

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

**Annual Audit Report
Fiscal Year 2013**



The University of Texas System
System Audit Office
702 Colorado Street, CLB 3.100
Austin, Texas 78701



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I. Compliance with House Bill 16

The System Audit Office FY 2013 Internal Audit Annual Report, which includes its FY 2014 Annual Audit Plan (see Section V), will be posted on the UT System website (specifically, the “Reports to State” webpage found at <http://www.utsystem.edu/documents/reports-state>).

II. Internal Audit Plan for Fiscal Year 2013

The University of Texas System Administration	
System Audit Office FY 2013 Annual Audit Plan	
Part 1 of 2: System Administration	
Engagement / Report Name	Report Date / Status
<u>Financial</u>	
FY 2012 System Administration & Consolidated Financial Audit Assistance	Deloitte Opinion 12/20/12
FY 2012 Account Reconciliation & Sub-certification Audit	12/6/12
FY 2013 System Administration & Consolidated Financial Audit Assistance (interim)	To be issued by Deloitte in FY14
Joint Admission Medical Program Audit (financial & compliance)	12/10/12 & 2/21/13
Alzheimer's Council Fiscal Agreement Audit	1/7/13
Financial Controls Audit (Student Intern Project)	10/22/13
FY 2012 UTIMCO Financial Statement Audit Assistance	Deloitte Opinion 10/31/12
FY 2013 UTIMCO Financial Statement Audit Assistance (interim)	To be issued by Deloitte in FY14
UTIMCO Meetings & Oversight Activities	Complete - Report N/A
<u>Operational</u>	
Travel & Entertainment Expenses Audit of Chancellor & Executives	11/30/12 & 3/27/13
Office of Risk Management Audit	Cancelled
Office of Facilities, Planning, & Construction Audit	Cancelled
EOG Resources Oil & Gas Producers Audit	10/1/13
UTIMCO CEO/CIO Travel & Other Expenses Audit	Postponed to FY14
UTIMCO Separately Invested Funds Audit	10/15/13
General Audit Assistance to System Administration Departments	Complete - Report N/A
Survey of Decentralized Operational Controls	Complete - Report N/A
Audit of Decentralized Operations	Cancelled
<u>Compliance</u>	
UT Systemwide Compliance Program Audit	Postponed to FY14
<u>Information Technology</u>	
Laptop Encryption/IT Inventory Audit (included TAC 202 requirement)	In progress, to be issued in FY14
<u>Follow-up</u>	
Follow-up Memo for UTMDACC Presidential Travel & Entertainment Expenses Audit	3/21/13
Follow-up Memo for UTHSCSA Practice Plan Non-Salary Expenditures Audit	3/27/13
Follow-up Memo for Financial Controls Audit	3/27/13
Follow-up Memo for UT Permian Basin TAC 202 Audit	3/27/13
Follow-up Memo for Office of Finance Private Business Use Audit	3/27/13
Follow-up Memo for UTMDACC Practice Plan Non-Salary Expenditures Audit	3/27/13 & 6/27/13
Follow-up Memo for Joint Admissions Medical Program Audit	7/12/13
Follow-up Memo for Office of Employee Services Dependent Eligibility Audit	8/2/13



Projects

FY 2012 System Audit Office Annual Activity Report (internal)	Cancelled
Internal Audit Committee	Complete - Report N/A
State Auditor's Office Reporting & Requests	Complete - Report N/A
TeamMate & Website Updates	Complete - Report N/A
IIA Website Maintenance	Complete - Report N/A
FY 2014 Audit Plan & Risk Assessments	Complete - Report N/A
Internal Quality Assurance Review Program	Complete - Report N/A

Prior Year Carryforward

Financial Controls Audit (Student Intern Project)	10/24/12
Apache Oil & Gas Audit	12/3/12

The University of Texas System Administration

System Audit Office FY 2013 Annual Audit Plan

Part 2 of 2: Oversight

Engagement / Report Name

Report Date / Status

Financial

Guidance to the Institutions on FY 2012 Financial Audit	Complete - Report N/A
FY 2012 Financial Audit at UT Permian Basin	3/21/13
Guidance to the Institutions on FY 2013 Financial Audit (interim)	Complete - Report N/A
NCAA Agreed-Upon Procedures at UT Permian Basin	1/15/13
NCAA Agreed-Upon Procedures at UT Arlington	1/15/13
NCAA Agreed-Upon Procedures at UT El Paso	12/14/12
NCAA Agreed-Upon Procedures at UT San Antonio	1/11/13
NCAA Agreed-Upon Procedures at UT Pan American	1/15/13
UT Austin Jackson Estate Audit	In progress, to be issued in FY14

Operational

Institution Liaison Activities	Complete - Report N/A
Procurement Audit	Cancelled
Development Activities Process Audit (several reports issued)	5/3/13, 6/6/13, 6/12/13, 9/18/13
Presidential & Executive Travel, Entertainment & Housing Expense Audit Assistance	Complete - Report N/A
Audit Assistance to Smaller Institutions (majority of hours used for UTPB Audits)	Complete - See Below
UTPB Presidential Travel, Entertainment & Housing Expense Audit	3/12/13
UTPB Laptop Encryption/IT Inventory Audit	6/28/13

Compliance

Academic Workload Audit	Postponed to FY14
UT Health Science Center - Houston Practice Plan Audit	In progress, to be issued in FY14
UT Southwestern Practice Plan Audit	Postponed to FY14
Guidance Provided to the Institutions related to the Practice Plan Audits	Complete - Report N/A

Information Technology

Shibboleth Audit	In progress, to be issued in FY14
Follow Up on Information Security Consulting Report Recommendations	Postponed to FY14
Guidance Provided to the Institutions related to IT Audits	Complete - Report N/A
Institutional Implementation of PeopleSoft	Complete - Report N/A



Follow-up

Systemwide Significant Findings/Recommendations Tracking

Suspended

Projects

FY 2012 Systemwide Annual Activity Report (internal)

Cancelled

FY 2014 Institutional Annual Audit Plan Guidance & Presentations

Complete - Report N/A

FY 2014 Systemwide Audit Plan

Complete - Report N/A

FY 2013 Systemwide Audit Plan

Complete - Report N/A

ACMR Committee & Board of Regents Meetings

Complete - Report N/A

Internal Audit Council

Complete - Report N/A

Peer Review Participation at other Institutions

Complete - Report N/A

Systemwide Work Group Initiatives

Complete - Report N/A

Fraud & Investigation Tracking

Complete - Report N/A

Special Request Project - UT Southwestern

2/12/13

Special Request Project - UT Austin Law School Foundation

In progress, to be issued in FY14

Deviations from Audit Plan Submitted:

The System Audit Office performed all engagements on the FY 2013 annual audit plan with the deviations noted below. There was a deficit in the fiscal year's available hours due to actual vacancies exceeding estimated vacancies and the addition of Board-requested engagements after the original annual audit plan was approved. In order to compensate, changes from the original, approved FY 2013 annual audit plan were presented to and approved by the UT System Administration Internal Audit Committee.

Engagements/Projects Cancelled:

- Office of Risk Management Audit
- Office of Facilities, Planning and Construction Audit
- Decentralized Operations Audit
- Systemwide Procurement Audit
- System Audit Office & Systemwide Annual Activity Reports (internal)

Engagements/Projects for Consideration on FY 2014 annual audit plan:

- UT Southwestern Practice Plan Compensation Plan Audit
- Systemwide Compliance Program Audit
- Follow-Up Audit of Deloitte's Information Security Consulting Report Recommendations
- Systemwide Significant Findings/Recommendations Tracking (suspended in FY 2013)

All audits in progress at the end of FY 2013 were carried forward for completion in FY 2014.



III. Consulting Services & Non-audit Services Completed

Report Date	Report Name	High-Level Objectives(s)	Observations/Results/Recommendations
12/14/12	UT El Paso NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' Statement of Revenues & Expenses (SRE)	None
1/11/13	UT San Antonio NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
1/15/13	UT Pan American NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
1/15/13	UT Arlington NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Enhance reconciliations of NCAA sporting event ticket sales revenue and expenses tickets sales.
1/15/13	UT Permian Basin NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Reconcile event attendance logs to gate receipts, financial aid to general ledger/supporting documentation, and depreciation amounts; Include in-kind value estimates, amounts provided by the University, and Athletic related endowment income in SRE; and Maintain adequate supporting documentation.
2/12/13	UT Southwestern Special Project	Perform special review of travel and related expenses	Request repayment for travel and related expenses that were unsubstantiated or reimbursement errors.
In Progress	UT Austin Law School Foundation Special Project	Perform special review of financial management practices of the UT Austin Law School in its use of funds provided by the UTS Law School Foundation	In Progress to be completed in FY 2014
N/A	UTShare/PeopleSoft System Implementation Assurance Work	Provide management with an independent analysis of the PeopleSoft implementation.	Ongoing observations are being communicated to management on this multi-year project. No formal report is issued.

IV. External Quality Assurance Review (Peer Review)

See next page.

University of Texas System External Quality Assessment

June 16, 2011

*This External Quality Assessment of the UTS Audit Office was performed in accordance with The Institute of Internal Auditors (IIA) Quality Assessment Manual, 6th Edition. The primary purpose of a Quality Assessment is to determine the internal audit function's conformance with the International Standards for the Professional Practice of Internal Auditing. There are three possible outcomes of the QA: the internal audit program **generally conforms, partially conforms or does not conform** with the Standards.*

The entire review team expresses its appreciation for the many courtesies extended to us throughout the engagement.

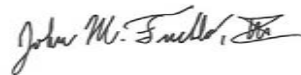
Mr. Charles Chaffin
Chief Audit Executive
University of Texas System Audit Office

Dear Mr. Chaffin:

We have completed an External Quality Assessment (QA) of the University of Texas System's Audit Office as required every five years by the International Standards for the Professional Practice of Internal Auditing (the IIA Standards) and every three years by the *Texas Internal Auditing Act*. The objectives of the QA were:

1. To assess conformance with the IIA Standards;
2. To assess the effectiveness and efficiency of the Internal Audit activity in providing services to the Board of Regents and management of the University of Texas System;
3. To identify opportunities for improving the Internal Audit program at the University of Texas System; and,
4. To perform additional steps as required by the *Texas Internal Auditing Act*.

Overall, it is our opinion that the University of Texas System Audit Office generally conforms to the IIA Standards. We noted opportunities for improvement that will enhance conformance with the Standards and improve the efficiency and effectiveness of the Internal Audit Program. These are described in a following section of this report.



John M. Fuchko, III, CIA, CCEP
QA Team Leader



*NOTE: Updated FY14 Plan
(approved Nov 2013) included
at end of this report*

V. Internal Audit Plan for Fiscal Year 2014

The System Audit Office is developing an action plan to implement the initiatives from an external strategic assessment of UT System internal audit activities. While the System Audit Office will continue to conduct audit work both at System Administration and at the institutions, the outcomes of the action plan will impact the specific development and methodology for our FY 2014 Annual Audit Plan. In consideration of this, a general audit plan was drafted (see table below) of engagements tentatively planned for FY 2014, including carry forward audits/projects from FY 2013. As the action plan is finalized and begins to be implemented, a revised, more detailed, audit plan will be presented to the UT System Administration Internal Audit Committee for review and approval. This approach was discussed with and agreed upon by the Audit, Compliance, and Management Review Committee (UT System Board audit committee) Chairman and approved by the UT System Administration Internal Audit Committee on July 24, 2013.

Financial	Operational
UT Austin Jackson Estate Audit	Managed Care Contracts Consulting Project
FY 2013 AFR audit assistance to Deloitte at UT System, UTIMCO, & the institutions	Presidential Travel, Entertainment, & University Residence Maintenance Expenses Audit at the institutions & UTIMCO
NCAA Agreed Upon Procedures at UTA, UTEP, UTPA, & UTSA	System Administration Executive Travel & Entertainment Expense Audit
FY 2014 AFR audit assistance to Deloitte on interim work at UT System, UTIMCO, & the institutions	Oil & Gas Company Audit
Financial Controls Audit	Audit Assistance to System Administration Departments
	Guidance to Institutions on Internal Audit Activities
Compliance	Information Technology
Academic Workload Audit	Shibboleth Authentication Audit
CPRIT Grant Audit	UTShare/PeopleSoft Assurance Work
Systemwide Compliance Audit	
UTSW Practice Plan Compensation Program Audit	
Practice Plan Audit at TBD Health Institution	
Pre-Award & Post-Award Administration Engagement	
Guidance to Institutions on Practice Plan Audit	
Guidance to Institutions on CPRIT Grant Audit	
Projects	Follow-up & Reserve
Systemwide Fraud & Investigation Tracking	Follow-Up Audit Work
Internal Audit Committee Planning	Follow-Up on Information Security Consulting Report
ACMR Committee Planning	Systemwide Tracking & Reporting of Significant Findings
Internal Audit Council Planning	Reserve Hours for Special requests
FY15 Annual Audit Plan Guidance & Preparation	
Internal Quality Assurance Activities	



VI. External Audit Services Procured in FY 2013

The University of Texas System contracted with Deloitte & Touche, LLP (Deloitte) to perform an independent audit of the FY 2012 UT System financial statements (including stand-alone audits at some of the institutions) and an independent audit of the FY 2012 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). Deloitte also performed interim work for the audit of the UT System and Funds' FY 2013 financial statements.

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.

VII. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of General Appropriations Act (83rd 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/compliance/HotlinePage.htm>), 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 is working with Systemwide Compliance and the Office of General Counsel to develop and implement a Systemwide fraud reporting protocol and tool to help ensure consistent and timely communication.

UT System Audit Office

Updated FY 2014 Annual Audit Plan – Approved 11/19/13

FY 2014 Audit Plan Engagements	Budgeted Hours	%	Description
Financial			
UT System Administration & Consolidation Financial Audit Assistance	800		Assistance on the external audit of the System Administration and Consolidated FY13 (year-end work) and FY14 (interim work) financial statements
UTS 142.1 Account Reconciliations & Subcertifications Audit	80		Audit of the monitoring of account reconciliations and segregations of duties per UTS 142.1 (year-end work for FY13 AFR)
Financial Controls Audit	250		Audit of internal controls over account reconciliations and segregation of duties done by Student Intern FY14 Summer Program (interim work for FY14 AFR)
UTIMCO Financial Statement Audit Assistance	450		Assistance on the external audits of UTIMCO managed funds FY13 (year-end work) and FY14 (interim work) financial statements
Guidance to Institutions related to UT Systemwide Financial Audit	200		Provide Systemwide guidance and coordination on the external financial audit (FY13 year-end work and FY14 interim work)
UTPB Financial Audit Assistance	160		Assistance on the external audit of UT Permian Basin FY13 financial statements
UTA, UTEP, UTSA, & UTPA NCAA Agreed-Upon Procedures	1160		Perform agreed-upon procedures regarding internal controls, revenues, and expenses of the intercollegiate athletics programs for FY13
<i>Carryforward</i>			
Financial Controls Audit	10		Carryforward for completion from FY13 audit plan
UT Austin Jackson Estate Audit	250		Carryforward for completion from FY13 audit plan
Financial Subtotal	3360	30%	
Operational			
Executive Travel & Entertainment Expenses Audit	200		Audit of Executive's travel and entertainment expenses
Oil & Gas Producers Audits	500		Audits of oil and gas producers to ensure compliance with lease agreements
UTIMCO CEO/CIO Travel & Other Expenses Audit	100		Audit of CEO/CIO's travel and other expenses
University Lands Lease Sale Process Review	300		Review of controls surrounding semi-annual Lease Sale process
UT Presidential Travel, Entertainment & University Residence Maintenance Expense Audits	1750		Perform the institutional audits of the Presidents' travel, entertainment and university residence maintenance (as applicable) expenses
<i>Carryforward</i>			
EOG Resources Oil & Gas Audit	25		Carryforward for completion from FY13 audit plan
UTIMCO Separately Invested Funds Audit	25		Carryforward for completion from FY13 audit plan
Development Activities Audit	50		Carryforward for completion from FY13 audit plan
Operational Subtotal	2950	27%	
Compliance			
Cancer Prevention Research Institute of Texas (CPRIT) Audit	250		Audit to determine the allowability of CPRIT grant expenses (FY10 - FY12 risk based selection of grants/expenses)
Guidance to Institutions related to the CPRIT Grant Audits	150		Provide audit program and guidance on the institutional CPRIT grant audits
UT Health Institution's Practice Plan Audits	1000		Audit of practice plan at two health institutions (specific area/topic to be audited TBD based on further analysis); one will be UTSW XYZ Plan Audit
Guidance to Institutions related to the Practice Plan Audits	100		Provide audit program and guidance on the institutional internal audit led practice plan audits
Academic Workload Audit	500		Audit of the academic institutions to determine compliance with Regents' Rule 31006 Academic Workload Requirements and institutional procedures related to academic workload and to determine if internal controls exist to ensure accuracy and completeness of reported teaching load credits
<i>Carryforward</i>			
UTHSC-Houston Practice Plan Audit	20		Carryforward for completion from FY13 audit plan
Managed Care Consulting	50		Carryforward for completion from FY13 audit plan
Compliance Subtotal	2070	19%	
Information Technology			
PeopleSoft Implementation Assurance Work	1500		Provide guidance and oversight to the institutions involved in the PeopleSoft implementation
<i>Carryforward</i>			
Laptop Encryption/IT Inventory Audit	200		Carryforward for completion from FY13 audit plan
Shibboleth Audit	400		Carryforward for completion from FY13 audit plan
Information Technology Subtotal	2100	19%	
Follow-up			
Follow Up Audit Procedures	400		Follow-up on open recommendations, including Major areas (AFR, OEB, OFPC, IT, Oil & Gas, and UTIMCO) and Non-Major areas (all remaining areas)
Follow Up Subtotal	400	4%	
Projects			
UTMDACC Procurement Special Request Project	125		Special project to investigate allegations in the area of procurement
<i>Carryforward</i>			
UT Austin Law School Special Request Project	40		Carryforward for completion from FY13 audit plan
Projects Subtotal	165	1%	
Total Hours for Engagements	11045	100%	57% of Total Budgeted Hours

UT System Audit Office

Updated FY 2014 Annual Audit Plan – Approved 11/19/13

FY 2014 Audit Plan Operations	Budgeted Hours	Description
FY14 System Audit Office Annual Audit Plan Update	50	Update to the original FY14 System Audit Office Audit Plan to include engagements (i.e., audits, agreed upon procedures, reviews, etc.), ongoing operations, and developmental initiatives
Management of the Internal Audit Activity	500	General management of the System Audit Office's internal audit activities such as prioritization and status updates of engagements
General Audit Assistance to System Administration Departments	300	Provide general assistance to System Administration departments in areas such as proper internal controls, adequate segregation of duties, etc.
UT System Administration Internal Audit Committee	300	Preparation for and attendance at quarterly System Administration Internal Audit Committee meetings
Quality Assurance Review - Internal Assessment	200	Preparation for External QAR and Enhancements to System Audit Office's Policies/Processes/Procedures
FY 2015 System Audit Office Annual Audit Plan and Risk Assessments	250	Development of the System Audit Office risk-based annual audit plan and facilitation of risk assessments
TeamMate and Website Updates	100	Updates to audit workpapers software (TeamMate) and office website
Institution Liaison Activities	600	Provide general oversight, guidance, and assistance to the institutional internal audit departments
Audit Assistance to Smaller Institutions	200	Provide assistance in conducting audits at smaller institutions to mitigate staffing shortages
Fraud and Investigation Tracking	100	Tracking, monitoring, and reporting of fraud and investigation activities
Metrics Reporting	150	Collecting, summarizing, and reporting on the Systemwide internal audit metrics
ACMR Committee/BOR Meeting Preparation & Attendance	400	Preparation for and attendance at Audit, Compliance, and Management Review Committee and Board of Regents meetings
Internal Audit Council	150	Preparation for and attendance at the Internal Audit Council meetings
FY 2015 Institutional Annual Audit Plan Presentations	100	Coordination and conducting of institutional audit plan presentations to provide feedback on draft institutional annual audit plans
FY 2015 Systemwide Audit Plan	100	Preparation of the Systemwide annual audit plan for approval by the Audit, Compliance, and Management Review Committee
UTIMCO Meetings and Oversight Activities	75	Preparation for and attendance at UTIMCO Board of Directors, Committee, and other oversight meetings
Quality Assurance Review Participation	50	Participation on external peer reviews of internal audit departments at other non-UT institutions
State Auditor's Office & Other State Agency Reporting & Requests	50	Preparation of the annual report of audit activity required by the State Auditor's Office (SAO) and other SAO/State Agency reporting requests
Total Hours for Operations	3675	19% of Total Budgeted Hours

FY 2014 Audit Plan Initiatives	Budgeted Hours	Description
Institutional Audit Committee Independence and Capability	665	Strengthen institutional audit committee independence and capability
Systemwide and Institutional Risk Management	0	Assess Systemwide and institutional risk management
Governance Resources	0	Provide leading practice resources for governance
Internal Audit Mission, Values and Supporting Operations	1150	Standardize internal audit mission, values and supporting operations
Risk Assessment Methodology	550	Enhance risk assessment methodology
Audit and Reporting Models	750	Develop audit and reporting models
Team Competencies	1310	Quantify and improve team competency
Internal Audit Metrics and Quality Program	350	Align internal audit metrics and quality program with improvement plans
Total Hours for Initiatives	4775	24% of Total Budgeted Hours

Total Budgeted Hours	19495
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