



**TABLE OF CONTENTS
FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE**

Committee Meeting: 2/14/2013

Board Meeting: 2/14/2013
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
A. CONVENE	<i>7:30 a.m. Chairman Pejovich</i>		
B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551			
1. Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - <i>Texas Government Code Section 551.074</i>			
a. U. T. System: Discussion with institutional auditors concerning evaluation, assignment, and duties of individual System Administration and institutional employees involved in internal audit functions	<i>Mr. Peppers</i>		
b. U. T. System: Discussion regarding evaluation, assignment, and duties of individual personnel involved in review of relationship between the U. T. Austin School of Law and the Law School Foundation and review of financial management and use by U. T. Austin of funds to support the School of Law			
2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071			
U. T. System: Discussion related to legal issues concerning review of relationship between the U. T. Austin School of Law and the Law School Foundation and review of financial management and use by U. T. Austin of funds to support the School of Law			
C. RECONVENE IN OPEN SESSION TO CONSIDER AGENDA ITEMS, AS FOLLOWS:	<i>8:25 a.m.</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration	<i>8:30 a.m. Action</i>	Action	31
2. U. T. System: Report on the first quarter Fiscal Year 2013 Systemwide annual audit plan status	<i>8:31 a.m. Report/Discussion Mr. Peppers</i>	Not on Agenda	31

	Committee Meeting	Board Meeting	Page
3. U. T. System: Report on enhancements to U. T. Systemwide Research Compliance Program	8:40 a.m. Report/Discussion <i>Dr. Hurn</i> <i>Mr. Plutko</i> <i>Dr. Byerly</i>	Not on Agenda	33
D. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE			
4. U. T. System: Report on the Fiscal Year 2012 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)	9:00 a.m. Report/Discussion <i>Mr. Wallace</i> <i>Ms. Julia Petty,</i> <i>Deloitte & Touche</i> <i>Mr. Peppers</i>	Not on Agenda	42
E. ADJOURN	9:30 a.m.		

1. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration**

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

2. **U. T. System: Report on the first quarter Fiscal Year 2013 Systemwide annual audit plan status**

REPORT

Chief Audit Executive Peppers will report on the first quarter Fiscal Year 2013 Systemwide annual audit plan status as set forth on the following page.

**U. T. Systemwide Internal Audit Program
FY 2013 Annual Internal Audit Plan Status
(as of November 30, 2012)**

	F i n a n c i a l	O p e r a t i o n a l	C o m p l i a n c e	I n f o r m a t i o n T e c h n o l o g y	F o l l o w - u p	P r o j e c t s	A c t u a l H o u r s (N o t e 1)	T o t a l B u d g e t H o u r s (M o r e 2)	V a r i a n c e (H o u r s)	P e r c e n t a g e C o m p l e t i o n
U. T. System Administration	2,119	894	7	504	35	648	4,207	20,830	16,624	20%
Large Institutions:										
U. T. Austin	438	654	824	716	51	354	3,036	15,509	12,474	20%
U. T. Southwestern	1,111	125	851	144	97	335	2,662	15,304	12,642	17%
U. T. Medical Branch at Galveston	324	744	510	331	150	207	2,266	11,532	9,266	20%
U. T. HSC - Houston	401	705	529	435	90	256	2,414	9,054	6,641	27%
U. T. HSC - San Antonio	1,081	284	90	463	158	650	2,724	10,020	7,296	27%
U. T. MDA Cancer Center	1,696	596	695	-	56	47	3,088	17,839	14,751	17%
Subtotal	5,050	3,107	3,498	2,088	600	1,847	16,189	79,258	63,069	20%
Mid-size Institutions:										
U. T. Arlington	502	196	342	268	104	160	1,572	6,230	4,658	25%
U. T. Brownsville	424	48	61	38	40	242	852	4,856	4,004	18%
U. T. Dallas	383	1,069	401	445	66	80	2,442	9,953	7,511	25%
U. T. El Paso	1,054	496	649	125	62	81	2,467	10,935	8,468	23%
U. T. Pan American	345	457	253	151	181	203	1,589	6,075	4,487	26%
U. T. San Antonio	562	685	74	92	80	334	1,825	7,584	5,760	24%
Subtotal	3,270	2,949	1,780	1,117	531	1,099	10,746	45,633	34,887	24%
Small Institutions:										
U. T. Permian Basin	-	-	-	-	-	-	-	2,966	2,966	0%*
U. T. Tyler	396	160	34	158	2	367	1,117	4,354	3,237	26%
U. T. HSC at Tyler	222	310	172	1	25	42	772	2,910	2,139	27%
Subtotal	618	470	206	159	27	409	1,889	10,230	8,342	18%
TOTAL	11,057	7,420	5,490	3,868	1,193	4,003	33,030	155,951	122,921	21%
Percentage of Total	33%	22%	17%	12%	4%	12%	100%			

NOTE 1:

Actual Hours are for the time period from 9/1/2012 through 11/30/2012, which represents approximately 25% of the annual audit plan year.

NOTE 2:

Total Budget Hours approved by the ACMRC was 155,951 hours. However, some institutions may change their Total Budget Hours and/or the allocation of hours among the various categories due to changes in priorities and staffing resources during the fiscal year. These changes are communicated to/approved by the institution's respective president and/or internal audit committee.

*UT Permian Basin did not submit an audit plan status.

3. **U. T. System: Report on enhancements to U. T. Systemwide Research Compliance Program**

REPORT

Vice Chancellor Hurn; Mr. Lawrence Plutko, Systemwide Compliance Officer; and Dr. Wesley Byerly, Assistant Systemwide Compliance Officer - Research, will report on enhancements to research compliance efforts at U. T. System institutions using the PowerPoint presentation set forth on the following pages.

Report on Enhancements to U. T. Systemwide Research Compliance Program

Dr. Patricia D. Hurn, Vice Chancellor for Research and Innovation
Mr. Lawrence A. Plutko, Systemwide Compliance Officer
Dr. Wesley G. Byerly, Assistant Systemwide Compliance Officer

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
February 2013



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Research Regulation and Compliance is Key for U. T. Research-intensive Campuses

- Increasing institutional cost if we are to assure research compliance
- Federal Demonstration Project estimates that federally funded researchers average 42% time in administrative and compliance activities



Research Regulation and Compliance is Key for U. T. Research-intensive Campuses (cont.)

- U. T. System Initiatives
 - Systemwide research compliance officer
 - Opening campus discussion of novel approaches
 - Center for Regulation of Science 2013
 - Streamlining through shared expertise
 - Develop tools and advanced expertise
 - Study and forecast changes in national/state research regulatory requirements



Impacting Factors

- Funding
- Increasing external access to information
- Changes in health care regulation/system
- Broader collaborations



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Watch Areas

- Allowable costs
- Effort reporting
- Conflict of interest
- Sponsor-Investigator Investigational New Drug (IND) and Investigational Device Exemption (IDE) Applications
- Data security and confidentiality
- Select agents
- Clinical trial billing



Developing Areas

- Export Controls
- Agency Inspections
 - Office for Human Research Protections (OHRP)
 - Food and Drug Administration (FDA)
 - United States Department of Agriculture (USDA)
- Funding source specific requirements
- Implementation of the new Guide for the Care and Use of Laboratory Animals
- Stem Cell



Research Compliance Council

- Chartered by System Executive Compliance Committee to manage and mitigate research compliance risks across the U. T. System
- Vice Presidents for Research have appointed representatives for each of the institutions
- Will collaborate on a two-year research compliance work plan with key deliverables



Research Compliance Council (cont.)

- Develop research compliance training and education modules to meet federal grant requirements
- Establish best practices solutions to emerging research compliance issues
- Ensure uniformity and consistency in common areas (export controls, conflicts of interest, effort reporting)



4. **U. T. System: Report on the Fiscal Year 2012 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will discuss the 2012 Annual Financial Report (AFR) highlights. A PowerPoint presentation on Pages 43 - 55 is included for additional detail. The AFR was mailed to all Regents in advance of the meeting and is available upon request.

The U. T. System Consolidated Financial Statements for the Year Ended August 31, 2012 includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2012.

Ms. Julia Petty, Deloitte & Touche LLP, will report on the results of the audits of the U. T. System, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, U. T. Health Science Center - Tyler, and funds managed by The University of Texas Investment Management Company (UTIMCO) for Fiscal Year 2012. The PowerPoint presentation is set forth on Pages 56 - 71. The letter of required communications from Deloitte & Touche LLP to the U. T. System Board of Regents was provided to the Regents prior to the meeting.

BACKGROUND INFORMATION

On February 9, 2012, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP, to audit the U. T. System, U. T. M. D. Anderson Cancer Center, and funds managed by UTIMCO for the fiscal years ending August 31, 2012 and 2013. On May 3, 2012, the Board of Regents also authorized the same approval for stand-alone audits of U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler.

The Annual Financial Report is prepared in compliance with Governmental Accounting Standards Board pronouncements and State Comptroller of Public Accounts directives and filed with the oversight agencies on November 20 of each year as required by *Texas Government Code* Section 2101.011. Deloitte & Touche LLP issued an unqualified opinion on the U. T. System Consolidated Financial Statements on December 20, 2012.

Annual Financial Report Highlights Fiscal Year 2012

Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer

Joint Meeting of the Audit, Compliance, and Management Review Committee and
Finance and Planning Committee

U. T. System Board of Regents' Meeting

February 2013



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Required in Annual Financial Report

- Required supplemental information and financial statements include:
 - Management’s Discussion and Analysis (MD&A)
 - Balance Sheet
 - SRECNA
 - Statement of Cash Flows
 - Notes to the Financial Statements
 - Required Supplementary Information

44



Financial Position FY 2012

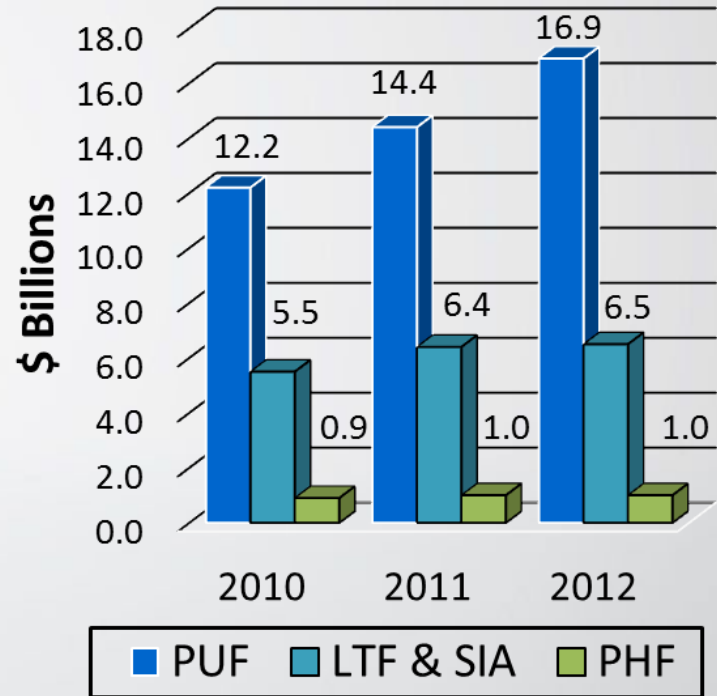
- Balance sheet still strong
 - Assets over \$49 billion
 - Net Assets over \$33 billion
 - Operating results decreased slightly
 - Cash position increased slightly
- U. T. System's financial position for FY 2012 increased as a result of current year operations primarily due to:
 - Net investment income, including unrealized gains
 - Continued strong mineral income from the Permanent University Fund (PUF) Lands
 - \$1.8 billion increase in the fair value of the PUF Lands



Balance Sheet

(\$ in millions)	2010	2011	2012
Assets and Deferred Outflows:			
Current Assets	\$ 5,539.7	5,546.0	6,181.3
Noncurrent Investments	23,263.6	27,833.1	30,646.4
Other Noncurrent Assets and Deferred Outflows	643.9	713.4	630.4
Capital Assets, net	<u>11,008.0</u>	<u>11,785.4</u>	<u>12,422.5</u>
Total Assets and Deferred Outflows	\$ <u>40,455.2</u>	<u>45,877.9</u>	<u>49,880.6</u>
Liabilities and Deferred Inflows:			
Current Liabilities	\$ 5,888.6	6,261.3	6,536.2
Noncurrent Liabilities and Deferred Inflows	<u>7,859.6</u>	<u>9,195.5</u>	<u>9,962.0</u>
Total Liabilities and Deferred Inflows	<u>13,748.2</u>	<u>15,456.8</u>	<u>16,498.2</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,630.8	5,029.2	5,265.2
Restricted	19,166.6	22,016.1	24,633.5
Unrestricted	<u>2,909.6</u>	<u>3,375.8</u>	<u>3,483.7</u>
Total Net Assets	<u>26,707.0</u>	<u>30,421.1</u>	<u>33,382.4</u>
Liabilities, Deferred Inflows, and Net Assets	\$ <u>40,455.2</u>	<u>45,877.9</u>	<u>49,880.6</u>

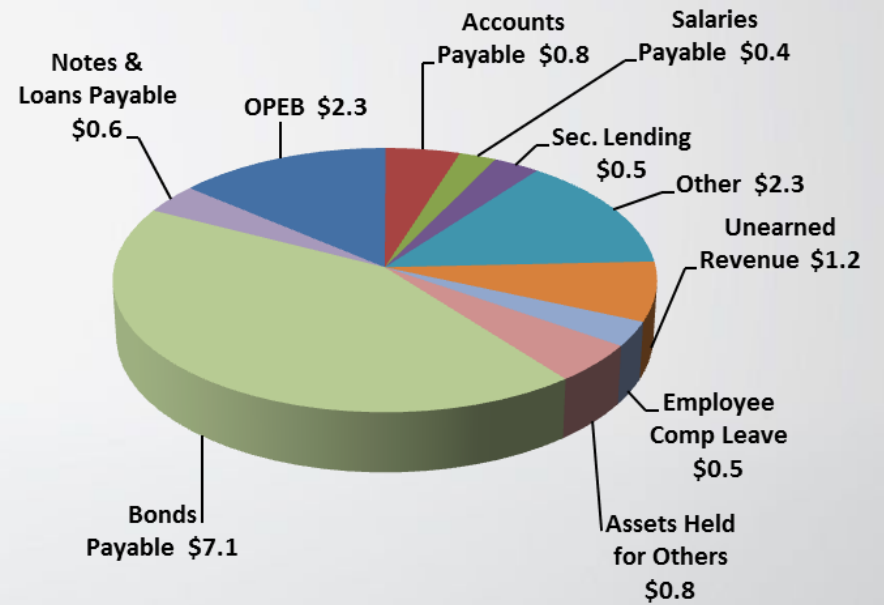
**Endowment Investments
FY 2010 - 2012**



Balance Sheet (cont.)

(\$ in millions)	2010	2011	2012
Assets and Deferred Outflows:			
Current Assets	\$ 5,539.7	5,546.0	6,181.3
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Liabilities and Deferred Inflows
\$16.5 billion
 (in billions)



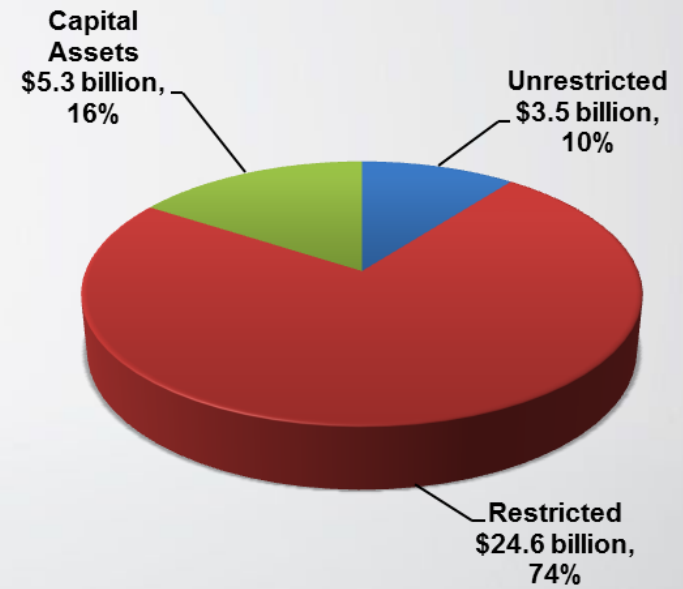
47



Balance Sheet (cont.)

(\$ in millions)	2010	2011	2012
Assets and Deferred Outflows:			
Current Assets	\$ 5,539.7	5,546.0	6,181.3
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Net Assets - \$33.4 billion

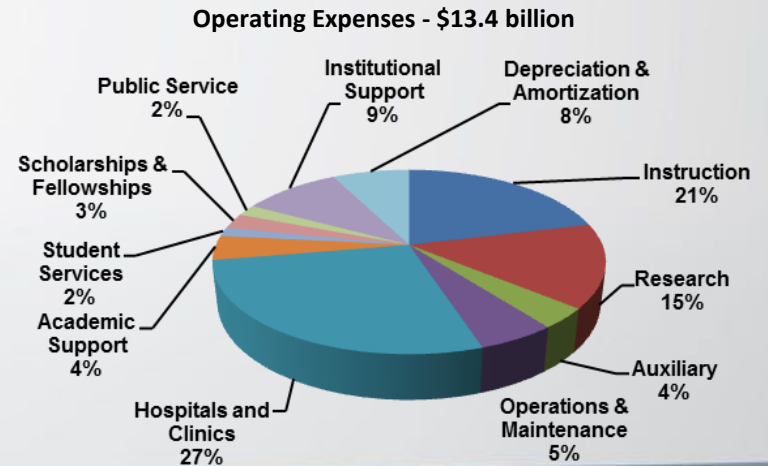
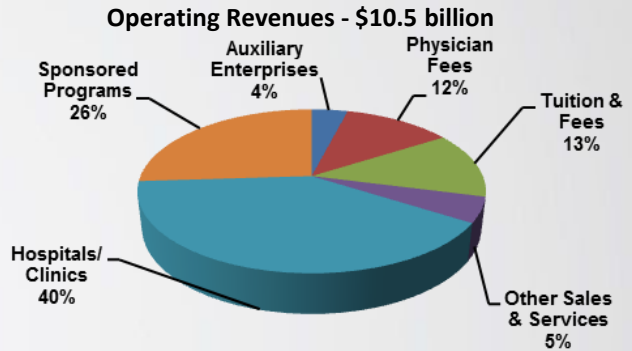


48



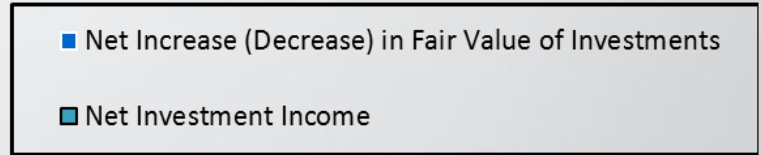
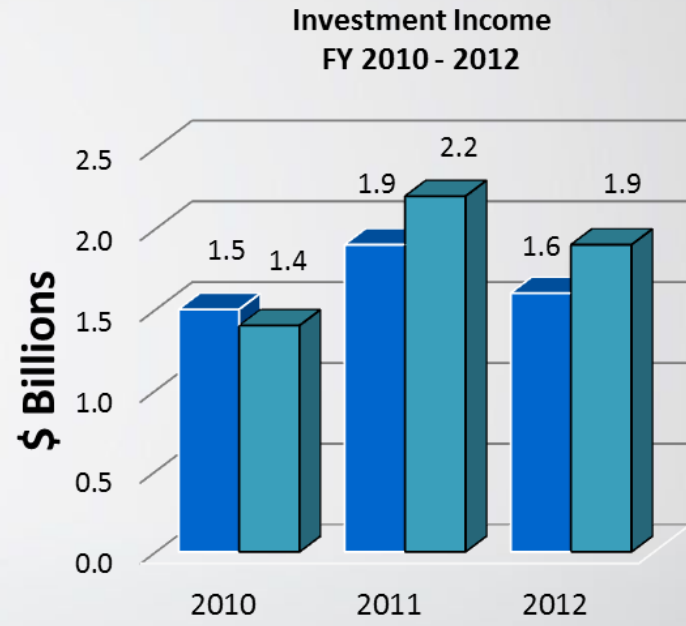
Statement of Revenues, Expenses, and Changes in Net Assets

(\$ in millions)	2010	2011	2012
Operating Revenues	\$ 9,267.5	10,059.3	10,454.3
Operating Expenses	(12,248.2)	(12,921.4)	(13,422.9)
Operating Loss	(2,980.7)	(2,862.1)	(2,968.6)
State Appropriations	2,087.5	1,857.3	1,919.0
Gifts & Nonexchange Grants	695.9	720.4	675.4
Net Investment Income	1,431.4	2,246.3	1,948.3
Net Incr./ (Decr.) in Fair Value of Investments	1,522.1	1,896.9	1,619.1
Interest Expense	(207.5)	(262.7)	(268.9)
Net Other Nonop. Rev. (Exp.)	(26.6)	(32.8)	(25.7)
Income (Loss) Before Other Rev. Exp. Gains/(Losses) & Transfers	2,522.1	3,563.3	2,898.6
HEAF/Gifts for Endow. & Capital	353.1	370.4	397.3
Transfers and Other	(223.9)	(219.6)	(334.6)
Change in Net Assets	2,651.3	3,714.1	2,961.3
Net Assets, Beginning	24,055.7	26,707.0	30,421.1
Net Assets, Ending	\$ 26,707.0	30,421.1	33,382.4



Statement of Revenues, Expenses, and Changes in Net Assets (cont.)

(\$ in millions)	2010	2011	2012
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Net Assets, Ending	\$ <u>26,707.0</u>	<u>30,421.1</u>	<u>33,382.4</u>



50



Statement of Revenues, Expenses, and Changes in Net Assets (cont.)

	Operating Results FY 2010 - 2012		
	2010	2011	2012
	(\$ in millions)		
Income (loss) before other revenue, expenses, gains/(losses) & transfers	\$ 2,522.1	3,563.3	2,898.6
Remove nonoperating items:			
Net (incr.)/decr. in fair value of investments	(1,522.1)	(1,896.9)	(1,619.1)
Loss on sale of capital assets	12.6	41.6	14.7
Other nonoperating (income)/expense	14.0	(8.7)	11.0
Realized (gains)/losses on investments	(797.4)	(980.2)	(657.4)
Net operating results	\$ 229.2	719.1	647.8

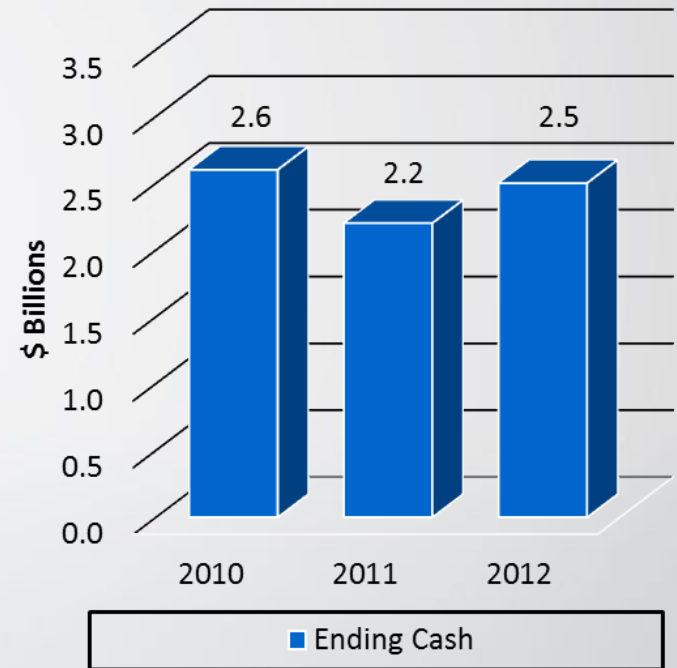
51



Cash Flows

(\$ in millions)	2010	2011	2012
Cash Flows:			
Cash received from operations	\$ 9,424.2	10,059.1	10,546.0
Cash expended for operations	<u>(11,089.0)</u>	<u>(11,516.2)</u>	<u>(12,123.7)</u>
Cash used for operating activities	(1,664.8)	(1,457.1)	(1,577.7)
Cash provided by noncapital financing activities	2,701.0	1,859.7	2,466.9
Cash used in capital & related financing activities	(1,141.5)	(1,160.0)	(1,473.1)
Cash provided by investing activities	<u>323.2</u>	<u>371.1</u>	<u>867.4</u>
Net increase (decrease) in cash & cash equivalents	217.9	(386.3)	283.5
Cash & cash equivalents, Beginning of the year	<u>2,344.7</u>	<u>2,562.6</u>	<u>2,176.3</u>
Cash & Cash equivalents, End of the year	\$ <u>2,562.6</u>	<u>2,176.3</u>	<u>2,459.8</u>

The three-year trend of ending cash and cash equivalents



52



Permanent University Fund (PUF) Lands

PUF Lands are considered an investment by U. T. System

- Fair Value (FV) of PUF Lands is based on a third-party reserve study of proved reserves. Probable and possible reserves of oil and gas have not been included in FV estimate.
- PUF Lands' surface interests reported at estimated appraised value using American Society of Farm Managers and Rural Appraisers' trends issued by Texas A&M University
- Other real estate holdings are reported by:
 - Latest available appraised amount by State certified or licensed appraiser, or
 - Any other generally accepted industry standard



Looking Forward to FY 2013



PUF Lands Valuation

- Taxes and Probable/Possible reserves have not historically been included
- Deloitte & Touche LLP has been passing on these adjustments after determining the amounts
- Considering incorporating these into report for 2013 to be certain that amounts will never reach a level to be problematic for a clean opinion

54



Looking Forward to FY 2013 (cont.)

- U. T. System appropriations for the 2012-13 biennium were reduced \$475 million or 14% compared to the original appropriations for the 2010-11 biennium
- OPEB will continue to reduce net assets
- The Affordable Care Act of 2010 health care reform will affect the medical centers and our self-insurance plan
 - The impact of this legislation will be significant, but the cost effect of the changes that will be required in future years are not determinable at this time
- Board-approved new medical school at U. T. Austin
 - Travis County voters elected to pass Proposition 1 in November 2012
 - Board has committed to allocate at least \$25 million per year to help support the medical school
- PeopleSoft conversion planning and testing is underway



Presentation to the U. T. System Board of Regents' Joint Meeting of the Audit, Compliance, and Management Review Committee and the Finance and Planning Committee

Julia Petty, Lead Client Service Director

**Deloitte & Touche LLP
February 2013**



Contents

Audit status	2
Audit scope	3
Audit adjustments and uncorrected misstatements	4
Control-related matters	10
Additional considerations	14

Audit Status

- We have performed an audit of the consolidated financial statements of **The University of Texas System (“the System”)** for the year ended August 31, 2012, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. We issued our report containing an unqualified opinion on December 20, 2012.
- As a part of this audit process we also issued our report, dated December 20, 2012, on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* for the year ended August 31, 2012.
- We completed our audits of the **PUF, GEF, LTF, ITF and PHF funds of UTIMCO** for the year ended August 31, 2012, and issued our reports containing unqualified opinions on October 31, 2012.
- We completed our audit of the **U. T. Medical Branch - Galveston (“UTMB”)** for the year ended August 31, 2012 and issued our report containing an unqualified opinion on December 20, 2012.
- We are in the process of completing our stand-alone audits for **U. T. M. D. Anderson Cancer Center (“UTMDACC”), U. T. Southwestern Medical Center (“UTSWMC”), and U. T. Health Science Center - Tyler (“UTHSC-T”)** for the year ended August 31, 2012.
- We have prepared the following comments to provide information about the external audit process in the context of your obligation to oversee the financial reporting and disclosure process for which management of the System, UTIMCO, and the U. T. institutions with stand-alone audits are responsible.

Audit Scope

- Our audit scope was outlined in our External Audit Plan dated August 2012, and was not restricted in any manner.
- No significant changes resulted from the execution of the External Audit Plan.
- Our auditing procedures addressed the areas of focus identified in our External Audit Plan; these areas included:
 - Due To/From Third Party Settlements,
 - Valuation of Patient Accounts Receivable,
 - Oil & Gas Reserve valuation and disclosure, and
 - Management Override of Controls.

Audit Adjustments and Uncorrected Misstatements

- Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- All proposed audit adjustments (whether recorded or not recorded) were reviewed with management and were determined, individually and in the aggregate, not to have a significant effect on the financial reporting process.

Audit Adjustments and Uncorrected Misstatements – U. T. System

- There was one passed reclassification adjustment identified during our audit related to an estimated overstatement of net assets within “Restricted Nonexpendable Net Assets” and understatement of “Restricted Expendable Net Assets” of \$205 million, which has no net balance sheet impact.
 - Management of the System has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.
- There was one passed adjustment identified during our audit related to an estimated understatement of \$135 million in receivable and related contribution revenue for the UTSWMC capital campaign.
 - Management of the System has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements – U. T. M. D. Anderson Cancer Center

- There was one passed adjustment identified during our audit related to a likely overstatement of long-term liabilities and long-term assets regarding assets held for others with a related increase in short-term assets and short-term liabilities of \$32.9 million.
 - Management of UTMDACC has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.
- There was one passed adjustment identified during our audit related to an overstatement of fixed assets of \$4.9 million (net) for a building transferred from U. T. Health Science Center - Houston that was not serviceable.
 - Management of UTMDACC has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements – U. T. Health Science Center - Tyler

- There was one passed adjustment identified during our audit related to an estimated understatement of cost report settlements liability and an overstatement of revenue of approximately \$600,000 due to lack of a detailed review of the estimated settlements by Management.
 - Management of UTHSC-T has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.
- There was one passed adjustment identified during our audit related to an overstatement of accounts payable and cash of \$500,000 due to misapplication of right of offset principles.
 - Management of UTHSC-T has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements – U. T. Medical Branch - Galveston

- There was one passed adjustment identified during our audit related to an overstatement of liabilities and expenses of \$6 million related to Medicare cost report re-openings and other contingencies.
 - Management of UTMB has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.
- There was one passed adjustment identified during our audit related to an understatement of patient receivables and patient revenues of \$8 million related to the estimated allowance for uncollectible accounts.
 - Management of UTMB has concluded that this proposed audit adjustment is immaterial to the financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements – UTIMCO

- We did not identify any recorded audit adjustments or uncorrected misstatements during our audits of the PUF, GEF, LTF, ITF and PHF funds of UTIMCO.

Control-related Matters

- A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
- A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Control-related Matters – U. T. System

Significant deficiency identified – U. T. Dallas PeopleSoft

- During fiscal year 2012, the Information Technology department made significant progress in addressing the 2011 significant deficiency identified by Deloitte by designing an effective change management process to address the risk that inappropriate changes are migrated to production impacting the integrity of financial data and PeopleSoft application controls.
- However, for 6 out of 25 changes selected for testing, documentation to support the control activity was not complete.
- Thus, documentation was not available to evidence that the control activity was operating on a consistent basis throughout the fiscal year.

Control-related Matters – U. T. System (cont.)

Significant deficiency identified – UTSWMC Financial Accounting and Reporting

- Financial accounting and reporting in a large higher education institution is complex and requires not only an understanding of the internal processes of the entity, but also coordination with the various operating units, strong accounting knowledge, and the ability to analyze transactions and determine their impact on financial statements.
- During the audit process, we noted the following deficiencies related to financial reporting:
 - Account balances not reconciled timely
 - Lack of review of journal entry support prior to the approval of journal entries
 - Lack of documented operating policies and procedures
 - Capital contributions not recorded in accordance with Generally Accepted Accounting Principles
 - Policies and procedures not documented for all business cycles
 - Difficulty explaining variances or the reason for maintaining specific accounts such as those reported in accounts payable and accruals or identifying who is responsible to reconcile such accounts at year end
- As a result, UTSWMC experienced substantial delays in the year-end reporting and audit processes.

Control-related Matters – Other Stand-alone Audits

- We did not identify any material weaknesses in our audits of U. T. M. D. Anderson Cancer Center, U. T. Health Science Center - Tyler, U. T. Medical Branch - Galveston, or the PUF, GEF, LTF, ITF and PHF funds of UTIMCO.
- The audit of U. T. Southwestern Medical Center is not yet complete.

Additional Considerations: Benefits from the Audits

- The stand-alone audits of the System, the UTIMCO funds, and the selected health institutions allow for a more detailed look at the financial reporting processes than if the entities were only a part of the State's audit.
- These more detailed procedures allow for identification of control areas for improvement without commissioning a special internal controls study.
- The external audit provides a public acknowledgement of the importance of transparent financial reporting.
- The external audit demonstrates the U. T. System Board of Regents' commitment to good governance.



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