TOGI should ensure that it submits its subcertification letter to the Controller by the established deadline.	**Management Response 15:** TOGI staff was unaware of any reconciliation and subcertification responsibilities until we were made aware in mid-October by UT System Administration. TOGI will ensure that its FY 2017 certification is submitted in a timely manner.	Follow-up to be performed
01/27/17	Procurement and Contract Administration Audit	This audit resulted in no findings which were not already identified and addressed in the Assessment report.		
01/30/17	Office of Employee Benefits Audit	This audit contains attorney-client work product and advice conducted as privileged and confidential under the direction of the Office of General Counsel. All communications are privileged and confidential.		
02/02/17	Cloud Computing and Storage Audit	**Recommendation 1A:** The Systemwide Information Security Office and Systemwide Information Services should facilitate collaboration among institutions to identify potential methods and tools capable of meeting cloud security policy requirements.	**Management Response 1A:** 1) Relevant vendors or experts will be asked to present at the August CISO Council/InfoSec meeting. 2) The Systemwide CISO and Systemwide CIO will work to schedule a joint CISO/CIO meeting in the fall, 201 7, or include in an already scheduled meeting.	Follow-up to be performed
		Recommendation 1B: The Systemwide Information Security Office and UT System Administration Office of Technology and Information Services should identify and implement technical controls designed to safeguard the use of cloud computing and storage by UT System Administration.	**Management Response 1B:** UT System Administration Office of Technology and Information Services will assess how to accomplish the objective with products already owned and/or look at the current market products by June 2017. An action plan will be developed and funding will be sought if necessary. An implementation schedule depends upon the approach selected and a target time frame of 2018 is likely.	Follow-up to be performed
		Recommendation 2:	**Management Response 2:**	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		The Systemwide Information Security Office should maintain and publish for employees a list of approved cloud computing and storage services available for use by institutions and System Administration.	1) Identifying approved IT services is an institutional responsibility as institutions may have different requirements and policies. The purchasing process within each institution helps to enforce compliance. 2) UT System Administration will list approved cloud vendors on its website.	
		Recommendation 3: The Systemwide Information Security Office should create and maintain a collaborative process for sharing among institutions the key documents associated with risk assessing and approving cloud computing and storage services. Additionally, the Systemwide Information Security Office should publish the criteria used to determine whether a third-party cloud service provider is considered sanctioned.	**Management Response 3:** 1) An informal process is already in place. Plans to formalize the process are in progress. 2) Evaluation criteria must be established by each institution's ISO. Evaluation and potential acceptance of risk is the responsibility of the data owner.	Follow-up to be performed
		Recommendation 4: The Systemwide Information Security Office should develop additional compliance training to inform users on the appropriate use of cloud services at System Administration.	**Management Response 4:** Training materials will be created and incorporated into compliance training by the end of FY17.	Follow-up to be performed
06/09/17	UT Austin Jackson Estate Audit	**Recommendation 1:** The Foundation should periodically review and, as necessary, update information in the procedures to accurately reflect current practices.	**Management Response 1:** The Foundation agrees with the recommendation and will review and update procedures annually, or earlier if they experience any organizational change which may impact their processes.	Follow-up to be performed
		Recommendation 2: The Foundation should review current procedures to determine whether the sampling methodology and frequency of reconciliations is appropriate given current risks and available resources. If the Foundation determines that no changes should be made, then the Foundation should ensure that the reconciliations are executed with the frequency required by current policies and procedures.	**Management Response 2:** Based on current risks and resources, the Foundation will run their reconciliation reports on a tri-annual basis instead of quarterly, with a focus on a sample of ten properties for Devon, and they will include four additional properties from the other two top producers: ConocoPhillips and Texxol.	Follow-up to be performed
		Recommendation 3:	**Management Response 3:** The Foundation agrees with the recommendation and will update decimal information recorded in the	Follow-up to be performed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		The Foundation should enhance its monitoring processes to ensure that royalty decimal interests entered into the database are periodically reviewed and corrected.	database to enter, as the new decimal, the sum of all decimals associated with a particular property, instead of considering only one of the decimals documented in the division orders.	
		Recommendation 4: We recommend that the Foundation enhance its process to ensure all executed division orders are retained.	**Management Response 4:** The Foundation agrees with this recommendation. The Foundation will request missing division orders and will update decimal information as indicated in the previous recommendation.	Follow-up to be performed
		Recommendation 5: To ensure compliance with the Uniform Principal and Income Act and to ensure that appropriate amounts are invested in the Jackson Endowment, the Foundation should enhance its reconciliation procedures to ensure all royalty interest payments are deposited in *DEFINE and subsequently transferred to UTIMCO. We also recommend that the Foundation review prior periods outside the audit scope to ensure that all royalty payments were appropriately deposited and transferred to UTIMCO.	**Management Response 5:** The Foundation agrees with the recommendation. They have included additional steps in the reconciliation process (excel file) to examine whether funds are accurately deposited and transferred by Cash Management. They have added in Cognos 'Cash Out' data (new) which allows them to look at Cash Management's In/Out transactions. The Foundation will run a reconciliation including the prior fiscal year 2015-16 with their next reconciliation for the fiscal year 2016-17 to investigate potential omissions. In addition, Cash Management is now looking into having these transactions done automatically on their end.	Follow-up to be performed
		Recommendation 6: To reduce the risk and administrative burden associated with the manual processing of checks, the Foundation should encourage all operators to pay royalty interests with electronic transactions instead of checks.	**Management Response 6:** The Foundation agrees with the recommendation and will request direct deposit to all operators offering this option for payment.	Follow-up to be performed
		Recommendation 7: To reduce administrative burden and unnecessary risk, the Foundation should cease the practice of backing up its data to an external hard drive. The Foundation should also biennially review and, as necessary, update information in the DRP to accurately reflect current practices.	**Management Response 7:** The Foundation agrees with the recommendation. They have eliminated the back-up to external hard drive and have updated the information in DRP.	Follow-up to be performed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
06/09/17	Gas Leases Operated by Devon Energy Production Company on University Lands FY 2016	The report contains confidential information and is not subject to the disclosure requirements of the Texas Public Information Act, based on the Texas Education Code Section 66.81. Specific results of the audit were provided to University Lands and appropriate members of UT System management.		
08/18/17	Supply Chain Alliance GPO Accreditation Audit	Sourcing and contract management controls as communicated to us during the accreditation process are in place and working as intended.		

III. Consulting Services & Non-audit Services Completed

Report Date	Report Name	High-Level Objectives(s)	Observations/Results/Recommendations
12/22/16	OFPC Fee Benchmarking Consulting	Benchmark current fee structure with fee structures for similar "basic" project management services offered by private industry and higher education institutions.	None
01/17/17	UT Arlington NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/17/17	UT El Paso NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/17/17	UT San Antonio NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/17/17	UT Rio Grande Valley NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Develop written procedures for the preparation of the Statement of Revenues and Expenses (SRE) and cross train employees.
01/31/17	UTMDACC Procurement Special Review	Identify and assess procurement actions related to development of a select project.	MD Anderson's standard procedures are sufficient to ensure procurements are handled appropriately and in compliance with institution and UT System policies and State procurement law, but were not consistently applied for the project selected for review.
08/17/17	Institute of Transformational Learning (ITL) Consulting	Provide accounting of the ITL reserves and review plan of future use of funds and long-term strategy.	Past performance has not demonstrated complete reporting to executive management and the board.
Various	Special Reviews	Special investigative reviews conducted at select UT institutions (UTSW, UTMDACC, and UTHSCT)	Internal memos issued
Various	Procurement Workgroup Consulting – GPO Reviews	Perform GPO reviews	Internal memos issued

IV. External Quality Assurance Review

BAKER TILLY

Candor. Insight. Results.

May 25, 2017

Mr. J. Michael Peppers, Chief Audit Executive
The University of Texas System Administration

In May 2017, The University of Texas (UT) System Administration Audit Office (System Audit or IA) completed a self-assessment of internal audit activities in accordance with guidelines published by the Institute of Internal Auditors (IIA) for the performance of a quality assessment review (QAR). System Audit engaged an independent review team consisting of three internal audit professionals with extensive higher education and healthcare experience to perform an independent validation of System Audit's QAR self-assessment. The primary objective of the validation was to verify the assertions made in the QAR report concerning IA's conformity to the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* (the IIA *Standards*) and Code of Ethics, Generally Accepted Government Auditing Standards (GAGAS), and the relevant requirements of the Texas Internal Auditing Act (TIAA).

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally conforms" is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Based on our independent validation of the QAR performed by System Audit, we agree with System Audit's overall conclusion that the internal audit function **"Generally Conforms"** with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, as well as with System Audit's conclusions regarding GAGAS and TIAA requirements. Our review noted strengths as well as opportunities for enhancing the internal audit function.

This information has been prepared pursuant to a client relationship exclusively with, and solely for the use and benefit of, UT System Administration and System Audit and is subject to the terms and conditions of our related contract. Baker Tilly disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than UT System Administration and System Audit.

The review team appreciates the cooperation, time, and candid feedback of executive leadership, stakeholders, and System Audit personnel.

Very truly yours,

Baker Tilly Virchow Krause, LLP

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V. Internal Audit Plan for Fiscal Year 2018

FY 2018 Audit Plan System Audit Office	Budgeted Hours	Percent of Total	General Objective/Description
Risk Based Audits			
Network Management Audit	400		Determine if System Administration has adequate processes and controls for managing the wide area network.
Web Accessibility Audit	100		Determine if System Administration has adequate processes and controls for ensuring compliance with State and Federal requirements related to website accessibility for disabled persons.
IT Audit - Area TBD	400		Additional audit area to be identified based on Systemwide consolidated IT risk assessment results.
Oil and Gas Producers Audit - Company TBD	600		Determine if the oil and gas producer (selected based on risk analysis) is in compliance with lease agreements.
AUF Projects Oversight & Monitoring Review	300		Determine if there is appropriate oversight and monitoring in place for the Available University Fund (AUF) funded projects and validate outcomes, where applicable, for AUF supported initiatives.
Conflicts of Interest and Commitment Audit	400		Determine System Administration's compliance monitoring of UTS180 Conflicts of Interest, Commitment, and Outside Activities.
GPO Accreditation Applications Review	150		Determine if controls, as represented by the Group Purchasing Organization (GPO) accreditation applicant, meet the minimum standards of the UT System Accreditation Program.
GPO Control Validation Review	150		Determine if contracting controls, reported by an accredited GPO, are in place and functioning as represented during the accreditation process.
Faculty STARs Program Outcomes Review	400		Determine and report on amounts allocated and outcomes achieved for funds invested in the Faculty Science and Technology Acquisition and Retention (STARs) Program at the institutions and if opportunities exist to improve the existing program.
UTIMCO IT System Review	400		Review the processes and controls surrounding UTIMCO's Development Life Cycle software.
Carryforward Audits			
UT Austin Dell Medical School Use of AUF Audit	100		Complete carryforward audits that were in progress at the end of the
Risk Based Subtotal	**3,400**	**17.4%**	
Required (Externally and Internally) Audits			
UT System Administration & Consolidated FY 2017 Financial Audit Assistance	250		Assist the external auditor on the System Administration and Consolidated FY 2017 financial statements audit (year-end work).
UTS142.1 Account Reconciliations & Subcertifications FY 2017 Audit	250		Determine compliance with monitoring of account reconciliations and segregations of duties requirements per UTS142.1.
UT System Administration & Consolidated FY 2018 Financial Audit Assistance	120		Assist the external auditor on the System Administration and Consolidated FY 2018 financial statements audit (interim work).
Guidance to Institutions on Systemwide Financial Audit - FY 2017	25		Provide guidance and coordination of year-end work performed for the FY 2017 external financial statements audit.
Guidance to Institutions on Systemwide Financial Audit - FY 2018			Provide guidance and coordination of interim work performed for the FY 2018 external financial statements audit.
NCAA Agreed-Upon Procedures at UT Arlington	400		Perform agreed-upon procedures regarding internal controls, revenues, and expenses of FY 2017 intercollegiate athletics program activity.
NCAA Agreed-Upon Procedures at UT El Paso	600		
NCAA Agreed-Upon Procedures at UT San Antonio	100		
NCAA Agreed-Upon Procedures at UT Rio Grande Valley	100		
Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits	750		Determine if chief administrators' travel, entertainment and university residence maintenance (as applicable) expenses are appropriate, accurate, and in compliance with applicable policies (required by Regents' *Rule* 20205).
UTIMCO CEO/CIO & Executive Travel and Other Expenses Audit	350		Determine if UTIMCO CEO/CIO's and senior level staff's travel and other expenses are appropriate, accurate, and in compliance with applicable policies (consistent with audit requirement of chief administrators and executives).
Carryforward Audits			
Executive Travel and Entertainment Expenses Audit	50		Complete carryforward audits that were in progress at the end of the previous fiscal year.
Presidential Travel and Entertainment Expenses Audit	200		
Texas Administrative Code Section 202 Audit	100		
Required Subtotal	**3,295**	**16.9%**	
Risk Based Consulting Projects			
Data Governance Consulting	150		Provide consulting services related to System Administration data governance structures and processes with added focus on IT initiatives related to the collaborative Health Care Enterprise.
Benefits Administration System Consulting	75		Provide consulting services related to the selection and implementation of a new benefits application system by the Office of Employee Benefits.
UT Share Post Implementation Review	200		Conduct post implementation reviews of UT Share at System Administration and provide related guidance and oversight to the institutions.
UT Share Operating and Executive Committees Participation	50		Participate on the UT Share Operating and Executive Committees.

Key Performance Indicators for Institutional Leadership Project	300		In consultation with executive management and input from institutions, determine key performance indicators/expectations that will assist UT System leadership to monitor performance (e.g., progress towards achievement of critical objectives, alignment with presidential incentive compensation metrics, awareness of emerging issues, etc.).
Pilot Institutional Review Project	300		Perform a pilot project review at TBD institution to provide UT System executive management a holistic view of campus performance, including strengths and weaknesses and whether those weaknesses are being addressed by campus leadership. Project might include a cross-functional System Administration team.
Policy Management Review	200		In coordination with Compliance and the Tiger Team, provide assistance to review and give feedback on UT System policies and/or Regents' Rules from an audit perspective.
Quantum Leaps Consulting	150		In consultation with executive management, provide analysis that may assist in the achievement of the Quantum Leaps.
Construction Consulting	75		In coordination with internal audit at UT Austin, UT Southwestern, UT Medical Branch, and UT M. D. Anderson, develop a construction risk assessment that can guide future audits to ensure institutions with delegated approval authority have appropriate processes and controls in place to manage major capital construction projects.
Uniform Guidance Consulting	50		Participate in ongoing discussions with the institutions as they consider transitioning from effort certification to periodic payroll certification/confirmation and other applicable internal controls to demonstrate appropriate stewardship of federal funds as required by the Uniform Guidance.
Enterprise Risk Management Consulting	200		Assist Compliance with development of an Enterprise Risk Management process for UT System.
System Administration Committees and Councils	200		Participate on System Administration Committees and Councils.
General Audit Assistance to System Administration	200		Provide general assistance and support to System Administration departments and response to management requests.
Consulting Subtotal	**2,150**	**11.0%**	
Investigations			
Investigation Reserve	400		Reserve for investigations that may arise during the fiscal year.
Investigations Subtotal	**400**	**2.0%**	
Follow Up			
System Audit Follow Up Procedures	500		Follow-up on open recommendations from previous audits conducted by the System Audit Office.
Follow Up Subtotal	**500**	**2.6%**	
Risk Based Reserve			
TBD Special Requests	600		Provide assistance to UT System executive management in addressing unexpected issues (reviews, third-party engagements, etc.).
Reserve Subtotal	**600**	**3.1%**	
Development - Operations			
Internal Audit Strategy	100		Develop internal audit strategy - System Audit and Systemwide, including operations reporting.
Institution Liaison Activities	1,500		Provide oversight, guidance, and assistance to the institutional internal audit departments (categories include all, academic, health, and small institutions as well as IT related). Includes attendance at institutional audit committee and other meetings.
General Communications	250		Develop and deliver communications (CAE Memo, Webinars, etc.).
Systemwide Internal Audit Council, Communication, and Education	400		Prepare for and attend the Internal Audit Council meetings, including efforts on Internal Audit Strategic Plan initiatives. Develop and deliver educational training materials to CAEs.
Online Reporting	100		Collect, track, sort, and post audit reports online.
Fraud and Investigation Tracking	100		Track, monitor, and report on fraud and investigation activities.
Priority Findings	100		Track, summarize, and report on the Systemwide Priority Findings.
Metrics	50		Collect, summarize, and report on the Systemwide internal audit metrics.
Data Analytics	1,000		Provide data analytics technical operations, script development, guidance and support.
ACRM Committee and Board of Regents	400		Prepare for and attend at Audit, Compliance, and Risk Management Committee and Board of Regents meetings. May also include other reports for and requests from Regents.
Systemwide Annual Risk Assessment and Audit Plan	200		Coordinate and conduct institutional audit plan presentations to provide feedback on draft annual audit plans, prepare the Systemwide annual audit plan for approval by the Audit, Compliance, and Risk Management Committee, and analyze Systemwide risk, audit, and issue trends.
Systemwide TeamMate Administration Support	400		Support the Systemwide administration of the comprehensive audit management software technology (TeamMate).
Systemwide TeamMate Administration Processes	100		Develop the structure and processes over Systemwide TeamMate Administration, including a procedures manual, forms, etc.
Management of the Internal Audit Activity	500		Manage the System Audit Office's internal audit activities such as prioritization and status updates of engagements.
UTIMCO Meetings and Oversight Activities	50		Attend UTIMCO Board of Directors, Committee, and other oversight meetings.

UT System Administration Internal Audit Committee	400		Prepare for and attend quarterly System Administration Internal Audit Committee meetings.
External Reporting and Requests	50		Prepare the annual report of audit activity required by the State Auditor's Office (SAO) and other SAO reporting requests. May also include reports or requests from other external agencies. Includes SB20 Compliance work.
TeamMate Maintenance, Website Updates, SP Site Management	100		Update System Audit's TeamMate software and office website.
System Audit Office Annual Risk Assessment and Audit Plan	350		Facilitate risk assessments used to develop the risk-based System Audit Office's annual audit plan.
System Audit Quality Assurance Activities	100		Conduct internal quality assurance activities, including quality related enhancements to System Audit Office's policies/processes/procedures and implementation of recommendations from External Quality Assessment.
Development - Operations Subtotal	**6,250**	**32.0%**	
Development - Initiatives and Education			
Audit Governance	100		Strengthen audit governance and expand its capabilities and institutional communication.
Risk Assessment Process	100		Stabilize and leverage risk assessment innovation (specifically, for IT).
Quality Program and Metrics Implementation	300		Strengthen leading practice and standards use with quality program implementation (Post TeamMate Implementation/EQA metrics).
Resource Capabilities and Knowledge/Resource Management	300		Expand resources and capabilities of auditors and facilitate knowledge/resource management development.
Common Audit Reporting	100		Develop and deploy common audit reporting and related processes.
Audit Team Capabilities and Leadership Development	100		Develop internal audit teams' capabilities and leadership Systemwide.
Internal Audit Staff Training	1,225		Attend Continuing Professional Education training, including travel related time.
Professional Organizations and Associations	700		Participate in professional organizations and associations (e.g., IIA, ACUA, ISACA, ACFE).
Development - Initiatives and Education Subtotal	**2,925**	**15.0%**	
Total Budgeted Hours	**19,520**	**100%**	

Risk Assessment/Methodology Used to Develop FY 2018 Annual Audit Plan & High Risks Not Included

The Audit Plan outlines the internal audit activities that will be performed by the System Audit Office during FY 2018 in accordance with responsibilities established by UT System, the TIAA, the IIA *Standards*, and GAGAS. The plan is prepared using a risk-based approach to ensure that areas and activities with the greatest risk are identified for consideration to be audited. The Audit Plan includes audit work, which is included in the Risk Based, Required, Consulting, Investigations, and Follow-up sections; Development – Operations (ongoing System Administration and oversight activities); and Development – Initiatives & Education (developmental initiatives that may be employed over multiple years). The Audit Plan was approved by the UT System Administration Internal Audit Committee on 7/19/17 and by the UT System Board of Regents' Audit, Compliance, and Risk Management Committee on 8/23/17 as part of the Systemwide Audit Plan.

The System Audit Office's risk assessment approach was to start at the top with an awareness of critical initiatives and objectives to ensure the risks assessed were the most relevant. As IT risks were the most prevalent last year, additional focus was placed in this area to identify agreed-upon essential services and functions that could significantly impact business objectives. This included specific information technology risks related to Title 1, Texas Administrative Code (TAC), Chapter 202, Information Security Standards. An audit of TAC 202 compliance was started in FY 2017, and the report will be issued in FY 2018.

Along with the audits derived directly from the risk discussions, the Audit Plan includes other required and/or recurring work and hours budgeted for special requests related to unexpected issues that may arise. While UT System Administration received general revenue in biennium FY16-17 and biennium FY18-19, it was all restricted for debt service and health programs and not for system office operations (including salaries that would be subject to benefits proportionality). Therefore, an audit is not required. A Procurement and Contract Administration Audit was done in the prior year. Additionally, the Audit Plan does not include an internal audit related to expenditure transfers, capital budget controls, or other limitation or restriction in the General Appropriations Act (these areas may be reviewed as part of the external financial audit).

Additional critical risks that were identified but not part of the Audit Plan, were in the general areas of auxiliary services, information technology, human resources, facilities management, purchasing/supply chain and patient care operations. While related engagements are currently not part of the FY 2018 Annual Audit Plan, there are other mitigating activities underway that address the objectives at risk.

VI.   External Audit Services Procured in FY 2017

The University of Texas System contracted with Deloitte & Touche, LLP (Deloitte) to perform an independent audit of the FY 2016 UT System financial statements (including stand-alone audits at some of the institutions) and an independent audit of the FY 2016 financial statements of The University of Texas Investment Management Company (UTIMCO) Corporation, the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund (collectively, the Funds). Also, Deloitte performed interim work for the audit of the UT System and Funds' FY 2017 financial statements.

In addition, UT System contracted with Deloitte to complete audits of Cancer Prevention Research Institute of Texas (CPRIT) grants at seven UT institutions to conclude on the Schedule of Expenditures of State Awards for the CPRIT program and compliance over CPRIT programs (scope of FY 2016 grant activity), and with Weaver & Tidwell to perform agreed upon procedures at four UT institutions to determine compliance with CPRIT's rules, requirements, and Policies and Procedures guide; budget terms and conditions; and the institution's internal policies and procedures for FY 2016 activity. This was required by the granting agency, CPRIT.

The University of Texas System Administration contracted with Wolcott and Associates to perform benefit audits for the Office of Employee Benefits of employee and retiree medical and prescription insurance claims and contracted with R.L. Townsend and Associates to perform ongoing construction billing and final contract review audits for the Office of Facilities, Planning and Construction.

VII.   Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of General Appropriations Act (84th Legislature), Article IX, Section 7.09, Fraud Reporting and Texas Government Code, Section 321.022 include:

- SAO fraud reporting link on the bottom right of UT System homepage (http://www.utsystem.edu/)
- UT System policy UTS118 pertaining to fraudulent activities, including coordination of investigations and reporting of suspected fraud (http://www.utsystem.edu/bor/procedures/policy/policies/uts118.html).
- UT System Hotline, which provides employees a way to report instances of suspected wrongdoing (http://www.utsystem.edu/offices/systemwide-compliance/hotline), including a link to report suspected fraud, waste, and abuse involving state funds to the SAO (http://sao.fraud.state.tx.us/)
- The System Audit Office continues coordination with Systemwide Compliance and the Office of General Counsel regarding a Systemwide fraud reporting protocol and tool to help ensure consistent and timely communication.