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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 8/23/2012

Board Meeting: 8/23/2012
Austin, Texas

Brenda Pejovich, Chairman
Paul L. Foster, Vice Chairman
Alex M. Cranberg
Wallace L. Hall, Jr.

	Committee Meeting	Board Meeting	Page
A. CONVENE IN OPEN SESSION TO RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551	<i>8:00 a.m.</i>		
Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - <i>Texas Government Code Section 551.074</i>			
U. T. System: 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	<i>Mr. Peppers</i>		
B. RECONVENE IN OPEN SESSION	<i>8:15 a.m.</i> <i>Chairman Pejovich</i>		
1. U. T. System Board of Regents: Review of Consent Agenda items, if any, referred for Committee consideration	<i>8:16 a.m.</i> Action	Action	40
2. U. T. System: Update on the progress of the Fiscal Year 2012 U. T. System external financial audit	<i>8:17 a.m.</i> Report/Discussion <i>Mr. Peppers</i> <i>Ms. Julia Petty and</i> <i>Ms. Vicki Keiser,</i> <i>Deloitte & Touche</i>	Not on Agenda	41
3. U. T. System: Report on the results of the health institutions' practice plan audits	<i>8:32 a.m.</i> Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	56
4. U. T. System: Report on the Systemwide results of the dependent eligibility audits of U. T. self-insured health plans	<i>8:40 a.m.</i> Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	59

	Committee Meeting	Board Meeting	Page
5. U. T. System: Report on the Systemwide internal audit activities, including the implementation status of significant audit recommendations, Systemwide annual audit plan status, and other reports issued	8:48 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	62
6. U. T. System: Overview of the FY 2013 Systemwide annual audit plan process	8:54 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	67
C. ADJOURN	9:00 a.m.		

1. **U. T. System Board of Regents: Review of Consent Agenda items, if any, referred for Committee consideration**

(The proposed Consent Agenda is at the end of the book.)

2. **U. T. System: Update on the progress of the Fiscal Year 2012 U. T. System external financial audit**

REPORT

Ms. Julia Petty, Deloitte & Touche, LLP (Deloitte), will provide a status report on the progress made on the Fiscal Year 2012 U. T. System external financial audit. Her presentation is set forth on the following pages.

BACKGROUND INFORMATION

During the August 19-20, 2009 meeting, the Audit, Compliance, and Management Review Committee (Committee) and the U. T. System Board of Regents (Board) approved implementing a process to solicit proposals for the performance of an independent external audit of the U. T. System financial statements for Fiscal Year 2011. At the August 11-12, 2010 meeting, the Committee and the Board approved the hiring of Deloitte as the external auditor to provide financial auditing services for Fiscal Year 2011. The contract with Deloitte to provide audit services for Fiscal Year 2011 has an option to renew for four additional one-year terms.

At the February 8-9, 2012 meeting, the Committee and the Board approved renewal of the contract to provide the audit of the U. T. System financial statements, the stand-alone audit of the U. T. M. D. Anderson Cancer Center financial statements, and the stand-alone audit of The University of Texas Investment Management Company (UTIMCO) managed funds financial statements for two additional years, Fiscal Year 2012 and Fiscal Year 2013.

At the May 2-3, 2012 meeting, the Committee and the Board approved stand-alone financial audit services at U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler for Fiscal Year 2012 and Fiscal Year 2013.

The source of funding for the contract is Available University Funds, except for the audit of U. T. Health Science Center - Tyler, which will be paid with institutional funds.

The University of Texas System External Audit Plan Summary August 2012



Executive Summary

- We are pleased to present an overview of our plan to serve The University of Texas System (U. T. System), including the audits of the consolidated financial statements for fiscal year (FY) 2012.
- We have prepared this document to assist the Audit, Compliance, and Management Review (ACMR) committee in fulfilling its role in overseeing the financial reporting process and the performance of the independent auditor.
- We value our role as your external auditor. The foundation of our relationship is based on this important role and responsibility to you, as the board of regents' chosen representatives.
- Our primary responsibility is to plan and perform the audit of U. T. System's financial statements to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and whether the financial statements are free of material misstatements.
 - It is our professional responsibility to challenge significant management assumptions and estimates and to employ an appropriate level of professional skepticism to evaluate these assumptions and estimates, including related audit evidential matter.

Executive Summary (cont.)

- Risk assessment process and significant risks for our FY 2012 audit
- Audit scope and timing
- Internal Audit collaboration
- Deloitte Audit
- Independence

Our reputation is based on:

- **Doing the right thing**
 - **A high degree of integrity**
 - **Our ability to recognize and act in accordance with our professional responsibilities**
 - **A commitment to objectivity and independence**
- **Technical excellence**
 - **Ongoing training in technical matters for all professionals**
 - **Intensive case-based programs for audit partners and managers each year**
 - **A consultative approach to resolving accounting, internal control, auditing, and reporting issues**
 - **Assessment of the quality of our performance against our objectives, service goals, and client service standards**
 - **Dedication to employing the best and serving the best**
 - **Effective systems for monitoring independence**
- **A robust audit approach**

Risk Assessment

In developing our audit plan for each material account balance or financial statement line item, we consider:

- What could go wrong to cause a material misstatement of the financial statements
- Control activities that management has identified, documented, and tested
- The nature and extent of substantive testing needed

For each risk of material misstatement we identify, we perform substantive procedures to address that risk. The number and nature of the risks identified may be adjusted as circumstances change during the audit. We will update the ACMR committee on significant changes to our risk assessment or audit scope as we perform our work.

When we speak about risk, we don't mean errors are occurring. Rather, we identify significant areas in the financial reporting process where judgment, complexity, or infrequency of occurrence give rise to a higher chance that misstatements exist.

Significant Risks

Based on our knowledge of U. T. System operations and our planning procedures performed to date, we have identified the following significant risks for the FY 2012 audit.

- Due to/from third party settlements
- Valuation of patient accounts receivable
- Oil & gas reserve valuation and disclosure
- Management override of controls

Audit Scope by Institution

- Factors considered in determining the audit scope at U. T. System include, but are not limited to:
 - The need to issue separate financial statements and an audit report for particular institutions
 - Our assessment of the risk of material misstatements at each institution
 - Whether significant changes have occurred during the period under audit
 - The degree of centralization of records and information processing
 - How recently specific institutions were selected for testing and the results of the audit procedures performed
 - The extent to which the work of internal auditors can be used in obtaining sufficient and appropriate audit evidence
- **Audit Scope for U. T. System** – Based on the above criteria, Deloitte determined appropriate audit procedures for each significant financial statement line item that had been identified as being both qualitatively and quantitatively significant. Procedures will be performed at each institution by either Deloitte or institution internal audit personnel.
- **Stand-Alone Audits** – will be performed by Deloitte at the following institutions.
 - UTIMCO
 - U. T. M. D. Anderson Cancer Center
 - U. T. Health Science Center - Tyler
 - U. T. Southwestern Medical Center (1st year stand-alone audit)
 - U. T. Medical Branch - Galveston (1st year stand-alone audit)

Timing

The following table sets forth our proposed timing for U. T. System.

UTS – Financial audit for fiscal year ending August 31, 2012	Prior to June	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan/ Feb
Detailed audit plan — Planning and internal controls									
Planning and risk assessment									
Hold meetings with management to review critical accounting matters	UTS								
Hold meetings with IT resources to further understand the environment	UTS								
Assess fraud, control environment and engagement risk		UTS	UTS						
Develop and document detailed understanding of control processes			UTS						
Develop and document detailed understanding of accounting and financial closing and reporting processes			UTS						
Provide client request listing	UTS								
Evaluation and testing of the internal control environment									
Update understanding of control environment		UTS	UTS						
Understand detailed transaction flow		UTS	UTS						
Evaluate all general IT controls		UTS	UTS						
Evaluate entity-level controls			UTS						
Test design and implementation of controls			UTS	UTS					

Timing (cont.)

UTS – Financial audit for fiscal year ending August 31, 2012	Prior to June	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan/ Feb
Detailed audit plan — Substantive audit work and reporting									
Interim testing									
Perform interim testing of account balances			UTS	UTS					
Complete review of financial statement templates				UTS					
Conduct interim summary results meeting				UTS					
Preparation for year-end field work									
Provide updated client request listing				UTS					
Perform administration (including confirmation process)				UTS					
Detailed audit plan — Substantive audit work and reporting									
Year-end field work									
Perform year-end tests of account balances					UTS	UTS			
Perform roll-forward tests of account balances					UTS	UTS			
Review drafts of financial statements and provide comments							UTS		
Evaluate and conclude						UTS	UTS		
Issue opinion and report to management								UTS	
Meet with ACMR Committee									UTS
Deliver reports to SAO								UTS	

Active Leverage of Internal Audit

- A high degree of teaming and communication between internal and external auditors supports our combined success and is crucial to performing an efficient audit. One of the first areas of collaboration is to review Internal Audit's work plans to assess the impact on the nature and extent of our audit procedures at the various institutions. Wherever possible, we will rely on Internal Audit's work.
- We will actively leverage the hours Internal Audit provides throughout the audit process. Our experience working with Internal Audit on the prior year audit of U. T. System has allowed us to improve on the following work plan relating to the upcoming external audit. We will work collaboratively with the U. T. System Chief Audit Executive *ad interim* and Internal Audit directors at the institutions to identify appropriate resources in the U. T. System Audit Office and the institutional Internal Audit offices to team for the external audit testing.
- In the summer of 2012, we utilized Internal Audit in a direct assistance capacity to perform certain documentation and testing of internal controls and substantive testing procedures at institutions throughout the System. We will also utilize Internal Audit to assist us during final fieldwork testing in various financial statement areas. We will work closely with Internal Audit to plan and coordinate external audit support and testing.
- Going forward, we will continue to coordinate with the Internal Audit offices as they develop the subsequent year's audit plan. We will provide input to the process that will prove helpful in best leveraging each other's work.

Deloitte *Audit*

- Partner-led audit planning and execution
- Internal control over financial reporting
- Fraud-related procedures
- Collaborative consultation on technical matters
- Use of specialists
 - Information Technology Specialists
 - Other Post-Employment Benefit Specialists
 - 3rd Party Settlement Valuation Specialists
 - Oil & Gas Reserves Specialists
- Continuous communication and coordination
 - Communication with the ACMR committee and management
 - Coordination with the internal auditors
- Year-round involvement
- Use of technology to increase effectiveness and consistency

Independence Communications

Independence encompasses integrity, professional skepticism, intellectual honesty, and objectivity—freedom from conflicts of interest. No entity or circumstance is compelling enough for us to compromise our ability to serve the public interest or our reputation. We employ a comprehensive, multifaceted approach to maintaining independence. Key components include:

- Commitment of our leaders and a culture that stresses the importance of independence
- Consultation and monitoring processes
- Clearly communicated, comprehensive independence policies on areas including, but not limited to, personal financial interests, scope of services, business relationships, employment relationships, and partner rotation
- A chief ethics and compliance officer who makes presentations regarding personal financial holdings compliance to the chief executive officer and the board of directors
- Mandatory training for all partners, principals, and professionals
- A searchable global database of restricted entities
- Electronic tracking of personal financial holdings
- At least annual representations from partners, principals, and employees
- An internal inspection and audit process for compliance with policies on personal financial holdings
- An internal inspection process for compliance with preapproval and scope-of-services policies
- A disciplinary process for noncompliance
- Policies to document preapproval of any permissible services by the audit committee

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Advisory partner

Full name	Vicki Keiser, vkeiser@deloitte.com ; +1 713 858 7515
Deloitte title	Partner, Deloitte & Touche LLP
Length of time at Deloitte	More than 33 years with Deloitte
Primary office	Houston, TX
Project responsibilities and areas of specialization	In her role as advisory partner, Vicki will be available to provide guidance for all services we perform for The University of Texas System.
Qualifications relevant experience and education	<p>Qualifications</p> <ul style="list-style-type: none"> • Vicki is the leader of our Mid-America Healthcare Provider practice, dedicating all of her time to serving governmental, not-for-profit and for-profit healthcare clients in Texas and neighboring states in the region. • She also serves on our national leadership team serving healthcare providers. • She is experienced with Uniform Grants Management Standards (“UGMS”) and federal grants (A-133). • Vicki serves or has served as lead client service partner for the audits of multi-state/multi-location organizations, governmental healthcare organizations in Texas and academic medical centers. <p>Relevant experience</p> <ul style="list-style-type: none"> • Serves or served as lead client service partner for the audits of multi-state/multi-location organizations, including Harden Healthcare, CHRISTUS Health and Via Christi Health System • Serves or served as the lead client service partner for the audits of governmental healthcare organizations located in Texas, including Dallas County Hospital District (Parkland Health & Hospital System), Tarrant County Hospital District (JPS Health), Lubbock County Hospital District (University Health System), Ector County Hospital District (Medical Center Hospital) and El Paso County Hospital District (RE Thomason General Hospital) • Serves as lead client service partner for the audits of academic medical centers, including U. T. M. D. Anderson Cancer Center, The Methodist Hospital System. Served as audit partner for U. T. Medical Branch - Galveston and U. T. Southwestern Medical Center for prior consolidated audits of U. T. System. Served as lead client services partner for Baylor College of Medicine • Serves as lead client service partner for Presbyterian Health (NM) where she oversees internal audit and other advisory services. Serves as advisory partner for CHRISTUS Health and Ochsner Health System • Serves as quality review partner for audits, including SSM Healthcare, Aurora Health, University of Wisconsin Hospitals and Clinics Authority <p>Education</p> <ul style="list-style-type: none"> • MBA, Accounting & Finance, U. T. Austin • BA, Biology, U. T. Austin
Certifications and affiliations	<ul style="list-style-type: none"> • Certified Public Accountant (“CPA”), licensed in the State of Texas • Member of the Texas Society of Certified Public Accountants Healthcare Committee, Past Chair • Has served on numerous boards, including the national Alzheimer’s Association serving as Treasurer, the Greater Southeast Texas Alzheimer’s Association serving as Treasurer and President, St. Stephen’s Episcopal School (Houston) serving as chair and treasurer, Amazing Place serving as President and treasurer • Served as a regional leader for Women’s Initiative Network from 1992 until 1999; during that time, she helped implement programs and activities which resulted in significant progress in the advancement and retention of women at Deloitte

Lead client service director

Julia Petty will be your lead client service director. Julia has more than 23 years of public accounting experience and is a specialist in higher education and state and local government accounting, reporting and auditing.

Full name	Julia Petty , jpetty@deloitte.com ; +1 281 682 3712
Deloitte title	Director, Deloitte & Touche LLP
Length of time at Deloitte	More than 23 years with Deloitte
Primary office	Houston, TX
Project responsibilities and areas of specialization	In her role as lead client service director, Julia will be responsible for all audit services we perform for U. T. System.
Qualifications relevant experience and education	<p>Qualifications</p> <ul style="list-style-type: none"> •Julia is a director in our Mid-America Public Sector practice, dedicating substantially all of her time to serving government, not-for-profit and higher education clients in Texas. •Julia serves as an instructor on governmental accounting, reporting and compliance topics for internal firm trainings as well as for other organizations such as the Texas Society of CPAs. •Julia is a specialist in governmental accounting. <p>Relevant experience</p> <ul style="list-style-type: none"> •Serves or served as director in charge of the financial and/or compliance audits of higher education institutions such as U. T. System, Baylor University, and New Mexico State University •Serves or served as director in charge of the financial and/or compliance audits of state agencies such as Texas Department of Housing & Community Affairs, New Mexico Taxation and Revenue Department, New Mexico Department of Labor, and the New Mexico Educational Retirement Board •Serves as director in charge of the financial and compliance audits of local government organizations such as Harris County, Houston Independent School District, Trinity River Authority, and Port of Houston Authority, among others •Serves as the quality review director on the West Virginia University System institutions. <p>Education</p> <ul style="list-style-type: none"> •BBA, Texas A&M University
Certifications and affiliations	<p>Certified Public Accountant (“CPA”), licensed in the State of Texas</p> <ul style="list-style-type: none"> •Serves as chair of the Single Audits and Governmental Accounting Conference for the Texas Society of CPAs •Member of the Government Finance Officers Association (“GFOA”) Certificate of Achievement for Excellence in Financial Reporting Special Review Committee



3. U. T. System: Report on the results of the health institutions' practice plan audits

REPORT

Mr. Peppers, Interim Chief Audit Executive, will report on the results of the health institutions' practice plan audits. The U. T. System Audit Office completed the practice plan audit at U. T. Health Science Center - San Antonio and U. T. M. D. Anderson Cancer Center, and the institutional audit departments performed this audit at the other four health institutions. The objective of these audits was to ensure that practice plan expenditures were appropriate and in support of the goals of each practice plan and mission of the institution. A summary of the recommendations may be found on the following pages.

BACKGROUND INFORMATION

With the adoption of the amended Medical Service, Research and Development Plan/Physicians Referral Service Faculty Practice Plan bylaws, the U. T. System Executive Vice Chancellor for Health Affairs, in concurrence with the presidents of the health institutions, requested that the U. T. System Audit Office perform periodic audits of the practice plans at the U. T. System health institutions on a rotating basis, with the institutional internal departments conducting practice plan audits at the remaining institutions each year. The specific area to be audited changes annually and is determined by the U. T. System Audit Office in consultation with the U. T. System Executive Vice Chancellor for Health Affairs each fiscal year.

The University of Texas System Summary of FY 2012 Practice Plan Audit Results

Background

In the early 1960s, The University of Texas (U. T.) System approved the first physician practice plan in Texas at U. T. M. D. Anderson Cancer Center. In 1969, the U. T. System mandated the establishment of practice plans at the remaining U. T. System health institutions. The purpose of the practice plans, titled “Medical Service, Research and Development Plan/ Physicians Referral Service (MSRDP/PRS) Faculty Practice Plan,” is to manage and hold in trust the professional income of members of the plan. The Amended and Restated Model Bylaws of the MSRDP/PRS Faculty Practice Plan were approved by the U. T. System Board of Regents on February 7, 2008.

Beginning in FY 2010, the U. T. System Executive Vice Chancellor for Health Affairs, with agreement from the health institutions, requested that the U. T. System Audit Office perform two practice plan audits per year and that the institutional internal audit departments conduct these audits at the remaining four health institutions annually, with guidance from the U. T. System Audit Office. The institutions to be audited by the U. T. System Audit Office and the specific area to be audited each year are determined by U. T. System Audit Office in consultation with the U. T. System Executive Vice Chancellor for Health Affairs.

In FY 2012, the objective of the practice plan audits was to ensure that practice plan expenditures were appropriate and consistent with the goals of each practice plan and mission of the institution. The scope of the audits was nonsalary operating expenses, nonoperating expenses, and all categories of transfers out for FY 2011 (as reported on the Annual Financial Report Schedule D-6). The U. T. System Audit Office completed these audits at U. T. M. D. Anderson Cancer Center and U. T. Health Science Center (HSC) - San Antonio for FY 2012.

As stated in each institution’s bylaws, the goal of the practice plans is to “promote excellence in teaching, research, clinical service, and administration through clinical practice and compensation strategies that will contribute to and safeguard the institution’s continued growth and excellence.” Consequently, there is a wide range of allowable expenditures that can be funded by professional revenue earned under the practice plan. The practice plan bylaws describe Authorized Professional Business Expenses, including, but not limited to, malpractice insurance; membership dues in professional scientific organizations, faculty clubs, medical center clubs or the equivalent; license fees; maintenance and operation of equipment of facilities; registration fees; consultant fees and expenses; faculty and staff recruitment; and official functions and official entertainment that are of documented benefit to the institution or U. T. System. In accordance with the bylaws, maximum amounts for these expenses must be in accordance with institutional policies and applicable U. T. System policies.

The completion status of the audits is listed below:

Report Issued	In Progress (report expected to be issued in Q4)
U. T. Southwestern (May 2012)	U. T. M. D. Anderson Cancer Center*
U. T. Medical Branch (February 2012)	
U. T. HSC - Houston (August 2012)	
U. T. HSC - San Antonio (March 2012)	
U. T. HSC - Tyler (May 2012)	

*Draft report has been provided to client and awaiting management responses

The University of Texas System Summary of FY 2012 Practice Plan Audit Results

Audit Results

Across the institutions, while opportunities exist for improvement in internal controls, the practice plan expenditures appeared to be appropriate and consistent in support of the goals of the practice plan and mission of each institution. The internal auditors have identified weaknesses in controls or lack of compliance in the following areas as described below:

Segregations of Duties

- U. T. HSC - San Antonio

Documentation and/or Compliance with Various Policies

- U. T. Medical Branch
- U. T. HSC - Houston
- U. T. HSC - San Antonio
- U. T. M. D. Anderson Cancer Center
- U. T. HSC - Tyler

Off-Site Inventory Controls

- U. T. HSC - San Antonio
- U. T. M. D. Anderson Cancer Center

Approval Process for MSRDP Budget and Unbudgeted Expenditures

- U. T. Southwestern
- U. T. HSC - Houston
- U. T. HSC - Tyler

Performance of Account Reconciliations

- U. T. Medical Branch

Updated Central Operations Manual

- U. T. Southwestern

Consistent Guidance between Travel Policy and Related Materials

- U. T. M. D. Anderson Cancer Center

Departmental Review Controls

- U. T. M. D. Anderson Cancer Center

Overall, institutional management has responded appropriately to the recommendations made related to the findings above and are taking steps towards implementation. None of the findings identified are deemed to be material to the operation, financial reporting, or legal compliance of the university as a whole.

4. **U. T. System: Report on the Systemwide results of the dependent eligibility audits of U. T. self-insured health plans**

REPORT

Mr. Peppers, Interim Chief Audit Executive, will present the results of the dependent eligibility audits conducted at U. T. System Administration by the U. T. System Audit Office and at the institutions by their respective institutional internal audit departments. The objective of these audits was to determine whether the human resources/benefits offices at each of the 15 institutions and U. T. System Administration is verifying eligibility of all dependents of the U. T. self-insured health plans a) at the time of initial enrollment of a newly hired employee or a newly retired employee, b) following a qualifying change in status during the plan year, and c) during the annual enrollment period. A summary of the audit results may be found on the following pages.

The University of Texas System

Summary of FY 2012 Dependent Eligibility Audit Results

Background

The University of Texas (U. T.) System Office of Employee Benefits (OEB) is authorized by the *State University Employees Uniform Insurance Benefits Act* to provide employee group insurance for eligible U. T. System employees, retirees, and their dependents. OEB centrally manages the self-insured U. T. Select medical plan, prescription drug plan, and dental plans using eligibility data provided by the human resources/benefits offices of U. T. System's 15 institutions and U. T. System Administration. Managing dependent eligibility requires coordination between OEB, which provides oversight and monitoring, and the institutional human resources/benefits departments.

Dependents represent a significant portion of total plan enrollment. In Fiscal Year (FY) 2011, total enrollment (employees, retirees and their dependents) of the self-insured UT Select plan was approximately 177,000, of which about 76,000 (or 43%) were dependents. When compared to the prior fiscal year, the number of dependents decreased by 128 (or 0.2%) during FY 2011. Though the change in number of dependents was relatively flat, the total number of U. T. Select members increased by 3,156 (or 1.8%). In addition, total plan benefits paid have risen. Over the last two fiscal years, total plan benefits paid, including member benefits paid through co-pays, deductibles, and co-insurance have increased by \$77.2 million for FY 2010 and \$55.4 million for FY 2011.

U. T. System management and OEB requested that an audit of dependent eligibility be conducted at each of the U. T. institutions and U. T. System Administration during FY 2012. The objective of these audits was to determine whether the respective human resources/benefits office is verifying eligibility of all dependents of the UT self-insured plans at the time of initial enrollment of a newly hired employee or newly retired employee; following a qualifying change in status during the plan year; and during the annual enrollment period.

At the March 19, 2012 U. T. System Administration Internal Audit Committee meeting, the committee recommended that follow-up procedures be performed at U. T. System Administration and each institution to further determine whether the exceptions identified of dependents with missing or inadequate documentation represent truly ineligible dependents.

The completion status of the audits is listed below:

Report Issued	In Progress (report expected in Q4)
U. T. System Administration (Feb 2012; follow-up May 2012)	U. T. Arlington
U. T. Brownsville (May 2012)	U. T. Austin
U. T. Dallas (Jul 2012)	U. T. Permian Basin
U. T. El Paso (Apr 2012)	
U. T. Pan American (Apr 2012; follow-up May 2012)	
U. T. San Antonio (May 2012)	
U. T. Tyler (Jul 2012)	
U. T. HSC - Houston (Mar 2012; follow-up May 2012)	
U. T. HSC - San Antonio (Jan 2012; follow-up Jun 2012)	
U. T. HSC - Tyler (May 2012)	
U. T. Medical Branch (Feb 2012)*	
U. T. M. D. Anderson (Apr 2012; follow-up Jul 2012)*	
U. T. Southwestern (Mar 12; follow-up Jun 2012)	

*Final follow-up results not yet received but expected by the end of Q4

The University of Texas System

Summary of FY 2012 Dependent Eligibility Audit Results

Audit Results

Each of the thirteen institutions that have issued audit reports identified exceptions in which dependent eligibility documentation was missing or was inadequate (in that it did not comply with OEB standards). However, after the follow-up procedures were performed to determine whether the exceptions represented truly ineligible dependents, it was found that the majority were, in fact, eligible.

In response to the exceptions identified, each of the eleven institutions made recommendations to strengthen the process for obtaining, retaining, and monitoring dependent eligibility documentation in accordance with OEB standards. Additional recommendations were made as noted below:

Date stamp and perform timely review of eligibility documentation provided

- U. T. Brownsville
- U. T. Pan American
- U. T. HSC - Houston
- U. T. HSC - San Antonio

Ensure new IT system (PeopleSoft) includes proper subscriber/dependent information

- U. T. Southwestern

Discontinue the acceptance of tax returns as supporting documentation for child and spouse dependent eligibility

- U. T. Dallas

Perform periodic monitoring/quality assurance reviews/self-audits of dependent eligibility

- U. T. System Administration
- U. T. Brownsville
- U. T. Dallas
- U. T. Tyler
- U. T. Southwestern

In addition, some of the institutions discovered that an OEB generated report that they use to identify newly enrolled dependents during the annual enrollment process, erroneously omits dependents added to the medical plan if the dependent had prior coverage under a different health insurance plan (e.g., dental or vision). The institutions are working with UT System to correct this so that all dependent changes made during annual enrollment are identified in this report and the required documentation can be obtained.

In an effort to increase compliance with required documentation standards for dependents, OEB has added a convenient online documentation submission feature to the benefits enrollment process, which allows subscribers to upload their documentation during the annual enrollment process.

Institutional management has responded appropriately to the recommendations made above and are taking steps towards implementation.

5. **U. T. System: Report on the Systemwide internal audit activities, including the implementation status of significant audit recommendations, Systemwide annual audit plan status, and other reports issued**

REPORT

Mr. Peppers, Interim Chief Audit Executive, will report on the following items:

1. Implementation status of significant audit recommendations - The third quarter activity report on the Implementation Status of Outstanding Significant Findings/ Recommendations is set forth on Pages 63 - 64. Satisfactory progress is being made on the implementation of all significant recommendations. Significant audit findings/ recommendations are tracked by the U. T. System Audit Office. Quarterly, chief business officers provide 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, Committee members receive a detailed summary of new significant findings and related recommendations quarterly.
2. Annual internal audit plan status as of June 30, 2012, which follows on Page 65.
3. Other audit reports issued by the Systemwide audit program as set forth on Page 66.

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

Report Date	Institution	Audit	2nd Quarter 2012		3rd Quarter 2012		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
U. T. SYSTEM AUDITS								
2012-05	UTB	Audit of Human Resources Fiscal Year 2012				1	9/1/2012	Satisfactory
2011-10	UTD	Texas Administrative Code 202		1		1	8/31/2012	Satisfactory
2012-01	UTD	Environmental Health and Safety - Lab Safety		1		1	10/31/2012	Satisfactory
2012-02	UTD	Annual Financial Report for the Fiscal Year Ended August 31, 2011		5		3	8/31/2012	Satisfactory
2012-02	UTEP	Annual Financial Report for the Fiscal Year Ended August 31, 2011		1		0	7/13/2012	Implemented
2011-06	UTPA	Employee Assignments		1		1	3/31/2013	Satisfactory
2012-02	UTPA	High School to University Programs & Testing Services		2		1	8/31/2012	Satisfactory
2012-05	UTPA	Texas Administrative Code 202				1	9/30/2012	Satisfactory
2012-05	UTPA	Office of International Admissions and Services Programa de Asistencia Estudiantil Solicitud) Program				2	9/1/2012	Satisfactory
2010-12	UTPB	Annual Financial Report for the Fiscal Year Ended August 31, 2010		1		1	8/15/2012	Satisfactory
2010-11	UTSA	Information Security Program		2		2	2/28/2013	Satisfactory
2012-03	UTSWMC	University Hospital Pharmaceutical and Medical Waste Management for the Fiscal Year Ended August 31, 2011				1	8/30/2012	Satisfactory
2012-04	UTMB	Chargemaster Review Process				4	9/1/2012	Satisfactory
2012-04	UTHSC - Houston	Faculty Recruitment and Hiring Process				2	1/1/2013	Satisfactory
2011-11	UTHSC - San Antonio	Data Center Physical Security Audit		4		4	7/31/2012	Satisfactory
2012-03	UTHSC - San Antonio	Cancer Therapy and Research Center (CTRC) Investigational Drug Section (IDS)				2	9/1/2012	Satisfactory
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials		1		1	9/3/2012	Satisfactory
2009-03	UTMDACC - Houston	Wireless and Firewall Remote Access Security Assessment		1		1	8/31/2012	Satisfactory
2009-05	UTMDACC - Houston	Business Continuity Plan Review		1		1	11/30/2012	Satisfactory
2010-12	UTMDACC - Houston	Human Resources Contingent Workforce		1		1	8/31/2013	Satisfactory
2011-06	UTMDACC - Houston	Effort Reporting and Certification		1		1	5/31/2012*	Satisfactory
2012-04	UTMDACC - Houston	Dependent Eligibility				2	5/31/2012**	Satisfactory
2012-01	UTHSC - Tyler	Financial Statements as of and for the Year Ended August 31, 2011		1		1	6/1/2012*	Satisfactory
2012-02	UT System Admin	UT Permian Basin Information Technology Governance Audit		2		0	8/31/2012	Implemented
Totals				<u>26</u>		<u>35</u>		

* Recommendation deemed to be implemented per management and awaiting verification and validation by audit.

** Awaiting updated implementation status and date from the institution.

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

Report Date	Institution	Audit	2nd Quarter 2012		3rd Quarter 2012		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
STATE AUDITOR'S OFFICE AUDITS								
2012-02	UTEP	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011		1		0	5/31/2012	Implemented
2012-02	UTPA	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011		1		0	6/1/2012	Implemented
2011-02	UTSWMC	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010		1		1	8/31/2012	Satisfactory
2012-02	UTSWMC	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011		4		2	8/31/2013	Satisfactory
2012-02	UTSWMC	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011		1		0	2/1/2012	Implemented
2012-02	UTMB	Compliance with Federal Requirements for the Research & Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2011		2		1	8/31/2012	Satisfactory
2012-02	UTMB	Compliance with Federal Requirements for Selected Major Programs at the Department of Public Safety and The University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2011		3		1	8/31/2012	Satisfactory
2012-02	UTHSC - San Antonio	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011				0	4/30/2012	Implemented
2012-02	UTHSC - San Antonio	Compliance with Federal Requirements for the Research & Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2011		3		0	7/31/2012	Implemented
Totals				<u>16</u>		<u>5</u>		

Color Legend:

- 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.
- Significant finding for which substantial progress towards implementation was made during the quarter that the significant finding was first reported.
- Significant finding for which substantial progress towards implementation was made during the quarter.
- Significant finding was appropriately implemented during the quarter and will no longer be tracked.

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

**U. T. Systemwide Internal Audit Program
FY 2012 Annual Internal Audit Plan Status
(as of June 30, 2012)**

	Financial	Operational	Compliance	Information Technology	Follow-up	Projects	Credit for Priority Hours (Note 1)	Total Approved Priority Budget Hours (Note 2)	Variance (Hours)	Percentage Completion
U. T. System Administration	2,646	4,415	1,507	2,876	740	1,506	13,691	16,500	2,809	83%
Large Institutions:										
U. T. Austin	498	2,383	1,590	682	96	944	6,193	12,031	5,839	51%*
U. T. Southwestern	947	1,353	2,950	1,036	600	958	7,843	11,000	3,157	71%
U. T. Medical Branch - Galveston	931	2,056	1,152	1,376	250	728	6,493	8,160	1,667	80%
U. T. HSC - Houston	1,089	1,400	1,105	785	234	664	5,276	7,144	1,868	74%
U. T. HSC - San Antonio	643	2,004	1,460	1,314	359	367	6,147	7,050	903	87%
U. T. MDA Cancer Center	3,080	2,844	1,600	1,939	420	663	10,545	14,100	3,556	75%
Subtotal	7,187	12,039	9,857	7,131	1,959	4,323	42,496	59,485	16,989	71%
Mid-size Institutions:										
U. T. Arlington	651	704	852	697	268	890	4,061	5,320	1,259	76%
U. T. Brownsville	413	1,020	530	304	225	651	3,143	4,176	1,034	75%
U. T. Dallas	724	1,558	708	581	78	189	3,838	5,890	2,052	65%
U. T. El Paso	1,588	2,402	696	564	440	256	5,946	8,464	2,519	70%
U. T. Pan American	529	1,700	768	550	228	764	4,539	5,825	1,286	78%
U. T. San Antonio	857	1,409	1,351	756	290	854	5,517	7,280	1,763	76%
Subtotal	4,761	8,793	4,904	3,452	1,529	3,604	27,042	36,955	9,913	73%
Small Institutions:										
U. T. Permian Basin	97	-	216	42	30	75	460	1,050	590	44%**
U. T. Tyler	251	684	194	290	57	577	2,053	2,415	362	85%
U. T. HSC - Tyler	326	292	1,131	300	160	177	2,385	2,761	376	86%
Subtotal	674	976	1,541	632	247	829	4,898	6,226	1,328	79%
TOTAL	15,268	26,223	17,809	14,091	4,475	10,261	88,127	119,166	31,039	74%
Percentage of Total	17%	30%	20%	16%	5%	12%	100%			

NOTE 1:

"Credit for Priority Hours" reflects the priority budgeted hours apportioned based on completion status of the audits/projects as of 6/30/2012. The time period from 9/1/2011 through 6/30/2012 represents approximately 83% of the annual audit plan year.

NOTE 2:

Original Total Priority Budget Hours, approved by the ACMRC for priority projects, was 118,038 hours. However, some institutions may change their Total Priority Budget Hours and/or the allocation of hours among the various categories due to changes in priorities and staffing resources during the fiscal year. These changes have been communicated to/approved by the institution's respective president and/or internal audit committee. The total priority budget hours are approximately 80-85% of total budget hours.

*U. T. Austin's lower percent completion is due a timing difference. Several changes to the audit plan, which increase the percentage completion to approximately 65%, were approved on July 17th after the reporting period through June 30th.

**U. T. Permian Basin's lower percent completion is due to staffing limitations throughout the year. The majority of the audit staff was temporarily assigned to the accounting department in order to complete the Annual Financial Report and other accounting functions when the accounting director and assistant director abruptly left their positions at the start of the fiscal year. The accounting director position was filled in March 2012; however, the employee is retiring at the end of July 2012. In March 2012, one of the audit staff did resume her audit function but the other staff person remains in accounting.

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 3/2012 through 5/2012	
Institution	Audit
UTA	Annual Financial Report for the Fiscal Year Ended August 31, 2011
UTA	Procurement Card
UTA	Office of Information Technology Change in Management
UTA	Texas Administrative Code 202 User Security Responsibilities and Practices
UTAUS	Austin Disk Services - Information Technology Services
UTAUS	Lyndon B. Johnson School of Public Affairs Educator Effectiveness and Quality Texas Education Agency Grant
UTAUS	Texas Higher Education Coordinating Board Facilities Audit
UTB	Dependent Eligibility
UTB	Texas Administrative Code 202
UTB	Office of the Vice President for Institutional Advancement
UTD	Lena Callier Trust
UTD	Multicultural Center
UTD	Mathematical Sciences
UTD	Office of the Vice President for Communications
UTEP	Facilities Services - Phase I
UTEP	Facilities Services - Phase II
UTEP	Dependent Eligibility
UTPA	Dependent Eligibility
UTPB	President's Travel and Entertainment
UTSA	Annual Financial Report for the Fiscal Year Ended August 31, 2011
UTSA	Internal Control Review - University Advancement Annual Giving Call Center
UTSWMC	Texas Higher Education Coordinating Board and Other Required Grant Audits
UTSWMC	Dependent Eligibility
UTSWMC	Policies and Procedures Regarding Faculty Service, Research and Development Plan Operations
UTSWMC	Policies and Procedures Regarding Medical Service, Research and Development Plan Operations
UTSWMC	Office of Business Affairs
UTMB	Texas Juvenile Justice Department Dental Services
UTMB	Radiology Replacement System Post Implementation Review
UTMB	Internal Controls Review of University Housing
UTMB	Financial Screening Process
UTMB	McGovern Academy of Oslerian Medicine Operational Review
UTHSC - Houston	Dependent Eligibility
UTHSC - Houston	Security of Portable Devices
UTHSC - Houston	Financial Conflict of Interest/Conflict of Commitment
UTHSC - Houston	Department Billing - Hemophilia
UTHSC - Houston	Research Compliance
UTHSC - Houston	Interim Review of Presidential Travel and Entertainment
UTHSC - Houston	Interim Review of Executive Travel and Entertainment
UTHSC - Houston	Follow-up on Open Recommendations
UTHSC - San Antonio	Cancer Therapy and Research Center MOSAIQ Electronic Medical Record
UTHSC - San Antonio	Dependent Eligibility
UTHSC - San Antonio	Contract Management
UTHSC - San Antonio	Research Compliance
UTMDACC	Grants and Contracts Administration - Radiation Physics
UTMDACC	Charge Capture - Inpatient Medical Supplies
UTHSC - Tyler	Office of the Vice President and Chief Administrative Officer for Hospital, Clinics, and Campus Operations Change in Management
UTHSC - Tyler	Dependent Eligibility
UTHSC - Tyler	Medical Service, Research and Development Plan
UTSYS ADM	UT Permian Basin Texas Administrative Code 202
UTSYS ADM	UT Health Science Center at San Antonio Practice Plan
UTSYS ADM	UT M.D. Anderson Cancer Center President's Travel, Entertainment, and Housing Expenses
UTSYS ADM	Follow-Up for Audits of the Office of Employee Benefits

STATE AUDITOR'S OFFICE AUDIT REPORTS ISSUED 3/2012 through 5/2012	
Institution	Audit
UT System	Full-time Equivalent State Employees for the Quarter Ending February 29, 2012

6. U. T. System: Overview of the FY 2013 Systemwide annual audit plan process

REPORT

Mr. Peppers, Interim Chief Audit Executive, will present an overview of the process and timeline for developing the Fiscal Year 2013 U. T. Systemwide Annual Audit Plan, which is the blueprint of the internal audit activities that will be performed during the fiscal year by the internal audit function throughout U. T. System.

BACKGROUND INFORMATION

The U. T. Systemwide Annual Audit Plan is comprised of the U. T. System Audit Office's and the institutional internal audit departments' individual annual audit plans (audit plan). These 16 audit plans are risk-based to ensure that areas and activities specific to each institution with the greatest risk are identified to be audited.

To provide consistency at the Systemwide level, the U. T. System Audit Office provides the institutional audit departments with guidance each June on the audit plan format, content, and development methodology, which includes a general risk assessment process. The guidance on content provides the institutions suggestions for audits of high-risk areas to be conducted across the System. These audits are generally recommended based on concerns from U. T. System leadership or as a result of arising high profile issues.

The process of preparing the individual audit plans, which occurs from late June through August, includes reviewing the operations of the institution's functions to identify changes in activities performed, as well as changes in the external environment that might affect operations. In addition, the U. T. System Audit Office and internal audit departments meet with their respective institutional internal audit committee members, executive management, and operational/functional department administrators to obtain validation of the risk areas and ensure that all risk areas are considered. The information obtained is used to update the previous year's risk assessments. The development of the draft audit plans is supported by the risk assessments, requirements for audits (by external entities, policy, grants, etc.), and special requests. The audit plans categorize the audit activities as financial, operational, compliance, information technology, follow-up, or projects. While each institution is responsible for the preparation and execution of its audit plan, the U. T. System Audit Office and the Offices of Academic or Health Affairs provide feedback on the draft versions.

Each institutional internal audit committee formally reviews and approves its institution's proposed audit plan during August and early September. The final approved audit plans are consolidated into the comprehensive Systemwide Annual Audit Plan to present to the Audit, Compliance, and Management Review Committee for review and approval at the November meeting. Then, upon recommendation by the Audit, Compliance, and Management Review Committee, the U. T. System Board of Regents will be asked to approve the Systemwide Annual Audit Plan also at the November meeting.