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Committee Meeting: 8/9/2006
Board Meeting: 8/10/2006
Arlington, Texas

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

	Committee Meeting	Board Meeting	Page
A. CONVENE	9:00 a.m. <i>Chairman Estrada</i>		
1. U. T. System: Report on the status of the Fiscal Year 2006 U. T. System Financial Statements Audit	9:00 a.m. Report <i>Mr. Lenfant</i> <i>Mr. Chaffin</i>	Not on Agenda	132
2. U. T. System: Update on the Information Security Compliance Initiatives	9:15 a.m. Report <i>Mr. Chaffin</i> <i>Ms. Brown</i> <i>Dr. Kelley</i>	Not on Agenda	132
3. U. T. System Board of Regents: Approve proposed appointment of members to the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)	9:25 a.m. Action <i>Mr. Boldt</i>	Action <i>Chairman</i> <i>Estrada</i>	133
4. U. T. System: Report on the System-wide Internal Audit Activity	9:27 a.m. Report <i>Mr. Chaffin</i> <i>Ms. Chapman and</i> <i>Mr. Schroeder,</i> <i>U. T. Arlington</i>	Not on Agenda	134
5. U. T. System: Report on the System-wide Institutional Compliance Program Activity	9:32 a.m. Report <i>Mr. Chaffin</i>	Not on Agenda	138
B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - <i>Texas Government Code</i> 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			
C. ADJOURN	10:00 a.m.		

1. **U. T. System: Report on the status of the Fiscal Year 2006 U. T. System Financial Statements Audit**

REPORT

Mr. Rodney Lenfant, Deloitte & Touche LLP, will report on the firm's plan for conducting the 2006 audit including methodology, staffing, training, and associated timelines. The detailed Client Service Plan is set forth on Pages 12 - 31 of the Supplemental Materials (Volume 2) of the Agenda Book. The Engagement Objectives and Audit Approach are set forth in Section II on Pages 16 - 17 of the Supplemental Materials. The Audit Scope is set forth in Section III on Page 18.

BACKGROUND INFORMATION

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and firm interviews by Committee Chairman Estrada and U. T. System staff, the Board of Regents authorized the U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP, at the July 16, 2004 Board of Regents' meeting. The initial contract, that terminated on April 1, 2006, provided U. T. System the option to renew for two additional one-year terms. In February 2006, the U. T. System Board of Regents authorized U. T. System staff to negotiate and renew the auditing services contract with Deloitte & Touche LLP.

2. **U. T. System: Update on the Information Security Compliance Initiatives**

REPORT

The University of Texas System has many information assets, including sensitive and personal information. Information Security, the protection of sensitive and personal information, is governed by federal and state laws and institutional policies and procedures. Non-compliance with these rules and regulations can result in penalties to the institution and loss of critical information assets.

Mr. Chaffin, Chief Audit Executive and System-wide Compliance Officer, Ms. Tonya M. Brown, Vice Chancellor for Administration, and Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will provide an update on several information security initiatives including appointment of a System-wide information security officer, protection of significant and/or critical information assets, risk assessments, assurance strategies, and an action plan to enhance information security compliance. A summary of the planned IT Security Program was sent to members of the Board on July 21, 2006.

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

RECOMMENDATION AND REPORT

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve appointments to the Audit and Ethics Committee of the UTIMCO Board of Directors as follows:

Mr. Erle Nye (Chair)
Mr. Robert B. Rowling
Ms. Colleen McHugh

It is also reported that UTIMCO officers are as follows:

Chairman: Mr. H. Scott Caven, Jr.
Vice-Chairman: Mr. Robert B. Rowling
Vice-Chairman for Policy: Chancellor Mark G. Yudof

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 Board of Directors of UTIMCO. The Board of Directors of UTIMCO recommended these appointments conditioned on the approval of the U. T. System Board of Regents at the August 10, 2006 meeting.

Mr. Nye, Mr. Rowling, and Ms. McHugh were appointed to the UTIMCO Board of Directors on March 10, 2005, February 10, 2005, and November 10, 2005, respectively. Ms. McHugh replaces Mr. Woody L. Hunt on the Audit and Ethics Committee. Mr. Hunt's term expired July 13, 2006. Mr. Nye and Mr. Rowling have previously served on the Audit and Ethics Committee, as appointed by the Board of Regents on February 9, 2006.

Mr. Caven served as Vice-Chairman of the UTIMCO Board of Directors from May 19, 2005 until September 14, 2005, when he was appointed Chairman of the UTIMCO Board. Mr. Rowling was appointed Vice-Chairman on July 13, 2006, replacing Mr. Hunt as Vice-Chairman.

4. U. T. System: Report on the System-wide Internal Audit Activity

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on System-wide audit activity for the third quarter of Fiscal Year 2006, including the status of significant audit recommendations.

The third quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 135 - 136. The report shows that satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports that have been issued by the System-wide audit program follows on Page 137.

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, and the internal audit directors verify implementation. A 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 recommendations quarterly.

Additionally, Ms. Jennifer Chapman, Executive Director of Assurance Services at U. T. Arlington, and Mr. Ken Schroeder, Director of Audit at U. T. Arlington, will present the results of their recent external peer review.

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Overall Progress Towards Completion (Note 1)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2004-03	UT Austin	Information Security Management		1		1	Satisfactory	C, O
2006-02	UT Austin	UT Elementary School (performed by West, Davis & Company)				1	Satisfactory	C
2004-12	UTA	Texas Administrative Code 202 Information Security Compliance		1		0	Completed	C
2004-03	UTB	Contracts and Grants		1		1	Satisfactory	C, O
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office		1		1	Satisfactory	C, O
2004-10	UTB	Physical Plant		3		3	Satisfactory	C, O
2006-03	UTB	Athletics Change in Management Audit		1		1	Satisfactory	C, O
2003-12	UTD	Lab and Biological Safety		1		1	Satisfactory	C, O
2004-01	UTEP	Information Technology - General Controls Review		1		1	Satisfactory	O
2005-05	UTEP	Office of the Registrar		1		1	Satisfactory	O
2005-08	UTEP	Texas Success Initiative		1		1	Satisfactory	C, O
2005-04	UTHC-T	Texas Administrative Code 202 Compliance		1		1	Satisfactory	C
2005-06	UTHC-T	Medical Services, Research and Development Plan Annual Financial Report 8/31/04		1		1	Satisfactory	F, O
2005-11	UTHC-T	Information Technology Security Audit of Meditech and LSS Patient Information Systems		1		1	Satisfactory	C
2005-11	UTHC-T	Hospital and Physician Billing Audit of Patient Registration Processes		1		0	Completed	F, O
2006-01	UTHC-T	Annual Financial Report Audit Fiscal Year Ended August 31, 2005		2		1	Satisfactory	F, C, O
2006-04	UTHSC-Houston	Hematology Inventory Review				3	Satisfactory	F, O
2004-02	UTHSC-SA	Medical Services, Research, and Development Plan Front-End Billing		1		1	Satisfactory	O
2006-04	UTHSC-SA	Medical Services, Research, and Development Plan Collections				4	Satisfactory	O
2003-05	UTMB Galveston	Delivery of Operating Room Services		2		1	Satisfactory	O
2004-02	UTMB Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		2		1	Satisfactory	F, O
2004-07	UTMB Galveston	Office of Sponsored Programs (OSP) & Contracts and Grants (C & G)		6		1	Satisfactory	F, C, O
2004-09	UTMB Galveston	Agreed Upon Procedures on Financial Statement Fund Balance		2		0	Completed	F, O
2005-03	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule (Institutional)		1		1	Satisfactory	C, O
2005-07	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule (Correctional Managed Care)		3		3	Satisfactory	C, O
2005-08	UTMB Galveston	Audit of Institutional Review Board Human Subjects Protection		1		1	Satisfactory	C, O
2005-12	UTMB Galveston	System-wide Financial Audit		1		1	Satisfactory	F, C, O
2007-08	UTMBDACC	Lotus Notes Environment		2		2	Satisfactory	O
2004-01	UTMBDACC	PeopleSoft Payroll		1		1	Satisfactory	O
2006-03	UTMBDACC	Contractor Selection and Contract Monitoring				0	Completed	C, O
2005-08	UTPA	Contracts		1		0	Completed	O
2005-09	UTPA	College of Education		1		0	Completed	O

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
2004-03	UTSA	Information Technology Organization and Planning Controls		2		0	5/31/2006	Completed	F, O
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		1	9/1/2006	Satisfactory	C
2004-11	UTSA	Scholarship Management		1		1	8/31/2006	Satisfactory	O
2005-11	UTSA	Animal Research Audit		1		1	9/1/2006	Satisfactory	O
2006-01	UT Southwestern	Hospital Accounts Payable		4		3	7/1/2006	Satisfactory	F, C, O
2006-05	UT Southwestern	Accountis Payable		7		6	7/1/2006	Satisfactory	C, O
2005-12	UTSYS ADM	System-wide Financial Audit		7		6	3/31/2007	Satisfactory	F, O
2006-5	UTSYS ADM	UTIMCO Institutional Investment and Compliance Audits				16	8/31/2007	Satisfactory	C
2006-04	UT Tyler	Endowment Compliance				1	12/31/2006	Satisfactory	
			Totals		57				
			Totals		66				

STATE AUDITOR'S OFFICE AUDITS

2006-02	UT Austin	Federal Portion of the Statewide Single Audit FY 2005		1		1	8/31/2006	Satisfactory	F, O
2002-09	UTB	A Financial Review		1		1	8/1/2006	Satisfactory	F
2006-02	UTHSC-H	Federal Portion of the Statewide Single Audit FY 2005		1		1	8/31/2006	Satisfactory	C
2004-06	UTHSC-SA	Protection of Research Data at Higher Education Institutions		2		1	8/31/2006	Satisfactory	O
2006-02	UTMB Galveston	Federal Portion of the Statewide Single Audit FY 2005		4		3	8/31/2006	Satisfactory	F, C, O
2002-11	UTMDACC	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		1		1	8/31/2006	Satisfactory	C
2005-02	UTMDACC	Federal Portion of the Statewide Single Audit FY 2004		4		1	9/1/2006	Satisfactory	C
2004-02	UTSA	Financial Review		3		2	12/31/2006	Satisfactory	F
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions		1		1	8/31/2006	Satisfactory	O
			Totals		18				
			Totals		12				

Color Legend:

- Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention. Corrective action will be taken subsequent to the quarter in which the finding was reported.
- Significant progress toward resolution was made during the quarter in which the significant finding was first reported.
- A red or orange audit becomes a yellow when significant progress continues beyond the quarter in which the significant finding was first reported.
- All issues have been appropriately resolved, including any issues resolved during the quarter in which they were first reported.

Note:

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

* OTHER U. T. SYSTEM AUDITS COMPLETED - 3/2006 through 5/2006		
Month Received by System	Institution	Audit
March-06	UT Arlington	Library Purchasing and Inventory Process Audit
March-06	UT Arlington	Outsourced Operations - Bookstore Audit
March-06	UT Austin	Advanced Manufacturing Center - Review of Internal Controls and Basic Operating Procedures
March-06	UT Austin	Campus Club and Commons Café - Review of Internal Controls and Basic Operating Procedures
March-06	UT Austin	Texas Administrative Code 202 (Information Technology)
March-06	UT Austin	Texas Materials Institute - Review of Internal Controls and Basic Operating Procedures
March-06	UT Austin	University Interscholastic League Audit
March-06	UT Dallas	Registration Audit
March-06	UT M.D. Anderson Cancer Center	A Review of Payroll Expenditure by Nurse Voucher
March-06	UT M.D. Anderson Cancer Center	A Review of University Cancer Foundation
March-06	UT San Antonio	Human Resources Audit
March-06	UT Southwestern Medical Center	Department of Radiology
March-06	UT Southwestern Medical Center	Inventory of Information Technology Data Center Services
March-06	UT Tyler	Audit of the Travel, Entertainment, and Other Expenses Made for the President of UT Tyler
March-06	UTHC Tyler	Senior Vice President for Compliance and University Affairs - Change in Management
March-06	UTHSC Houston	Inventory of Information Technology Data Center Services
March-06	UTHSC Houston	Procurement Card Compliance Audit
March-06	UTHSC San Antonio	PeopleSoft Student Administration Application Security Review
April-06	UT Austin	Center for Educational Accountability - Review of Internal Controls and Basic Operating Procedures
April-06	UT Austin	Office of the President Change in Management Audit
April-06	UT Austin	Office of University Services - Review of Internal Controls and Basic Operating Procedures
April-06	UT Dallas	Equipment Inventory
April-06	UT Dallas	Facilities Management Work Order System
April-06	UT Pan American	Inventory of Information Technology Data Center Services
April-06	UT San Antonio	Security of Credit Card Data Audit Report
April-06	UT Southwestern Medical Center	Department of Obstetrics and Gynecology Management Review
April-06	UT Southwestern Medical Center	Department of Plastic Surgery
April-06	UT Southwestern Medical Center	General Controls for Protected Health Information
April-06	UT System Administration	Inventory of Information Technology Data Center Services
April-06	UT System Administration	Raiser's Edge Consulting Engagement
April-06	UT Tyler	Audit of the Office of the Vice President of Business Affairs
April-06	UTHSC Houston	Executive Reimbursements and Presidential Travel and Entertainment
April-06	UTHSC San Antonio	HIPAA Security at UT Medicine
April-06	UTHSC San Antonio	Inventory of Information Technology Data Center Services
April-06	UTHSC San Antonio	Medical Services, Research, and Development Plan Front End Billing Follow-Up
April-06	UTHSC San Antonio	Vice President for Research Internal Control Review
May-06	UT Arlington	Inventory of Information Technology Data Center Services
May-06	UT Austin	Automated Clearing House Audit
May-06	UT Austin	Data Center Services Inventory
May-06	UT Austin	Department of Economics - Review of Internal Controls and Basic Operating Procedures
May-06	UT Dallas	Inventory of Information Technology Data Center Services
May-06	UT Dallas	Advanced Technology Program/Advance Research Program (ATP/ARP) Grants Audit
May-06	UT El Paso	Inventory of Information Technology Data Center Services
May-06	UT M.D. Anderson Cancer Center	Inventory of Information Technology Data Center Services
May-06	UT M.D. Anderson Cancer Center	Review of the President's Travel, Entertainment, and Related Expenses
May-06	UT Medical Branch at Galveston	Inventory of Information Technology Data Center Services - Information Technology Systems and Hardware Inventory
May-06	UT Medical Branch at Galveston	UTMB HealthCare Systems Clinical Staffing Solutions Review
May-06	UT Pan American	Child Development Center
May-06	UT Pan American	NCAA Student Athlete Employment Compliance
May-06	UT Permian Basin	Inventory of Information Technology Data Center Services
May-06	UT Permian Basin	Presidential Travel and Expense Audit
May-06	UT San Antonio	Inventory of Information Technology Data Center Services
May-06	UT System Administration	1st Quarter FY 2006 Information Technology Follow-up Audit Information Technology
May-06	UT System Administration	1st Quarter FY 2006 Non-Information Technology Follow-up Audit Information Technology
May-06	UT System Administration	Network Security and Availability
May-06	UT System Administration	Office of Employee Benefits Change in Management Audit
May-06	UT Southwestern Medical Center	Medical Services, Research, and Development Plan Charge Entry Audit
May-06	UT Southwestern Medical Center	UT Southwestern Accounts Payable Audit

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

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will brief the Audit, Compliance, and Management Review Committee on the third quarter report of the System-wide Compliance Program, set forth on Pages 32 - 35 of the Supplemental Materials (Volume 2) of the Agenda Book. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis. The last activity report was sent on July 28, 2006.

Mr. Chaffin will then provide an update on the peer review activities at the institutions.