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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT
REVIEW COMMITTEE

Committee Meeting: 5/14/2008
Tyler, Texas

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

B. RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE,* CHAPTER 551

Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

Discussion with institutional auditors and compliance officers concerning evaluation and duties of individual System and institutional employees involved in internal audit and compliance functions

5:16 p.m.
Discussion
Ms. Kathy Kapka and Ms. Mary Barr, U. T. Tyler
Ms. Toni Messer, U. T. Dallas

C. ADJOURN

5:30 p.m.

1. **U. T. System: Discussion of Governmental Accounting Standards Board 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions**

PURPOSE

Associate Vice Chancellor Wallace will discuss Other Post Employment Benefits (OPEB) and reporting required by Governmental Accounting Standards Board (GASB) Statement 45, effective for Fiscal Year 2008, and the effect it will have on the financial statements. Mr. Phil Dial, with the actuarial firm Rudd & Wisdom, Inc., will also attend to discuss the actuarial valuation and assumptions used in calculating U. T. System's OPEB liability.

BACKGROUND INFORMATION

The University of Texas System provides basic life insurance and health benefits for retirees and health benefits for dependents of retirees. These benefits are considered to be "post employment benefits other than pension plans," generally referred to as OPEB. Like most governmental entities in the U.S., U. T. System pays for OPEB in the year in which the benefits are used by the retirees. Financial reporting and accounting standards adopted by GASB require all governmental entities to change the manner in which they report and account for the cost of OPEB. As required by GASB 45, governmental entities that provide OPEB must account for the cost of those benefits in a manner similar to that used in accounting for the cost of retirement benefits. Since these benefits have been funded historically on a pay-as-you-go basis, the unfunded liability will be large.

GASB 45 does not require that the cost of OPEB be funded any differently than it has been in the past; rather the standards provide rules on the manner in which the cost of such benefits is recognized in financial statements. However, the accumulated deficit between the cost required to be recognized under GASB 45 and the amount actually funded must be reported as a liability on the governmental entity's financial statements. GASB 45 requires that periodic actuarial valuations similar to those performed for a retirement plan be prepared for OPEB quantifying the costs and the unfunded liability associated with those benefits.

The 80th Texas Legislature passed House Bill 2365, codified as *Texas Government Code,* Chapter 2264 that provided an alternative to reporting the liability on the face of the financial statements by creating a statutorily modified accrual basis of accounting for Texas. The legislation states that to the extent Generally Accepted Accounting Principles requires reporting of OPEB on any basis other than pay-as-you-go, the state may account for OPEB in accordance with the approved legislation.

The estimated liability and a recommendation that U. T. System reflect the OPEB liability in the financial statements in accordance with GASB 45 will be discussed.

2.   U. T. System: Report on the System-wide internal audit activities and Internal Audit Department report for U. T. Tyler

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on the status of the Student Health Center audits conducted at the U. T. System institutions, present the plan to audit Faculty Practice Plans at the health institutions, and discuss external quality assurance reviews.

Additionally, Mr. Chaffin will report on the status of significant audit recommendations. The second quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 11 – 12. The report shows that satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports issued by the System-wide Audit Program and the annual internal audit plan status as of February 29, 2008, follows on Page 13.

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.

Ms. Kathy Kapka, Director of Audit Services at U. T. Tyler, will then present an overview of the Internal Audit Department at U. T. Tyler.

Supplemental Materials: U. T. Tyler PowerPoint presentation on Pages 52 – 54 of Volume 2.

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

Report Date	Institution	Audit	1st Quarter 2008		2nd Quarter 2008		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2007-05	UTARL	General IT Controls – Planning and Organization	[yellow]	1	[yellow]	1	8/31/2008	Satisfactory
2007-06	UTARL	Implementation Progress of UTS163: Guidance on Effort Reporting Policies	[yellow]	1	[yellow]	1	7/15/2008	Satisfactory
2007-06	UTARL	Protecting the Confidentiality of Social Security Numbers	[yellow]	3	[yellow]	3	8/31/2008	Satisfactory
2008-01	UTARL	Systems Security Audit			[red]	2	8/31/2008	Satisfactory
2007-06	UTAUS	UTS163: Guidance on Effort Reporting Policies	[yellow]	1	[yellow]	1	8/31/2008	Satisfactory
2007-08	UTAUS	Payment Card Industry Data Security Standard (PCI DSS)	[yellow]	1	[yellow]	1	12/31/2008	Satisfactory
2004-03	UTB	Contracts and Grants	[yellow]	1	[yellow]	1	6/1/2008	Satisfactory
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office	[yellow]	1	[yellow]	1	3/31/2009	Satisfactory
2004-10	UTB	Physical Plant	[yellow]	2	[green]	0	2/28/2008	Implemented
2007-11	UTB	Contracts & Grants – Unallowable Costs & Reporting Requirements Monitoring Plans	[red]	1	[green]	0	2/28/2008	Implemented
2007-01	UTD	Annual Financial Report Audit	[yellow]	1	[yellow]	1	4/30/2008	Satisfactory
2005-05	UTEP	Office of the Registrar	[yellow]	1	[green]	0	2/26/2008	Implemented
2007-02	UTEP	Campus-wide Information Technology Applications	[yellow]	5	[yellow]	5	8/31/2008	Satisfactory
2007-11	UTEP	Decentralized Server Security	[red]	8	[yellow]	8	8/31/2008	Satisfactory
2008-01	UTPA	Confidentiality of Social Security Numbers			[orange]	2	6/30/2008	Satisfactory
2007-08	UTPB	UTS163: Guidance on Effort Reporting Policies	[yellow]	1	[yellow]	1	4/30/2008	Satisfactory
2004-09	UTSA	Research Compliance - Time and Effort Reporting	[yellow]	1	[yellow]	1	9/1/2008	Satisfactory
2007-09	UTSA	*Texas Administrative Code* 202 Compliance	[orange]	1	[green]	0	3/1/2008	Implemented
2006-05	UTSMC - Dallas	Accounts Payable	[yellow]	1	[yellow]	1	5/31/2008	Satisfactory
2005-03	UTMB - Galveston	Compliance Update with the HIPAA Final Security Rule (Institutional)	[yellow]	1	[yellow]	1	4/15/2008	Satisfactory
2005-07	UTMB - Galveston	Compliance Update with the HIPAA Final Security Rule (Correctional Managed Care)	[yellow]	1	[green]	0	2/29/2008	Implemented
2007-05	UTHSC - Houston	Billing Collection Process and Review of Selected Applications of the Billing System	[yellow]	1	[yellow]	1	6/30/2008	Satisfactory
2007-05	UTHSC - Houston	Medical School Charge Capture Processes	[yellow]	1	[green]	0	2/29/2008	Implemented
2007-05	UTHSC - Houston	Security of Credit Card Data	[yellow]	2	[yellow]	1	8/31/2008	Satisfactory
2007-11	UTHSC - Houston	Protection of Social Security Numbers	[orange]	2	[yellow]	1	5/1/2008	Satisfactory
2006-04	UTHSC - San Antonio	Medical Services, Research and Development Plan Collections	[yellow]	1	[yellow]	1	4/30/2008	Satisfactory
2007-06	UTHSC - San Antonio	Protection of Digital Research Data	[yellow]	2	[green]	0	3/27/2008	Implemented
2007-08	UTHSC - San Antonio	Central Computing Facility			[orange]	2	5/30/2008	Satisfactory
2007-09	UTHSC - San Antonio	Research Compliance Program			[orange]	1	10/31/2008	Satisfactory
2001-08	UTMDACC - Houston	Lotus Notes Environment	[yellow]	1	[yellow]	1	8/31/2008	Satisfactory
2006-09	UTMDACC - Houston	Centralized Backup, Storage, and Recovery	[yellow]	2	[yellow]	2	8/31/2008	Satisfactory
2007-06	UTMDACC - Houston	Conflict of Interest	[yellow]	5	[yellow]	5	8/31/2008	Satisfactory
2007-10	UTMDACC - Houston	Research Compliance Design Review	[orange]	2	[yellow]	2	11/28/2008	Satisfactory
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials	[orange]	2	[yellow]	2	Date Pending	Satisfactory
2005-04	UTHSC - Tyler	*Texas Administrative Code* 202 Compliance	[yellow]	1	[yellow]	1	5/31/2008	Satisfactory
2006-06	UTHSC - Tyler	Review of the Office of the President's Travel & Entertainment	[yellow]	1	[green]	0	2/28/2008	Implemented
2005-12	UTSYS ADM	System-wide Financial Audit	[yellow]	1	[yellow]	1	9/1/2009	Satisfactory
2006-05	UTSYS ADM	UTIMCO Institutional Investment and Compliance Audits	[yellow]	2	[yellow]	1	8/31/2008	Satisfactory
		Totals		**59**		**53**		

Report Date	Institution	Audit	1st Quarter 2008		2nd Quarter 2008		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		

STATE AUDITOR'S OFFICE AUDITS

Report Date	Institution	Audit	Ranking	# of Significant Findings	Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note)
2007-03	UTPB	2006 Statewide Single Audit - Student Financial Aid Cluster	(yellow)	2	(yellow)	1	8/31/2008	Satisfactory
2006-02	UTTY	2006 Single Audit-Financial Aid Cluster	(yellow)	1	(green)	0	5/31/2008	Implemented
2006-02	UTMB - Galveston	Federal Portion of Statewide Single Audit FY 2005	(yellow)	1	(green)	0	12/31/2007	Implemented
2004-06	UTHSC - San Antonio	Protection of Research Data at Higher Education Institutions	(yellow)	1	(green)	0	1/25/2008	Implemented
2005-02	UTMDACC - Houston	Federal Portion of the Statewide Single Audit FY 2004	(yellow)	2	(green)	0	4/30/2008	Implemented
2002-11	UTMDACC - Houston	Security Over Protected Health Information	(yellow)	1	(green)	0	8/31/2010	Implemented
2007-05	UTSYS ADM	Charity Care at Health-Related Institutions	(orange)	1	(yellow)	1	1/31/2009	Satisfactory
		Totals		**9**		**2**		

Color Legend:

(Red) Either a new significant finding for which corrective action will be taken in the subsequent quarter OR a previous significant finding for which no/limited progress was made towards implementation.

(Orange) Significant finding for which substantial progress towards implementation was made during the quarter that the significant finding was first reported.

(Yellow) Significant finding for which substantial progress towards implementation was made during the quarter.

(Green) Significant finding was appropriately implemented during the quarter and will no longer be tracked.

Note: **Implemented** - The Internal Audit Director deems the significant finding has been appropriately addressed/resolved and should no longer be tracked.
Satisfactory - The Internal Audit Director deems that the significant finding is in the process of being addressed in a timely and appropriate manner.
Unsatisfactory - The Internal Audit Director deems that the significant finding is NOT being addressed in a timely and appropriate manner.

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Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
April 2008

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U. T. System-wide FY 2008 Annual Internal Audit Plan Status
(as of February 29, 2008)

	UT System Requested	Externally Required	Risk Based	Change in Management	Follow-up	Projects	Total Actual Hours (Note 1)	Total Priority Budget Hours (Note 2)	Variance (Hours)	Percentage Completion
Large Institutions:										
U. T. Austin	1,343	1,028	1,715	874	301	2,516	7,777	14,700	6,923	**53%**
U. T. Southwestern	2,590	809	3,295	832	258	1,325	9,109	15,040	5,932	**61%**
U. T. Medical Branch at Galveston	631	805	2,606	750	25	523	5,340	11,810	6,470	**45%**
U. T. HSC - Houston	1,854	496	1,210	440	162	938	5,098	7,712	2,614	**66%**
U. T. HSC - San Antonio	1,376	913	568	-	178	1,233	4,268	7,240	2,972	**59%**
U. T. MDA Cancer Center	1,092	255	5,300	-	363	773	7,783	14,375	6,592	**54%**
Subtotal	**8,886**	**4,306**	**14,693**	**2,895**	**1,287**	**7,308**	**39,375**	**70,877**	**31,503**	**56%**
Mid-size Institutions:										
U. T. Arlington	1,346	1,010	513	5	334	680	3,887	6,070	2,183	**64%**
U. T. Brownsville	761	219	73	178	308	581	2,119	4,450	2,331	**48%**
U. T. Dallas	805	338	1,406	144	1	162	2,855	4,670	1,815	**61%**
U. T. El Paso	238	509	1,553	352	87	1,021	3,760	8,274	4,515	**45%**
U. T. Pan American	836	614	541	253	24	304	2,572	4,780	2,208	**54%**
U. T. San Antonio	1,437	678	381	-	133	714	3,342	6,586	3,244	**51%**
Subtotal	**5,423**	**3,368**	**4,466**	**932**	**886**	**3,461**	**18,535**	**34,830**	**16,295**	**53%**
Small Institutions:										
U. T. Permian Basin	233	-	-	684	-	23	940	1,302	362	**72%**
U. T. Tyler	429	-	549	219	24	126	1,347	2,587	1,240	**52%**
U. T. HC at Tyler	928	523	-	61	171	425	2,108	3,480	1,372	**61%**
Subtotal	**1,590**	**523**	**549**	**964**	**195**	**574**	**4,395**	**7,369**	**2,974**	**60%**
TOTAL	**15,898**	**8,197**	**19,709**	**4,791**	**2,368**	**11,343**	**62,305**	**113,076**	**50,772**	**55%**
Percentage of Total	**26%**	**13%**	**32%**	**8%**	**4%**	**18%**	**100%**			

NOTE 1:
"Total Actual Hours" are total actual hours for the six months from 9/1/06 through 2/29/08, which represents approximately 50**%** 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% of total budget hours.

3.   U. T. Tyler: Report on the institutional compliance program

<u>REPORT</u>

Ms. Mary Barr, Director of Compliance at U. T. Tyler, will present an overview of the institutional compliance program at U. T. Tyler.

Supplemental Materials: PowerPoint presentation on Pages 55 – 59 of Volume 2.

4.   U. T. Dallas: Report on the institutional compliance program

<u>REPORT</u>

Ms. Toni Messer, Director of Audit and Compliance at U. T. Dallas, will present an overview of the institutional compliance program at U. T. Dallas.

Supplemental Materials: PowerPoint presentation on Pages 60 – 64 of Volume 2.

5.   U. T. System: Report on System-wide institutional compliance activities, including System-wide information security

<u>REPORT</u>

Mr. Lewis Watkins, Chief Information Security Officer, will report on progress of the System-wide information security program. This report will include an overview of the recently issued Information Security Bulletin #2 (Baseline Standard for Information Security Programs), which outlines institutional information security program requirements. Mr. Watkins will also report on progress made on three System-wide security initiatives, including the launch of an online information security training program targeting decentralized information technology (IT) employees charged with security responsibilities, the launch of an IT risk assessment tool for all U. T. System institutions, and the evaluation of computer configuration management software to be made available for institutional use.

Mr. Charles Chaffin, Chief Audit Executive, will brief the Audit, Compliance, and Management Review Committee on the second quarter report of the System-wide 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 on April 25, 2008.

Supplemental Materials:
- **Information Security Bulletin #2 on Pages 65 – 66 of Volume 2.**
- **Second quarter report of the System-wide Compliance Program on Pages 67 – 70 of Volume 2.**