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Committee Meeting: 2/11/2009

Paul Foster, Chairman
Janiece Longoria
Colleen McHugh
Robert B. Rowling

Board Meeting: 2/12/2009
Austin, Texas

| | Committee Meeting | Board Meeting | Page |
|--|---|--------------------------|-------------|
| A. CONVENE IN OPEN SESSION TO RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 | <i>11:30 a.m. Chairman Foster</i> | | |
| <p>1. Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - Section 551.074</p> <p>Discussion with institutional auditors and compliance officers concerning evaluation and duties of individual System Administration and institutional employees involved in internal audit and compliance functions</p> | <p><i>Ms. Kimberly Hagara, U. T. Medical Branch – Galveston Mr. Robert Rubel, U. T. Southwestern Medical Center – Dallas Mr. Chaffin Mr. Plutko</i></p> | <p>Not on Agenda</p> | |
| B. RECONVENE IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEM AND TO CONSIDER AGENDA ITEMS | <i>11:50 a.m.</i> | | |
| <p>1. U. T. System: Report on potential conflicts of interest for research at U. T. System institutions</p> | <p><i>11:50 a.m. Report Mr. Plutko</i></p> | <p>Not on Agenda</p> | 30 |
| <p>2. U. T. System: Progress report on the Systemwide Information Security Program</p> | <p><i>11:57 a.m. Report Mr. Watkins</i></p> | <p>Not on Agenda</p> | 30 |
| <p>3. U. T. System: Report on Systemwide institutional compliance activities</p> | <p><i>12:05 p.m. Report Mr. Plutko</i></p> | <p>Not on Agenda</p> | 30 |

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| 4. U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche, LLP, as the external auditor for the Fiscal Year 2009 audit of funds managed by The University of Texas Investment Management Company (UTMCO) | 12:10 p.m. Action <i>Mr. Chaffin</i> | Action | 36 |
| 5. U. T. System: Report on the Systemwide internal audit activities, including a report concerning audit activities at U. T. Southwestern Medical Center – Dallas and approval of U. T. Medical Branch – Galveston's annual audit plan for Fiscal Year 2009 | 12:15 p.m. Action <i>Ms. Kimberly Hagara, U. T. Medical Branch – Galveston Mr. Robert Rubel, U. T. Southwestern Medical Center – Dallas Mr. Chaffin</i> | Action | 37 |
| 6. U. T. System: Report on the U. T. System Consolidated Annual Financial Report Audit performed by institutional and System Administration internal audit | 12:23 p.m. Report <i>Mr. Chaffin</i> | Not on Agenda | 44 |
| C. ADJOURN | 12:30 p.m. | | |

1. **U. T. System: Report on potential conflicts of interest for research at U. T. System institutions**

REPORT

Mr. Lawrence Plutko, Systemwide Compliance Officer, will report on a newly chartered committee focusing on potential conflicts of interest for research at U. T. System institutions. The Committee will conduct a compliance effectiveness review of conflicts of interest policies for research, focusing initially on health institutions and U. T. Austin, then later looking at other academic institutions. The Committee will also review the policy implementation, documentation, and education processes attached to these policies.

2. **U. T. System: Progress report on the Systemwide information security program**

REPORT

Mr. Lewis Watkins, Chief Information Security Officer, will report on progress of the Systemwide information security program. Mr. Watkins will update the Committee on the status of program requirements relating to risk assessment, strategy development, approval and implementation, and progress reporting.

BACKGROUND INFORMATION

The Board provided funding for the purchase of tools to help U. T. System institutions to perform information technology risk assessments, manage computer security configurations, and identify attacks against University networks. Additional funding has been made available to train technical staff responsible for securing University computers. Mr. Watkins will provide an update on the status of these initiatives.

3. **U. T. System: Report on Systemwide institutional compliance activities**

REPORT

Mr. Lawrence Plutko, Systemwide Compliance Officer, will brief the Audit, Compliance, and Management Review Committee on the first quarter report of the Systemwide Compliance Program. Institutional activity reports are presented to the Audit, Compliance, and Management Review Committee on a quarterly basis. The last activity reports were sent to Committee members on January 22, 2009. The Summary Report is included on Pages 31 - 35.

**The University of Texas System
Institutional Compliance Program Report Summary
First Quarter, Fiscal Year 2009**

Background

The University of Texas (U. T.) Systemwide Institutional Compliance Program (Program) was established in 1998 to ensure that the entire U. T. System, including its 15 institutions, System Administration, and UTIMCO, operates in compliance with all applicable laws, policies, and regulations governing higher education institutions. The responsibilities for the Program are outlined in the *Action Plan to Ensure Institutional Compliance* (Action Plan) approved by the Board of Regents in 1998 and updated in 2003. The Action Plan delegates to the Systemwide Compliance Officer the responsibility for apprising the Chancellor and the Board of Regents of the compliance programs and activities at System Administration and at each of the institutions. The Action Plan also provides that the Compliance Officers at System Administration and at each institution are responsible for a risk-based process that builds compliance consciousness into daily business processes, monitors the effectiveness of those processes and communicates instances of noncompliance to appropriate administrative officers for corrective, restorative, and/or disciplinary action.

The Systemwide Compliance Officer is Mr. Larry Plutko, who was hired on September 29, 2008.

Systemwide Program Activity

As outlined in the Action Plan, the Systemwide Compliance Office provides support to the institutional compliance officers by:

- Facilitating best practice identification
- Providing training and support to each institution on those practices
- Identifying emerging issues
- Working with institutions on reported instances of noncompliance
- Reporting Systemwide compliance activities
- Coordinating Systemwide compliance efforts
- Advancing the discipline of compliance in higher education/health care.

During the first quarter of fiscal year (FY) 2009, the Systemwide program focused its efforts in the following areas:

1. Systemwide Compliance Officer site visits

The new Systemwide Compliance Officer was introduced to the compliance officers at an Institutional Compliance Advisory Committee meeting in October. Subsequent to that initial meeting with the officers, the Systemwide Compliance Officer has conducted site visits at a number of institutions to meet with key leadership and compliance stakeholders. During the first quarter of FY 2009, site visits were held at U. T. Arlington, U. T. El Paso, U. T. Southwestern, U. T. Health Science Center – Houston, and the U. T. Health Science Center – San Antonio.

2. Coordinating the Systemwide information security initiative

Negotiations were completed with Configuresoft, Inc. for the purchase of configuration management software to be made available to all U T institutions to bolster security of desktop, laptop, and server computers. Also, security configuration templates for end-user and server computers were created to help institutions establish best practice deployments for various situations. Deployment and management of model configurations through use of the Configuresoft software will enable institutions to maintain ongoing control over and audit verification of the security profile for computers attached to institutional networks.

U. T. institutions submitted their first annual metrics report to U. T. System Administration and began using the UT-ISAAC risk assessment tool purchased through U. T. System to perform state required IT risk assessments. Minor changes were made to the U. T. System Information Resources Use and Security Policy (UTS-165) to ensure alignment with state law.

3. Conflict of Interest for Research Compliance Committee

The Interim Chancellor has chartered a committee to conduct a compliance effectiveness review of conflicts of interest policies for research, focusing initially on health institutions and U. T. Austin, then later looking at other academic institutions. The committee will also review the policy implementation, documentation, and education processes attached to these policies. Members of the committee include representatives from Systemwide Compliance, Office of General Counsel, Research and Technology Transfer, Academic Affairs, Health Affairs, and Governmental Relations. The Systemwide Compliance Officer, acting as Committee Chair, will provide a compliance effectiveness report, including recommendations, to the Chancellor once the reviews have been completed.

4. Other activities during the quarter included:

- Attending executive compliance committee meetings at the majority of the institutions
- Planning for the Seventh Conference for Effective Compliance Systems in Higher Education to be held in Austin, May 31 – June 3, 2009
- Identifying and highlighting emerging compliance issues through *In the News* email publication

Institutional Program Activity¹

Per the Action Plan, the compliance officers at System Administration and each institution have the following responsibilities:

- Actively engage an institutional Executive Compliance Committee that meets at least quarterly

¹ Details regarding activities at the institutional level are published in the *Institutional Compliance Program 1st Quarter Status Report for Fiscal Year 2009*.

- Perform annual compliance risk assessments
- Provide campus-wide compliance training and promote compliance awareness
- Assist in specialized training for high-risk compliance areas
- Continuously monitor and inspect the institution's high-risk compliance activities
- Manage the institution's confidential reporting mechanisms (hotline, etc.)
- Report compliance activities and significant compliance issues to executive management, the Systemwide Compliance Officer, and the Board of Regents.

The following is a summary of institutional progress in implementing these elements of an effective compliance program:

Executive Compliance Committees

Each institution has an Executive Compliance Committee (ECC) that meets at least quarterly to oversee its institutional compliance program. Meetings were held this quarter at each institution, with the exception of U. T. Medical Branch – Galveston and the U. T. Health Science Center – Tyler. U. T. Austin has moved to quarterly meetings starting this fiscal year, but the U. T. Health Science Center – Houston continues to hold monthly ECC meetings. During the period, Systemwide Compliance Office representatives attended ECC meetings at U. T. Arlington, U. T. Austin, U. T. Dallas, U. T. Pan American, U. T. San Antonio, U. T. Tyler, U. T. Health Science Center – San Antonio, and U. T. System Administration in order to support the compliance officers in enhancing the role of the ECC.

Risk Assessments

ECCs review their institution's identified compliance risks and approve the designation of "institutionally significant" compliance risks – risks that, if realized, would have a significant impact on the ability to achieve the goals and objectives of the institution. Most institutions have identified between eight and fifteen institutionally significant areas of high risk, with multiple high-risk exposures contained within those areas. Common risk areas of focus during the quarter included: information security, conflicts of interest, medical billing, clinical research, patient privacy (HIPAA), environmental health and safety (including hazardous materials, lab safety, fire safety, campus safety, select agents), export control, animal care, human subject care, endowment management, fiscal/financial and asset management, time and effort reporting, cost sharing, construction procurement, financial aid, family educational rights and privacy (FERPA), human resources, contract management, and investment management.

Training and Awareness

General compliance training is conducted using a variety of formats including online, classroom, and written materials. Employees are typically scheduled to receive general compliance training during new employee orientation, and thereafter refresher training is provided on either an annual or biannual basis. All institutions provide a Standards of Conduct guide to new employees, utilizing either an electronic or written delivery method. During the quarter, compliance officers have been effective at ensuring that general compliance training and Standards of Conduct guides are delivered to the appropriate personnel in a timely manner.

Specialized Training

During the quarter, institutions conducted specialized training in many areas, including: endowments, research, contracts and grants, confidential information, fair lending practices, human subjects research and ethics, storm water pollution prevention, construction safety, information security, account management, purchasing, conflicts of interest, lab safety, hazardous waste, biosafety, radiation safety, fair labor standards, FERPA, select agents, campus security, risk management, fire safety, cash handling, investment training (public markets, private markets, marketable alternative investments), and investment risk management.

Monitoring Activities

A designated party is assigned accountability for each high-risk compliance area and is responsible for creating a risk management process that evaluates current activities and identifies changes, if necessary, that will improve the assurance of compliance. That process should include monitoring activities, which are procedures performed to verify that the risk management process for a compliance institutional high risk is being carried out as designed on a continual basis.

Compliance effectiveness reviews were conducted in many of the high-risk areas during the first quarter of FY 2009, including: medical billing, research involving human subjects, animal care, clinical research, cost sharing, time and effort reporting, export controls, conflict of interest, select agents, hazardous chemicals, fire safety, facility safety, lab safety, contracts and grants, account reconciliation, financial controls, asset management, financial aid, HIPAA, FERPA, hospital compliance, endowments, investment due diligence, investment risk management, investment compliance, and information security.

In addition, various assurance activities (e.g. internal audits and subject matter peer reviews) were performed on many of the high-risk compliance areas to verify and validate that operations are performing in compliance with applicable laws, regulations, policies and procedures.

Institutional Organizational Matters

U. T. Austin and U. T. San Antonio report hiring compliance personnel during the quarter, while various compliance positions remain open at U. T. Southwestern and the U. T. Health Science Center – Houston. U. T. Dallas has promoted within to fill their vacant compliance manager position.

The U. T. Medical Branch Office of Institutional Compliance staff was cut nearly in half, decreasing from 17 to 9 full time employees. In addition, the Associate Compliance Officer was promoted to Compliance Officer.

Institutional Action Plan Activities

At the beginning of each fiscal year, institutional compliance officers prepare an Action Plan, identifying areas in which the compliance office will focus its attention and activities. During the first quarter of FY 2009, action plan activities included the following: conducting investigations, facilitating training, consulting with high-risk area responsible parties, developing tools for monitoring high-risk areas, updating compliance program/compliance committee charters, developing compliance marketing plans, revising websites, updating compliance guides/manuals, reviewing risk management plans, reviewing monitoring plans, improving completion rates of

general compliance training, facilitating risk assessments in high-risk areas, updating standards of conduct guides, and performing compliance effectiveness reviews of high-risk areas.

4. U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche, LLP, as the external auditor for the Fiscal Year 2009 audit of funds managed by The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

Mr. Charles Chaffin, Chief Audit Executive, recommends approval to renew the auditing services contract with Deloitte & Touche, LLP (Deloitte) to perform audits of the financial statements and audit the performance statistics for the Fiscal Year (FY) ending August 31, 2009, for the funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

- a. Permanent University Fund (PUF)
- b. The University of Texas System General Endowment Fund (GEF)
- c. Permanent Health Fund (PHF)
- d. The University of Texas System Long Term Fund (LTF)
- e. The University of Texas System Intermediate Term Fund (ITF)

The proposed Deloitte fees for the FY 2009 audit of funds managed by UTIMCO including the performance statistics audit are included below with a comparison to the fees of the prior year's audit. In addition, out-of-pocket expense reimbursements in connection with the audit are not to exceed \$65,000.

| | Total FY 2008 Fees | Proposed FY 2009 Fees | Percentage Decrease |
|------------------------------|-------------------------------|----------------------------------|--------------------------------|
| Permanent University Fund | \$ 243,800 | \$ 223,000 | -8.5% |
| General Endowment Fund | 190,800 | 175,000 | -8.3% |
| Permanent Health Fund | 25,400 | 23,000 | -9.4% |
| Long Term Fund | 25,400 | 23,000 | -9.4% |
| Intermediate Term Fund | 145,200 | 133,000 | -8.4% |
| Performance Statistics Audit | 25,400 | 23,000 | -9.4% |
| TOTAL | \$ 656,000 | \$ 600,000 | -8.5% |

Then, Mr. Chaffin will report on the timing and scope of the internal audit work planned on UTIMCO's internal financial controls related to the PUF. The details of the audit will be discussed at UTIMCO's Audit and Ethics Committee on January 29, 2009.

BACKGROUND INFORMATION

Fiduciary responsibility for the PUF, GEF, PHF, LTF, and ITF rests with the U. T. System Board of Regents. *Texas Education Code* Section 66.08(f) requires that the U. T. System provide for an annual financial audit of the PUF if the PUF is within the scope of funds managed by an external management corporation.

On July 11, 2007, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche, LLP, for one year with a right to renew in one-year increments for four additional years. The contract was renewed by the Board of Regents on February 7, 2008. The original auditing services contract includes an option to audit and report on management's assessment of the internal controls over financial reporting.

5. **U. T. System: Report on the Systemwide internal audit activities, including a report concerning audit activities at U. T. Southwestern Medical Center – Dallas and approval of U. T. Medical Branch – Galveston's annual audit plan for Fiscal Year 2009**

RECOMMENDATION

Ms. Kimberly Hagara, Associate Vice President, Audit Services, U. T. Medical Branch – Galveston, will present the U. T. Medical Branch – Galveston Fiscal Year 2009 Annual Internal Audit Plan (Plan) and recommend that the Audit, Compliance, and Management Review Committee approve the proposed Plan for further approval by the full U. T. System Board of Regents. The approval of the Plan was delayed due to the impact of Hurricane Ike. The Plan is included on Pages 39 - 40.

Mr. Robert Rubel, Director of Internal Audit, U. T. Southwestern Medical Center – Dallas, will report on institutional internal audit challenges since the integration of hospitals into U. T. Southwestern Medical Center.

Mr. Charles Chaffin, Chief Audit Executive, will report on the results of the Presidential Travel, Entertainment, and Housing Expense audits conducted at each of the institutions and U. T. System Administration. He will also discuss implementation of a policy to require an audit of the institutional Presidents' offices conducted by the System Audit Office on a rotating five-year basis.

Additionally, Mr. Chaffin will report on the status of significant audit recommendations. The first quarter activity report on the Status of Outstanding Significant Finding/ Recommendations is set forth on Pages 41 - 42. The report shows that satisfactory progress is being made on the implementation of all significant recommendations with the exception of those from the Annual Financial Report Audit at U. T. Permian Basin. Institutional management has been made aware of this issue. Additionally, a list of other audit reports issued by the Systemwide audit program and the annual internal audit plan status as of October 31, 2008, follows on Page 43.

BACKGROUND INFORMATION

Significant audit findings/recommendations are submitted to and tracked by the U. T. System Audit Office. Quarterly, the chief business officers are asked for the status of implementation, which is reviewed by the internal audit directors. A quarterly summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. System Board of Regents. Additionally, the Committee members receive a detailed summary of new significant findings and related recommendations quarterly.

The University of Texas Medical Branch at Galveston
 FY 2009 Institutional Expenditures: \$1,605,352,926
 Total Number of FY 2009 Budgeted Positions = 7

Fiscal Year 2009 Audit Plan

| Audit/Project | Budgeted Priority Hours | % of Total |
|--|-------------------------------|------------------|
| <u>Financial Audits</u> | | |
| FY08 Financial Statement Audit | 800 | |
| FY09 Financial Statement Audit (interim) | 300 | |
| Presidential Travel and Entertainment Expenses Audit | 125 | |
| Presidential Travel and Entertainment Expenses Quarterly Reviews | 100 | |
| Joint Admission Medical Program | 60 | |
| Financial Audits Subtotal | 1385 | 18% |
| <u>Operational Audits</u> | | |
| <i><u>Risk Based Tier Two Audits</u></i> | | |
| Healthcare Workforce Management | 400 | |
| <i><u>Change in Management Audits</u></i> | | |
| | 400 | |
| <i><u>Carryforward Audits</u></i> | | |
| Governance | 150 | |
| Revenue Cycle | 160 | |
| Purchasing | 40 | |
| Operational Audits Subtotal | 1150 | 15% |
| <u>Compliance Audits</u> | | |
| <i><u>UT System Requested/Externally Required Audits</u></i> | | |
| Practice Plan Governance Audit | 300 | |
| Cash Handling Audit | 200 | |
| Student Fees Audit | 200 | |
| <i><u>Texas Higher Education Coordinating Board Audits:</u></i> | | |
| Family Practice Residency Program | 80 | |
| Primary Care/Internal Medicine Residency Program | 80 | |
| ATP/ARP Grants | 40 | |
| Compliance Audits Subtotal | 900 | 12% |
| <u>Information Technology Audits</u> | | |
| <i><u>UT System Requested/Externally Required Audits</u></i> | | |
| Correctional Managed Care | 500 | |
| General Controls (Feeder Systems) | 400 | |
| <i><u>Risk Based Tier One Audits</u></i> | | |
| IS Strategic Planning | 250 | |
| Firewall | 450 | |

The University of Texas Medical Branch at Galveston
 FY 2009 Institutional Expenditures: \$1,605,352,926
 Total Number of FY 2009 Budgeted Positions = 7

Fiscal Year 2009 Audit Plan

| Audit/Project | Budgeted Priority Hours | % of Total |
|---|-------------------------------|------------------|
| <i>Carryforward Audits</i> | | |
| Remote Vendor | 20 | |
| Medical Devices (IN 12-1) | 150 | |
| Decentralized Operations | 80 | |
| Information Technology Audits Subtotal | 1850 | 25% |
| <i>Follow-up Audits</i> | | |
| | 300 | 4% |
| <i>Projects</i> | | |
| <i>Audit Projects</i> | | |
| U. T. System Requests | 300 | |
| Special Requests - Audits | 900 | |
| <i>Other Projects</i> | | |
| Annual Risk Assessment/Work Plan Development | 200 | |
| Peer Review Follow-up | 75 | |
| Annual Required Reports | 100 | |
| Liaison with External Auditors | 100 | |
| TeamMate Upgrade/Enhancements | 80 | |
| Institutional Committee Attendance | 150 | |
| Projects Subtotal | 1905 | 25% |
| Total Audit Plan Hours | 7490 | 100% |

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Findings/Recommendations

| A | C | D | E | F | G | H | I | J | K |
|----|--|---------------------|---|-------------------------|----------------------------------|-------------------------|----------------------------------|-------------------------------------|---|
| 1 | | | | | | | | | |
| 2 | U. T. SYSTEM AUDIT | | | | | | | | |
| 3 | | | | 4th Quarter 2008 | | 1st Quarter 2009 | | | |
| 4 | Report Date | Institution | Audit | Ranking | # of Significant Findings | Ranking | # of Significant Findings | Targeted Implementation Date | Overall Progress Towards Completion (Note) |
| 5 | 2007-06 | UTARL | Implementation Progress of UTS163: Guidance on Effort Reporting Policies | | 1 | | 1 | 4/30/2009 | Satisfactory |
| 6 | 2007-07 | UTARL | Protecting the Confidentiality of Social Security Numbers | | 1 | | 1 | 3/31/2009 | Satisfactory |
| 7 | 2008-01 | UTARL | Systems Security Audit | | 1 | | 1 | 6/30/2009 | Satisfactory |
| 8 | 2008-05 | UTARL | Texas Administrative Code 202 Audit | | 1 | | 0 | 11/1/2008 | Implemented |
| 9 | 2008-05 | UTARL | UT Arlington Health Services Audit | | 2 | | 1 | 2/27/2009 | Satisfactory |
| 10 | 2007-06 | UTAUS | UTS163: Guidance on Effort Reporting Policies | | 1 | | 1 | 4/30/2009 | Satisfactory |
| 11 | 2007-08 | UTAUS | Payment Card Industry Data Security Standard (PCI DSS) | | 1 | | 1 | 12/31/2009 | Satisfactory |
| 12 | 2004-03 | UTB | Contracts and Grants | | 1 | | 1 | 3/31/2009 | Satisfactory |
| 13 | 2004-06 | UTB | 2003 Financial and Applications Controls Audit of the Financial Aid Office | | 1 | | 1 | 6/30/2009 | Satisfactory |
| 14 | 2008-08 | UTB | UTS165: Protecting the Confidentiality and Integrity of Digital Research Data Follow Up | | 4 | | 3 | 8/31/2009 | Satisfactory |
| 15 | 2007-01 | UTD | Annual Financial Report Audit FY 2007 | | 1 | | 1 | 5/31/2009 | Satisfactory |
| 16 | 2007-02 | UTEP | Campuswide Information Technology Applications | | 3 | | 3 | 5/31/2009 | Satisfactory |
| 17 | 2007-11 | UTEP | Decentralized Server Security | | 8 | | 4 | 5/31/2009 | Satisfactory |
| 18 | 2008-05 | UTEP | University Residence Life-Miner Village | | 1 | | 1 | 2/28/2009 | Satisfactory |
| 19 | 2008-08 | UTEP | University Ticket Center and Office of Special Events | | 2 | | 1 | 1/31/2009 | Satisfactory |
| 20 | 2008-10 | UTEP | College of Education - Change in Management | | | | 0 | 12/31/2008 | Satisfactory |
| 21 | 2008-10 | UTEP | Emergency Management Plan | | | | 1 | 3/31/2009 | Satisfactory |
| 22 | 2008-01 | UTPA | Confidentiality of Social Security Numbers | | 1 | | 1 | 8/31/2009 | Satisfactory |
| 23 | 2007-08 | UTPB | UTS163: Guidance on Effort Reporting Policies | | 1 | | 1 | 1/31/2009 | Satisfactory |
| 24 | 2008-08 | UTPB | Annual Financial Report Audit FY 2007 | | 2 | | 2 | 8/31/2009 | Unsatisfactory* |
| 25 | 2004-09 | UTSA | Research Compliance - Time and Effort Reporting | | 1 | | 1 | 5/15/2009 | Satisfactory |
| 26 | 2008-09 | UTSA | Information Technology Change Management Audit | | | | 1 | 2/13/2009 | Satisfactory |
| 27 | 2008-11 | UTSA | Select Agents | | | | 0 | 11/30/2008 | Implemented |
| 28 | 2008-09 | UTT | Audit of State and Federal Grant Awards Fiscal Year 2008 | | | | 1 | 8/31/2009 | Satisfactory |
| 29 | 2008-11 | UTT | Audit of the Annual Financial Report for the year ended August 31, 2008 | | | | 2 | 8/31/2009 | Satisfactory |
| 30 | 2005-03 | UTMB - Galveston | Compliance Update with the HIPAA Final Security Rule (Institutional) | | | | 0 | 6/30/2008 | Implemented |
| 31 | 2008-04 | UTMB - Galveston | PeopleSoft Application | | | | 1 | 3/31/2009 | Satisfactory |
| 32 | 2008-05 | UTMB - Galveston | Information Systems Change Management Process | | | | 2 | 5/31/2009 | Satisfactory |
| 33 | 2008-05 | UTMB - Galveston | Information Security Action Plan | | 2 | | 2 | 9/30/2009 | Satisfactory |
| 34 | 2008-08 | UTMB - Galveston | Data Retention and Records Management | | | | 4 | 1/31/2010 | Satisfactory |
| 35 | 2007-11 | UTHSC - Houston | Protection of Social Security Numbers | | 1 | | 0 | 12/31/2008 | Implemented |
| 36 | 2008-03 | UTHSC - Houston | Windows Servers Vulnerabilities | | 2 | | 0 | 12/31/2008 | Implemented |
| 37 | 2008-05 | UTHSC - Houston | Change in Management: Harris County Psychiatric Center | | 2 | | 0 | 1/31/2009 | Implemented |
| 38 | 2007-09 | UTHSC - San Antonio | Research Compliance Program | | 1 | | 1 | 5/29/2009 | Satisfactory |
| 39 | 2008-10 | UTHSC - San Antonio | Texas Administrative Code Section 202 Information Security Program | | | | 1 | 1/30/2009 | Satisfactory |
| 40 | | | | | | | | | |
| 41 | * Several of the issues in the FY 07 AFR audit were identified again during the FY 08 AFR audit. Overall, UTPB management has not addressed these issues in timely manner, so progress is considered | | | | | | | | |
| 42 | unsatisfactory by internal audit. | | | | | | | | |

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Findings/Recommendations

| 3 | C | D | E | F | | G | | J | K |
|-------------|--------------------------------------|---|---|------------------|---------------------------|------------------|------------------------------|--|--------------|
| | | | | 4th Quarter 2008 | | 1st Quarter 2009 | | | |
| | | | | Ranking | # of Significant Findings | Ranking | # of Significant Findings | | |
| Report Date | Institution | Audit | | | | | Targeted Implementation Date | Overall Progress Towards Completion (Note) | |
| 43 | 2001-08 | UTMDACC - Houston | Lotus Notes Environment | | 1 | | 1 | 5/31/2009 | Satisfactory |
| 44 | 2006-12 | UTMDACC - Houston | Centralized Backup, Storage, and Recovery | | 1 | | 0 | 8/31/2008 | Implemented |
| 45 | 2007-06 | UTMDACC - Houston | Conflict of Interest | | 4 | | 2 | 2/28/2009 | Satisfactory |
| 46 | 2007-09 | UTMDACC - Houston | Maintenance and Security of Biological Research Materials | | 1 | | 1 | 11/30/2008 | Satisfactory |
| 47 | 2007-10 | UTMDACC - Houston | Research Compliance Design Review | | 2 | | 2 | 5/31/2009 | Satisfactory |
| 48 | 2008-05 | UTMDACC - Houston | Lab Safety | | 1 | | 1 | 2/28/2009 | Satisfactory |
| 49 | 2008-05 | UTMDACC - Houston | Clinical Trial Research | | 1 | | 1 | 8/31/2009 | Satisfactory |
| 50 | 2008-05 | UTMDACC - Houston | Advance Beneficiary Notice Implementation Review | | 1 | | 1 | 5/31/2009 | Satisfactory |
| 51 | 2005-04 | UTHSC - Tyler | Texas Administrative Code 202 Compliance Audit | | 1 | | 1 | 8/31/2009 | Satisfactory |
| 52 | 2008-11 | UTHSC - Tyler | The University Health Clinic Audit | | | | 1 | 2/28/2009 | Satisfactory |
| 53 | 2005-12 | UTSYS ADM | Systemwide Financial Audit | | 1 | | 1 | 9/1/2009 | Satisfactory |
| 54 | 2006-06 | UTSYS ADM | UTIMCO Institutional Investment and Compliance Audits | | 1 | | 1 | 5/31/2009 | Satisfactory |
| 55 | 2008-08 | UTSYS ADM | FileNet Audit | | 1 | | 1 | 9/1/2009 | Satisfactory |
| 56 | | | | | | | | | |
| 57 | | | Totals | | 63 | | 56 | | |
| 58 | | | | | | | | | |
| 59 | | | | | | | | | |
| 60 | STATE AUDITOR'S OFFICE AUDITS | | | | | | | | |
| 61 | | | | | | | | | |
| 62 | 2007-03 | UTPB | 2006 Statewide Single Audit - Student Financial Aid Cluster | | 1 | | 1 | 2/28/2009 | Satisfactory |
| 63 | 2008-09 | UTSA | State Auditor's - Student Fees at Selected Higher Education Institutions | | | | 0 | 10/31/2008 | Implemented |
| 64 | 2008-03 | UTMDACC - Houston | Federal Portion of the Statewide Single Audit Report for FY Ended August 31, 2007 | | 3 | | 3 | 8/31/2008 | Satisfactory |
| 65 | 2007-05 | UTSYS ADM | Charity Care at Health-Related Institutions | | 1 | | 1 | 1/31/2009 | Satisfactory |
| 66 | | | | | | | | | |
| 67 | | | Totals | | 5 | | 5 | | |
| 68 | | | | | | | | | |
| 69 | | | | | | | | | |
| 70 | | | | | | | | | |
| 71 | Color Legend: | | | | | | | | |
| 72 | | | | | | | | | |
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| 81 | | | | | | | | | |
| 82 | | | | | | | | | |
| 83 | | | | | | | | | |
| 84 | Note: | Implemented - The Internal Audit Director deems the significant finding has been appropriately addressed/resolved and should no longer be tracked. | | | | | | | |
| 85 | | Satisfactory - The Internal Audit Director deems that the significant finding is in the process of being addressed in a timely and appropriate manner. | | | | | | | |
| 86 | | Unsatisfactory - The Internal Audit Director deems that the significant finding is NOT being addressed in a timely and appropriate manner. | | | | | | | |
| 87 | | | | | | | | | |

42

U. T. Systemwide FY 2009 Annual Internal Audit Plan Status (as of October 31, 2008)

The U. T. Systemwide Annual Internal Audit Plan (plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout the System during the fiscal year. The table below shows in which areas plan hours have been spent and percent completion of the plan by institution.

| | Financial | Operational | Compliance | Information Technology | Follow-up | Projects | Total Actual Hours (Note 1) | Total Priority Budget Hours (Note 2) | Variance (Hours) | Percentage Completion |
|------------------------------------|---------------|--------------|--------------|------------------------|------------|--------------|-----------------------------|--------------------------------------|------------------|-----------------------|
| U. T. System Administration | 2,555 | 702 | 92 | 65 | 94 | 395 | 3,903 | 18,205 | 14,302 | 21% |
| Large Institutions: | | | | | | | | | | |
| U. T. Austin | 1,236 | 271 | 119 | 138 | 43 | 1,184 | 2,991 | 16,540 | 13,549 | 18% |
| U. T. Southwestern | 2,212 | 436 | 369 | - | - | 514 | 3,532 | 15,510 | 11,979 | 23% |
| U. T. Medical Branch at Galveston | 566 | 181 | - | 102 | 53 | 635 | 1,537 | 11,805 | 10,268 | 13%* |
| U. T. HSC - Houston | 1,335 | 107 | 90 | - | 73 | 363 | 1,967 | 7,204 | 5,237 | 27% |
| U. T. HSC - San Antonio | 835 | 117 | 307 | 270 | 6 | 160 | 1,695 | 7,300 | 5,605 | 23% |
| U. T. MDA Cancer Center | 906 | 1,344 | - | - | 90 | 158 | 2,498 | 17,768 | 15,270 | 14% |
| Subtotal | 7,090 | 2,456 | 886 | 510 | 265 | 3,015 | 14,220 | 76,127 | 61,908 | 19% |
| Mid-size Institutions: | | | | | | | | | | |
| U. T. Arlington | 754 | - | 31 | 466 | 5 | 256 | 1,511 | 6,130 | 4,619 | 25% |
| U. T. Brownsville | 599 | 121 | 117 | 5 | 3 | 101 | 945 | 4,030 | 3,085 | 23% |
| U. T. Dallas | 1,010 | 101 | 43 | 67 | 55 | 25 | 1,300 | 4,520 | 3,220 | 29% |
| U. T. El Paso | 958 | 248 | 319 | 242 | 89 | 345 | 2,199 | 8,756 | 6,557 | 25% |
| U. T. Pan American | 656 | 136 | - | - | 10 | 173 | 975 | 5,110 | 4,135 | 19% |
| U. T. San Antonio | 790 | - | 367 | 127 | 71 | 245 | 1,600 | 6,264 | 4,664 | 26% |
| Subtotal | 4,766 | 605 | 876 | 906 | 232 | 1,145 | 8,530 | 34,810 | 26,280 | 25% |
| Small Institutions: | | | | | | | | | | |
| U. T. Permian Basin | 249 | 82 | - | - | - | 76 | 407 | 1,250 | 843 | 33% |
| U. T. Tyler | 427 | 28 | 13 | - | - | 75 | 543 | 2,668 | 2,125 | 20% |
| U. T. HSC at Tyler | 526 | 89 | - | - | 19 | 40 | 674 | 3,030 | 2,356 | 22% |
| Subtotal | 1,202 | 199 | 13 | - | 19 | 191 | 1,624 | 6,948 | 5,324 | 23% |
| TOTAL | 13,058 | 3,260 | 1,775 | 1,415 | 516 | 4,350 | 24,374 | 117,885 | 93,512 | 21% |
| Percentage of Total | 54% | 13% | 7% | 6% | 2% | 18% | 100% | | | |

NOTE 1:

"Total Actual Hours" are total actual hours for the nine months from 9/1/08 through 10/31/08, which represents approximately 17% of the audit plan year.

NOTE 2:

"Total Priority Budget Hours" reflect budgeted hours approved by ACMR for priority projects. These hours are approximately 80 - 85% of total budget hours.

*Percent completion for U. T. Medical Branch - Galveston was calculated using their original FY 2009 priority audit plan budget, which has since been reduced in hours after the interruption in operations. The revised audit plan will be submitted for approval by the ACMR at the February 2009 meeting.

6. **U. T. System: Report on the U. T. System Consolidated Annual Financial Report Audit performed by institutional and System Administration internal audit**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on the internal audit of the U. T. System Consolidated Annual Financial Report (AFR) for the Fiscal Year (FY) ended August 31, 2008, which was performed by internal audit Systemwide. The audit report is included on Pages 45 - 50.

Then, Mr. Chaffin will lead a discussion with the Committee members on the question of whether to continue to perform the internal audit of the U. T. System Consolidated AFR for FY 2009. Highlights of the U. T. System Consolidated AFR will be presented at the Finance and Planning Committee meeting (see Item 2 on Page 51).

BACKGROUND INFORMATION

The internal audit of the U. T. System Consolidated AFR was performed for the benefit of management and as requested by the U. T. System Board of Regents.

Supplemental Materials: PowerPoint presentation on Pages 113 - 118 of Volume 2.



The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

System Audit Office

201 West Seventh Street, Austin, Texas 78701-2981
Phone: 512-499-4390 Fax: 512-499-4426

December 19, 2008

Dr. Kenneth Shine, Chancellor *ad interim*
Office of the Chancellor
The University of Texas System Administration
601 Colorado Street, 4th Floor
Austin, Texas 78701

Dear Dr. Shine:

We have performed an audit of The University of Texas System Consolidated Annual Financial Report for Fiscal Year 2008. The audit report is attached for your review.

We conducted our engagement in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We appreciate the assistance provided by the management and other personnel from the Controller's Office. We hope the information and recommendations presented in our report are helpful.

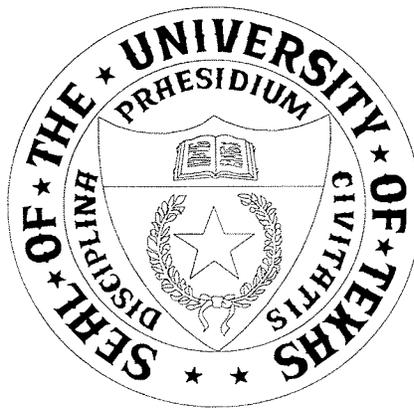
Sincerely,

Charles G. Chaffin
Chief Audit Executive

cc: Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs
Mr. Randy Wallace, Associate Vice Chancellor, Controller & Chief Budget Officer
Ms. Dana Malone, Assistant Controller
Ms. Debbie Frederick, Financial Reports and Investment Accounting Manager
Ms. Sandra Neidhart, Fiscal and Policy Analyst
Mr. Kevin Hegarty, Vice President and Chief Financial Officer, UT Austin
Mr. Fred Friedrich, Associate Vice President and Controller, UT Austin

www.utsystem.edu

**The University of Texas System
UT System Consolidated Annual
Financial Report Audit for FY 2008**



December 2008

THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE
201 WEST 7TH STREET, CLB 3.100
AUSTIN, TX 78701 (512) 499-4390



The University of Texas System Audit Office
UT System Consolidated Annual Financial Report Audit for FY 2008
FY 2008

AUDIT REPORT

December 2008

Background

The University of Texas (UT) System is composed of nine academic and six health-related institutions of higher education as well as UT System Administration. Annual Financial Reports (AFRs) and related footnote information are prepared by the financial reporting officers at each UT institution and UT System Administration in accordance with accounting and financial reporting requirements promulgated by UT System policy and the Texas Comptroller of Public Accounts to be included in the UT System Consolidated AFR. The Controller's Office at UT System Administration consolidates AFRs from all UT institutions and UT System Administration and prepares appropriate footnotes and other related disclosures so that the UT System Consolidated AFR is prepared in accordance with generally accepted accounting principles. The information included in the UT System Consolidated AFR is the responsibility of management.

The UT M. D. Anderson Cancer Center AFR and the University of Texas Investment Management Company (UTIMCO) funds and corporation were audited by independent external auditors. With the exception of UT Medical Branch (UTMB), the AFRs for the remaining institutions and UT System Administration were audited by internal audit at the institutions and UT System Administration. Because of the disruption caused by Hurricane Ike, a review, instead of an audit, of the UTMB AFR was conducted by UTMB internal audit. The consolidation of the UT System Consolidated AFR and related footnotes were audited by the UT System Audit Office.

Objectives & Scope

We have performed an internal audit of the UT System Consolidated AFR and related footnotes for the fiscal year ended August 31, 2008, including the Balance Sheet, Statement of Revenue, Expenses & Changes in Net Assets, and Statement of Cash Flows. The scope of our work was determined as a result of a risk assessment and with reliance on audit work performed at each institution and UT System Administration. The internal audit of the UT System Consolidated AFR was performed for the benefit of management and as requested by The UT System Board of Regents.

Internal Audit Standards

The internal audit was performed in accordance with the guidelines set forth in the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*. As part of our audit, we gained an understanding of internal controls to the extent necessary to perform our audit work, but we do not express an objective opinion on the effectiveness of internal controls.

Results

Based upon the results of the audit and independent external audit work performed at the UT institutions and UT System Administration, the information included in the UT System Consolidated AFR and related footnotes, accurately presents, in all material respects, the financial position, results of operations and changes in net assets, and cash flows at August 31, 2008 and for the year then ended. Such presentation is in accordance with accounting and financial reporting requirements for the AFR as promulgated by UT System policy, the Texas Comptroller of Public Accounts, and generally accepted accounting principles.



Findings and Recommendations

Our gaining an understanding of internal control was for the limited purpose of designing our audit procedures to perform our internal audit work. Consequently, we would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

An internal control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is greater than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Opportunities for Improvement and Recommendations

During the course of the internal audits performed at the institutions and UT System Administration, opportunities were noted for management to address System-wide control deficiencies that are neither material nor significant in nature. These opportunities can enhance the ability of management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Segregation of Duties and Reconciliation of Accounts

Segregation of duties and reconciliation of accounts are the two most effective activities that provide meaningful assurance that key financial and operational information is complete and accurate and that resources are adequately and effectively safeguarded.

Segregation of duties requires the division of responsibility for the execution of financial transactions among multiple employees. The responsibilities that are assigned to different employees are (1) authority to act, (2) recording of the action, and (3) reconciling of authorized actions to reported actions. Reconciliation of accounts compares the documents approved by a budget authority (requisitions, purchases, payrolls, etc) and maintained at the budget authority level with the transactions recorded in the financial system. All reconciliations should be reviewed by a second employee, usually the budget authority, to ensure that they are being performed properly and timely, and that reconciling items are explained and cleared.

UT System UTS 142.1, *Policy on the Annual Financial Report* provides guidance concerning certification and sub-certification requirements. The Chief Administrative Officer, Financial Reporting Officer, and Internal Audit Director at each institution certify to the UT System Financial Reporting Officer that the institutional AFRs are fairly presented. Additionally, each account owner is to provide a sub-certification annually to the institutional Financial Reporting Officer. These certifications include statements on responsibilities for reconciliation and



The University of Texas System Audit Office
UT System Consolidated Annual Financial Report Audit for FY 2008
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segregation of duties and include a statement that they have reconciled all of their account statements for the fiscal year.

Among the UT System institutions, there is a wide divergence in the practice of segregation of duties and reconciliation of accounts and in the application of account reconciliation risk mitigation strategies. While these two practices are utilized to some extent at each UT institution, the institutions' application was found to be inconsistent during the AFR audits performed.

General overall control deficiencies found were in the areas of:

1. Performing departmental reconciliation of all accounts.
2. Segregating incompatible duties to the extent that is allowed by departmental resources.
3. Performing on-going monitoring of departmental reconciliation of accounts.
4. Requiring all departmental account holders to certify on at least an annual basis the continuing existence of segregation of duties and the timely monthly reconciliation of accounts.
5. Determining the validity of the certifications.

Recommendation:

Revise UTS 142.1, *Policy on the Annual Financial Report* to:

1. Require sub-certification by all department heads or account owners (whose accounts are not maintained by the Dean or Division Head office) to their respective Dean or Division Head. It is also acceptable for department heads to sub-certify directly to the Financial Reporting Officer.
2. Require Deans and Division Heads to report to the institutional Financial Reporting Officer any department head who fails to sub-certify as required.
3. Require each institutional Financial Reporting Officer to develop a monitoring plan for segregation of duties and reconciliation of accounts. The monitoring plan should be risk-based but also include random monitoring of low risk departments and should cover all periods in the fiscal year.
4. Require each institutional Financial Reporting Officer, after consultation with the Institutional Audit Director, to file their Segregation of Duties and Reconciliation of Accounts Monitoring Plan by February 28th for the first year this requirement is in effect and any significant changes to the plan by February 28th for all subsequent years, with the UT System Financial Reporting Officer.
5. Require modification of the Certifications procedure (Procedure 3) to include the sentence, "They will certify that the Segregation of Duties and Reconciliation of Accounts Monitoring Plan was completed as approved."
6. Require Institutional Internal Audit to test annually, within 60 days of the fiscal year end, the monitoring plan, the sub-certifications and validate the assertions on segregation of duties and reconciliation of accounts.

Management's Response: *Policy will be revised.*

Implementation Date: *December 19, 2008*



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FY 2008

Access Control

An opportunity for improvement exists in the Departmental Financial Information Network (*DEFINE) application that impacts the institutions that use *DEFINE: UT Arlington, UT Austin, UT El Paso, UT Permian Basin, UT San Antonio, UT Tyler, and UT System Administration. *DEFINE allows a limited number of individuals to modify transactions that have been created and then approve those transactions. Modifications to the original transactions are not recorded in the document history and the creator is not notified that their original document or transaction has been modified. Reconciliation of the account would uncover a fraudulent transaction only if the reconciliations are performed by a person who does not have this high level of access.

Recommendation:

The Systemwide Chief Information Officer should work with UT Austin to correct this segregation of duties issue with *DEFINE caused by the high level access right to prevent the approval of fraudulent transactions and record any changes to original documents by a person other than the creator.

Management's Response: *We agree with the principle that logging is a common feature in any Enterprise Resource Planning (ERP) system and will implement this change as requested by March 1, 2009. The requested additional control is not costly or complex and will be implemented for all *DEFINE campuses by the end of the next fiscal quarter. When completed, if a payee, payment address, check distribution method, and/or amount is changed during the transaction's workflow (after the initial creators' approval), this change will be logged. The log will be accessible via a report on demand, and information about these changes will also be stored in the electronic document's "notes" section. This will enable creators, approvers, processing offices, and auditors to access any changes online, real time.*

Implementation Date: *March 1, 2009*

In Closing

We appreciate the assistance provided to us during the audit by management and financial services personnel. We hope the information included in the UT System Consolidated AFR and presented in this audit report is helpful.

Sincerely,

Charles G. Chaffin
Chief Audit Executive