

**The University of Texas System Administration  
System Audit Office**

**Annual Audit Report  
Fiscal Year 2015**



The University of Texas System  
System Audit Office  
210 West 6th Street, Room B.140E  
Austin, Texas 78701



## TABLE OF CONTENTS

<b>I.</b>	<b>COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015 .....</b>	<b>1</b>
<b>II.</b>	<b>COMPLIANCE WITH THE BENEFITS PROPORTIONALITY AUDIT .....</b>	<b>1</b>
<b>III.</b>	<b>INTERNAL AUDIT PLAN FOR FISCAL YEAR 2015.....</b>	<b>2</b>
<b>IV.</b>	<b>CONSULTING SERVICES &amp; NON-AUDIT SERVICES COMPLETED.....</b>	<b>11</b>
<b>V.</b>	<b>EXTERNAL QUALITY ASSURANCE REVIEW .....</b>	<b>11</b>
<b>VI.</b>	<b>INTERNAL AUDIT PLAN FOR FISCAL YEAR 2016.....</b>	<b>13</b>
<b>VII.</b>	<b>EXTERNAL AUDIT SERVICES.....</b>	<b>16</b>
<b>VIII.</b>	<b>REPORTING SUSPECTED FRAUD AND ABUSE .....</b>	<b>16</b>



**I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site**

The System Audit Office FY 2015 Internal Audit Annual Report, which includes its approved FY 2016 Annual Audit Plan (see Section VI), a summary of weaknesses/concerns and related actions taken resulting from the FY 2015 Annual Audit Plan (see Section III) can be found on the UT System website (specifically, the “Reports to State” webpage <http://www.utsystem.edu/documents/reports-state> , choosing “Audit Reports” from the “Report Type” drop down menu).

**II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions**

Rider 8, page III-39, the General Appropriations Act (84th Legislature, Conference Committee Report), requires that higher education institutions conduct an internal audit during fiscal year 2016 of benefits proportional by fund, using a methodology prescribed by the State Auditor’s Office. The rider requires that the audit examine appropriation years (AY) 2012 through 2014, and be completed no later than August 31, 2016. To comply with Rider 8, a benefits proportionality audit is included in the FY 2016 annual audit plan.

An internal audit of the proportionality of higher education benefits process was conducted during FY 2015 at the request of the Governor. The scope of the audit included benefits funding proportionality for appropriation year (AY) 2013. Audit procedures were consistent with the methodology prescribed by the State Auditor’s Office to comply with Rider 8, and included review of source information obtained from the internal accounting system and the State’s Uniform Statewide Accounting System (USAS), review of the benefits proportionality reporting process, validation of the accuracy of information and proportional funding calculations reported to the State Comptroller on the Benefits Proportionality by Fund Report (APS 011), and testing to verify eligibility of employee benefits paid with appropriated funds.

Because AY 2013 was included in the prior year audit, the benefits proportionality audit conducted during FY 2016 will include only AY 2012 and AY 2014. The results of the AY 2013 audit will be included in the resulting audit report, with a statement certifying that the procedures followed were consistent with the methodology prescribed by the State Auditor’s Office.



**III. Internal Audit Plan for Fiscal Year 2015**

<b>FY 2015 Audit Plan – Engagements</b>	<b>Status of Plan</b>
<b>Financial</b>	
FY 2014 System Administration & Consolidated Financial Audit Assistance	Deloitte Report
FY 2014 UTS 142.1 Account Reconciliations & Subcertifications Audit	03/16/15
FY 2015 System Administration & Consolidated Financial Audit Assistance (interim)	Deloitte Report
Alzheimer’s Council Fiscal Agreement Audit	12/15/14
FY 2014 Guidance to Institutions on Systemwide Financial Audit	Complete – Report N/A
FY 2015 Guidance to Institutions on Systemwide Financial Audit	Complete – Report N/A
NCAA Agreed-Upon Procedures at UT Arlington	01/15/15
NCAA Agreed-Upon Procedures at UT El Paso	01/15/15
NCAA Agreed-Upon Procedures at UT San Antonio	01/15/15
NCAA Agreed-Upon Procedures at UT Pan American	01/15/15
Financial Controls Audit (Student Project) - Carryforward	12/15/14
<b>Operational</b>	
Executive Travel and Entertainment Expenses Audit	In Progress
Oil and Gas Producers Audit	Cancelled
UTIMCO Separate Accounts Process Audit	In Progress
UTIMCO CEO/CIO Travel and Other Expenses Audit	06/30/15
Presidential Travel, Entertainment & University Residence Maintenance Audit	In Progress
Executive Travel and Entertainment Expenses Audit - Carryforward	12/04/14
Presidential Travel, Entertainment & University Residence Maintenance Audit – Carryforward	Various – Last on 04/29/15
<b>Compliance</b>	
Proportional Benefits Audit	11/21/14
Joint Admission Medical Program (JAMP) Audit	12/12/14 and 01/16/15
Library, Equipment, Repair and Rehabilitation (LERR) Expenditures Audit	In Progress
UT Health Institution’s Practice Plan	Cancelled
Guidance to Institutions on Practice Plan Audits	Complete – Report N/A
Guidance to Institutions on Proportional Benefits Audits	Complete – Report N/A
Academic Workload Audit	In Progress
UTHSC-Tyler PQRS Practice Plan – Carryforward	01/21/15
UT Southwestern Comp Plan Practice Plan – Carryforward	09/08/14
<b>Information Technology</b>	
Texas Administrative Code 202 Audit	In Progress
UT Tyler TAC 202 Audit (Assistance)	Complete – Issued by UTT
IT Security Governance Audit	Cancelled
Mobile and Personal Device Management Audit	07/07/15
UTShare Post Implementation Reviews	Complete – Report N/A
<b>Follow Up</b>	
System Audit Office Follow Up FY 2014	Various Memos
<b>Projects</b>	
UT Rio Grande Valley Consulting Project	Complete – Report N/A
UT Austin Procurement Special Project – Carryforward	11/04/14
Internal Audit Restructure	Complete – Report N/A
<b>FY 2015 Audit Plan – Operations</b>	
Development of Internal Audit Strategy	Complete – Report N/A



Management of the Internal Audit Activity	Complete – Report N/A
General Audit Assistance to System Administration Departments	Complete – Report N/A
System Audit Office Annual Audit Plan and Risk Assessment Development Process	Complete – Report N/A
System Audit Office Quality Assurance Review Program Activities	Complete – Report N/A
System Administration Internal Audit Committee	Complete – Report N/A
TeamMate and Website Updates	Complete – Report N/A
SharePoint Site Management	Complete – Report N/A
UTIMCO Meetings and Oversight Activities	Complete – Report N/A
Institution Liaison Activities (Guidance/Assistance to Institutions)	Complete – Report N/A
Communications Development and Delivery	Complete – Report N/A
Auditor Research Development	Complete – Report N/A
ACMR Committee and Board of Regents Meetings	Complete – Report N/A
Internal Audit Council	Complete – Report N/A
Quality Assurance Review Participation at External Entities	Complete – Report N/A
Fraud and Investigation Tracking	Complete – Report N/A
Priority Findings Tracking and Reporting	Complete – Report N/A
Metrics Tracking & Reporting	Complete – Report N/A
Data Analytics Technical Operations	Complete – Report N/A
Systemwide Annual Audit Plan and Trend Analysis	Complete – Report N/A
Professional Organizations and Associations	Complete – Report N/A
System Administration Committees and Councils	Complete – Report N/A
State Auditor's Office Reporting and Requests	Complete – Report N/A
<b>FY 2015 Audit Plan – Initiatives</b>	<b>Status of Plan</b>
Institutional Audit Committee Independence and Capability	Ongoing – Report N/A
Systemwide and Institutional Risk Management	Ongoing – Report N/A
Governance Resources	Ongoing – Report N/A
Internal Audit Mission, Values and Supporting Operations	Ongoing – Report N/A
Risk Assessment Methodology	Ongoing – Report N/A
Audit and Reporting Models	Ongoing – Report N/A
Team Competencies	Ongoing – Report N/A
Internal Audit Metrics and Quality Program	Ongoing – Report N/A

***Deviations from Audit Plan Submitted:***

The System Audit Office completed all engagements on its FY 2015 annual audit plan with the exceptions noted above as “in progress” and the deviations noted below. Audits in progress at the end of FY 2015 were carried forward for completion in FY 2016. There was a deficit in the fiscal year’s available hours due to actual vacancies exceeding estimated vacancies and the addition of required project hours after the original annual audit plan was approved. In order to compensate, changes from the original, approved FY 2015 annual audit plan were presented to and approved by the UT System Administration Internal Audit Committee throughout the fiscal year.

***Hours Cancelled or Reduced:***

- Engagements: UT Health Institution Practice Plan Audit; Oil and Gas Producer Audit (*was included in FY 2016 audit plan*); IT Security Governance Audit
- Initiatives: Internal Audit Mission, Values, and Supporting Operations and Team Competencies Initiatives

***Hours Added to FY 2015 annual audit plan:***

- Internal Audit Restructure

A summary table of recommendations made to address issues identified from FY 2015 engagements, the actions taken by management, and the current implementation status is included on the following pages to address HB16 web site posting requirements.



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2015

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
11/21/14	Benefits Proportionality Audit	None	None	N/A
12/04/14	Executive Travel and Entertainment Expenses Audit	<p><b>Recommendation 1:</b> The Office of External Relations should enhance its reconciliation process to monitor potential duplicate payments, specifically for reimbursements that may be split into multiple payment vouchers. In addition, we recommend that the Vice Chancellor for External Relations reimburse \$445.31 to UT System Administration.</p>	<p><b>Management Response 1:</b> Reimbursement to the University of Texas System in the amount of \$445.31 for a duplicate payment in January 2013 will be submitted by me immediately. I have discussed this with my staff and they are taking steps to prevent this happening in the future. With reimbursements going directly into my account electronically, I must admit I did not catch two of the same amounts that were deposited over a several week period, especially since I travel so frequently and have a high volume of reimbursements.</p> <p>We believe that the implementation of PeopleSoft will aide in this effort as it will allow the submission of expenses charged to State and/or Local funds to be entered at the same time rather than having to wait several weeks for the State expenses to be paid before the charges to Local funds could be submitted under the APS process in DEFINE. DEFINE did not generate a notification of payment, whereas PeopleSoft does, which creates more clarity in the reconciliation process, and we believe will eliminate the possibility of duplicate payments.</p> <p>We will be revising our procedures to address your recommendations, including adding an additional layer of checks and balances prior to final submission for payment. We will be happy to share those OER procedures with you when completed and would welcome any additional suggestions you might have for improvement. We began procedural changes in May 2014 by transitioning to the new Travel Worksheet you have recommended in your review.</p>	Follow-up to be performed
12/12/14	Joint Admission Medical Program (Financial) Audit	None	None	N/A
12/15/14	Financial Controls Audit	<p><b>Recommendation 1:</b> The Institute for Transformational Learning should ensure that appropriate prior approval is obtained if travel expenses will exceed limits set in INT114 Travel Policy.</p>	<p><b>Management Response 1:</b> The Institute for Transformational Learning agreed with the recommendation and will implement the item noted on future travel expense claims.</p>	Implemented
12/15/14	Alzheimer's Council Fiscal Agreement Audit	None	None	N/A



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2015

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01/16/15	Joint Admission Medical Program (Compliance) Audit	<b>Recommendation 1:</b> The JAMP Office should establish procedures to closely monitor and reconcile its monthly activity for proper recording of transactions in the accounting system and compliance with applicable policies.	<b>Management Response 1:</b> The JAMP Office will implement the following to satisfy the recommendations of the audit performed for Fiscal Year 2014. <ul style="list-style-type: none"> <li>• In accordance with UT System Policy UTS166, Cash Management and Cash Handling, all checks of returned unspent funds will be deposited with in one business day.</li> <li>• All checks for returned funds will be clearly marked to indicate which Cost Center (formerly subaccount) the funds are to be deposited. The Deposit Cover Page sent to APS will indicate which cost center and the amount to be deposited.</li> <li>• Photocopy of deposit cover page and check(s) will be placed in appropriate expenditure report notebook.</li> <li>• After each deposit, Cost Centers will be monitored to insure that returned funds are deposited in to the correct Cost Centers. In addition, each Cost Center will be reconciled monthly to insure that funds being distributed are disbursed from the correct Cost Center.</li> </ul>	Implemented
03/16/15	UTS 142.1 Audit Work	<b>Recommendation 1:</b> The Controller's Office should ensure that all active PeopleSoft cost centers are included in the subcertification letters for FY 2015. To ensure completeness, the Controller's Office should consider producing a download of all active cost centers at the end of the fiscal year and use that information to update its listing of office accounts to be certified annually.	<b>Management Response 1:</b> Agreed. This year, departments were asked to list the cost centers they reconciled rather than providing them a list to validate. All seven missing cost centers for FY 2014 have been followed up on. In coordination with the System Administration offices, the Controller's Office will ensure that all active PeopleSoft cost centers are included in the subcertification letters for FY 2015.	Follow-up to be performed
04/02/15 & 04/10/15	Presidential Travel & Entertainment Expenses Audit	<b>Recommendation 1(UTHSC-T):</b> The President's Office should ensure that reimbursement vouchers are supported by sufficient documentation as required by institutional policy, including agendas, itineraries, or registration materials, as applicable for travel expenses, and itemized meal receipts for both travel and business entertainment expenses (or include a notation that one could not be provided by the restaurant). Additionally, the president and his spouse should sign and date all travel and business entertainment reimbursement requests to document their certification of the expenses.  Further, steps should be taken so that direct billed expenses for trips with no reimbursable expenses (e.g., airfare for a day trip) are approved by the chief business officer and refunds or credits for cancelled flights are tracked until received.	<b>Management Response 1:</b> The President concurs with the recommendation. To address each of the elements of the recommendation, the President's Office will collaborate with the Senior Vice President, Chief Business and Financial Officer and Accounting Department leadership to: <ul style="list-style-type: none"> <li>• Ensure that copies of agendas, itineraries, or registration materials currently maintained with other document sets are also attached to travel reimbursement vouchers.</li> <li>• Increase retention and submission of itemized meal receipts, with a goal of moving from a position of substantial to full compliance with institutional policy, and documenting occasional exceptions when restaurants do not provide itemized receipts.</li> <li>• Ensure that all travel vouchers and payment request forms are personally signed and dated to</li> </ul>	Follow-up to be performed



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2015

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		<p>Lastly, the timeliness standards used for submitting the president's and his spouse's travel and business entertainment expense reimbursements should be aligned with institutional policy rather than Rule 20205 since the policy has a stricter timeframe.</p> <p><b>Recommendation 2 (UTMDACC):</b> Business Affairs, working with the President's Office, should facilitate a process to retain documentation of the CBO's review and approval for the president's travel and entertainment expenses, both direct billed and reimbursed. Additionally, Business Affairs should implement steps to ensure that the president's spouse's travel and entertainment expenses (for activity related to the President's Office) are reviewed by the CBO with documented approval.</p>	<p>document certification of the expenses.</p> <ul style="list-style-type: none"> <li>• Prepare individual Request for Travel Authorization (RTA) forms to document authorization for trips with no reimbursable expenses.</li> <li>• Establish an improved tracking system for refunds or credits for cancelled flights to ensure the institution receives applicable airfare credits.</li> <li>• Improve timeliness of submission of travel vouchers and payment request forms to meet the institutional timeframes that are stricter than Regents' Rule 20205.</li> </ul> <p><b>Management Response 2 (UTMDACC):</b> In coordination with the President's Office, MD Anderson's Office of Business Affairs will augment its process for review and approval of presidential travel and entertainment expenses, as well as spousal expenses for travel and entertainment directly related to President's Office and institutional support activities, to ensure retention of documentation indicating Chief Business Officer participation in the review and approval process.</p>	<p>Follow-up to be performed</p>
06/30/15	UTIMCO CEO/CIO Travel and Other Expenses Audit	<p><b>Recommendation 1:</b> Management should ensure that supporting documentation for reimbursable travel and other business expenses, paid or incurred by UTIMCO personnel, are submitted within 60 days as described in the UTIMCO Travel Guidelines. Management should also provide training, or written reminder, to UTIMCO personnel to ensure that this requirement is understood. In addition, management should develop procedures to ensure compliance with IRS requirements.</p> <p><b>Recommendation 2:</b> UTIMCO should develop guidelines related to business entertainment expenses that provide guidance on the types of business entertainment allowed, rate limits or measures of reasonableness for these expenses, and the appropriate approvals and potential delegations.</p> <p><b>Recommendation 3:</b> Approval for lodging overages, as applicable, should be complete, timely, and documented as part of the reimbursement request. UTIMCO may choose to review the Travel Related Lodging Procedures</p>	<p><b>Management Response 1:</b> Management will review its current processes and enhance as necessary to ensure that reimbursable travel and other business expenses are submitted as described in the UTIMCO Travel Guidelines and ensure compliance with IRS requirements. Management will provide additional training to reinforce that the requirement is understood and followed.</p> <p><b>Management Response 2:</b> Management will develop appropriate guidelines.</p> <p><b>Management Response 3:</b> Management will review the Travel Related Lodging Procedures and amend them to be consistent with the UTIMCO Travel Guidelines for CEO travel expenses. Management will continue to</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>





The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2015

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		to determine whether revisions are needed, specifically in regard to lodging rate limits and advance approval for lodging overages for the CEO position.	ensure documentation related to the CEO's lodging overages is maintained.	
07/07/15	Mobile and Personal Device Management Audit	<p><b>Recommendation 1:</b> If a significant number of the licenses will remain unused, the Systemwide Information Security Office should work with the vendor to suspend the annual maintenance fees for unused licenses (currently approximately \$75,000 per year) or identify a feasible alternative to mitigate the future expense (such as eliminating those licenses not expected to be used).</p>	<p><b>Management's Response 1:</b> As part of the ISAI initiative, the Systemwide Information Security Office created a multi-institutional work group, comprised of members from UT Dallas, UT Austin, UT Pan American, UT Southwestern, UT HSC Houston, Medical Branch, MDACC, and the Supply Chain Alliance, to determine the functional requirements of the product, determine deployment levels, draft a Request for Proposal (RFP), evaluate proposals, and make a recommendation on the selected product. The intent of the purchase of AirWatch was to provide those institutions that had not already selected and purchased a product with a viable alternative.</p> <p>Institutions have the flexibility to choose a mobile device management product that best meets the institutions' requirements and capabilities of implementation. Institutions are not required by directive or policy to use or consider AirWatch as their preferred solution for mobile device management.</p> <p>Management agrees with the need to avoid the continued payment of maintenance on licenses that will never be deployed. The Systemwide Information Security Office will work with VMware to identify a means by which UT System and institutions will pay for the maintenance of licenses deployed or that have a realistic expectation of being deployed in the short to medium term. Specifically:</p> <ul style="list-style-type: none"> <li>• Determine the number of AirWatch licenses currently not allocated or deployed.</li> <li>• Follow up with institutions to assess the status of their corresponding evaluations and deployment.</li> <li>• Re-evaluate the number of licenses that will be required by institutions deploying or considering deploying AirWatch.</li> <li>• Determine the number of excess licenses that, realistically, will never be deployed.</li> <li>• Engage VMware in conversations to identify, if possible, a path moving forward by which the maintenance fee for the excess licenses is suspended or avoided.</li> </ul>	Follow-up to be performed



Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		<p><b>Recommendation 2:</b> The Systemwide Information Security Office should continue to work with the CISOs of the institutions where AirWatch MDM is not being considered to reassess the viability of implementing that product. Also, it may be beneficial to develop awareness training to assist the institutional CISOs in better informing the users at their institutions of the capabilities and limitations of MDM, and how the features of an MDM solution will assist and protect the users. Recognizing that institutions may implement AirWatch in different ways, training content could include a general reminder of the importance of protecting University data and the purpose of MDM as another tool to do so. Communicating this message may increase success in deployment.</p>	<p><b>Management's Response 2:</b> The recommendation includes a task related to the implementation of AirWatch and a task related to mobile device management awareness training. Each will be addressed separately.</p> <p>The Systemwide Information Security Office has actively engaged institutions on mobile device management, including AirWatch. As mentioned above, institutions are not required by directive or policy to use AirWatch as their preferred solution for mobile device management. This recommendation requires the Systemwide Information Security Office to compel institutions not currently considering AirWatch to reassess their decision. However, the Systemwide Information Security Office will re-engage institutions that do not have an MDM strategy in place as identified in Appendix B.</p> <p>Implementation Date:</p> <ul style="list-style-type: none"> <li>• Email communication to appropriate CISOs and follow-up conference call: July 31st.</li> <li>• Include mobile device management implementation as topic of discussion during CISO Council – August 12th.</li> <li>• In-person meeting and discussion during CISO Council and UTINFOSEC – August 14th.</li> <li>• Report detailing outcome of communication and meeting – August 31st, 2015.</li> </ul> <p>Management agrees that training and guidelines are an important requirement for a successful implementation of a mobile device management strategy and to create the user buy-in needed to accept it, enroll devices, and participate in its deployment. The Systemwide Information Security Office leverages mobile device management related resources from UT System institutions, EDUCAUSE, and institutions of higher education, and makes them available to institutional CISOs via a SharePoint site dedicated to mobile device management. The items below are already works-in-process:</p> <ul style="list-style-type: none"> <li>• Create a UT System web site for mobile device management that introduces the initiative and includes links to resources available to CISOs.</li> <li>• Create a SharePoint site, as part of the UT System</li> </ul>	<p>Follow-up to be performed</p>



Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		<p><b>Recommendation 3:</b> The Systemwide Information Security Office should assist the institutions in reconsidering a decision to not implement any MDM solution by highlighting how MDM can be used to enhance policy compliance and overall information security. While additional cost and effort may be required upfront, an MDM solution can help ensure compliance with policy requirements and mitigate risks related to unauthorized exposure of confidential data.</p>	<p>CISO SharePoint, dedicated to mobile device management that includes: benefits, FAQ, Getting Started guidelines, privacy concerns, configuration baselines, and resources from other UT System institutions, EDUCAUSE, and other institutions of higher education.</p> <ul style="list-style-type: none"> <li>• Create a SharePoint site to support the UT System Administration AirWatch pilot implementation. In addition, this site will include device requirements, device enrollment instructions, and device management rules.</li> </ul> <p><b>Management's Response 3:</b> Management agrees that the implementation of a mobile device management strategy and supporting application mitigates risks related to unauthorized exposure of confidential data, enhances policy compliance, and overall information security. The implementation of such a strategy and application is not a trivial endeavor limited to installing and deploying a tool, but one that requires policy work, identification of requirements and creation of management rules, strategy communication and socializing, creation of a device enrollment portal, installation and configuration of the application, help desk support, monitoring of the application and enforcement of rules, rules review and maintenance, etc., all of which require ongoing time and effort from information security and/or information technology staff. AirWatch could be available to those institutions at no cost to them and still they would not be able to successfully implement because they lack the staff and/or the budget to support the initiative.</p> <p>The Systemwide Information Security Office will contact institutions identified in Appendix B to assess barriers to implementation of an mobile device management solution and determine the feasibility of implementing a targeted mobile device management strategy (e.g., high-priority departments or roles), leveraging AirWatch Software as a Service (SaaS) option and/or the use of Systemwide Information Security Office staff and resources to facilitate implementation.</p>	<p>Follow-up to be performed</p>



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2015

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		<p><b>Recommendation 4:</b> The Systemwide Information Security Office should develop additional guidance to assist institutional CISOs with incorporating the revised version of UTS165 into their institutional policies and procedures relating to mobile devices. Part of this guidance should be in the form of model training materials. Updating policies and procedures and promoting user awareness through a targeted training program should enhance security surrounding mobile devices.</p>	<p><b>Management's Response 4:</b> UT System's UTS165, Information Resources Use and Security Policy and Standards, was updated this year, and it includes mobile device management requirements (Standards 2: Acceptable Use and 11: Safeguarding Data). Institutions can, and often do, have policies, standards, and procedures that may go above and beyond the requirements of UTS165. The Systemwide Information Security Office will draft a Memorandum to the CISOs highlighting the importance of mobile device management in mitigating risks related to unauthorized exposure of confidential data and enhancing policy compliance and overall information security as well as reminding them of their responsibility to update institutional policy and procedures to incorporate changes in UTS165 related to mobile device management.</p> <p>The Systemwide Information Security Office will remind institutions of the current availability of the SANS Securing The Human training video regarding mobile device security and will continue the development of a SharePoint site, as part of the UT System CISO SharePoint, dedicated to mobile device management that includes training resources from other UT System institutions, EDUCAUSE, and other institutions of higher education.</p>	<p>Follow-up to be performed</p>



**IV. Consulting Services & Non-audit Services Completed**

<b>Report Date</b>	<b>Report Name</b>	<b>High-Level Objectives(s)</b>	<b>Observations/Results/Recommendations</b>
11/04/14	UT Austin Procurement Special Review	Perform special review of the facts and process used for contracting with Accenture, LLP for professional consulting services	Ensure proper documentation is maintained to demonstrate that statutory best value criteria are considered and satisfied. "Sole Source" purchases should be handled as such. Ensure all purchase and change orders related to a single Statement of Work are considered collectively. Implement a comprehensive and formal approach to evaluate and document potential conflicts of interest and resulting mitigation strategies.
01/15/15	UT El Paso NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/15/15	UT San Antonio NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Develop customized PeopleSoft, Envision or other automated report that can generate a SRE from the athletic department accounts and from other applicable UTSA accounts.
01/15/15	UT Pan American NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Retain adequate supporting documentation for athletic department expenses. Request, receive and review financial statements for activities managed by outside organizations. Athletics should also document procedures regarding gathering and review of information from outside organizations.
01/15/15	UT Arlington NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/21/15	UTHSC-T Practice Plan PQRS Consulting	Assess UTHNE's process for reporting PQRS measures to CMS	Recommendations were made for management's consideration to strengthen monitoring and oversight, to minimize the risk of reporting incomplete and inaccurate information, and to improve the probability that future PQRS measures can provide meaningful results in coordination with existing quality and safety metrics.

**V. External Quality Assurance Review**

See next page



September 12, 2014

Mr. J. Michael Peppers, Chief Audit Executive  
The University of Texas System  
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We have completed an External Quality Assessment (“EQA”) of The University of Texas System (“UT System” or “System”) Audit Office (“System Audit Office” or “IA”). The EQA included an assessment of the level of conformance with the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing (“the IIA Standards”), the Generally Accepted Government Auditing Standards (“GAGAS”), as well as the relevant requirements of the Texas Internal Auditing Act (“TIAA”). Listed below are our observations:

- IIA Standards - Based on our work, overall the System Audit Office generally conforms. We did identify process enhancement opportunities.
- GAGAS - Our assessment of GAGAS was limited, based on System Audit Office’s disclosure that no internal audits were performed during our assessment period under GAGAS. Based on our work, we did not identify conformance observations. We did identify process enhancement opportunities.
- TIAA requirements – Other than the observations related to IIA Standards and GAGAS, no other observations were noted during our work.

Our services were performed and this report was developed in accordance with our contract dated February 18, 2014 and are subject to the terms and conditions included therein. Our Services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"). Accordingly, we are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us. Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through June 17, 2014, when field work was substantially completed. Accordingly, changes in circumstances after this date could affect the findings outlined in this report. This information has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with The University of Texas System Administration. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than The University of Texas System Administration.

We would like to offer a sincere thank you to you and your staff, and the Audit Committee and management of UT System, for the time and attention they provided during this assessment. We appreciate the opportunity to serve The University of Texas System Administration on this important engagement.

Very truly yours,

PricewaterhouseCoopers LLP

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Information contained herein is for the sole benefit and use of PwC's Client



VI. Internal Audit Plan for Fiscal Year 2016

FY 2016 Audit Plan System Audit Office	Budgeted Hours	Percent of Total	Description
<b>Financial Audits and Projects</b>			
FY 2015 UT System Administration & Consolidation Financial Audit Assistance	200		Assistance on the external audit of the System Administration and Consolidated financial statements for FY 2015 (year-end work).
UTS142.1 Account Reconciliations & Subcertifications Audit	300		Audit of the monitoring of account reconciliations and segregations of duties per UTS142.1 (year-end work for FY 2015).
FY 2016 UT System Administration & Consolidation Financial Audit Assistance	200		Assistance on the external audit of the System Administration and Consolidated financial statements for FY 2016 (interim work).
Guidance to Institutions on Systemwide Financial Audit - FY 2015	40		Provide guidance and coordination of year-end work performed for the FY 2015 external financial statements audit.
Guidance to Institutions on Systemwide Financial Audit - FY 2016	40		Provide guidance and coordination of interim work performed for the FY 2016 external financial statements audit.
NCAA Agreed-Upon Procedures at UT Arlington	325		Perform agreed-upon procedures regarding internal controls, revenues, and expenses of the intercollegiate athletics programs for FY 2015 (due 1/15/16).
NCAA Agreed-Upon Procedures at UT El Paso	350		
NCAA Agreed-Upon Procedures at UT San Antonio	100		
NCAA Agreed-Upon Procedures at UT Pan American	100		
NCAA Agreed-Upon Procedures at UT Permian Basin	400		
<b>Financial Subtotal</b>	<b>2,055</b>	<b>8.9%</b>	
<b>Operational Audits and Projects</b>			
UT Presidential Travel, Entertainment & University Residence Maintenance Expense Audits	800		Audit of presidential travel, entertainment and university residence maintenance (as applicable) expenses as required by Regents' <i>Rule</i> 20205.
Executive Travel and Entertainment Expenses Audit	350		Audit of executive travel and entertainment expenses as requested by former Chancellor Cigarroa at System Administration and the institutions.
UTIMCO CEO/CIO & Executive Travel and Other Expenses Audit	300		Audit of CEO/CIO's and senior level staff's travel and other expenses, consistent with audit requirement of UT System presidents/Chancellor and executives.
UTIMCO TBD Audit	350		Audit area will be chosen based on risk through discussions with UTIMCO executive management and/or the Audit & Ethics Committee members of the UTIMCO Board of Directors.
Oil and Gas Producers Audit	600		Audits of oil and gas producers to ensure compliance with lease agreements.
OFPC Fee Benchmark Consulting	350		Evaluate reasonableness of OFPC's fee schedule in comparison to private-sector firms/public higher-education universities/university systems.
Procurement Workgroup Consulting	50		Provide consulting services to Procurement workgroup.
Student Success Metrics Consulting	100		Provide consulting services related to Student Success metrics.
Conflict of Interest Process Audit	400		Audit of processes surrounding Systemwide reporting and monitoring of conflicts of interest.
UTRGV Consulting	500		Provide consulting services related to UT Rio Grande Valley.
<i>Carryforward Audits (see below)</i>	1,000		Completion of carryforward audits from FY 2015.
UTIMCO Separate Accounts Process Audit			
Presidential Travel and Entertainment Expenses Audit			
Executive Travel and Entertainment Expenses Audit			
<b>Operational Subtotal</b>	<b>4,800</b>	<b>20.8%</b>	
<b>Compliance Audits and Projects</b>			
Procurement and Contract Administration Audit	400		Audit of the processes surrounding procurement and contract administration at System Administration.
Proportional Benefits Audit	250		Audit of the processes surrounding the calculation of proportional benefits at System Administration (3 FYs).
Office of Employee Benefits HIPAA Audit	300		Audit of the Office of Employee Benefits' compliance with HIPAA.
Guidance to Institutions on Procurement and Contract Administration Audits	100		Provide audit program and guidance on the institutional internal audit conducted contract administration audits.
Guidance to Institutions on Proportional Benefits Audits	100		Provide audit program and guidance on the institutional internal audit conducted proportional benefits audits.
Guidance to Institutions on Practice Plan Audits	50		Provide guidance on the practice plan audits conducted by internal audit at the health institutions.
<b>Compliance Subtotal</b>	<b>1,200</b>	<b>5.2%</b>	
<b>Information Technology Audits and Projects</b>			
Cloud Computing and Storage Audit	600		Audit of Systemwide strategy and use of cloud-based systems and services.
UT Share Post Implementation Review	600		Conduct post implementation reviews of PeopleSoft system (UT Share) at System Administration and provide related guidance and oversight to the institutions.
UT Share Operating Committee Participation	100		Participation on UT Share Operating Committee.
IT Strategic Planning and Governance Review	150		Provide consulting services related to Systemwide assessment of IT governance and development of strategic plan.
Systemwide IT Inventory Risk Assessment	100		Assistance and oversight for co-sourced Systemwide IT Inventory Risk Assessment project (additional hours to be contracted with external provider).
<b>Information Technology Subtotal</b>	<b>1,550</b>	<b>6.7%</b>	
<b>Follow Up</b>			
System Audit Follow Up Procedures	500		Follow-up on open recommendations from previous audits conducted by the System Audit Office.
<b>Follow Up Subtotal</b>	<b>500</b>	<b>2.2%</b>	





<b>Development - Operations</b>		
Internal Audit Strategy	50	Development of Internal Audit Strategy System Audit and Systemwide, including operations reporting.
Assistance to Academic Eight Institutions	300	Provide assistance on various matters to internal audit at the Academic Eight institutions.
Institution Liaison Activities	900	Provide oversight, guidance, and assistance to the institutional internal audit departments (categories include all, academic, health, and small institutions as well as IT related). Includes attendance at institutional audit committee and other meetings.
Communications - General	150	Communications Development and Delivery (CAE Memo, Webinars, etc.).
Communications - Systemwide Internal Audit Council and Education	400	Preparation for and attendance at the Internal Audit Council meetings and efforts on Internal Audit Strategic Plan initiatives. May also include development and delivery of education to CAEs.
Online Reporting	150	Collecting, tracking, sorting, and posting audit reports online.
Fraud and Investigation Tracking	100	Tracking, monitoring, and reporting of fraud and investigation activities.
Priority Findings	125	Tracking, summarizing, and reporting on the Systemwide Priority Findings.
Metrics	75	Collecting, summarizing, and reporting on the Systemwide internal audit metrics.
Data Analytics	1,000	Data Analytics Technical Operations, Script Development Guidance and Support.
Quality Assurance Reviews at External Entities	50	Participation on external quality reviews of internal audit departments at other non-UT institutions.
ACMR Committee and Board of Regents	400	Preparation for and attendance at Audit, Compliance, and Management Review Committee and Board of Regents meetings. May also include other reports for and requests from Regents.
FY 2017 Systemwide Annual Audit Plan and Trend Analysis	300	Coordination and conducting of institutional audit plan presentations to provide feedback on draft annual audit plans, preparation of the Systemwide annual audit plan for approval by the Audit, Compliance, and Management Review Committee, and analysis of Systemwide risk, audit, and issue trends.
General Audit Assistance to System Administration	300	General assistance and support to System Administration departments and response to management requests.
System Administration Committees and Councils	300	Participation in System Administration Committees and Councils.
Management of the Internal Audit Activity	350	General management of the System Audit Office's internal audit activities such as prioritization and status updates of engagements.
UTIMCO Meetings and Oversight Activities	50	Attendance at UTIMCO Board of Directors, Committee, and other oversight meetings.
UT System Administration Internal Audit Committee	400	Preparation for and attendance at quarterly System Administration Internal Audit Committee meetings.
External Reporting and Requests	100	Preparation of the annual report of audit activity required by the State Auditor's Office (SAO) and other SAO reporting requests. May also include reports or requests from other external agencies.
TeamMate Maintenance and Website Updates	50	Updates to audit workpapers software (TeamMate) and office website.
SharePoint Site Management	50	Management and updates to the SharePoint sites.
FY 2017 System Audit Office Annual Audit Plan	350	Development of the risk-based annual audit plan and facilitation of risk assessments.
System Audit Quality Assurance Activities	200	Implementation of recommendations from External Quality Assessment and quality related enhancements to System Audit Office's Policies/Processes/Procedures.
<b>Development - Operations Subtotal</b>	<b>6,150</b>	<b>26.6%</b>
<b>Development - Initiatives and Education</b>		
Strengthen Audit Governance	200	Strengthen audit governance and expand its capabilities and institutional communication.
Stabilize Risk Assessment Process	300	Stabilize and leverage risk assessment innovation.
Audit Management Technology Implementation	1,800	Implement a comprehensive audit management enabling technology.
Quality Program Implementation	600	Strengthen leading practice and standards use with quality program implementation.
Expand Resource Capabilities and Knowledge/Resource Management	600	Expand resources and capabilities of auditors and facilitate knowledge/resource management development.
Develop Common Audit Reporting	250	Develop and deploy common audit reporting and related processes.
Develop Audit Teams	300	Develop UT audit teams' capabilities and leadership
Internal Audit Staff Training/Continuing Professional Education	1,430	Internal staff attendance for training, including travel related time.
Professional Organizations and Associations	250	Participation in professional organizations and associations (e.g., IIA, ACUA, ISACA, ACFE).
<b>Development - Initiatives and Education Subtotal</b>	<b>5,730</b>	<b>24.8%</b>
<b>Reserve</b>		
Special Requests - TBD	1,095	Provide assistance to UT System executive management in addressing unexpected issues (reviews, investigations, third-party engagements, etc.)
<b>Reserve Subtotal</b>	<b>1,095</b>	<b>4.7%</b>
<b>Total Budgeted Hours</b>	<b>23,080</b>	<b>100%</b>





***Risk Assessment/Methodology Used to Develop FY 2016 Annual Audit Plan & High Risks Not Included***

The UT System Administration FY 2016 Audit Plan outlines the internal audit activities that will be performed by the System Audit Office during FY 2016 in accordance with responsibilities established by the UT System, the Texas Internal Auditing Act, the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, and Generally Accepted Government Auditing Standards. The plan is prepared using a risk-based approach to ensure that areas and activities with the greatest risk are identified for consideration to be audited. The FY 2016 Annual Audit Plan (Audit Plan) for the System Audit Office includes Engagements (traditional audit work performed at System Administration and institutions), which are included in the Financial, Operational, Compliance, Information Technology, and Follow-up sections; Development – Operations (ongoing System Administration and oversight activities); and Development – Initiatives & Education (developmental System Administration and Systemwide initiatives that may be employed over multiple years). The Audit Plan was approved by the UT System Administration Internal Audit Committee on 7/14/15 and by the UT System Board of Regents' Audit, Compliance, and Management Review Committee on 8/20/15 as part of the Systemwide Audit Plan.

During FY2015 a work group of audit leadership and auditors at UT Institutions collaborated to develop a common risk assessment methodology and process, which was executed at UT System Administration in FY 2016. The UT System Audit Office coordinated the common pilot risk assessment efforts. The goals for this common risk assessment approach were to start at the top with an awareness of critical initiatives and objectives to ensure the risks assessed were the most relevant. The assessment process was standardized by creating common terms and criteria, enabling trending of risk and Systemwide comparisons. An emphasis was placed on collaboration with other functions that assess, handle, or manage risk.

This information was used to develop the risk-based audits to be conducted at System Administration or at one or more of the institutions. Along with the audits derived directly from the risk discussions, the Audit Plan includes other required and/or recurring work that is performed at System Administration or the institutions. Several of these audits also address risks identified during the Audit Plan development process. In addition to the risk-based and required engagements and other activities, hours are budgeted to set aside time for special requests related to unexpected issues that may arise during the fiscal year.

Additional high risks that were identified but not part of the Audit Plan, were in the general areas of health care, compliance, safety, and research. The specific high risk areas are in some sort of transition or under management oversight and not ready to be audited. Additionally, some of the high risks are addressed by external party work or have had internal audit coverage in recent fiscal years.

In addition, it is noted that:

- Information Technology risks represent a broad, high-risk category in the risk assessment and include specific information technology risks related to Title 1, Texas Administrative Code (TAC), Chapter 202, Information Security Standards. An audit of TAC 202 compliance was conducted in FY 2015, and the report will be issued in early FY 2016.
- The FY 2016 Annual Audit Plan includes a Procurement and Contract Administration Audit, which is listed in the Compliance section.
- The FY 2016 Annual Audit Plan does not include an audit related to expenditure transfers, capital budget controls, or other limitation or restriction in the General Appropriations Act.



## **VII. External Audit Services Procured in FY 2015**

The University of Texas System contracted with Deloitte & Touche, LLP (Deloitte) to perform an independent audit of the FY 2014 UT System financial statements (including stand-alone audits at some of the institutions) and an independent audit of the FY 2014 financial statements of The University of Texas Investment Management Company (UTIMCO) Corporation, the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund (collectively, the Funds). Also, Deloitte performed interim work for the audit of the UT System and Funds' FY 2015 financial statements.

In addition, UT System contracted with external auditors (Deloitte for all except UTSW, which used Crowe Horwarth) to complete audits of Cancer Prevention Research Institute of Texas (CPRIT) grants at nine UT institutions to conclude on the Schedule of Expenditures of State Awards for the CPRIT program and compliance over CPRIT programs. The scope included grant activity for FY 2014. This audit was required by the granting agency, CPRIT.

The University of Texas System Administration contracted with Wolcott and Associates to perform benefit audits for the Office of Employee Benefits of employee and retiree medical and prescription insurance claims.

The University of Texas System Administration contracted with R.L. Townsend and Associates to perform ongoing construction billing and final contract review audits for the Office of Facilities, Planning and Construction.

## **VIII. Reporting Suspected Fraud and Abuse**

Actions taken to implement the requirements of General Appropriations Act (83<sup>rd</sup> Legislature), Article IX, Section 7.09, Fraud Reporting and Texas Government Code, Section 321.022 include:

- SAO fraud reporting link on the bottom right of UT System homepage (<http://www.utsystem.edu/>)
- UT System policy UTS118 pertaining to fraudulent activities, including coordination of investigations and reporting of suspected fraud (<http://www.utsystem.edu/bor/procedures/policy/policies/uts118.html>).
- UT System Hotline, which provides employees a way to report instances of suspected wrongdoing (<http://www.utsystem.edu/offices/systemwide-compliance/hotline>), including a link to report suspected fraud, waste, and abuse involving state funds to the SAO (<http://sao.fraud.state.tx.us/>)
- The System Audit Office continues coordination with Systemwide Compliance and the Office of General Counsel regarding a Systemwide fraud reporting protocol and tool to help ensure consistent and timely communication.