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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT
REVIEW COMMITTEE**

Committee Meeting: 11/12/2003
MCM Elegante Hotel
(Executive Session in Waterfront Room
Open Session in Caribbean Ballroom)

Board Meeting: 11/13/2003
U. T. Permian Basin

Robert A. Estrada, Chairman
Rita C. Clements
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier

	Committee Meeting	Board Meeting	Page
A. CONVENE	<i>10:00 a.m.</i> <i>Chairman</i> <i>Estrada</i>		
B. RECESS TO EXECUTIVE SESSION			
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – <u>Texas Government Code</u> Section 551.071	<i>Mr. Godfrey</i>	Not on Agenda	6
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – <u>Texas Government Code</u> Section 551.074	<i>Mr. Chaffin</i>	Not on Agenda	6
U. T. System: Evaluation and duties of System and component employees involved in Audit and Compliance functions			
C. RECONVENE IN OPEN SESSION			
1. U. T. System: Approval of U. T. System Internal Audit Plan for Fiscal Year 2004	Not on Agenda	Action	6
2. U. T. System: Approval of the Audit, Compliance, and Management Review Committee Charter	<i>10:10 a.m.</i> Action <i>Chairman</i> <i>Estrada</i>	Action	7
3. U. T. System: Amendment to the Regents' <u>Rules and Regulations</u> related to duties of the Audit, Compliance, and Management Review Committee (Part One, Chapter I, Section 7; Chapter II, Section 3)	<i>10:13 a.m.</i> Action <i>Mr. Chaffin</i>	Action	8

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4. U. T. System: Approval of the Sarbanes-Oxley Action Plan for U. T. System	<i>10:15 a.m.</i> Action <i>Mr. Wallace</i> <i>Mr. Chaffin</i>	Not on Agenda	10
5. U. T. System: Annual Report on System-wide Institutional Compliance Program	<i>10:25 a.m.</i> Report <i>Mr. Chaffin</i> <i>Mr. Greg Lee,</i> <i>UTIMCO</i>	Not on Agenda	11
6. U. T. System: Report on System-wide Audit Activity (red, yellow, green project)	<i>10:40 a.m.</i> Report <i>Mr. Chaffin</i>	Not on Agenda	12
7. U. T. System: Report on the Results of the UTIMCO Audit	<i>10:45 a.m.</i> Report <i>Mr. Ricky</i> <i>Richter, Ernst</i> <i>& Young LLP</i>	Not on Agenda	13

Adjourn

- A. CONVENE
- B. RECESS TO EXECUTIVE SESSION
 - 1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Texas Government Code Section 551.071
 - 2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Texas Government Code Section 551.074

U. T. System: Evaluation and duties of System and component employees involved in Audit and Compliance functions

- C. RECONVENE IN OPEN SESSION
 - 1. **U. T. System: Approval of U. T. System Internal Audit Plan for Fiscal Year 2004**

RECOMMENDATION

The Audit, Compliance, and Management Review Committee recommends that the U. T. Board of Regents approve the proposed U. T. System-wide Internal Audit Plan for Fiscal Year 2004. A summary of the auditable areas is set forth on Page 6.1. Development of the Internal Audit Plan is based on risk assessments performed at each component institution. Implementation of the Plan will be coordinated with the institutional auditors.

BACKGROUND INFORMATION

Institutional Audit Plans, compiled by the internal audit departments after input and guidance from the System Audit Office and the institution's management and Internal Audit Committee, were submitted to all Internal Audit Committees and institutional presidents for review and comments.

The Chief Audit Executive provided feedback by conducting audit hearings with each component institution. After the review process, each Internal Audit Committee formally approved its institution's Plan.

The Audit, Compliance, and Management Review Committee approved the Audit Plan on September 30, 2003.

THE UNIVERSITY OF TEXAS SYSTEM

2004 SYSTEM-WIDE INTERNAL AUDIT PLAN SUMMARY

Area	Audit Hours	% of Total Hours
Key Financial and Operating Information	34,692	25%
Institutional Compliance Audits	12,085	9%
Information Technology Audits	26,205	19%
Core Business Processes	29,206	22%
Change in Management	5,905	4%
Follow-up	4,712	4%
Projects	23,629	17%
Total	<u>136,434</u>	<u>100%</u>

Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: September 4, 2003

2. **U. T. System: Approval of the Audit, Compliance, and Management Review Committee Charter**

RECOMMENDATION

The Chancellor and the Chief Audit Executive and System-wide Compliance Officer recommend the proposed Charter for the Audit, Compliance, and Management Review Committee be approved as set forth on Pages 7.1 - 7.5.

BACKGROUND INFORMATION

The Audit, Compliance, and Management Review Committee is a standing committee of the Board of Regents. The proposed Charter identifies responsibilities of the committee and is broken into six categories: role, membership, reporting, education, authority, and responsibilities.

A draft of the Charter was presented to the committee in August 2003. Subsequent to the meeting, two changes were made to the Responsibilities Checklist: the Chief Operating Officer is no longer included in checklist number 15, and the language that indicated the committee would approve the annual audit plan in November was deleted from number 18.

The revised draft of the Charter was presented to the committee in September 2003 and has been reviewed by Vice Chancellor and General Counsel Godfrey. The two changes described above were approved, and the committee approved further changes to make the Charter consistent with the existing Regents' Rules and Regulations. It is expected that the Charter will need to be reviewed quarterly as the Sarbanes-Oxley Act guidance and the audit environment continue to change.

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Audit, Compliance, and Management Review Committee Charter of the Board of Regents of The University of Texas System

Role

The Audit, Compliance, and Management Review Committee ("the Committee") of the Board of Regents ("the Board") of The University of Texas ("U. T.") System assists the Board in fulfilling its responsibilities for:

- Oversight of the quality and integrity of the accounting and financial reporting practices, including the annual financial statements, and the system of internal controls;
- Oversight and direction of the internal auditing function, any external auditors whom the Committee may employ, and engagements with the State Auditor;
- Oversight and direction for the System-wide compliance function;
- Oversight of the review of effective institutional management practices at all U. T. System components; and
- Other duties as directed by the Board.

The Committee's role includes a particular focus on U. T. System's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements.

Membership

The membership of the Committee shall consist of at least ~~three~~ four Board members, ~~who are generally knowledgeable in financial, management, and auditing matters, including at least one member with general and financial management expertise.~~ Each member shall be appointed by the Chairman of the Board, ~~approved by the Board, and who~~ shall be free of any relationship that would interfere with his or her individual exercise of independent judgment. Applicable laws and regulations shall be followed in evaluating a member's independence.

Reporting

The Chief Audit Executive, System-wide Compliance Officer, and executive management shall provide periodic reports related to audit, compliance, and management review to the Committee. Any public accounting firm employed by the Committee shall report directly to the Committee. The State Auditor's reports will be submitted to this committee. The Committee is expected to maintain free and open communications, which shall include private executive sessions, at least annually, with these parties, as it deems appropriate and is permitted by law.

The Committee chairperson shall regularly report Audit, Compliance, and Management Review Committee activities to the full Board of Regents, particularly with respect to:

- (i.) any issues that arise regarding compliance with legal or regulatory requirements and the performance and independence of internal and external auditing and assurance functions; and
- (ii.) such other matters as are relevant to the Committee's discharge of its responsibilities.

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Education

U. T. System executive management is responsible for providing the Committee with educational resources related to accounting principles and procedures, risk management, and other information that may be requested by the Committee. U. T. System executive management shall assist the Committee in maintaining appropriate financial and compliance literacy.

Authority

The Committee, in discharging its oversight role, is empowered to study or investigate any matter related to audit, compliance, and management of interest or concern that the Committee, in its sole discretion, deems appropriate for study or investigation by the Committee. The Committee shall be given full access to all U. T. System employees and operations as necessary to carry out this authority.

Responsibilities

The Committee's specific responsibilities in carrying out its oversight role are delineated in the Audit, Compliance, and Management Review Committee Responsibilities Checklist. The responsibilities checklist will be updated annually by the Committee to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. As the compendium of Committee responsibilities, the most recently updated responsibilities checklist will be considered to be an addendum to this charter.

The Committee relies on the expertise and knowledge of management, the internal auditors, the State Auditor, and any public accounting firm they may employ in carrying out its oversight responsibilities. U. T. System executive management is responsible for preparing complete and accurate financial statements and for monitoring internal controls and compliance with all applicable laws, regulations, and internal policies and procedures. Any public accounting firm hired by the Committee is responsible for performing the services specified in the hiring contract.

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Responsibilities Checklist for the Audit, Compliance, and Management Review Committee of the Board of Regents of The University of Texas System

1. The Committee will perform such other functions as assigned by law or the Board of Regents of The University of Texas System ("the Board").
2. The Committee shall meet four times per year or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.
3. The agenda for Committee meetings will be prepared in consultation between the Committee chairman (with input from the Committee members), U. T. System executive management, the Chief Audit Executive and the System-wide Compliance Officer.
4. The Committee shall verify that its membership is familiar with the Committee's Charter, goals, and objectives.
5. The Committee shall review the independence of each Committee member based on applicable independence laws and regulations.
6. The Committee shall review and approve the appointment or change in the Chief Audit Executive.
7. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
8. The Committee shall provide an open avenue of communication between the State Auditor, internal auditors, any public accounting firm employed, executive management, and the Board. The Committee chairperson shall report Committee actions to the Board with such recommendations as the Committee may deem appropriate.
9. For the purpose of preparing or issuing an audit report or related work, the Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any employed public accounting firm (including the resolution of disagreements between management and the auditor regarding financial reporting). This does not preclude an individual component institution from hiring a public accounting firm to perform work at the component level.
10. The Chief Audit Executive has responsibility for ensuring that no conflicts of interest exist between public accounting firms performing consulting services and firms conducting financial statement audits. The Chief Audit Executive shall report annually on the status and integrity of U. T. System's engagements with public accounting firms.

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11. The Committee shall review with executive management, the Chief Audit Executive and the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm the coordination of efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of resources.
12. The Committee shall inquire of executive management, the Chief Audit Executive and the System-wide Compliance Officer, and any employed public accounting firm about significant risks or exposures and assess the steps management has taken to minimize such risk to U. T. System.
13. The Committee shall consider and review with the Chief Audit Executive and the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm:
 - a. The adequacy of U. T. System's internal controls including computerized information system controls and security;
 - b. The adequacy and efficiency of senior-level management with respect to fiscal operations and compliance functions at all component institutions;
 - c. Any related significant findings and recommendations of the State Auditor, independent public accountants, and internal audit together with management's responses thereto.
14. Regarding the U. T. System's financial statements, the Committee shall review with executive management and/or the Chief Audit Executive:
 - a. U. T. System's annual financial statements and related footnotes;
 - b. Any audit and assurance work performed on components of the annual financial statements;
 - c. Any significant changes to the financial statements requested by the State Auditor, internal audit, or any independent public accountants;
 - d. Any serious difficulties or disputes with management encountered during assurance work on components of the financial statements;
 - e. Other matters related to the conduct of assurance services that are to be communicated to the Committee under generally accepted government auditing standards.
15. The Committee shall require the U. T. System Chief Financial Officer certify the annual financial statements for the U. T. System as a whole, and that each component Chief Financial Officer certify the annual financial statements for their respective component institution.
16. The Committee shall review legal and regulatory matters that may have a material impact on the financial statements, internal auditing and/or compliance activities.
17. The Committee shall review with executive management and the Chief Audit Executive at least annually U. T. System's critical accounting policies, including any significant changes to Generally Accepted Accounting Procedures (GAAP), Regents' Rules and Regulations, and/or operating policies or standards.
18. On an annual basis, the Committee shall review, recommend, and approve the annual audit plan, including the allocation of audit hours.

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19. Regarding audits, the Committee shall consider and review with executive management and the Chief Audit Executive:
 - a. Significant findings during the year and management's responses thereto;
 - b. Any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information;
 - c. Any changes required in the planned scope of the audit plan.

20. The Committee shall conduct an annual performance review and evaluation of the Chief Audit Executive. The Committee may delegate responsibility for the performance review to the Chancellor, in which case the Chancellor would provide a recommendation and supporting documentation to the Committee as a basis for their evaluation.

21. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters; and the confidential anonymous submission by employees of concerns regarding questionable auditing matters.

22. The Committee shall monitor The University of Texas System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including:
 - a. Significant institutional risks identified during the year and mitigating actions taken;
 - b. Significant findings during the year and management's responses thereto;
 - c. Any difficulties encountered in the course of inspections or assurance activities, including any restrictions on the scope of work or access to required information;
 - d. Any changes required in planned scope of the compliance action plan.

23. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding compliance issues and the confidential anonymous submission by employees of concerns regarding ethically or legally questionable matters.

24. The Committee shall meet with the Chief Audit Executive, the System-wide Compliance Officer, executive management, or any employed external auditors in executive session to discuss any matters that the Committee or the before named believe should be discussed privately with the Committee, to the extent permitted by applicable law.

25. The Committee shall review and update the Audit, Compliance, and Management Review Committee Responsibilities Checklist annually.

3. U. T. System: Amendment to the Regents' Rules and Regulations related to duties of the Audit, Compliance, and Management Review Committee (Part One, Chapter I, Section 7; Chapter II, Section 3)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Chief Audit Executive that the Regents' Rules and Regulations, Part One, Chapter I, Section 7 regarding duties of the Audit, Compliance, and Management Review Committee and Part One, Chapter II, Section 3 regarding the System Director of Audits be amended as set forth in below in congressional style:

a. Amend Part One, Chapter 1, Section 7 as follows:

Sec. 7. Committees and Other Appointments

...

7.16 Duties of the Audit, Compliance, and Management Review Committee

The Audit, Compliance, and Management Review Committee shall:

- 7.161 ~~Recommend~~ Approve an Audit Charter for the Audit, Compliance, and Management Review Committee ~~for review and approval by the Board~~ and oversee all internal and external auditing and compliance functions within The University of Texas System.
- 7.162 ~~Recommend the~~ Review and approve approval of the hiring appointment or change of the System Director of Audits after nomination by the Chancellor.
- 7.163 ~~Recommend the approval of~~ Review and approve the annual System-wide risk assessment and annual internal auditing plan.

b. Amend Part One, Chapter II, Section 3 as follows:

Sec. 3. Chancellor

...

- 3.311 Appointment
The System Director of Audits shall be appointed by the Board Audit, Compliance, and Management Review Committee after nomination by the Chancellor. The System Director of Audits shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the System Director of Audits are subject to review and approval by the Board Audit, Compliance, and Management Review Committee.
- 3.312 Duties and Responsibilities
The primary responsibilities of the System Director of Audits include developing a System-wide internal audit plan based on a System-wide risk assessment and coordinating the implementation of this plan with the institutional internal auditors. This System-wide audit plan is submitted to the Audit, Compliance, and Management Review Committee for review and to recommend approval to the Finance and Planning Committee after the Chancellor's review and approval. Responsibilities of the System Director of Audits also include conducting audits of the System including the revenue produced from the Permanent University Fund lands and formulating policies for the internal audit activity at each component institution.
- 3.313 The System Director of Audits serves as the chief audit executive.

BACKGROUND INFORMATION

Proposed amendments to the Regents' Rules and Regulations will clarify the responsibilities of the Audit, Compliance, and Management Review Committee.

Proposed amendments to Chapter I, Part One increase the responsibilities of the Audit, Compliance, and Management Review Committee to approve the Audit Charter,

the Chancellor, and approve the annual System-wide risk assessment and annual internal auditing plan.

Proposed amendments to Chapter II, Part One make these rules consistent with the changes made in Chapter I.

4. U. T. System: Approval of the Sarbanes-Oxley Action Plan for U. T. System

RECOMMENDATION

An ad hoc committee, formed at the request of the Chancellor to review issues regarding the “spirit” of the Sarbanes-Oxley Act of 2002, recommends that the Audit, Compliance, and Management Review Committee of the U. T. Board of Regents approve the proposed action plan as set forth on Pages 10.1 - 10.11.

BACKGROUND INFORMATION

The Committee discussed the Sarbanes-Oxley Act of 2002 in August 2003 and requested that additional review be conducted.

The Chancellor requested that Mr. Randy Wallace, Assistant Vice Chancellor - Controller and Chief Budget Officer, and Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, form an ad hoc committee to develop an action plan to implement the "spirit" of the Sarbanes-Oxley Act of 2002.

The ad hoc committee is made up of nine chief business officers and five internal audit directors, representing eleven U. T. components.

On September 30, 2003, the Committee discussed the Sarbanes-Oxley Act of 2002, Mr. Wallace and Mr. Chaffin presented an update on the ad hoc committee's progress, and a representative from the State Auditor's Office discussed the Financial Statement Audit they have planned for the fiscal year ended August 31, 2003.

**Action Plan to Implement
The “Spirit” of the Sarbanes-Oxley Act of 2002**

**The University of Texas System
2003**

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To be presented to the Audit, Compliance, and Management Review Committee of the
Board of Regents on November 12, 2003

I N T R O D U C T I O N

The Sarbanes-Oxley Act of 2002 (SOX) was enacted to improve the accuracy and reliability of reported financial information. SOX, which became law on July 30, 2002, requires various representations regarding the fairness of financial statements and the effectiveness of disclosure controls and procedures. While intended to restore investor confidence in the integrity of financial information issued by Securities and Exchanges Commission registrants, it is both prudent and advantageous for other organizations to establish sound internal control structures and manage and monitor that structure proactively.

Data integrity provides for improved planning and decision making by the organization's management. The criteria for evaluating internal controls were introduced in the early 1990s by the Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework and included the following objectives:

- efficiency and effectiveness of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations.

On July 16, 2003, a white paper highlighting the sections of the Sarbanes-Oxley Act of 2002 pertaining to higher education, as discussed in the draft NACUBO Advisory Report entitled “The Sarbanes-Oxley Act of 2002: Recommendations for Higher Education”, was presented to The University of Texas System (U. T. System) Council. The U. T. System Council is chaired by the Chancellor and is composed of the Presidents from the fifteen component institutions. The NACUBO Advisory Report represents the preferred practices as applicable for higher education. As previously noted, SOX is not required for Colleges and Universities. However, certain sections are relevant to institutions of higher education and, in an effort to promote best practices, implementation is highly encouraged.

Pursuant to the U. T. System Council meeting, Chancellor Yudof directed the rewrite of the white paper to include suggestions on how the U. T. System could implement the “spirit” of Sarbanes-Oxley. He also requested that an Ad Hoc committee be formed to determine how to implement SOX at the U. T. System.

On August 6, 2003, the revised white paper, Implementing the Spirit of Sarbanes-Oxley Act of 2002 in The University of Texas System, was presented to the U. T. System Board of Regents' Audit, Compliance, and Management Review Committee (ACMR).

The Ad Hoc committee held its first meeting on September 29, 2003. This committee included Chief Business Officers and Internal Audit Directors from both health and academic components, along with representatives from System Administration. A draft

of this Action Plan was presented to the Ad Hoc committee for discussion. The Action Plan focused on the following key elements (applicable SOX sections are noted in parentheses):

- Reporting
 - Designation of a responsible party for financial reporting
 - Management certifications (302)
 - Off-balance sheet and pro forma disclosures (401)

- Strengthening governance
 - Audit committee standards (301)
 - Disclosure of audit committee financial expert (407)
 - Prohibition of certain services by auditors (201)
 - Audit committee pre-approval of all services by auditors (202)
 - Audit partner rotation (203)
 - Auditor communications with audit committees (204)
 - Restrictions on company hiring of audit team members (206)
 - Providing the ACMR positive assurance concerning managements' certification of the integrity of the financial statements of the U. T. System
 - Financial relationships of Board members and senior management of both the U. T. System and the components (402 & 403)
 - Code of Ethics for senior financial officers (406)
 - Protection for whistleblowers (806)

- Evaluation of Internal Controls
 - (404)

The committee also formed subcommittees for drafting a model audit committee charter and a business procedures memorandum related to the Action Plan.

The Ad Hoc Committee believes that the implementation of the “spirit” of the Sarbanes-Oxley Act of 2002 is a positive indication of the intent of the Board of Regents and executive management of U. T. System to ensure integrity in all aspects of operations. As such, we respectfully submit this Action Plan to Implement the Spirit of the Sarbanes-Oxley Act of 2002 to the Chancellor for his review and approval and to the ACMR for their review and approval.

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Reporting	1. Designate a Responsible Party for Financial Reporting for the U. T. System and for each component <i>Implementation Guidance - There is more than one position at most components that could be responsible for financial reporting. To ensure clear lines of authority and accountability, each chief executive officer must designate a single Financial Reporting Responsible Party.</i>	Not required by SOX but implied in the certification process in Title III, Sec. 302	Chancellor and chief executive officer of each component	Dec 2003
Strengthen Governance	2. Adopt a SOX-based charter for the Audit, Compliance, and Management Review Committee of the Board of Regents <i>Implementation Guidance - The ACMR Committee is currently in the process of adopting such a charter.</i>	Title III, Sec. 301- Audit Committee Standards Title IV, Sec. 407 – Disclosure of Audit Committee Financial Expert	ACMR	Sept 2003
	3. Establish an ad hoc committee for drafting a model for the component internal audit committee charter. <i>Implementation Guidance - Model should include membership composition (independence issue, financial expertise, training for members, duties, selection, etc.), authority and responsibility of committee, meeting requirements, etc.</i>	Title III, Sec. 301- Audit Committee Standards Title IV, Sec. 407 – Disclosure of Audit Committee Financial Expert	SOX Ad Hoc Committee	Apr 2004

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Strengthen Governance	<p>4. Draft a Business Procedures Memorandum on relations with all external audit organizations including the retention of external auditors to express an opinion on the financial statements of any component.</p> <p><i>Implementation Guidance - Consideration should be given to the issue of external auditors who perform audit work at one component being allowed to perform, or excluded from performing, non audit services at one of the other components.</i></p>	<p>Title II, Sec. 201 – Prohibition of Certain Services by Auditors, Sec. 202 – Audit Committee Pre-approval of All Services by Auditors, Sec. 203 Audit Partner Rotation, Sec. 204 – Auditor Communications with Audit Committees, Sec. 206 – Restrictions on Company Hiring of Audit Team Members</p>	SOX Ad Hoc Committee	Apr 2004
Reporting	<p>5. Draft a BPM on the preparation and responsibility for preparation of the financial statements of each component and the U. T. System including certification of the integrity of the financial statements of each component and of the U. T. System by appropriate executive management.</p> <p><i>Implementation Guidance - This BPM would define the duties and responsibilities of the Financial Reporting Responsible Party.</i></p>	<p>Title III, Sec 302 – Management Certifications</p>	SOX Ad Hoc Committee	Apr 2004

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Reporting	<p>6. Management certification of the integrity of the financial statements of each component and the U. T. System</p> <p><i>Implementation Guidance - Certification should state that financial statements are fairly presented and reports have no untrue statements or omission of material facts. It would also contain a statement about known frauds or the absence of known frauds.</i></p>	Title III, Sec 302 – Management Certifications	CFOs	Oct 2004
Strengthen Governance	<p>7. Establish a comprehensive model (including external auditors', internal auditors', State Auditor's, and SACS auditors' work) for providing the ACMR with positive assurance concerning managements' certification of the integrity of the financial statements of the U. T. System</p> <p><i>Implementation Guidance - This model recognizes the fact that a single audit of the U. T. System may not be feasible, but that through the use of all audit work performed, a statement of positive assurance may be attainable about the U. T. System financial statements. The CBO should provide the statement of positive assurance to the ACMR on at least an annual basis – with any significant changes to that plan communicated to the ACMR at the appropriate time. It should provide an outline of the component's plan for obtaining such positive assurance.</i></p>	The requirement for an external audit is not in SOX, but rather in the Securities Laws and the SEC rules for public companies.	SOX Ad Hoc Committee	Apr 2004

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Reporting	8. Establish a policy concerning disclosure and financial statement inclusion of off-balance sheet items <i>Implementation Guidance - An example of off-balance sheet items can be found in the current financial statement footnotes concerning UTIMCO investments.</i>	Title IV, Sec 401 – Off-Balance Sheet and Pro Forma Disclosures	U. T. System CFO and Chief Legal Officer	Feb 2004
Strengthen Governance	9. Establish a mechanism at System Administration and at each component for the confidential reporting to the ACMR committee of concerns or issues involving financial statement preparation and auditing. <i>Implementation Guidance - The compliance confidential reporting mechanism at most components and System Administration can be modified to satisfy this requirement. The most significant change will be the establishment of a mechanism to report significant financial issues to the ACMR. Some components may have to change their triage methods and/or the method of receiving confidential reports.</i>	Title III, Sec 301(4) – Audit Committee Standards	System-wide Compliance Officer and Component Compliance Officers	Jan 2004
Strengthen Governance	10. Establish a policy concerning financial relationships of Board members and of senior management of both the U. T. System and the components. <i>Implementation Guidance - This is a conflict of interest and/or compensation issue.</i>	Title IV, Sec 402 – Prohibition of Executive Loans, Sec. 403 – Accelerated Reporting of Trades by Insiders	Chief Legal Officer	Apr 2004

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Strengthen Governance	<p>11. Modify the current code of ethics to include specific requirements for all management involved in preparation of the financial statements.</p> <p><i>Implementation Guidance - There is no specific language suggested by SOX. The current code of ethics should be reviewed to determine if it needs revision. An alternative would be to include specific ethics requirements for financial reporting in the Financial Reporting BPM addressed in step 5.</i></p>	Title IV, Sec 406 – Code of Ethics for Senior Financial Officers	Chief Legal Counsel	Jan 2004
Strengthen Governance	<p>12. Establish a whistleblower policy (include whistleblower protection).</p> <p><i>Implementation Guidance - The U. T. System does not have a specific whistleblower policy (although there is a State law) that insures non-retaliation against those who report wrongdoing.</i></p>	Title VIII, Sec 806 – Protection for Whistleblowers	Chief Legal Counsel	Dec 2003

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Evaluation of Internal Controls	<p>13. Establish a model for management use to document and report on the efficiency and effectiveness of critical internal controls over the recording of financial information and the preparation of financial statements.</p> <p><i>Implementation Guidance - The model should include options for piloting and documenting one or two processes that are common to most components, or an internal control assessment for fiscal functions that feed the general ledger and the annual financial statements. If the "pilot project" approach is used, lessons learned in the pilot project will then be used to develop the model for documenting and reporting on critical controls affecting the integrity of the financial statements. If an "internal control assessment" is determined to be the best alternative, then policies and procedures should be evaluated, the organizational structure as it relates to internal controls should be reviewed, and the principal objective will be to identify the key control activities and weaknesses and provide recommendations.</i></p>	Title IV, Sec. 404 – Evaluation of Internal Controls	SOX Ad Hoc Committee	Dec 2004

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ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Evaluation of Internal Controls	<p>14. Management reports on the efficiency and effectiveness of critical controls over the recording of financial information and the preparation of financial statements for each component and the U. T. System</p> <p><i>Implementation Guidance - This is management's assertion about the processes that affect the integrity of the financial statements. Initially, it would be about the pilot processes addressed in Step 13.</i></p>	Title IV, Sec 404 – Evaluation of Internal Controls	Management of each component and the U. T. System	Dec 2004
Evaluation of Internal Controls	<p>15. Establish a methodology for the expression of an opinion by Internal Audit on management's assertions regarding the efficiency and effectiveness of critical controls over the recording of financial information and the preparation of financial statements.</p> <p><i>Implementation Guidance - Use of an external audit organization to validate management's assertions about critical controls affecting the financial statements does not appear cost beneficial.</i></p>	Title IV, Sec. 404 – Evaluation of Internal Controls	U. T. System Internal Audit Director and Component Internal Audit Directors	Jun 2005

DRAFT
ACTION PLAN TO IMPLEMENT THE SPIRIT OF THE SARBANES-OXLEY ACT OF 2002

CATEGORY	ACTION STEP	SOX REFERENCE	RESPONSIBLE PARTY	DUE DATE
Evaluation of Internal Controls	<p>16. Internal Audit expresses an opinion on management's assertions regarding the efficiency and effectiveness of critical controls over the recording of financial information and the preparation of financial statements for each component and the U. T. System.</p> <p><i>Implementation Guidance - Professional standards currently recommend that the Chief Audit Executive of an organization express an opinion on the control processes established by management to ensure achievement of goals and objectives. One of those control processes is the process affecting the preparation of financial statements. Initially, internal audit should test and express an opinion on the internal controls of the pilot projects documented - referred to in Step 13, and certified by management - referred to in Step 14.</i></p>	Title IV, Sec 404 – Evaluation of Internal Controls	U. T. System Internal Audit Director and Component Internal Audit Directors	Oct 2005

5. **U. T. System: Annual Report on System-wide Institutional Compliance Program**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will brief the Board of Regents on the annual report of the System-wide Compliance Program, located on Pages 11.1 - 11.3. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis.

Mr. Greg Lee, UTIMCO Finance and Administration Manager, will report on the UTIMCO Enterprise Risk Management Initiative, as set forth on Pages 11.4 - 11.5.

The University of Texas System

Institutional Compliance Program Annual Report Summary Fiscal Year Ended August 31, 2003

Program Executive Summary

The purpose of the Institutional Compliance Program is to ensure that the U. T. System, its 15 institutions and UTIMCO are in compliance with all applicable laws, policies and regulations of the numerous bodies responsible for oversight of higher education institutions. This is achieved through institutional compliance risk assessments, awareness education and ongoing monitoring. The System-wide Compliance Officer, Mr. Charles Chaffin, is responsible for apprising the Chancellor and Board of Regents of the institutional compliance functions and activities. Each institution has appointed a compliance officer and established an appropriate reporting mechanism for program activities, using Compliance Committees that meet on average quarterly. Overall, approximately 85 employees System-wide provide direct support to the Institutional Compliance Program.

Risk Assessment and Monitoring Activities

The following significant risks and mitigation strategies have been identified by many of the institutions:

Asset Management (safeguarding of assets) – Annual physical inventories with investigation of discrepancies; department head accountability through certification; and reconciliation of the accounting records to the inventory records.

Clinical Billing (medical billing that is not appropriately documented and coded) – Quality assurance reviews of clinical providers' documentation; and development of documentation guidance and tools.

Endowments (adherence to terms of endowment agreement) – Periodic review of policies and procedures; development of expenditure policies; regular review of endowment accounts and expenditures; and review of revenue and expenditure statistics.

Environmental Health & Safety (proper use and handling of dangerous materials, lab safety, and fire safety) - Continual oversight through identification and investigation of safety issues; recommendations for solutions; promotion of safety awareness and monitoring of resolution follow-up; and periodic inspections of labs and buildings.

Human Resources (adherence to all applicable and required rules, regulations and laws including equal opportunity/affirmative action, leave administration, and fair hiring practices) – Periodic review of policies and procedures; verification of employment information at time of employment; review of vacation/sick leave usage reports; and ongoing training to enhance compliance.

Information Resources/Security (systems integrity/continuity/availability, security regulations, and external access) – Periodic review of policies and procedures; performance of detailed vulnerability analysis; periodic penetration testing; testing of back-up and disaster recovery procedures; and periodic monitoring of network activities.

Intercollegiate Athletics (adherence to the rules and regulations of the NCAA) – Continual review of policies and procedures; periodic reviews of eligibility conducted external to the department; monitoring of student financial aid awards by the department; periodic review of recruiting logs; and annual training for coaching staff and student athletes.

Research (research not conducted in accordance with approved protocol or federal regulations) – Review of all human subject research, consents and forms by the Institutional Review Board; periodic inspection of animal laboratories and reviews of animal research protocols; review of policies and procedures on a periodic basis; and review of conflict of interest forms and management plans.

Assurance Activities and Significant Findings

The following types of assurance activities were performed at the institutions during the year:

Inspections – Inspections were completed in the high-risk areas of Endowments, Environmental Health and Safety and Research.

Audits – Internal and external audits were performed on high-risk areas. Internal audits were conducted in the areas of Research Compliance, NCAA Compliance, Clinical Billing and Procurement. External audits were conducted in the areas of Environmental Health & Safety, Credentialing, Research, and EEO/Sexual Harassment.

Peer Reviews – Peer reviews were conducted on several high-risk areas including Student Financial Aid, Contracting, Information Technology, and Purchasing.

No difficulties, including restrictions on the scope of work or access to required information, were encountered during the completion of these assurance activities.

Training Activities

General Compliance Training was conducted using a variety of formats including web-based, classroom, and written materials. Approximately 60,000 employees completed training. Additionally, specialized training was conducted in the following areas: Endowments, Environmental Health & Safety, HIPAA, Human Resources, Intercollegiate Athletics, and Research.

Action Plan Activities

A majority of the Action Plans established by each institution for FY 2003 focused on the following activities: enhancement of General Compliance Training; enhancement of compliance awareness; updating of the compliance risk assessment to include new risks like HIPAA; revision of the Standards of Conduct Guide or Compliance Manual; and enhancement of the confidential reporting line tracking system.

A majority of the items identified in the Action Plans were completed. The remaining items are in the process of completion at this time.

Confidential Reporting

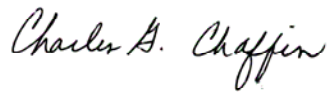
The institutions have established numerous mechanisms for confidential reporting including: third-party serviced telephone hotlines, anonymous electronic mailboxes, voicemail boxes, and postal mailboxes. The confidential reporting mechanisms are advertised to employees through Web site, posters, payroll stuffers, and newsletters. Additionally, reports may be made directly to the Compliance Officer. The composition of the suspected instances of noncompliance were as follows:

Type	Number	% of Total
Improper Use of University Property & Resources	72	14%
Human Resources	205	42
Health-care	46	9

Miscellaneous	102	20
Ethics	70	14
Fiscal Reporting/Audit	3	1
Total	498	100%

Each institution has established an appropriate triage process. Members of the triage teams may include: Compliance Officer, Chief of Police, Director of Internal Audit, Director of Human Resources, Legal Officer, or other members of the Compliance Committee. Three reports received were considered significant and the System-wide Compliance Officer was appropriately notified and briefed on the issues and resolution. All confidential reports were appropriately resolved.

The 2003 Annual Summary Report is submitted by:



Charles G. Chaffin, System-wide Compliance Officer

UTIMCO Enterprise Risk Management Initiative

Summary

UTIMCO is implementing a comprehensive Enterprise Risk Management Plan to enhance its efforts to demonstrate a commitment to integrity and accountability. The plan focuses on a framework of four major objectives:

- Strategic Considerations
- Operating Processes
- Financial & Reporting Controls
- Compliance Activities

Initial efforts have been focused on a comprehensive risk management plan for the organization. The initial self-assessment of risk has been completed. Assessments were conducted for each of the nine (9) operating departments within the organization. Risks have been ranked and operating controls have been identified to appropriately manage risks. On-going monitoring efforts are being established to continually evaluate and assess potential risks of the organization. Policies and procedures are being documented and updated to reflect current business practices. Management and staff are actively involved in planning the voluntary implementation of relevant provisions of the Sarbanes-Oxley Act of 2002, which involves enhanced disclosure and financial accountability.

UTIMCO is beginning its first year as a participant in The University of Texas System Institutional Compliance Program. This initiative is led by UTIMCO President Bob L. Boldt and directed by Chief Compliance Officer, Joan Moeller, with the assistance of Greg D. Lee, CPA, and Michael Rackett, CIA.

Ongoing Assessment and Monitoring Activities

Investment Risk – UTIMCO has begun a significant initiative to enhance its measurement, assessment, and management of investment risk. Andrea Reed, the organization's investment risk manager, leads this project with active participation from the organization's president, managing directors, and board members. The program uses post-modern portfolio theory as a framework for risk management. Key decision factors are being identified to help ensure appropriate risk / return decisions are made. Policies and procedures are being developed and will be reviewed annually.

Corporate Compliance – The UTIMCO Ethics and Compliance Committee tracks Conflict of Interest compliance. Procedures are in place to ensure the required employees complete disclosure statements. In addition, UTIMCO board members and key employees for prospective investments complete certificates of compliance. Monitoring procedures are performed monthly to verify compliance with investment policy statements.

Investment Selection & Monitoring – Extensive research, due diligence, and review processes exist to aid in the selection and ongoing monitoring of investments. Detailed monthly performance reports and established benchmark comparisons are used to review and monitor investment and manager performance.

UTIMCO Enterprise Risk Management Initiative

Security of Data & Access to Information – Appropriate access controls are established by IT staff to ensure access is limited to appropriate personnel and not allowed for unauthorized users. Routine backups of operating systems and data storage help ensure safeguarding and security over data. Processes and procedures will be reviewed and tested annually to ensure both that sufficient controls have been established and that those controls are functioning as designed.

Action Plan Activities

The Action Plan Activities have focused on completing the organization-wide risk assessment, conducting annual ethics and compliance training, and beginning development of plans for periodic monitoring reviews and inspections. Ongoing efforts will concentrate on full implementation of the Enterprise Risk Management Plan. Specific activities will focus on the higher risk areas identified by the risk assessment: Investment Risk, Corporate Compliance, and Security of Data and Access to Information.

6. **U. T. System: Report on System-wide Audit Activity (red, yellow, green project)**

REPORT

The fourth quarter activity report on the status of outstanding significant recommendations of the System-wide Audit Activity report is set out on Pages 12.1 - 12.4. Additionally, a list of other audit reports that have been issued by the System-wide audit program, the State Auditor's Office, and the Comptroller of Public Accounts follows on Pages 12.5 - 12.6.

There are two types of audit findings/recommendations: reportable and significant. A "reportable" audit finding/recommendation should be included in an audit report if it is material to the operation, financial reporting, or legal compliance of the audited activity, and the corrective action has not been fully implemented. "Significant" audit findings/recommendations are reportable audit findings/recommendations that are deemed significant at the institutional level by the component internal audit committee or their designee.

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

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	Fiscal Year 2003						Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance	
			2nd Quarter		3rd Quarter		4th Quarter				Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")	
			Ranking	# of Significant Findings	Ranking	# of Significant Findings	Ranking	# of Significant Findings				
1	1998-06	UTSYS ADM	Office of Human Resources		1		1		0	n/a	Completed	O
2	1998-07	UTHSC - Houston	Federal Contracts & Grants Review		1		1		1	2/28/2004	Satisfactory	C
3	1999-02	UTPB	Compliance Program		1		1		1	10/31/2003	Satisfactory	C
4	1999-11	UTD	Green Commons Club		1		1		0	n/a	Completed	O
5	2000-04	UTHSC - Houston	Medical Service Research & Development Plan Summary of Operations Review		1		1		1	11/30/2003	Satisfactory	C
6	2000-04	UTSYS ADM	Trust Minerals		1		1		1	12/31/2003	Satisfactory	C
7	2000-05	UTHC - Tyler	Information Technology Audit of Physical Security - Safeguarding & Storage of System Media		2		2		1	10/31/2004	Satisfactory	O
8	2000-09	UTAUS	Federal Funds Principal Investigators		4		4		4	12/31/03	Satisfactory	C
9	2001-01	UTHSC - Houston	Casual Appointments, Compensation Compliance & Monitoring Review		1		1		0	n/a	Completed	C
10	2001-04	UTPA	Internet Security		1		1		1	10/31/2003	Satisfactory	O
11	2001-08	UTMB - Galveston	Institutional E-mail Systems		2		2		0	n/a	Completed	O
12	2001-08	UTMDACC - Houston	Lotus Notes Environment		3		3		3	12/31/2003	Satisfactory	O
13	2001-09	UTPA	Advanced Research/Technology Programs		3		3		0	n/a	Completed*	O, C
14	2001-10	UTHSC - San Antonio	Information Security		2		2		1	9/1/2004	Satisfactory	C, O
15	2001-10	UTMDACC - Houston	Disaster Recovery/Business Continuity Planning		1		1		1	6/30/2004	Satisfactory	O
16	2001-11	UTEP	Department of Chemistry		1		1		1	10/31/2003	Satisfactory	C
17	2001-11	UTEP	Model Institutions for Excellence		1		1		1	10/31/2003	Satisfactory	C
18	2001-11	UTTY	Information Technology General Security Review		2		2		2	9/1/2004	Satisfactory	O

12.1

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	Fiscal Year 2003						Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")	
			2nd Quarter		3rd Quarter		4th Quarter					
			Ranking	# of Significant Findings	Ranking	# of Significant Findings	Ranking	# of Significant Findings				
19	2001-11	UTHSC - Houston	Report on University Care Plus (UCP)/Physician Business Services (PBS) Payment Process & A/R Credit Balance Review		2		2		1	11/30/2003	Satisfactory	C
20	2002-02	UTD	Follow-Up of Prior Audit Recommendations		1		1		0	n/a	Completed	F
21	2002-02	UTHSC - Houston	Time Management System Post Implementation Review		1		1		0	n/a	Completed	O, C
22	2002-02	UTHSC - Houston	Environmental & Physical Safety Compliance Program Review		1		1		1	2/28/2004	Satisfactory	C
23	2002-04	UTB	General Controls Audit of Information Technology		1		1		1	3/31/2004	Satisfactory	O
24	2002-05	UTARL	Network Support Audit		2		2		2	11/30/2003	Satisfactory	O
25	2002-05	UTHC - Tyler	Office of the Vice President for Finance & Administration Departmental Audit		1		1		0	n/a	Completed	F
26	2002-05	UTSYS ADM	Office of Information Resources Follow-up		1		1		1	4/1/2004	Satisfactory	O
27	2002-07	UTMB - Galveston	Clinical Interface Engine		2		2		0	n/a	Completed	O
28	2002-07	UTHSC - Houston	Healthcare Billing Compliance Review					***	1	11/30/2003	-	F, C
29	2002-08	UTHSC - San Antonio	Institutional Compliance Program		3		3		2	6/30/2004	Satisfactory	C
30	2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		1		1	11/30/2003	Satisfactory	O, C
31	2002-09	UTAUS	Travel		2		2		2	5/1/2004	Satisfactory	O, C
32	2002-09	UTSA	Change in Management Departmental Reviews		1		1		1	10/31/2003	Satisfactory	O
33	2002-10	UTAUS	Student Accounts Receivable/Fee Billing System		1		1	Implementation Cancelled**	0	[none]	Cancelled**	O
34	2002-10	UTAUS	Unit Heads		1		1		1	5/1/2004	Satisfactory	O, C
35	2002-10	UTB	Workforce Training and Continuing Education Audit		1		1		1	12/31/03	Satisfactory	F,O
36	2002-10	UTTY	Performance Measures		1		1		1	12/15/2003	Satisfactory	C
37	2002-10	UTSYS ADM	UTHC - Tyler Clinical Trials		1		1		1	1/1/2005	Satisfactory	O, F

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	Fiscal Year 2003						Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			2nd Quarter		3rd Quarter		4th Quarter				
			Ranking	# of Significant Findings	Ranking	# of Significant Findings	Ranking	# of Significant Findings			
38	2002-11	UTPB		2		2		1	10/31/2003	Satisfactory	O
39	2003-01	UTSMC - Dallas				1		0	n/a	Completed	C, O
40	2003-02	UTSYS ADM				1		1	12/31/2003	Satisfactory	O
41	2003-03	UTD				1		0	n/a	Completed	O
42	2003-03	UTEP						2	3/31/2003	Completed	C, O, F
43	2003-03	UTPA				11		11	6/30/2004	Satisfactory	O
44	2003-03	UTSA				1		0	n/a	Completed	O
45	2003-03	UTMB - Galveston				5		2	11/30/2003	Satisfactory	O
46	2003-03	UTHSC - San Antonio						5	7/31/2003	Completed	O
47	2003-04	UTD				2		0	n/a	Completed	C
48	2003-06	UTARL						3	11/30/2003	-	C,O
49	2003-06	UTAUS						2	11/30/2003	-	O
50	2003-06	UTD						3	6/30/2004	-	C,O
51	2003-07	UTD						1	4/30/2004	-	C, O
52	2003-07	UTSA						1	10/31/2003	-	F, C
53	2003-08	UTPA						4	12/30/2003	-	F, C
54	2003-08	UTSYS ADM						1	11/1/2003	-	O
55	2003-08	UTSYS ADM						1	10/31/2003	-	F
Totals					55		77		74		

12.3


Status of Outstanding Significant Recommendations


Report Date	Institution	Audit	Fiscal Year 2003						Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			2nd Quarter		3rd Quarter		4th Quarter				
			Ranking	# of Significant Findings	Ranking	# of Significant Findings	Ranking	# of Significant Findings			
STATE AUDITOR'S OFFICE AUDITS											
1	2002-05	UTMDACC - Houston		1		1		1	12/31/2003	Satisfactory	n/a
2	2002-09	UTB		2		2		1	4/30/2004	Satisfactory	n/a
3	2003-02	UTAUS				7		7	12/31/2003	Satisfactory	n/a
4	2003-04	UTSA						1	12/31/2003	-	n/a
	2003-08	System						1	10/31/2003	-	n/a
Totals				3	10	10					


* Component Management and Internal Audit requested two of these recommendations be removed as they are no longer deemed significant.
 ** Management does not believe that consolidation of the A/R function would yield sufficient financial gains in the near term to offset those gains
 *** This issue was tracked internally until this time. UTHSC - Houston management requests it be added to this system.

n/a - State Auditor's Office recommendations are significant by definition.

Color Legend:

 Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention.

 A red audit becomes a yellow when significant progress has been made.

 All issues have been appropriately resolved.

Note: **Completed** - The component Internal Audit Director deems the significant issues have been appropriately addressed and resolved.
Satisfactory - The component Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.
Unsatisfactory - The component Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

*** OTHER U. T. SYSTEM AUDITS COMPLETED - 6/2003 through 8/2003**

Month Received by System	Institution	Audit
2003 - 06	UTHC - Tyler	Office of the Vice President & Chief Information Officer
2003 - 06	UTARL	Accounts Receivable & Allowance for Doubtful Accounts
2003 - 06	UTARL	Time Reporting Audit
2003 - 06	UTARL	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTAUS	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTAUS	Advanced Research & Advanced Technology Programs
2003 - 06	UTD	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTEP	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTHC - Tyler	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTHSC - Houston	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTHSC - Houston	Advanced Research & Advanced Technology Programs
2003 - 06	UTHSC - Houston	Department of Obstetrics/Gynecology and Gynecology and Reproductive Sciences
2003 - 06	UTHSC - San Antonio	Department of Dental Diagnostic Science
2003 - 06	UTHSC - San Antonio	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTMB - Galveston	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTPA	Personnel Services Office Departmental Audit
2003 - 06	UTPA	NCAA Agreed-Upon Procedures Report FYE 8/31/02
2003 - 06	UTPB	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTSA	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTSMC - Dallas	Information Technology Vulnerability Action Plan - Phase 1
2003 - 06	UTSYS ADM	Information Technology Vulnerability Action Plan - Phase 1
2003 - 07	UTAUS	12th Class Day Reporting/Formula Funding
2003 - 07	UTAUS	Pharmacy Inventory
2003 - 07	UTHSC - San Antonio	Physical Therapy
2003 - 07	UTHSC - San Antonio	Prosthodontics
2003 - 07	UTMB - Galveston	Information Technology Vulnerability Report - Phase 2
2003 - 07	UTMDACC	Billing Compliance Effectiveness
2003 - 07	UTMDACC	Charge Capture - Emergency Center
2003 - 07	UTMDACC	Define Organization and Relationship
2003 - 07	UTMDACC	Neuro-Oncology Long Distance
2003 - 07	UTMDACC	International Center Credit Card Internal Control Weakness
2003 - 07	UTMDACC	Financial Management System Application
2003 - 07	UTMDACC	PC Lease Review
2003 - 07	UTMDACC	Use of Institutional Funds for Charitable Expenditures, Follow up
2003 - 07	UTSMC - Dallas	Workers Compensation Insurance Resource Allocation Program
2003 - 07	UTSYS ADM	Management Review of The University of Texas at Arlington
2003 - 07	UTSYS ADM	MBA Program Office Time Reporting Policies & Practices Report
2003 - 07	UTSYS ADM	UTHSC - Houston Organizational & Administrative & Finance Reviews Follow-Up
2003 - 07	UTSYS ADM	UTEP NCAA Agreed-Upon Procedures Report FYE 8/31/02
2003 - 08	UTARL	NCAA Student Financial Aid Compliance Audit
2003 - 08	UTARL	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTAUS	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTAUS	Bevo Bucks/Dining Dollars System

Month Received by System	Institution	Audit
2003 - 08	UTD	Callier Child Care Program
2003 - 08	UTD	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTD	Admissions Office
2003 - 08	UTEP	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTHC - Tyler	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTHSC - Houston	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTHSC - SA	Research - Animal Care Audit
2003 - 08	UTHSC - SA	Information Technology Vulnerability Report - Phase 2
2003 - 08	UTMB - Galveston	Family Practice Residency Program
2003 - 08	UTMB - Galveston	Pulmonary Care Services Department Review
2003 - 08	UTMB - Galveston	Laboratory Safety Inspection Process Design Review
2003 - 08	UTMB - Galveston	Operational Review - Delivery of Operating Room Services
2003 - 08	UTMB - Galveston	School of Nursing Change in Management Review
2003 - 08	UTPA	Advanced Research & Advanced Technology Programs
2003 - 08	UTSA	Faculty Recruitment
2003 - 08	UTSMC - Dallas	Parkland Contract Payments for Graduate Medical Education
2003 - 08	UTSYS ADM	UTPB Follow-Up Audit FY 2003
2003 - 08	UTSYS ADM	Office of Academic Affairs Audit Report FY 2003
2003 - 08	UTSYS ADM	OFPC Customer/Client Surveys
2003 - 08	UTSYS ADM	4th Quarter Follow-up FY 2003
2003 - 08	UTSYS ADM	Information Technology Vulnerability Report - Phase 2

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 6/2003 through 8/2003 - NO RECOMMENDATIONS**

Report Issuance Date	Audit
2003-07-30	A Review of Financial Controls over Patient Accounts Receivable and Uncompensated Care at State Medical Institutions
2003-08-29	A Review of State Entities' Preparedness for Compliance with the Health Insurance Portability and Accountability Act
2003-08-29	A Review of Enrollment Reporting by Texas Public Universities and Health-Related Institutions

*** COMPTROLLER OF PUBLIC ACCOUNTS AUDITS COMPLETED - 6/2003 through 8/2003**

Report Issuance Date	Institution	Audit
2003-08-22	UTSYS ADM	Post Payment Audit of The University of Texas System Administration
2003-08-25	UTHSC - Houston	Post Payment Audit of The University of Texas Health Science Center at Houston

7. U. T. System: Report on the Results of the UTIMCO Audit

REPORT

Mr. Ricky Richter of Ernst & Young LLP will report on the results of the audit of the financial statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, and Short Intermediate Term Fund (following on Pages 13.1 - 13.91).

Ernst & Young LLP's Audit Results and Communications are included on Pages 13.1 - 13.5.

Ernst & Young LLP's Report of Independent Auditors for each fund is available as follows:

- Permanent University Fund (Pages 13.6 - 13.27)
- General Endowment Fund (Pages 13.28 - 13.48)
- Permanent Health Fund (Pages 13.49 - 13.63)
- Long Term Fund (Pages 13.64 - 13.78)
- Short Intermediate Term Fund (Pages 13.79 - 13.91)

The full financial statements including the Permanent University Fund Detail Schedules of Investment Securities and the Statement of Investment Performance Statistics, which are not attached to this report, are accessible at <http://www.utsystem.edu/bor/agendabook/> effective November 3, 2003.

Ernst & Young LLP was selected to perform the 2003 financial audit of the funds managed by The University of Texas Investment Management Company (UTIMCO), following a Request for Proposals (RFP) process in June 2003. The Board of Regents is required, by statute, to have the financial statements of the Permanent University Fund audited annually.