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Committee Meeting: 11/10/2010

R. Steven Hicks, *Chairman*
Paul L. Foster
Janiece Longoria
Robert L. Stillwell

Board Meeting: 11/11/2010
Austin, Texas

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Convene	9:00 a.m. <i>Chairman Hicks</i>		
1. U. T. System: Report on the Inter-University Compliance Consortium	9:00 a.m. Report/Discussion <i>Mr. Plutko</i> <i>Dr. Wolf</i>	Not on Agenda	61
2. U. T. System: Risk Management Report	9:05 a.m. Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	70
3. U. T. System Board of Regents: Report on results of the audits of funds managed by The University of Texas Investment Management Company (UTIMCO)	9:20 a.m. Report/Discussion <i>Mr. Tom Wagner,</i> <i>Deloitte & Touche</i>	Not on Agenda	92
4. U. T. System: Report on the progress and preliminary results of the audits of the Fiscal Year 2010 U. T. System Administration and institutional Annual Financial Reports	9:30 a.m. Report/Discussion <i>Mr. Chaffin</i>	Not on Agenda	92
5. U. T. System Board of Regents: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2011	9:35 a.m. Action <i>Mr. Chaffin</i>	Action <i>Regent Hicks</i>	93
6. U. T. System: Report on the Systemwide internal audit activities, including the results of the Systemwide internal audit performance metrics	9:38 a.m. Report/Discussion <i>Mr. Chaffin</i>	Not on Agenda	96
Adjourn	10:00 a.m.		

1. **U. T. System: Report on the Inter-University Compliance Consortium**

REPORT

Mr. Lawrence Plutko, Systemwide Compliance Officer, and C. J. Wolf, M.D., Assistant Systemwide Compliance Officer, will brief the Audit, Compliance, and Management Review Committee on the newly established Inter-University Compliance Consortium and planned activities. The presentation is included on Pages 62 - 69.

BACKGROUND INFORMATION

Mr. Plutko provided a report on the Consortium at the August 11, 2010 Committee meeting and Chairman McHugh suggested a follow-up report to better understand how the Consortium is working and how it can best help the U. T. System.

Inter-University Compliance Consortium

Lawrence Plutko, Systemwide Compliance Officer

C. J. Wolf, M.D., Assistant Systemwide Compliance Officer

November 2010

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THE UNIVERSITY of TEXAS SYSTEM

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Board of Regents'
Meeting

Audit, Compliance, and
Management Review
Committee



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Inter-University Compliance Consortium

Members

- The University of Texas System
- The University of California System
- The California State University System
- Stanford University
- California Institute of Technology
- University of Washington



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Inter-University Compliance Consortium

Goals

- Share state-of-the-art best practices to expand compliance effectiveness across the university enterprise
- Develop, promote, and provide electronic solutions to increase efficiency and broaden oversight
- Leverage the talent pool within the consortium institutions for content expertise and expanded education in compliance high-risk areas



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Inter-University Compliance Consortium

Primary Discussion Areas

- Medical Billing Compliance
- Clinical Trial Compliance
- Research Compliance
- Privacy and Information Security
- Athletics Compliance
- Organizational Ethics
- Expansion of Webinar Education



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Inter-University Compliance Consortium

Clinical Trial Compliance

- UC hosts national experts for seven-part webinar series, September/October 2010
- Onsite visit by University of California to U. T. Southwestern Medical Center - Dallas, October 8, 2010
- U. T. System Guiding Principles for Clinical Trial Billing



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Inter-University Compliance Consortium

Expansion of Webinar Education

- Expand curriculum to include compliance faculty presenters from the consortium institutions
- Arrange for cross-registration so that consortium members can access webinars at each system
- Provide professionally-approved continuing education hours for registered participants



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Inter-University Compliance Consortium

Privacy and Information Security

- Conference Call Series
 - Focus: Privacy and Information Security including HITECH
 - Use of Metrics to Report and Monitor Compliance
 - Enhance Compliance Skills and Competencies
- Onsite Plenary Session for Spring 2011



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Inter-University Compliance Consortium

Upcoming Meetings and Events

- Cal Tech, Pasadena – February 3 and 4, 2011
 - Focus: Research Compliance and Clinical Trial Compliance
- UC System, Costa Mesa – February 28 to March 2 and San Francisco – March 7 to March 9, 2011
 - Conducting Compliance Investigations Workshop
 - Compliance Education Symposium

2. **U. T. System: Risk Management Report**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will report on Risk Management utilizing the PowerPoint presentation on Pages 71 - 91.

MANAGING RISK AT THE UNIVERSITY OF TEXAS SYSTEM

Dr. Scott C. Kelley
Executive Vice Chancellor for Business Affairs

The University of Texas System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
November 2010



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What is Risk?

Any issue that impacts an organization's ability to meet its objectives. Five types of risk include:

- Strategic
- Financial
- Operational
- Compliance
- Reputational

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Source: *Developing A Strategy to Manage Enterprise Risk in Higher Education* – NACUBO Publication, 2001



Evolution of Risk Management

Evaluating and Purchasing Insurance ⇒

Risk Financing including Risk Transfer and Risk Control ⇒

Strategic Risk Management including Investment, Business and Political Risks ⇒

Risk Intelligent Decision Making

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Key Elements: Managing U. T. System Risk

- An integrated framework including the following interrelated components:
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring
- Risk intelligence integrated into leadership's strategic decision making
- Nimbleness and flexibility

*The components of the risk framework were first reported and defined by the Council of Sponsoring Organizations (COSO), a commission charged in the late 1980s with assessing the nature of business failures and suggesting preventative measures.



The U. T. System Framework

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

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Control Environment

*“It focuses on people, the ethical and moral values established by an organization’s leadership team and competence.”**

- Risk Management Executive Committee (RMEC)
- Risk Management Advisory Committee
- Systemwide Executive Compliance Committee (SECC)
- Institutional Compliance Committees
- Systemwide Internal Audit Committee
- Institutional Internal Audit Committees
- Environmental Health & Safety Advisory Committee
- Emergency Management Committee

*Source: *ERM in Higher Education – URMIA White Paper, 2007*



Control Environment (cont.)

- Business Management Council (campus chief business officers)
- The University of Texas Investment Management Company (UTIMCO) Board of Directors
- Board of Regents' (BOR) Finance and Planning Committee
- BOR Audit, Compliance, and Management Review Committee
- Mandated Systemwide Compliance Training
- Systemwide Ethics Policy
- Board of Regents' Rules and Regulations
- Rigorous Executive Search Processes

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Risk Assessment

*“Ensures that mechanisms exist throughout the organization to identify, manage and mitigate unwarranted risks.”**

- Annual work plans by:
 - Medical billing compliance
 - Systemwide Compliance Office
 - Institutional Compliance offices
 - Information Security
 - System and institutional internal auditors
- Annual Information Technology (IT) risk assessments of mission critical systems

*Source: *ERM in Higher Education – URMIA White Paper, 2007*



Risk Assessment (cont.)

- Annual financial risk assessments by
 - State Auditor
 - External auditors
 - System and institutional internal auditors
- Regular risk assessment and discussions by System and institutional Compliance Committees
- Continuous assessment of financial market risk
- Regular reviews of debt status and capacity
- Annual budgeting process
- Regular reviews and updates to six-year Capital Improvement Plan (CIP)

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Risk Assessment (cont.)

- Regular risk assessments for:
 - Real property
 - Construction risks
 - Liability
 - International travel
 - Research regulations and standards
- Regular strategic reviews of all insurance programs
- Regular risk assessments and discussion by the International Oversight Committee
- Regular management retreats and strategic planning

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Control Activities

*“Provides that policies and procedures should be established and followed to ensure all actions support the achievement of defined goals.”**

- Proper segregation of duties
- Up-to-date account reconciliations
- Certifications by campus and System financial officers
- Regular IT security penetration and usage tests
- Encrypted laptops and virus protection
- Detailed and transparent budget systems
- Accounting training for all departmental administrators

*Source: *ERM in Higher Education – URMIA White Paper, 2007*



Control Activities(cont.)

- Detailed reviews for all major capital expenditures
- Detailed purchasing policies requiring appropriate documentation prior to purchase
- Promulgation of numerous policies, guiding principles and best practices
- Departmental reviews of physician and hospital charges
- Separate departmental verification of physician bills
- Regular sampling and review of research expenditures

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Control Activities (cont.)

- Institutional Research Board (IRB) approval and review of research protocols
- Time and effort reporting policies and procedures
- Compliance hotline
- Acceptable Use Policy – required acknowledgement by all with access to information resources
- Regular mandated and supplemental training

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Information and Communication

*“Provides that communication and the sharing of information should occur up, down, and across the organization.”**

- Regular meetings of groups listed under “Control Environment”
- Regular training
- Written policies and procedures
- Newsletters, news alerts, memoranda
- Systemwide conferences
 - Risk Management
 - Clinical Safety and Effectiveness

*Source: *ERM in Higher Education – URMIA White Paper, 2007*



Information and Communication (cont.)

- Consultative services by Compliance Office
- Campus notification systems
- Intranet
- Regular campus visits
- Regular and frequent one-on-one communications
- Many standard reports and presentations

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Monitoring

*“Provides that the entire process must be monitored in order to recognize problems and make necessary adjustments.”**

- Monthly financial statement reviews
- Medical provider billing, compliance reviews and audits
- Departmental reviews by Internal Audit
- Internal audits
- IT security campus and individual system reviews

*Source: *ERM in Higher Education – URMIA White Paper, 2007*



Monitoring (cont.)

- External Reviews
 - Employee benefits
 - Construction charges
 - External audits
 - Fire Marshal inspections
 - Annual State Auditor review of research and student financial aid
 - Other State audits
- Fire drills
- Lab safety inspections
- Institutional research compliance reviews

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Monitoring (cont.)

- Effort reporting
- Automated reviews of Workers' Compensation and Unemployment Compensation claims
- Reporting, discussion, and review of activities to/by groups mentioned above under "Control Environment"

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Risk Intelligent Decision Making

- Responsibility for risk rests with all executive leadership. Each manager, director, and officer is charged with considering risk in all strategic and operational decisions.
- Policies, procedures, communications, controls, committees, and training are all designed to assess and convey potential risks to management (and to the culture) to facilitate effective risk intelligent decision making.
- U. T. System's framework allows new risks (or weaknesses uncovered in mitigating existing risks) to flow in from all parts of the organization, to bubble up to the appropriate level, and then to be controlled by utilizing structures already in place.

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Nimbleness and Flexibility

The design of U. T. System's risk management system allows for rapid response and adjustment as new risks are identified and assessed.

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Conclusion

Key Elements: Managing Risk at U. T. System

- An integrated framework including the following interrelated components:
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring
- Risk intelligence integrated into leadership's strategic decision making
- Nimbleness and flexibility

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3. **U. T. System Board of Regents: Report on results of the audits of funds managed by The University of Texas Investment Management Company (UTIMCO)**

REPORT

Mr. Tom Wagner, Deloitte & Touche, LLP, will report on the results of the financial statement audits of the Permanent University Fund (PUF), General Endowment Fund (GEF), Permanent Health Fund (PHF), Long Term Fund (LTF), and Intermediate Term Fund (ITF). These funds are managed by The University of Texas Investment Management Company (UTIMCO).

A copy of Deloitte & Touche's report was mailed separately to all Regents in advance of the meeting and is available upon request.

BACKGROUND INFORMATION

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

On July 11, 2007, the Board authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche, LLP, to perform a financial audit of the Funds managed by UTIMCO for the fiscal year ended August 31, 2007, with the option to renew for four additional one-year terms. The Board renewed the contract with Deloitte & Touche, LLP, on February 7, 2008, February 11, 2009, and February 5, 2010, to perform the audit of the funds managed by UTIMCO for the respective fiscal year.

4. **U. T. System: Report on the progress and preliminary results of the audits of the Fiscal Year 2010 U. T. System Administration and institutional Annual Financial Reports**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on the progress and preliminary results of the audits of the Fiscal Year 2010 U. T. System Administration and institutional Annual Financial Reports being performed by institutional and U. T. System Administration internal audit.

BACKGROUND INFORMATION

The U. T. System Audit Office prepared a plan to oversee and coordinate: a) the internal audit of the FY 2010 U. T. System Administration and institutional Annual Financial Reports, and b) the process used to prepare the FY 2010 U. T. System Consolidated Annual Financial Report and related footnotes. The System Audit Office and each institutional internal audit department will report on the accuracy of their institution's individual Annual Financial Report, including the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Net Assets, and related footnote information.

The internal audits of the Annual Financial Reports are performed at the request of the U. T. System Board of Regents (Board) for the benefit of the Board, U. T. System Administration management, and U. T. System institution management only and are not intended to provide assurance for any purpose to readers of the report outside of U. T. System.

5. **U. T. System Board of Regents: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2011**

RECOMMENDATION

Mr. Charles Chaffin, Chief Audit Executive, recommends approval of the proposed Fiscal Year 2011 U. T. Systemwide Annual Internal Audit Plan (Plan). Development of the Plan is based on risk assessments performed at each institution. Implementation of the Plan will be coordinated with the institutional auditors. An executive summary of the Plan is on Pages 94 - 95. The full Plan was mailed to all Regents on September 23, 2010, and is available upon request.

BACKGROUND INFORMATION

Institutional audit plans, compiled by the internal audit departments after input and guidance from the U. T. System Audit Office, the Offices of Academic or Health Affairs, and the institution's management and institutional Internal Audit Committee, were submitted to the respective institutional Internal Audit Committee and institutional president for review and comments. Additionally, the institutional audit plans were presented and discussed at the U. T. System Administration Internal Audit Committee meeting held on September 7, 2010. Also, the Chief Audit Executive provided feedback by conducting audit hearings with each institution.

After the review process, each institutional Internal Audit Committee formally approved its institution's audit plan.

**The University of Texas System
Systemwide Internal Audit Program
Fiscal Year 2011 Annual Audit Plan
Executive Summary**

The University of Texas (UT) Systemwide fiscal year (FY) 2011 Internal Audit Plan (FY 2011 Audit Plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout the System in FY 2011.

The process of preparing the audit plans is risk-based and ensures that areas and activities specific to each institution with the greatest risk are identified to be audited. Individual annual audit plans were prepared at UT System Administration and each institution in July and August. The System Audit Office, Office of Academic or Health Affairs, and the institution’s management and Audit Committee provided input and guidance on the audit plans. Additionally, the Chief Audit Executive provided direction to the internal audit directors both prior to the preparation of the audit plans and through formal feedback through “audit hearings” with each institution.

The institutional annual audit plans were reviewed for the possibility of assurance work done by external entities during the audit year, such as the State Auditor’s Office (SAO), external audit firms, federal auditors, etc. Where appropriate, other assurance work was relied upon to reduce the internal audit resources needed.

After the review process, each institutional Internal Audit Committee formally approved its institution’s annual audit plan. At the November 2010 meeting, the FY 2010 Audit Plan will be formally presented to the Audit, Compliance, and Management Review Committee and the UT System Board of Regents for consideration for approval.

The efforts of the internal audit function continue to focus on adding value through performance of audits in high-risk areas, including financial reporting, patient revenue and patient charge capture, construction, information technology and security, and research administration. The internal audit function also provides management value through consulting projects and special investigations.

The FY 2011 Audit Plan directs internal audit resources on priority audits and projects allocated among the categories listed below to address the risks of UT System. However, with potential changes in priorities that may occur during the fiscal year, institutions may request approval from their respective president and/or internal audit committee to change the priority budget for audits and projects or reallocate priority budget hours among the various categories.

Audit Area Categories	Priority Budget Audit Hours	% of Priority Budget Audit Hours
Financial	24,290	19%
Operational	26,146	20%
Compliance	17,520	14%
Information Technology	21,665	17%
Follow-up	6,163	5%
Projects	31,592	25%
Total	127,376	100%

**The University of Texas System
Systemwide Internal Audit Program
Fiscal Year 2011 Annual Audit Plan
Executive Summary**

FY 2011 Total Budgeted Priority Audit Plan Hours by Institution:

	Financial	Operational	Compliance	Information Technology	Follow-up	Projects	Total Priority Budget Hours*
U. T. System Administration	4,560	4,475	1,850	2,300	850	3,640	17,675
Large Institutions:							
U. T. Austin	2,250	2,000	2,250	2,400	475	4,525	13,900
U. T. Southwestern Medical Center	3,200	2,550	2,100	2,400	500	4,400	15,150
U. T. Medical Branch at Galveston	1,275	1,800	710	1,850	400	2,354	8,389
U. T. Health Science Center - Houston	1,455	2,631	1,050	1,470	440	1,304	8,350
U. T. Health Science Center - San Antonio	840	1,450	360	1,190	400	2,950	7,190
U. T. M. D. Anderson Cancer Center	2,370	1,940	2,160	2,350	600	3,145	12,565
Subtotal	11,390	12,371	8,630	11,660	2,815	18,678	65,544
Mid-size Institutions:							
U. T. Arlington	1,270	790	1,060	725	350	1,070	5,265
U. T. Brownsville	860	1,180	190	400	200	1,629	4,459
U. T. Dallas	700	1,820	1,260	1,140	110	790	5,820
U. T. El Paso	960	2,200	1,250	2,000	900	1,641	8,951
U. T. Pan American	1,140	850	1,200	900	200	1,595	5,885
U. T. San Antonio	1,340	1,245	1,070	1,400	350	1,525	6,930
Subtotal	6,270	8,085	6,030	6,565	2,110	8,250	37,310
Small Institutions:							
U. T. Permian Basin	750	350	320	325	133	250	2,128
U. T. Tyler	620	365	150	465	100	268	1,968
U. T. Health Science Center - Tyler	700	500	540	350	155	506	2,751
Subtotal	2,070	1,215	1,010	1,140	388	1,024	6,847
TOTAL	24,290	26,146	17,520	21,665	6,163	31,592	127,376
Percentage of Total	19%	20%	14%	17%	5%	25%	100%

* Reflects total hours budgeted for priority audits/projects (subject to approval by the Audit, Compliance, and Management Review Committee), which represents approximately 80 - 85% of total budgeted hours for the FY 2011 Systemwide Annual Audit Plan.

6. **U. T. System: Report on the Systemwide internal audit activities, including the results of the Systemwide internal audit performance metrics**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will present the annual report of the Systemwide Internal Audit Program for Fiscal Year 2010 as set forth on Pages 97 - 103. Institutional internal audit activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on an annual basis. The last activity report was sent to the Regents on October 28, 2010.

Mr. Chaffin will report on the progress and preliminary results of the audits conducted to review expenditures made for presidential travel, entertainment, and maintenance of university residences (used to host special events) at each of the institutions and U. T. System Administration.

Mr. Chaffin will also report on the results of the Systemwide internal audit performance metrics. A summary of the performance metrics results was mailed separately in advance of the meeting.

Additionally, Mr. Chaffin will report on the implementation status of significant audit recommendations. The fourth quarter activity report on the Implementation Status of Outstanding Significant Findings/Recommendations is set forth on Pages 104 - 105. Satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports issued by the Systemwide audit program is on Pages 106 - 107.

BACKGROUND INFORMATION

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.

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

Systemwide Internal Audit Program Executive Summary

The University of Texas (UT) System has established Internal Audit Programs at each of the 15 institutions and UT System Administration. The Internal Auditor provides independent, objective assurance, and consulting services designed to add value and improve UT's operations. Additionally, the Internal Auditor is responsible for providing executive management with information about the adequacy and effectiveness of the institution's system of internal administrative and accounting controls and the quality of operating performance when compared with established standards.

Overall, the Internal Audit Programs accomplished the majority of their approved annual priority audit plans. Priority audit hours represent approximately 80% to 85% of the total budgeted hours available. Some of the Internal Audit Programs transferred, reallocated, cancelled or carried forward to fiscal year (FY) 2011 audit hours budgeted for various reasons, including limited time and staff resources, special requests from management and internal audit committee, or investigative matters that emerged during the year. These changes were communicated and approved by the respective institutional president and/or internal audit committee.

During FY 2010, the Systemwide Internal Audit Program conducted the third annual internal audit of the institutional, UT System Administration, and UT System Consolidated Annual Financial Report (AFR) for FY 2009. The auditors performed risk-based procedures on the financial statement information and controls over the financial reporting process. This audit provided assurance to the UT System Board of Regents that the financial statements, Systemwide, were free from any material misstatements while also providing the individual institutions valuable recommendations to enhance internal controls over financial reporting.

Beginning in FY 2010, the UT System Administration Internal Audit Committee requested that the System Audit Office conduct the presidential travel, entertainment, and housing expense audits at three institutions annually on a rotating basis to gain additional independent assurance. In FY 2010, the System Audit performed these audits at UT El Paso, UT Southwestern Medical Center at Dallas, and UT Medical Branch at Galveston, in addition to UT System Administration and UTIMCO. The remaining presidential travel, entertainment, and housing expenses audits were executed by the institutional Internal Audit Programs. The System Audit Office also completed audits of the president's office operations at UT Brownsville, UT San Antonio, and UT Tyler. Implementation of the presidents' offices audits on a rotating annual basis began in FY 2010 as requested by the UT System Board of Regents' (Board) Audit, Compliance, and Management Review Committee.

Additionally in FY 2010, governance audits of the practice plans were carried out at each of the health institutions. The objective of these audits was to determine if the institution had implemented the amended practice plan bylaws that were approved in August 2009 and the progress made. Based on the practice plan bylaws, the System Audit Office performs practice plan audits at two of the institutions (UT Health Science Centers at Houston and San Antonio in FY 2010) annually on a rotating basis with the remaining audits carried out by the institutional Internal Audit Programs.

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

There was an increased emphasis in information technology (IT) audits during FY 2010, which continues into FY 2011. Several institutional Internal Audit Programs conducted audits of their PeopleSoft applications (student and/or financial systems), time and effort reporting application, IT governance, and compliance with the Texas Administrative Code security requirements.

In general, the Internal Audit Programs experienced limited staff turnover during FY 2010. However, at the director level, an interim internal audit director was named at UT Tyler in the fourth quarter of FY 2010.

Among the Internal Audit Programs Systemwide, approximately 72% of staff members hold one or more of the following professional certifications: Certified Public Accountant, Certified Internal Auditor, and Certified Information Systems Auditor.

Mr. Charles G. Chaffin, Chief Audit Executive, is responsible for apprising the Chancellor and the Board of the status and activities of the institutional Internal Audit Programs.

Significant Accomplishments

During FY 2010, the Internal Audit Programs provided numerous value-added services to the institutions, managed successful collaborative activities, made contributions to the internal auditing profession, supplied support to external organizations, managed student internship opportunities, and continued to enhance the established Internal Audit Programs through Quality Assurance Reviews.

- **Value-added Services** – The Internal Audit Programs worked to ensure audits and projects added value and addressed the needs and concerns of executive management. Audits and projects included the internal audit of the AFR, audits in specialized areas, special investigations requested by executive management, and reviews of information systems and security as well as other core business operations.
 - *Internal Audit of the UT System AFR* – Coordinated and overseen by the System Audit Office, the Internal Audit Programs effectively conducted the third annual internal audit of the System Administration and institutional FY 2009 AFRs and the process to prepare the UT System Consolidated AFR. Overall, the audit resulted in no material adjustments to the financial statements; however, internal auditors at UT Medical Branch at Galveston (UTMB), UT El Paso (UTEP), and UT Pan American (UTPA) identified internal control deficiencies significant to those institutions. At UTMB, a recommendation was made regarding the controls over the valuation of the allowance for doubtful accounts for the physician practice plan accounts receivable. A recommendation was made at UTEP and UTPA related to access controls over their student information IT system. In addition, two Systemwide recommendations were made in the areas of fully executing institutional monitoring plans and formalizing a financial accounting and reporting advisory committee. System Administration and each institution issued an individual report to its executive management with specific internal control related recommendations, as applicable. Management at all institutions agreed with the recommendation made and has implemented or is working to implement them.

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

- *Practice Plan Governance Audits* – The practice plan governance audits conducted at each of the health institutions provided valuable recommendations in the areas of practice plan board and committee structure, full implementation of bylaws, and formal reporting of related audit recommendations to the practice plan board.
- *Special Projects and Investigations* – Several of the institutional and the UT System Administration Internal Audit Programs performed complex and sensitive audits at the request of executive management to assist in fraud investigations, address media allegations, and follow up on compliance hotline calls.
- *Information Technology Audits* – The majority of the institutional and the UT System Administration Internal Audit Programs audited IT governance to gain an understanding and make recommendations on the governance structure at their institutions. In addition, most of the Internal Audit Programs completed risk-based audits to determine their institution’s compliance with the Texas Administrative Code security requirements.
- **Collaborative Activities**
 - *Exchange Program* – The System Audit Office continues to provide support and resources to the Internal Audit Programs through staffing assistance to smaller institutions as well as distribution of audit programs and guidance for Systemwide audits. The program included several information technology exchange efforts in FY 2010.
 - *Performance Metrics* – The Systemwide internal audit activity continues to be evaluated on an annual basis in four areas of focus: Internal Audit Committees, Internal Audit Clients, Staff Resources and Competencies, and Internal Audit Processes. The performance metrics to measure the FY 2010 internal audit performance in these four major areas are currently underway and will be reported separately.
- **Professional Contributions**
 - *Professional Organizations* – Many of the internal audit directors have held various officer, committee and board member positions in professional organizations, such as vice president and several committee chairs of the Association of College and University Auditors (ACUA), treasurer and board member of the Texas Association of College and University Auditors (TACUA), and board member of the Information Systems Audit and Control Association local Austin chapter (ISACA). Several staff members from the Internal Audit Programs also made presentations at national and regional conferences and actively participated in numerous professional organizations, including ACUA, TACUA, ISACA, Association of Healthcare Internal Auditors, Institute of Internal Auditors, Texas Society of Certified Public Accountants, and Association of Certified Fraud Examiners.
 - *Training* – Some Internal Audit Programs provided internal audit related training in subjects, such as account reconciliations, segregation of duties, and internal controls to institutional leadership and other groups within their institutions.

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

- *Certifications* – The Internal Audit Programs Systemwide had several employees pass all or part of internal audit related certification exams, including Certified Internal Auditor, Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Audit Professional.
- **External Support** – Internal Audit Programs provided audit assistance to various external organizations, including performance of audit procedures as part of the external financial statements audit of the funds managed by The University of Texas Investment Management Company (UTIMCO) and the Southern Association of Colleges and Schools (SACS) accreditation process, aid to the Office of the Inspector General on various audits, support to the State Auditor’s Office in conducting their OMB A-133 Single Audit and State of Texas Comprehensive AFR Audit, and assistance to the State Comptroller of Public Accounts in conducting their post payment audits at UT institutions.
- **Internship Opportunities** – Many of the Internal Audit Programs utilized student interns from their campuses and local high schools to assist in conducting fieldwork on various audits to provide the students with real-world experience while also increasing their own staff supervisory and project management skills. These students have gone on to be offered positions with the UT Internal Audit Programs as well as with outside companies and government agencies.
- **Quality Assurance Reviews** – Quality Assurance Reviews (QARs) ensure the Internal Audit Programs are conducting their work in compliance with IIAs’ *International Standards for the Professional Practice of Internal Auditing* (Standards). QARs are performed by audit professionals independent of the institution. QARs were completed of the Internal Audit Programs at UT Austin, UT Dallas, UT Pan American, UT Medical Branch, and UT Health Science Center at Houston. These Internal Audit Programs were found to “generally conform” (the highest rating) to the Standards and have implemented or are in the process of implementing recommendations to improve efficiency and operations. Additionally, a follow-up QAR, in which the implementation status of recommendations made in the previous QAR are reviewed, were completed at UT El Paso, UT Pan American, and the UT System. Several of the Internal Audit Directors also participated as team members in QARs of other institutions, including the University of Georgia and University of Toledo Systems.

Internal Audit Committees

Each institution and UT System Administration has an internal audit committee consisting of executive management, including the President and Chancellor, respectively. They also include at least one external member with several institutions having more than one external member and some institutions having the external member serve as committee chair. In general, the committees meet quarterly to provide guidance and direction to the Internal Audit Programs and allow direct communication between the chief audit executive and senior management. On a periodic basis, the internal audit committees are surveyed to obtain further feedback. Beginning last fiscal year, the internal audit committee members from each of the institutions also participate in an annual survey as part of the Systemwide performance metrics.

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

Internal Audit Clients

As part of the continuous internal quality assurance process, the Internal Audit Programs administer client surveys at the conclusion of each audit project to obtain feedback on the quality of services provided. Key personnel involved in the audit are requested to complete a survey. While each Internal Audit Program distributes a unique set of questions, they are on the general topics of professionalism, performance, results and reporting, and value added with a comments section. Overall, the Internal Audit Programs received responses in the top two ratings with positive remarks. Beginning last fiscal year, the internal audit clients audited during the fiscal year at each of the institutions also participate in an annual survey as part of the Systemwide performance metrics.

Systemwide Internal Audit Program Staffing Statistics:

- **Internal Audit Staff Positions:**

Total Number Budgeted	118
Average Total Number Filled	112
Average Years Experience	14

- **Internal Audit Staff Certifications:**

Number of Certified Public Accountants (CPA)	45
Number of Certified Internal Auditors (CIA)	63
Number of Certified Information Systems Auditors (CISA)	24
Average Percentage of Staff with CPA, CIA, and/or CISA certification	72%
Other Certifications held*	53

- **Internal Audit Staff Training:**

Average Annual Training Hours per Auditor:	56
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***Other Certifications include:**

- Certified Fraud Examiner
- Certified Healthcare Financial Professional
- Certified Government Auditing Professional
- Certified Financial Services Auditor
- Certification in Control Self-Assessment
- Certified Information Systems Security Professional
- Certified Ethical Hacker
- Certified Expert Penetration Tester
- Certified Information Systems Security Professional
- Global Information Assurance Certifications in Systems, Networks, and Security
- Certified Purchasing Manager
- Chartered Property Casualty Underwriter
- Credit Business Associate Certification
- Doctor of Jurisprudence / Texas State Bar Licensure

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

Systemwide Internal Audit Program Processes/Activities

The following summarizes the consolidated activities of the institutional and UT System Administration Internal Audit Programs compared to the approved audit plan for FY 2010:

Audit Area	Total Priority Budget Hours	Credit for Priority Hours	Percent Completion
Financial	23,538	22,023	94%
Operational	29,496	27,751	94%
Compliance	16,782	15,352	91%
Information Technology	20,332	18,281	90%
Follow-up	5,405	5,309	98%
Projects	30,455	29,921	98%
Total	126,008	118,637	94%

The Systemwide Internal Audit Program accomplished 94% of its approved annual priority audit plan. Some of the audit hours budgeted were transferred, reallocated, cancelled or carried forward to FY 2011 for various reasons, including limited resources and special management requests or investigative matters that emerged during the year. These changes were communicated to the president and/or the institutional internal audit committees.

See **Appendix A** for details on the completion of total priority budget hours by audit area and institution for FY 2010.

**The University of Texas System
Systemwide Internal Audit Program
Annual Report Summary
Fiscal Year Ended August 31, 2010**

**Appendix A
FY 2010 Systemwide Audit Plan Status**

	Financial	Operational	Compliance	Information Technology	Follow-up	Projects	Credit for Priority Hours (NOTE 1)	Total Priority Budget Hours (NOTE 2)	Percent Completion
U. T. System Administration	4,789	5,483	1,780	2,550	900	2,250	17,752	18,005	99%
Large Institutions:									
U. T. Austin	1,257	1,944	1,253	3,263	400	4,350	12,467	14,225	88%
U. T. Southwestern	2,450	3,300	2,550	1,650	500	4,060	14,510	14,510	100%
U. T. Medical Branch at Galveston	930	1,575	520	1,644	250	1,830	6,749	6,845	99%
U. T. HSC - Houston	1,715	1,440	1,665	805	300	2,371	8,296	8,350	99%
U. T. HSC - San Antonio	900	1,589	280	1,100	600	2,400	6,869	7,480	92%
U. T. MDA Cancer Center	1,290	3,680	1,501	2,210	500	3,155	12,336	13,080	94%
Subtotal	8,542	13,528	7,769	10,672	2,550	18,166	61,227	64,490	95%
Mid-size Institutions:									
U. T. Arlington	1,140	805	1,168	540	200	1,100	4,953	5,460	91%
U. T. Brownsville	624	260	383	204	300	1,801	3,572	4,090	87%
U. T. Dallas	725	1,430	510	500	60	750	3,975	4,730	84%
U. T. El Paso	1,208	2,700	850	1,470	450	1,690	8,368	8,790	95%
U. T. Pan American	1,465	918	775	575	110	1,059	4,902	5,640	87%
U. T. San Antonio	1,503	900	960	740	300	1,788	6,191	6,780	91%
Subtotal	6,665	7,013	4,646	4,029	1,420	8,188	31,961	35,490	90%
Small Institutions:									
U. T. Permian Basin	580	615	200	250	54	242	1,941	2,200	88%
U. T. Tyler	575	517	367	331	190	565	2,545	2,585	98%
U. T. HSC - Tyler	872	595	590	450	195	510	3,212	3,238	99%
Subtotal	2,027	1,727	1,157	1,031	439	1,317	7,698	8,023	96%
TOTAL	22,023	27,751	15,352	18,281	5,309	29,921	118,637	126,008	94%
Percentage of Total	19%	23%	13%	15%	5%	25%	100%		

NOTE 1:

In order to better align with the internal audit performance metrics, "Total Actual Hours" (as has been reported previously) is now replaced with "Credit for Priority Hours." This reflects the priority budgeted hours apportioned based on the completion status of the audits/projects as of August 31, 2010.

NOTE 2:

Original Total Priority Budget Hours, approved by the ACMRC for priority projects, was 125,801 hours. However, due to changing priorities during the fiscal year, some institutions requested and obtained approval from their respective internal audit committees to change the Total Priority Budget Hours and/or the allocation of hours among the various categories, so that "Total Priority Budget Hours" is now 126,008 as reflected above. These hours represent approximately 80-85% of total budgeted hours for the fiscal year 2010 annual audit plan.

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

U. T. SYSTEM AUDIT

Report Date	Institution	Audit	3rd Quarter 2010		4th Quarter 2010		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2010-04	UTARL	Payment Card Industry Data Security Standard Audit		2		2	12/31/2010	Satisfactory
2010-07	UTB	FY 2010 Follow-Up Audit of the International Technology, Education and Commerce Center Lease Agreements				0	9/30/2010	Implemented
2009-12	UTEP	Texas Administrative Code Chapter 202 Audit - Phase 2		2		1	11/20/2010	Satisfactory
2010-06	UTEP	Gifts and Endowments				1	1/31/2011	Satisfactory
2010-08	UTPA	Effort Reporting				3	3/1/2011	Satisfactory
2010-05	UTPB	Monitoring Plan and Sub-Certification		1		0	8/31/2010	Implemented
2009-03	UTSA	Banner User Access Audit (Security)		1		1	12/31/2010	Satisfactory
2008-09	UTSA	Information Technology Change Management Audit		1		1	8/31/2010*	Satisfactory
2010-01	UTSA	Information Technology Asset Management Audit		1		1	11/30/2010	Satisfactory
2008-11	UTT	Fiscal Year 2008 Annual Financial Report Audit		1		1	10/31/2010	Satisfactory
2009-04	UTT	Cash Handling Procedures Audit		2		0	8/31/2010	Implemented
2009-03	UTT	Department of Communications		1		0	8/31/2010	Implemented
2010-03	UTT	Endowed Scholarships		1		1	10/31/2010	Satisfactory
2010-05	UTT	Texas Administrative Code Chapter 202 Audit		3		3	4/30/2011	Satisfactory
2010-05	UTT	Department of Athletics		1		0	7/31/2010	Implemented
2010-02	UTSWMC - Dallas	Physician Billing Compliance		1		0	7/16/2010	Implemented
2008-05	UTMB - Galveston	Information Systems Change Management Process		2		0	8/31/2010	Implemented
2009-12	UTMB - Galveston	Epic Application		1		0	8/31/2010	Implemented
2010-02	UTHSC - Houston	Time and Effort Reporting		3		0	8/31/2010	Implemented
2010-05	UTHSC - Houston	Personnel Management & Time Management System Controls		4		4	5/1/2011	Satisfactory
2010-04	UTHSC - San Antonio	UT Medicine: Information Technology Review of Data Security		8		3	12/31/2010	Satisfactory
2007-06	UTMDACC - Houston	Conflict of Interest		1		0	2/28/2010	Implemented
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials		1		1	2/28/2011	Satisfactory
2008-05	UTMDACC - Houston	Clinical Trial Research		1		1	2/28/2011	Satisfactory
2009-03	UTMDACC - Houston	Wireless and Firewall Remote Access Security Assessment		3		3	8/31/2012	Satisfactory
2009-03	UTMDACC - Houston	Review of Patch Management		1		0	11/30/2009	Implemented
2009-03	UTMDACC - Houston	Review of Performance and Capacity Monitoring		4		0	8/31/2009	Implemented
2009-03	UTMDACC - Houston	Review of Patient History Oracle Database Security		3		3	5/31/2009*	Satisfactory
2009-05	UTMDACC - Houston	Business Continuity Plan Review		1		1	2/28/2010*	Satisfactory
2010/02	UTMDACC - Houston	Information Security Organization Review		5		5	5/31/2010*	Satisfactory
2010-04	UTMDACC - Houston	Department of Chaplaincy and Pastoral Education		1		1	8/31/2010*	Satisfactory
2005-12	UTSYS ADM	Systemwide Financial Audit Fiscal Year 2005		1		1	9/1/2010*	Satisfactory
2006-06	UTSYS ADM	UTIMCO Institutional Investment and Compliance Audits		1		0	8/31/2010	Implemented
Totals				59		38		

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

Report Date	Institution	Audit	3rd Quarter 2010		4th Quarter 2010		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		

STATE AUDITOR'S OFFICE AUDITS

2010-03	UTPA	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009		1		0	9/30/2010	Implemented
2010-03	UTPA	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009		3		0	8/31/2010	Implemented
2010-02	UTPB	Southern Association of Colleges and Schools Financial Statement Review Fiscal Year 2009		1		1	10/31/2010	Satisfactory
2010-03	UTPB	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009		4		4	6/30/2010**	Satisfactory
2009-08	UTSWMC - Dallas	Campus Security Emergency Management Plans Audit		2		1	11/30/2010	Satisfactory
2010-03	UTSWMC - Dallas	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009		1		0	6/30/2010	Implemented
2007-05	UTSYS ADM	Charity Care at Health-Related Institutions		1		1	10/31/2010	Satisfactory

Totals

13

7

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

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

** Institution is taking the necessary steps to implement recommendations and is awaiting validation of this by the State Auditor's Office.

*** Awaiting updated implementation date from the institution.

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 6/2010 through 8/2010

Institution	Audit
UTARL	Environmental Health & Safety Review of High Risk Areas: Chemical Safety
UTARL	Grants and Contracts: Time and Effort Reporting Effort Certification Reporting Technology (ECRT) System Audit
UTARL	Controls over Cash Collections Areas - Fort Worth Center
UTARL	Texas Administrative Code 202
UTARL	Registrar's Departmental/Registration Processes Audit
UTARL	Controls over Cash Collection Areas - Division for Enterprise Development
UTARL	Controls over Cash Collection Areas - Campus Recreation
UTAUS	Cash Management and Cash Handling Policy
UTAUS	Department of Geological Sciences - Information Resources Use and Security Policy
UTAUS	Change in Management Audit - Department of Curriculum and Instruction
UTAUS	Encryption
UTB	Economic Development and Community Services Division
UTB	Effort Reporting
UTB	Texas Administrative Code 202
UTD	Cybersecurity and Emergency Preparedness Institute
UTD	Career Center
UTD	Lena Callier Trust
UTD	Texas Administrative Code 202
UTD	Printing Services
UTEP	Math Department - Change in Management Audit
UTEP	Time and Effort
UTEP	Ethics Program Review
UTEP	Post Payment Audit Procedures
UTEP	Athletics Compliance Office Change in Management - Operations and Administration
UTEP	Student Health Center
UTPA	Cancer Center Grant - 2009 American Recovery and Reinvestment Act
UTPA	Identity Theft Prevention Program - Red Flag Rule
UTPA	Financial Aid - Scholarships
UTPA	Payment Card Industry (PCI) Data Security Standards
UTPA	Other Revenue
UTPA	Contractual Obligations
UTPA	Information Technology Systems Not Managed by the Division of Information Technology
UTPA	Protection of Research Data
UTPB	Texas Administrative Code § 202 Compliance Audit
UTSA	National Collegiate Athletic Association Compliance Audit
UTSA	Procurement Card Compliance Office Audit
UTSA	Cash Handling and Management Audit
UTTY	Change Management Procedures Review
UTTY	Audit Follow-up Procedures
UTTY	Account Reconciliations Review
UTTY	Procurement Card Transactions Review
UTSMC - Dallas	Texas Comptroller Post Payment (TxCPP) Audit-Payroll and Purchase Transactions
UTSMC - Dallas	American Recovery and Reinvestment Act (ARRA) Compliance
UTSMC - Dallas	Information Technology Governance - IIA Standards 2110.A2
UTSMC - Dallas	University Hospitals Procurement and Warehousing
UTSMC - Dallas	Emergency Preparedness
UTSMC - Dallas	Policies and Procedures Regarding Medical Service Research and Development Plan Business Operations and Governance
UTSMC - Dallas	Family Practice and Primary Care Residency Program Grants
UTMB - Galveston	Huron Effort Certification and Reporting Technology (ECRT) System
UTMB - Galveston	Correctional Managed Care (CMC) Information Technology Access Controls
UTMB - Galveston	Office of International Affairs Change in Management
UTMB - Galveston	UTMB Austin - Texas Higher Education Coordinating Board (THECB) Residency Programs
UTMB - Galveston	Critical Results Communication Process
UTMB - Galveston	Medical Service Research and Development Plan Faculty Practice Plan Governance
UTMB - Galveston	Food Services Contract Review
UTMB - Galveston	Environmental Services Contract Review
UTHSC - Houston	Change in Management - Center for Emergency Preparedness
UTHSC - Houston	UTHealth Ethics Program
UTHSC - Houston	American Recovery and Reinvestment Act Reporting
UTHSC - Houston	Research Time & Effort Reporting
UTHSC - Houston	Executive Travel and Entertainment
UTHSC - Houston	Information Technology Governance
UTHSC - Houston	Follow-up of Open Recommendations
UTHSC - San Antonio	Institutional Follow-up Fiscal Year 2010 2nd Quarter
UTMDACC - Houston	Centralized Backup, Storage and Recovery Review
UTMDACC - Houston	Decentralized Backup, Storage and Recovery Review Laboratory Informatics
UTMDACC - Houston	Pharmacy Patient Assistance Programs
UTMDACC - Houston	Faculty Honorarium

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 6/2010 through 8/2010	
Institution	Audit
UTHSC - Tyler	Charity Care Audit
UTHSC - Tyler	Information Technology Governance Audit
UTHSC - Tyler	Texas Administrative Code 202 Audit
UTHSC - Tyler	Medical Service Research and Development Plan Faculty Practice Plan Governance Audit
UTSYS ADM	University Lands Information Technology
UTSYS ADM	UTIMCO Derivatives Audit
UTSYS ADM	UTHSC - San Antonio Practice Plan
UTSYS ADM	UT Tyler Office of the President
UTSYS ADM	Oil & Gas Company Audit of Clayton Williams Energy, Inc and Southwest Royalties, Inc
UTSYS ADM	Departmental Audits of Offices Closing Fiscal Year Ending 2010
UTSYS ADM	Ethics Consulting Review
UTSYS ADM	Office of Facilities Planning and Construction Follow-up
UTSYS ADM	System Administration Wireless Access
UTSYS ADM	University Lands
UTSYS ADM	Oil & Gas Company Audit of COG Operating, LLC

STATE AUDITOR'S OFFICE AUDIT REPORTS ISSUED 6/2010 through 8/2010	
Institution	Audit
None	None