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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 2/6&7/2008

Board Meeting: 2/7/2008
Edinburg, Texas

Robert A. Estrada, Chairman
Paul Foster
Colleen McHugh
Robert B. Rowling

Wednesday, February 6, 2008

	Committee Meeting	Board Meeting	Page
A. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE	<i>6:00 p.m.</i> <i>Chairmen</i> <i>Estrada and</i> <i>Rowling</i>		
1. U. T. System: Report on the Fiscal Year 2007 Annual Financial Report, including the report on the U. T. System Financial Statement audit work performed by institutional and U. T. System Administration internal audit	<i>6:00 p.m.</i> Report <i>Mr. Wallace</i> <i>Mr. Chaffin</i>	Not on Agenda	140
B. ADJOURN JOINT MEETING	<i>6:15 p.m.</i>		

Thursday, February 7, 2008

C. RECONVENE AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE	<i>9:00 a.m.</i>		
2. U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche, LLP, as the external auditor for the Fiscal Year 2008 audit of funds managed by The University of Texas Investment Management Company (UTIMCO)	<i>9:00 a.m.</i> Action <i>Chairman</i> <i>Estrada</i>	Action	140
3. U. T. System Board of Regents: Approval of proposed appointment of members to the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)	<i>9:02 a.m.</i> Action <i>Chairman</i> <i>Estrada</i>	Action	141

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|----|---|---|------------------|------------|
| 4. | U. T. Brownsville: Report on the Internal Audit Department, including the Student Health Services Audit | 9:04 a.m.
Report
<i>Ms. Norma Ramos,
U. T. Brownsville</i> | Not on
Agenda | 142 |
| 5. | U. T. System: Report on the System-wide internal audit activities, including the Presidential Travel, Entertainment, and Housing Expense Audits | 9:10 a.m.
Report
<i>Mr. Chaffin</i> | Not on
Agenda | 142 |
| 6. | U. T. System: Report on System-wide institutional compliance activities, including the Institutional Compliance Advisory Council, and Institutional Compliance Program report for U. T. Pan American | 9:13 a.m.
Report
<i>Mr. James Langabeer,
U. T. Pan American
Ms. Karen Parsons,
U. T. Health Science Center –
Houston
Mr. Chaffin</i> | Not on
Agenda | 147 |
| 7. | U. T. System: Report on Conflicts of Interest Policy | 9:25 a.m.
Report
<i>Mr. Burgdorf</i> | Not on
Agenda | 147 |
| D. | RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 | 9:30 a.m. | | |
| 1. | Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

U. T. System: Discussion with institutional auditors and compliance officers concerning evaluation and duties of individual System and institutional employees involved in internal audit and compliance functions | | | |
| E. | RECONVENE IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND ADJOURN | 10:00 a.m. | | |

1. **U. T. System: Report on the Fiscal Year 2007 Annual Financial Report, including the report on the U. T. System Financial Statement audit work performed by institutional and U. T. System Administration internal audit**

See Item 11 on Page 139 of the Finance and Planning Committee.

2. **U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche, LLP, as the external auditor for the Fiscal Year 2008 audit of funds managed by The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

Committee Chairman Estrada recommends approval to renew the auditing services contract with Deloitte & Touche, LLP, to (1) perform audits of the financial statements, (2) audit and report on management's assessment of the internal controls over financial reporting, and (3) audit the performance statistics for the fiscal year ending August 31, 2008, for the funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

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

BACKGROUND INFORMATION

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

The Funds were audited by Deloitte & Touche, LLP, on an annual basis from UTIMCO's inception in 1996 through Fiscal Year 2002. On July 7, 2003, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, for one year with a right to renew in one-year increments for

four years. The contract was renewed by the Board of Regents on February 4, 2004, February 10, 2005, February 9, 2006, and February 8, 2007.

Ernst & Young, LLP, notified UTIMCO on April 13, 2007, that the firm had declined to perform the audit of the investment funds managed by UTIMCO for the year ending August 31, 2007. Stating that the reason for its decision was not unique to UTIMCO, the firm noted that, due to its interpretation of recent industry auditing changes, it was not possible to conduct a cost-effective audit approach for endowments similar to UTIMCO's that hold significant alternative investments with different year ends from the endowment year end. The firm noted the inherent delay between the reporting of valuations for certain alternative investments, which are audited at calendar year end, and the August 31, 2007, effective date of the investment funds' audit, could create associated risks.

Accordingly, U. T. System issued a Request for Qualifications (RFQ) to select new outside auditors for the Funds managed by UTIMCO and written proposals were received on June 4, 2007, from two firms: Deloitte & Touche, LLP, and Weaver and Tidwell, LLP.

On July 11, 2007, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche, LLP, for one year with a right to renew in one-year increments for four additional years.

3. **U. T. System Board of Regents: Approval of proposed appointment of members to the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors will make recommendations to the U. T. System Board of Regents for the appointment of members to the Audit and Ethics Committee of the UTIMCO Board of Directors.

Members are expected to be appointed by the UTIMCO Board of Directors on January 30, 2008.

BACKGROUND INFORMATION

Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents approve the appointment of members of the Audit and Ethics Committee of the UTIMCO Board of Directors.

4. **U. T. Brownsville: Report on the Internal Audit Department, including the Student Health Services Audit**

REPORT

Ms. Norma Ramos, Director of Internal Audits, U. T. Brownsville, will present an overview of the internal audit department and the results of the Student Health Services (SHS) audit. Most U. T. System institutions have a student health center on campus to provide certain health services to students and, in some cases, to faculty and staff. These services include basic health care, immunizations, reproductive services, and other routine health services. These centers are operated by physicians, advanced practice nurses, and other professionals and are generally funded in part through a student health fee. Ms. Ramos performed an audit to provide assurance that SHS was in compliance with policies, procedures, laws, and regulations that could have a significant impact on operations and to provide assurance that existing internal controls over SHS are adequate. The audit identified significant compliance issues with several regulations applicable to SHS and significant internal control deficiencies in financial, operational, and administrative processes.

Supplemental Materials: PowerPoint presentation on Pages 264 - 267 of Volume 2.

5. **U. T. System: Report on the System-wide internal audit activities, including the Presidential Travel, Entertainment, and Housing Expense Audits**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on the results of the Presidential Travel, Entertainment, and Housing Expense audits conducted at each institution and U. T. System Administration.

Mr. Chaffin will also report on System-wide audit activity for the first quarter of Fiscal Year 2008, including the status of significant audit findings and related recommendations.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 144 - 145. The report shows that satisfactory progress is being made on the implementation of all significant recommendations. A list of other audit reports that have been issued by the System-wide audit program follows on Page 146.

BACKGROUND INFORMATION

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

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

Report Date	Institution	Audit	4th Quarter 2007		1st Quarter 2008		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2007-05	UTARL	General IT Controls – Planning and Organization		1		1	8/31/2008	Satisfactory
2007-06	UTARL	Implementation Progress of UTS 163: Guidance on Effort Reporting Policies		1		1	2/28/2008	Satisfactory
2007-06	UTARL	Protecting the Confidentiality of Social Security Numbers		3		3	8/31/2008	Satisfactory
2007-07	UTARL	Animal Subjects Research Audit		1		0	12/31/2007	Implemented
2007-06	UTAUS	UTS163: Guidance on Effort Reporting Policies		1		1	8/31/2008	Satisfactory
2007-08	UTAUS	Payment Card Industry Data Security Standard (PCI DSS)		1		1	12/31/2007	Satisfactory
2004-03	UTB	Contracts and Grants		1		1	2/28/2008	Satisfactory
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office		1		1	8/31/2008	Satisfactory
2004-10	UTB	Physical Plant		2		2	2/28/2008	Satisfactory
2007-06	UTB	Student Health Services		8		0	2/28/2008	Implemented
2007-06	UTB	Research Centers		1		0	8/31/2007	Implemented
2007-11	UTD	Contracts & Grants – Unallowable Costs & Reporting Requirements Monitoring Plans		1		1	2/28/2008	Satisfactory
2007-01	UTD	Annual Financial Report Audit		1		1	4/30/2008	Satisfactory
2007-06	UTD	Waterview Park Phases V-IX		1		0	11/30/2007	Implemented
2005-05	UTEP	Office of the Registrar		1		1	1/31/2008	Satisfactory
2007-02	UTEP	Campus-wide Information Technology Applications		5		5	1/30/2008	Satisfactory
2007-11	UTEP	Decentralized Server Security		1		8	6/30/2008	Satisfactory
2007-05	UTPA	Grants & Contracts - Cost Sharing		1		0	10/31/2007	Implemented
2007-08	UTPB	UTS163: Guidance on Effort Reporting Policies		2		1	2/28/2008	Satisfactory
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		1	3/1/2008	Satisfactory
2007-09	UTSA	Texas Administrative Code 202 Compliance		1		1	3/1/2008	Satisfactory
2006-05	UTSMC - Dallas	Accounts Payable		1		1	12/31/2007	Satisfactory
2006-09	UTSMC - Dallas	Hospital Compliance Program		1		0	11/30/2007	Implemented
2005-03	UTMB - Galveston	Compliance Update with the HIPAA Final Security Rule (Institutional)		1		1	2/29/2008	Satisfactory
2005-07	UTMB - Galveston	Compliance Update with the HIPAA Final Security Rule (Correctional Managed Care)		1		1	2/29/2008	Satisfactory
2006-11	UTMB - Galveston	Wireless Access		1		0	11/30/2007	Implemented
2006-10	UTHSC - Houston	Patient Registration		1		0	12/1/2007	Implemented
2007-05	UTHSC - Houston	Billing Collection Process and Review of Selected Applications of the Billing System		1		1	6/30/2008	Satisfactory
2007-05	UTHSC - Houston	Medical School Charge Capture Processes		1		1	1/31/2008	Satisfactory
2007-05	UTHSC - Houston	Security of Credit Card Data		5		2	8/31/2008	Satisfactory
2007-11	UTHSC - Houston	Protection of Social Security Numbers		1		2	5/1/2008	Satisfactory
2006-04	UTHSC - San Antonio	Medical Services, Research and Development Plan Collections		1		1	4/30/2008	Satisfactory
2007-06	UTHSC - San Antonio	Protection of Digital Research Data		2		2	1/30/2008	Satisfactory
2001-08	UTMDACC - Houston	Lotus Notes Environment		1		1	8/31/2008	Satisfactory
2006-09	UTMDACC - Houston	Centralized Backup, Storage and Recovery		2		2	8/31/2008	Satisfactory
2007-06	UTMDACC - Houston	Conflict of Interest		5		5	2/28/2008	Satisfactory
2007-10	UTMDACC - Houston	Research Compliance Design Review				2	8/31/2008	Satisfactory
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials				2	2/28/2008	Satisfactory
2005-04	UTHC - Tyler	Texas Administrative Code 202 Compliance		1		1	2/28/2008	Satisfactory
2005-11	UTHC - Tyler	IT Security Audit of Meditech and Lake Superior Software Patient Information Systems		1		0	12/31/2007	Implemented
2006-06	UTHC - Tyler	Review of the Office of the President's Travel & Entertainment		1		1	2/28/2008	Satisfactory
2005-12	UTSYS ADM	System-wide Financial Audit		3		1	9/1/2009	Satisfactory
2006-05	UTSYS ADM	UTIMCO Institutional Investment and Compliance Audits		3		2	3/31/2008	Satisfactory
Totals				66		59		

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

Report Date	Institution	Audit	4th Quarter 2007		1st Quarter 2008		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2007-03	UTPB	2006 Statewide Single Audit - Student Financial Aid Cluster		2		2	2/28/2008	Satisfactory Implemented
2004-02	UTSA	Financial Review		1		0	12/31/2007	Satisfactory
2006-02	UTTY	2006 Single Audit-Financial Aid Cluster		1		1	1/31/2008	Satisfactory
2006-02	UTMB - Galveston	Federal Portion of Statewide Single Audit FY 2005		2		1	12/31/2007	Satisfactory
2004-06	UTHSC - San Antonio	Protection of Research Data at Higher Education Institutions		1		1	12/31/2007	Satisfactory
2005-02	UTMDACC - Houston	Federal Portion of the Statewide Single Audit FY 2004		2		2	Date Pending	Satisfactory
2002-11	UTMDACC - Houston	Security Over Protected Health Information		1		1	8/31/2010	Satisfactory
2006-08	UTSYS ADM	Construction Management at the University of Texas at Austin				0	8/31/2007	Implemented
2007-05	UTSYS ADM	Charity Care at Health-Related Institutions				1	1/31/2009	Satisfactory
Totals				10		9		

STATE AUDITOR'S OFFICE AUDITS

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.

U. T. SYSTEM-WIDE INTERNAL AUDIT AND STATE AUDITORS' OFFICE AUDIT REPORTS

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 9/2007 through 11/2007	
Institution	Audit
UTARL	Biosafety Research Audit
UTARL	President's Travel, Entertainment, and Housing Expenditures Audit
UTD	Environmental Health and Safety (EHS) Audit
UTEP	Animal Research Program Audit
UTEP	Protecting the Confidentiality of Social Security Numbers
UTEP	Center for Inter-American and Border Studies
UTSA	Campus Security Follow-Up
UTSA	President's Travel, Entertainment, and Housing Expenses Audit
UTTY	Campus Security Department Audit
UTTY	Annual Financial Report (AFR) Audit
UTTY	President's Travel, Entertainment, Housekeeping and Other Expenses Audit
UTSMC - Dallas	Pharmacology Review
UTSMC - Dallas	Orthopaedic Surgery Audit
UTSMC - Dallas	Department of Anesthesiology and Pain Management Audit
UTSMC - Dallas	Physician Billing and Collections
UTSMC - Dallas	Billing Compliance Program
UTSMC - Dallas	Information System Interfaces
UTMB - Galveston	Confidentiality of Digital Research Data Audit
UTMB - Galveston	State Auditor's Office A-133 Audit Follow-Up
UTMB - Galveston	Student Financial Aid Audit
UTMB - Galveston	Human Resources Audit Follow-Up
UTMB - Galveston	PeopleSoft Human Capital Management - Post Implementation Audit
UTMB - Galveston	Healthcare Systems Payroll Processing Review
UTMB - Galveston	Office of the President Change in Management Audit
UTMB - Galveston	Revenue Cycle Clinic Pharmacy Product Review
UTHSC - Houston	Internal Medicine Change in Management Audit
UTHSC - Houston	Endowment Compliance Report
UTHSC - Houston	Protection of Research Data Report
UTHSC - Houston	Determination of Indigent Care Status Report
UTHSC - Houston	Follow-Up on Open Recommendations
UTHSC - Houston	Presidential Travel and Entertainment Audit
UTHSC - San Antonio	Decentralized Grants Administration
UTHSC - San Antonio	Payment Card Industry Data Security Standards Audit
UTHSC - San Antonio	Regional Academic Health Center (RAHC) Funds Management
UTHSC - San Antonio	President's Travel, Entertainment, and Housing Expenditures Audit
UTMDACC - Houston	Medical Billing Compliance Design Review
UTMDACC - Houston	Pharmacy Inventory Review Phase II
UTMDACC - Houston	Payroll Services Review
UTMDACC - Houston	Effort Reporting Status Update
UTMDACC - Houston	Texas Administrative Code (TAC) 202 Audit
UTMDACC - Houston	Siemanes Building Automation (Apogee and Staefa) Application Security Review
UTMDACC - Houston	Cirius Prebill Application Security Review
UTMDACC - Houston	Protecting the Confidentiality of Social Security Numbers
UTMDACC - Houston	Payment Card Industry Data Security Standards Audit
UTMDACC - Houston	Communication of Critical Results
UTHC - Tyler	Research Compliance Design Review
UTSYS ADM	Office of Technology and Information Services Change in Management Audit
UTSYS ADM	Chancellor's Travel, Entertainment, and Housing Expenses Audit
UTSYS ADM	Chesapeake Energy Corporation Audit
UTSYS ADM	Project Costs of The University of Texas Health Science Center - San Antonio Academic and Administration Building as Managed by the Office of Facilities Planning and Construction
UTSYS ADM	The University of Texas Investment Management Company Chief Executive Officer's Expenses Audit

STATE AUDITOR'S OFFICE AUDIT REPORTS RELEASED 9/2007 through 11/2007	
Institution	Audit
NONE	NONE

6. **U. T. System: Report on System-wide institutional compliance activities, including the Institutional Compliance Advisory Council, and Institutional Compliance Program report for U. T. Pan American**

REPORT

Mr. James Langabeer, Vice President for Business Affairs and Institutional Compliance Officer at U. T. Pan American, will present an overview of the institutional compliance program at U. T. Pan American.

Ms. Karen Parsons, Director, Institutional Compliance, U. T. Health Science Center - Houston, will report on the activities of the System-wide Institutional Compliance Advisory Council.

Mr. Charles Chaffin, System-wide Compliance Officer, will report on the first quarter Fiscal Year 2008 report of the System-wide Compliance Program. Institutional activity reports are presented to the Committee on a quarterly basis. The last activity reports were sent on January 18, 2008.

Supplemental Materials:

- **U. T. Pan American Compliance Program PowerPoint presentation on Pages 268 - 271 of Volume 2.**
- **System-wide Institutional Compliance Advisory Council PowerPoint presentation on Pages 272 - 275 of Volume 2.**
- **First quarter report of the System-wide Compliance Program on Pages 276 - 279 of Volume 2.**

7. **U. T. System: Report on Conflicts of Interest Policy**

REPORT

Mr. Barry Burgdorf, Vice Chancellor and General Counsel, will report on the new U. T. System Administration Conflicts of Interest Policy. The law passed by the 80th Legislature requires each state agency to adopt a written ethics policy for its employees consistent with the standards of conduct provided by State law. This policy provides an executive summary of conflict of interest laws, rules, and policies. It is also the basis for a model ethics policy that may be used by the U. T. System institutions.

Supplemental Materials: INT160 Conflicts of Interest Policy on Pages 280 - 290 of Volume 2.