

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

**Annual Audit Report
Fiscal Year 2014**



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



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I. Compliance with House Bill 16

The System Audit Office FY 2014 Internal Audit Annual Report, which includes its approved FY 2015 Annual Audit Plan (see Section VI), a summary of weaknesses/concerns and related actions taken resulting from the FY 2014 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>).

II. Planned Work Related to the Proportionality of Higher Education Benefits

At the request of the Governor, an internal audit of the proportionality of higher education benefits process is underway during the first quarter of fiscal year 2015. A consistent audit methodology has been deployed across the UT System that will assess the reporting process and accuracy of benefits funding information provided to the State Comptroller as applicable under the General Appropriations Act, Article IX, Sec. 6.08: Benefits Paid Proportional by Fund.

The audit conducted by the System Audit Office has the objective to ensure that proportional benefits by fund are accurately calculated and applied according to the established statutory guidelines. The scope of the audit includes benefits funding proportionality reporting for appropriation year (AY) 2013. Risk of material error in reporting accuracy for years prior to AY 2013 is being assessed based on audit results and additional testing of prior appropriation years performed if necessary.

The audit methodology includes 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 with relevant staff, 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.



III. Internal Audit Plan for Fiscal Year 2014

FY 2014 Audit Plan – Engagements	Status of Plan
Financial	
FY 2013 System Administration & Consolidated & UTIMCO Financial Audit Assistance	Deloitte Report
FY 2013 UTS 142.1 Account Reconciliations & Subcertifications Audit	11/20/13
Financial Audit - UT Permian Basin (FY13 year-end work)	02/28/14
Guidance to the Institutions on FY 2013 & FY 2014 Systemwide Financial Audit Assistance	Complete - Report N/A
FY 2014 System Administration & Consolidated Financial Audit Assistance (interim)	Deloitte Report
FY 2014 UTIMCO Financial Statement Audit Assistance (interim)	Cancelled
Financial Controls Audit	05/23/14
NCAA Agreed-Upon Procedures at UT Arlington	01/15/14
NCAA Agreed-Upon Procedures at UT El Paso	01/06/14
NCAA Agreed-Upon Procedures at UT San Antonio	01/10/14
NCAA Agreed-Upon Procedures at UT Pan American	01/15/14
Financial Controls Audit	10/22/13
UT Austin Jackson Estate Audit	11/13/13
Operational	
University Lands Lease Sale Process Review	07/21/14
Executive Travel and Entertainment Expenses Audit	In Progress
Presidential Travel, Entertainment & University Residence Maintenance Expense Audits	In Progress
UTIMCO CEO/CIO Travel and Other Expenses Audit	Postponed
Oil and Gas Producers Audits	Postponed
EOG Resources Oil & Gas Audit	10/01/13
UTIMCO Separately Invested Funds Audit	10/15/13
Compliance	
Cancer Prevention Research Institute of Texas (CPRIT) Audit	Cancelled
Guidance Provided to Institutions related to the CPRIT Grant Audits	Complete - Report N/A
Guidance Provided to Institutions related to Proportional Benefits Audits	In Progress
UT Southwestern Practice Plan Compensation Audit	09/08/14
UTHSC-T Practice Plan PQRS Audit	In Progress
Guidance Provided to the Institutions related to the Practice Plan Audits	Complete - Report N/A
Academic Workload Audit	Postponed
UTHSC-Houston Practice Plan Compensation Audit	11/12/13
Managed Care Consulting	Cancelled
Information Technology	
Institutional Implementation of PeopleSoft	Complete - Report N/A
Laptop Encryption/IT Inventory Audit (including TAC 202)	11/06/13
Shibboleth Audit	08/29/14
Follow Up	
System Audit Office Follow Up FY 2014	Various Memos
Projects	
UTMDACC Procurement Special Project	11/12/13
UT Austin Procurement Special Project	In Progress
Proposed Restructuring of Internal Audit	In Progress-Report N/A
UT Austin Law School Special Request Project	11/05/13



FY 2014 Audit Plan – Operations	Status of Plan
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
UTIMCO Meetings and Oversight Activities	Complete - Report N/A
Institution Liaison Activities (Guidance/Assistance to Institutions)	Complete - Report N/A
FY15 SW Annual Audit Plan Guidance/Preparation & Institutional Presentations	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 Other Institutions	Complete - Report N/A
Fraud and Investigation Tracking	Complete - Report N/A
Metrics Tracking & Reporting	Complete - Report N/A
State Auditor's Office Reporting and Requests	Complete - Report N/A
FY 2014 Audit Plan – Initiatives	Status of Plan
Institutional Audit Committee Independence and Capability	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 2014 annual audit plan with the exceptions noted above as “in progress” and the deviations noted below. Audits in progress at the end of FY 2014 were carried forward for completion in FY 2015. There was a deficit in the fiscal year’s available hours due to actual vacancies exceeding estimated vacancies and the addition of projects requested after the original annual audit plan was approved. In order to compensate, changes from the original, approved FY 2014 annual audit plan were presented to and approved by the UT System Administration Internal Audit Committee throughout the fiscal year.

Hours Cancelled or Reduced:

- FY 2014 UT System Financial Interim Audit Assistance
- FY 2014 UTIMCO Financial Interim Audit Assistance
- System Administration CPRIT Audit
- Managed Care Consulting
- Audit and Reporting Models and Team Competencies Initiatives

Hours Added to FY 2014 annual audit plan:

- UT Austin Procurement Special Project
- Development of procedures for the Proportional Benefits Audits
- Preparation for Proposed Restructuring of Internal Audit

Hours Postponed for Consideration in the FY 2015 annual audit plan:

- Academic Workload Audit
- UTIMCO CEO/CIO Travel and Other Expenses Audit
- Oil and Gas Producers Audit

A summary table of recommendations made to address issues identified from FY 2014 engagements, the actions taken by management, and the current implementation status is included on the following pages to address HB16 web site posting requirements.



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10/01/13	EOG Oil and Gas Audit	Details on the observations/findings, recommendations and implementation status from oil and gas company audit reports are not included pursuant to Texas Education Code, Section 66.81.	Details on the observations/findings, recommendations and implementation status from oil and gas company audit reports are not included pursuant to Texas Education Code, Section 66.81.	Follow-up to be performed
10/15/13	UTIMCO Separately Invested Funds Audit	Recommendation 1: To complement cross-training, UTIMCO should augment the current SIF-related documentation so that the overall general processes are cohesively organized and also integrate how specific interrelated procedures fit within them, which will provide a more complete description of the diverse aspects of the SIFs. Existing documentation may be supplemented with additional information or used in conjunction with documents already use. UTIMCO may also consider whether it would be beneficial to summarize key information, such as specific distribution terms, donor investment restrictions, or other relevant elements from the endowment agreement and trust instrument documents that are maintained. Such a summary document could be used as reference by any staff member who is not already familiar with the particular aspects of a specific account.	Management's Response 1: Management will review the current procedures and augment the SIF related documentation so the overall general processes are cohesively organized and integrated.	Implemented
10/22/13	Financial Controls Audit	Recommendation 1: The Office of Strategic Initiatives should ensure that account reconciliations are performed and reviewed in a timely manner.	Management Response 1: Reconciliations are now current (or have been current since April 2013) and are being performed within the timeframe recommended by UT System Internal Audit. OSI will continue to perform reconciliations in a timely manner.	Implemented
11/06/13	Laptop Encryption & IT Inventory Audit (TAC 202)	None	None	N/A
11/12/13	UTHSC-H Practice Plan Compensation Plan Audit	Recommendation 1: The dean should ensure that the departments document compensation practices that are variations of or otherwise not included within the Medical School's Compensation Plan. The documented compensation practices should clearly define: <ul style="list-style-type: none"> • specific benchmarks that are used, including those applicable to certain sub-specialties; • on-call requirements and other variable, non-incentive compensation, such as overtime; • the departmental metrics used to evaluate faculty performance and productivity; • how departmental incentive compensation is determined; and • limitations to awarding incentives. <p>During the process of documenting the departmental compensation practices, the departmental chairs should seek the input from their respective faculty. To ensure</p>	Management Response 1: We agree that any department's significant, "local" variations from the Medical School's overall compensation practices should be documented and communicated to faculty. This information has been communicated to department chairs during their annual reviews. The Dean's office will approve and retain all such departmental compensation practice documentation.	Follow-up to be performed



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		<p>alignment with strategic initiatives and anticipated growth in the clinical practice, the dean should review and approve the documented departmental plans or practices. In addition, the chairs should provide the final documented departmental compensation plans or practices to their respective faculty.</p> <p>Recommendation 2: The Medical School's Compensation Plan should be updated to require that the departments document compensation plans and/or practices must be reviewed and approved by the dean and to reflect changes in the research incentive compensation, pending their final approval. The dean should also solicit input from faculty on prospective Compensation Plan changes and could use the Faculty Compensation Advisory Committee to facilitate this process. Lastly, the dean should ensure that the updated plan is submitted to the UT System Executive Vice Chancellor for Health Affairs for review and approval.</p> <p>Recommendation 3: We commend UTHealth on its active efforts in attempting to clarify the role of the Faculty Compensation Advisory Committee within the draft Medical School Bylaws. As part of this effort, UTHealth should develop clear policies and procedures that define the purpose and role of the committee that is consistent with the MSRDP bylaws, the size of the committee, mechanism for selecting members from faculty, term requirements and limitations, ex-officio members (if any), meeting frequency, and quorum requirements. Additionally, the compensation plan should be updated to clarify the role of the Faculty Compensation Advisory Committee. Lastly, the Faculty Compensation Advisory Committee should maintain minutes to document their deliberations and actions.</p> <p>Recommendation 4: We commend the timely sharing of clinical performance information that occurs frequently with faculty. The monitoring and reporting of faculty performance suggest that departments have requisite data in which to complete and compile annual faculty performance evaluations. Consequently, we recommend that the dean:</p> <ul style="list-style-type: none"> • Ensure that annual faculty performance evaluations are completed each year, 	<p>Management Response 2: If the research incentive compensation practices are changed, we will document this. If there are "prospective Compensation Plan changes, "we will seek faculty input and, likely, have the Faculty Compensation Advisory Committee review such changes as well. See our responses to the previous recommendation.</p> <p>Management's Response 3: We will improve policies and procedures related to the purpose and role of the Faculty Compensation Advisory Committee. This will include a review of the consistency of this committee's function, with respect to the MSRDP Bylaws. It will also define the size of the committee, clarify members' means of selection, their terms of service, meeting frequency, etc. We will retain minutes of committee meetings</p> <p>Management's Response 4: By January 31, 2014, we will ensure that each Medical School faculty member has received a documented performance evaluation. We have already completed all chair reviews, as of October 15, 2013. And, these reviews included discussion of goals and objectives. We will conform our rating scale to that recommended by UT System.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		<ul style="list-style-type: none"> • Evaluate the chairs annually and revise ratings such that they are consistent with the UT System rating categories, and • Evaluate chairs on agreed upon goals and objectives. <p>To help streamline the annual review process, larger departments should consider enlisting the support of division directors, division chiefs, and others in appropriate leadership roles to complete the faculty annual evaluation process timely. Lastly, UTHealth should compare its institutional performance evaluation policy and practices to the UT System guidelines to strengthen the annual performance evaluation process and determine whether the institutional policy has the requisite elements.</p> <p>Recommendation 5: For on-call and casual pay compensation supported by manual call schedules, the clinical departments should ensure that faculty members certify in writing that they were on-call and/or worked the applicable shift, as applicable. Additionally, the faculty supervisors and/or faculty schedulers should review and document approval of the monthly schedules that are used as supporting documentation for the manual schedules. The approval signature should be accompanied by the printed name. Approval should not be made by administrative employees who do not have knowledge of which faculty actually were on call or worked a scheduled shift. For web-based scheduling system, the faculty supervisors and or faculty schedulers should review and approve the final on-line schedule that is used as the basis for determining on-call and casual pay.</p>	<p>Management's Response 5: The Medical School agrees to implement appropriate controls for verification and approval of on-call and casual pay compensation.</p>	Follow-up to be performed
11/13/13	UT Austin Jackson Estate Audit	<p>Recommendation 1: The Foundation should periodically review and, as necessary, update information and the procedures to accurately reflect current practices.</p> <p>Recommendation 2: The Foundation should:</p> <ul style="list-style-type: none"> • Ensure the timely deposit of oil and gas royalties in accordance with UTS 166. • Ensure all checks are stamped with the date received. • Limit access to the safe to only the designated custodians and supervisors and, as part of limiting access, consider alternatives for adequately safeguarding other assets that may not need to be stored within a safe. 	<p>Management's Response 1: We will update our procedures to make sure they include our current organizational structure and practices. We will review our procedures every year, but if a major change occurs, procedures will be revised without delay.</p> <p>Management's Response 2: The Financial Affairs staff of the Foundation has reviewed and implemented new procedures to ensure timely and secure processing of check handling for royalty payments. The Accounting Supervisor will oversee this process on a daily basis while the Financial Affairs Administrative Manager has oversight of check handling process and acts as back-up for the Accounting Supervisor in his</p>	<p>Implemented</p> <p>Implemented</p>



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		<ul style="list-style-type: none"> • Ensure that all employees who handle cash or checks complete CW 505 - Cashier Training before handling cash or checks <p>Recommendation 3: The Foundation should obtain all 1099 forms from all operators that pay royalty interest, retain its tax tracking spreadsheets in accordance with UT Austin's document retention requirements, and ensure that the resolution of the withheld taxes is clearly documented. The Foundation should also consider documenting the resolution of the withheld taxes as recorded in its database. Lastly, the Foundation should request reimbursement for the additional royalty due from the audited properties in which taxes were withheld from the royalty payments.</p> <p>Recommendation 4: The Foundation should consider incorporating the following to enhance the existing processes as described below:</p> <ul style="list-style-type: none"> • Track properties previously tested to ensure that previously tested properties are not unnecessarily retested and to ensure that more properties are reviewed. • For the decimal reconciliation process and production reconciliation process, the Foundation analyzes the top 10 properties that have the highest cumulative payment received by the Foundation since the transfer of the Jackson Estate. The drawback of using a cumulative payment approach is that it results in the same properties being examined from year to year. 	<p>absence. The Accounting Supervisor will ensure that the full-time front desk assistant or any employee who handles cash or checks complete Cashier Training (CW505) before handling cash or checks and that all checks are stamped with the date received. All royalty payments will be kept separate from all other deposits in a secure location and stored in a safe. As of November 7th, 2013 a safe has been purchased and placed in the Accounting Supervisor's office; the office is kept locked when not occupied. Access to the aforementioned office is limited to Dean's management while access to the safe is limited to the Foundation's Financial Affairs staff, which includes the Assistant Dean for Financial Affairs, Financial Affairs Administrative Manager and Accounting Supervisor; all of whom are directly involved in the deposit process and/or have oversight of the deposit process.</p> <p>Management's Response 3: We will make sure that all the 1099 forms are received in order to reconcile taxes for a particular year. We will update our spreadsheet reconciliation yearly and we will contact the operators (letters) to request the corresponding refund. We will keep record of our communication with operators regarding this issue and will make sure we document the resolution of taxes withheld. We will consider potential escalation for unresolved issues. In general, we will request the refund for the total charged by the operator in a particular year, and in particular we will request refunds of the specific leases audited where taxes were charged.</p> <p>Management's Response 4: For the Gross Value Reconciliation, we have created a spreadsheet with the properties reviewed within the last 12 months and will update it with new wells selected for the reports to make sure the same properties are not selected. We will modify the database query for the production reconciliation in order to select the top 10 properties for the last year. The decimal reconciliation will include an additional sample of 10 properties selected randomly, and we will keep a record (spreadsheet) to make sure we don't repeat the sample. We will update the reports to include the comment field to show how the reconciliation differences are being investigated.</p>	<p>Follow-up to be performed</p> <p>Implemented</p>



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		<ul style="list-style-type: none"> o The production reconciliation process would be improved by selecting the top 10 properties that have the highest payment for a selected year. o The decimal reconciliation process could also be improved by incorporating a sample of new wells as part of this monitoring process. Incorporating new wells can help ensure that any payment errors are detected timely and not repeated. • Lastly, the Foundation has incorporated a comment field that clearly shows how exceptions are handled for the decimal reconciliation and the non-paying well reconciliation. The Foundation should consider enhancing the gross value reconciliation and the production reconciliation process by incorporating a comment field that shows the disposition of exceptions from properties reviewed. 		
11/20/13	UTS 142.1 Audit Work	None	None	N/A
02/28/14	UTPB Financial Statement Audit Work	<p>Recommendation 1: UTPB Financial Services should ensure that cash reconciliations are completed timely.</p> <p>Recommendation 2: UTPB has made significant progress in updating its inventory records; however, opportunities remain to strengthen controls over the inventory process. UTPB needs to finalize documentation of its annual inventory procedures. Updates to the inventory system should occur more frequently throughout the year, and the procedures for updating the inventory system during the year need to be finalized as well. Lastly, UTPB needs to ensure adequate resources are in place to ensure that controls over UTPB's inventory are in place and functioning as intended.</p> <p>Recommendation 3: UTPB should retain a copy of valid, approved purchase orders for applicable acquisitions and determine whether it needs to obtain an updated purchase order for library database subscription purchases. Additionally, UTPB should ensure that deletions from the university's inventory records are properly authorized and supporting documentation for their removal are retained in accordance with document retention requirements.</p>	<p>Management's Response 1: Due to turnover, the staff has fallen behind in reconciling the bank statement. Every effort is being made to get staff hired and trained so bank reconciliations can be prepared in a timely manner.</p> <p>Management's Response 2: The documentation process for the annual inventory procedures will be finalized. Due to turnover, the staff has fallen behind in entering inventory into the system, which has impacted the controls over Inventory. We have hired a new staff member to take over this role, whose start date is February 17. This new person will be trained to assure that inventory records are current.</p> <p>Management's Response 3: The documentation process for additions and deletions will be improved. Procedures will include all the supporting documentation needed to record a deletion in Poise and ensure that it is properly retained.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		<p>Recommendation 4: UTPB should ensure that it has a process in place to ensure that direct appointments of Architect/Engineers include the necessary documented justification and receive the appropriate approval. UTPB should also determine the appropriate documentation retention requirements for direct appointments. Lastly, UTPB should consider working with OFPC to determine the requisite documentation that UTPB should obtain and retain for institutionally managed construction.</p> <p>Recommendation 5: In addition to current compliance activities in place, UTPB should ensure that periodic compliance inspections of other key institutional compliance risks take place so that management can determine whether the key compliance risks are appropriately managed and whether management needs to take any actions to address them.</p>	<p>Management's Response 4: This was a one-time event and UTPB was not previously aware of the OFPC's direct appointment process. Now that financial leadership of the University is aware of this process, we will be certain to follow it if and when such a situation arises in the future.</p> <p>Management's Response 5: Changes in the Compliance function has impacted this area. The compliance officer (VPBA), assistant compliance officer and chief audit executive have begun discussions to categorize audit and compliance risks. Thereafter, the compliance officers will identify top ten compliance risks and develop training, departmental monitoring and institutional level compliance inspection plans following a process that was in place prior to 2012.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p>
05/23/14	Financial Controls Audit	<p>Recommendation 1: In light of UT System Administration's transition to PeopleSoft in May 2014, the Controller's Office should define a standard for timeliness with respect to completing account reconciliations and communicate this standard to the offices to ensure accounts are reconciled and reviewed timely. This standard could be documented as part of the new draft reconciliation training and/or an INT policy.</p> <p>Recommendation 2: The Office of Governmental Relations should ensure that account reconciliations are performed and reviewed in a timely manner.</p> <p>Recommendation 3: The Office of Health Affairs should ensure that account reconciliations are performed and reviewed in a timely manner.</p> <p>Recommendation 4: OTC should ensure that account reconciliations are performed and reviewed in a timely manner.</p>	<p>Management's Response 1: We will add a reference to the account reconciliation training materials that account reconciliations must be completed within 60 days of the end of the month being reconciled.</p> <p>Management's Response 2: The Office of Governmental Relations concurs with the audit results and conclusions that it failed to complete the reconciliation process within 60 days of the end of the month for the months tested. By the end of FY 2014 on August 31, process changes will be made by the accounts reconciliation processors to ensure that all current and future monthly reconciliations are concluded within this 60 day period</p> <p>Management's Response 3: The Office of Health Affairs will ensure that account reconciliations will be performed and reviewed in a timely manner.</p> <p>Management's Response 4: Now that the office is fully staffed and procedures are in place, account reconciliations will be completed in a timelier manner.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		<p>Recommendation 5: Personnel involved in the account reconciliation process should take the reconciliation training offered by the Controller’s Office as soon as possible, if they have not done so.</p>	<p>Management’s Response 5: The new Administrative Coordinator is registered to take the reconciliation training; however with the advent of PeopleSoft, account reconciliations and how they will be completed within the new system are unknown. Additionally, those persons who will be approving those account reconciliations will receive appropriate training.</p>	<p>Follow-up to be performed</p>
07/21/14	University Lands Lease Sale Process Review	<p>Recommendation 1: In addition to its documented reminder to keep information confidential, UL should ensure that staff members who have access to confidential lease sale information complete non-disclosure agreements. The non-disclosure agreements should define the confidential information, the obligations of the employees, and the effects of violating the agreement.</p> <p>Recommendation 2: UL should maintain a log of sealed bids received to document the number of bids, who made a bid, and the date a bid was received. This log should be confidential, and access to the log should be limited. UL should consider date-stamping the envelope and/or sequentially numbering the bids received. UL should consider encouraging bidders to put bid envelopes in a second, outer envelope addressed to UL if submitted by delivery service or mail. Lastly, UL should reconcile the log to sealed bids opened to provide assurance that all sealed bids received were opened at the lease sale.</p> <p>Recommendation 3: Sealed bids and checks should be stored in a fireproof safe before and after the lease sale until winning checks are deposited and non-winning bids are returned to the appropriate parties. In accordance with UTS 166, all cash, physical checks, and receipts should be transported in tamper proof bags and all transfers made off-site should be made by contracted armored transport, secure transport, campus police, or security personnel. UL should consult with the UT System Office of the Director of Police to discuss possible solutions to enhance transport security. Please note that implementation of Recommendation (5) would impact applicability of Recommendation (3).</p> <p>Recommendation 4: Assurance of asset and employee safety is a UT System priority. UL should consult with UT System police to determine the appropriate level of security that should be maintained at the lease sale. Please</p>	<p>Management Response 1: If the UT System’s Annual Non-Disclosure Agreement has not been executed prior to an upcoming oil & gas lease sale, Lands staff and those directly involved in the generating of the lease sale shall sign non-disclosure agreements.</p> <p>Management Response 2: University Lands will develop a process to sequentially log envelopes before they are placed in the bid box and reconcile the empty envelopes to the log after the conclusion of the sale.</p> <p>Management Response 3: We will store bids in safe. We will transport bids in a more secure manner and will provide for security.</p> <p>Management Response 4: We will ensure security of the sale site.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		<p>note that implementation of Recommendation (5) would impact applicability of Recommendation (4).</p> <p>Recommendation 5: UL should work with the Texas Comptroller to determine the feasibility of having companies with winning bids pay by electronic funds transfer instead of check. In addition, UL, in coordination with and approval by the BFL, should consider extending the number of working days following the opening of the bids by which the BFL must award oil and gas leases to ensure that all electronic payments have been received by all winning bidders. By implementing this recommendation, UL would also be eliminating the risks identified in finding No.3, Safeguarding of Checks and Sealed Bids, and No.4, Security, noted above. Consequently, recommendations (3) and (4) would not need to be implemented. However, sealed bids, without checks, would still need to be safeguarded.</p> <p>Recommendation 6: Since BFL Rules allow the BFL to award oil and gas leases within five working days following the opening of bids, UL should consider scheduling the BFL meeting two to five days after the lease sale date. BFL members would then be approving finalized lease sale results after UL reconciliation controls are completed and after deposit is completed. In addition, UL should provide documented, finalized results to the BFL for review prior to BFL approval. As was previously mentioned in recommendation No.5, Electronic Funds Transfer, UL should, in coordination with and approval by the BFL, consider revising the BFL rule to extend the time allowed to approve the leases and the timing of the BFL meeting.</p> <p>Recommendation 6: As it does with checks for the winning bids, UL should run a tape of the checks from the losing bids and reconcile that to the losing bid amounts recorded in the lease sale program to ensure accuracy and completeness prior to sorting checks by company. Prior to returning the voided checks to the appropriate parties, UL should develop a reconciliation step to ensure that all checks by company are sent to the appropriate parties. The checks to be mailed by company would be reconciled to losing bid checks, by company, in the lease sale program. This step should be done by someone who is not involved</p>	<p>Management Response 5: We will consider and research the feasibility of electronic funds transfers. However, leases must continue to be issued in a timely manner.</p> <p>Management Response 6: Change in governance may impact this item.</p> <p>Management Response 7: We will have additional staff involved in return of low bids.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		in sorting and preparing the checks for mail out. Please note that implementation of Recommendation (5) as would impact applicability of Recommendation (7)		
08/29/14	Single Sign On Audit	<p>Recommendation 1: Federation management should create new, or modify existing, governing SSO documents, or adopt common governing practices used nationally and communicate these requirements to all participating parties.</p> <p>Recommendation 2: Federation management should identify and consider cost-effective ways to increase institutional SSO technical skills to improve their ability to implement, support, maintain, and recover SSO services.</p> <p>Recommendation 3: Federation management and SSO participants should consider adopting governing documents that include clear DRP requirements regarding recovery of SSO services.</p>	<p>Management's Response 1: Management agrees that existing documentation is not current as it preceded much of the national discussion of how to handle federation management. This is a major rewrite and may take some iterations with participants (internal and external as needed) as well as research. We propose that the draft be circulated for review to the participants by 31 March 2015. One conclusion may be to use InCommon documentation as the basis or replacement for ours.</p> <p>Management's Response 2: The Technology Architect has been providing training nationally via InCommon four times per year and upon request for UT and LEARN members. We agree that regular training for UT should occur as long as adequate interest is present. We suggest annual for now and will also look at doing a no travel webinar. We will schedule a FY15 training session for Spring 2015.</p> <p>Management's Response 3: As we understand it, Audit findings were satisfactory for how System is handling its disaster recovery/testing and so the issue is at the campus level. Most campuses do have DRP planning and testing ongoing. Management agrees that future governing documents should include a section where the participants agree that disaster recovery planning and testing is essential. We suggest that internal audit at each campus follow up during FY15 with campuses to make sure that adequate disaster recovery planning and testing is being done.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>
09/08/14	UTSW Practice Plan Compensation Plan Audit	<p>Recommendation 1: Management should require the clinical departments which use cFTE to determine incentive payments to report the cFTE for each faculty member as part of their incentive payment approval requests to the dean's office. For potential outliers identified, management should follow up with the departments to confirm whether those payments are reasonable or whether any corrective action needs to be considered.</p>	<p>Management's Response 1: UT Southwestern already has in place a requirement that proposed assigned cFTE and projected incentive payments for each faculty member are reported and monitored as part of the annual budget process. In addition to this prospective monitoring of cFTE assignments, a new management report has been developed. At the end of each fiscal year, Departmental Chairs and chief financial officers will be asked to report amounts of incentive paid to each faculty member for productivity measures and for group quality, safety and practice efficiency measures.</p>	<p>Follow-up to be performed</p>



Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
		<p>Recommendation 2: Until the development and approval of department chairs' incentive plans are completed, management should request that the Radiology chair discontinue participation in the department's incentive plan. Executive management should also determine whether any other clinical department chairs are participating alongside faculty as part of the departments' incentive plans and determine whether their participation in the departmental incentive plans is appropriate. In some cases, clinically-productive chairs may be able to participate as long as their participation is approved by the dean, their incentives are calculated outside the department, and requests for incentive payments are reviewed and approved by the dean prior to payment.</p> <p>Recommendation 3: To improve communication and faculty understanding of the Compensation Guidelines, remind faculty that the Compensation Guidelines are available on a current UT Southwestern intranet site. To facilitate faculty access to and understanding of departmental plans, require all clinical departments to post their departmental plans on a departmental intranet site and ensure that faculty members know how to access copies of the plans. To improve transparency, require the clinical departments to provide their respective faculty members with score cards that</p>	<p>The amounts paid will be directly compared to the assigned clinical effort upon which these incentive payments are based. The departments will be asked to provide letters of justification for faculty with low amounts of assigned clinical effort (<50%) and high amounts of incentive compensation (>15% of total compensation). These letters and the total professional effort assignments for each faculty member in this category will be reviewed, and, when indicated, the Dean's Office will provide direction for changes in assigned effort to the Departmental Chair and Faculty member.</p> <p>Management's Response 2: The Chair of Radiology will no longer participate in the Radiology Departmental Incentive Plan. Components of compensation for all departmental chairs for FY 2015 have been reviewed and a subset of Chairs (currently 7) with significant personal clinical practices has been identified. These Chairs and their departmental financial managers will be informed that they will be eligible for incentive compensation from their Departmental Plans in FY 2015, but all calculations of incentive pay must be performed by financial staff reporting directly to the EVP of Health System Affairs. The amount of incentive calculated will then be reviewed by the EVP Health System Affairs and the Dean, UT Southwestern Medical School for potential modifications based on availability of funds and/or compliance with standards and expectations and only the amount of incentive pay that they approve will be paid. All other departmental chairs are not approved for any incentive compensation from their departmental plans.</p> <p>Management's Response 3: An attachment to the MSRDP Compensation Guidelines will outline policies and procedures for implementing incentive plans. Included in these policies and procedures is a requirement that: 1.) All departments will be instructed to post their departmental plans and the MSRDP Guidelines on a departmental intranet site. 2.) The departments also will be asked to place on their intranet site illustrative examples of how incentive compensation is calculated and examples indicating how different levels of high or low productivity might</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		<p>precede each periodic incentive payment. The score cards should reasonably illustrate how both individual and group incentives are clearly calculated. Departments should consider soliciting faculty feedback in finalizing the format of the score cards. Lastly, to enhance clarity and facilitate faculty understanding of departmental plans, executive management should require that the clinical departments include illustrative examples that clearly demonstrate how incentive compensation and annual productivity-based changes in fixed compensation would be determined.</p> <p>Recommendation 4: To assist management in determining whether group incentive payments align with management’s objectives as described in the Compensation Guidelines, management should request that the departments prepare an annual report that illustrates the amounts of individual and group incentives paid. As part of this report, the departments should include an explanation when incentives paid for achievement of group goals account for less than 25 percent of total incentives paid. Management should determine whether the explanations are reasonable and consistent with its objectives and whether any changes to the departmental plans or Compensation Guidelines need to be considered.</p> <p>Recommendation 5: To ensure that faculty meet or exceed individual productivity goals for the entire fiscal year and to reduce the risk or impact of potential incentive overpayment, management should consider updating the Compensation Guidelines to require that the departments have a true-up process to ensure that faculty productivity expectations are met or exceeded for the entire fiscal year. The Compensation Guidelines should also provide guidance on types of extenuating circumstances that can legitimately reduce expected productivity.</p> <p>Recommendation 6: Because the practices of Ophthalmology and Radiology affect the timing and amount of incentives paid to their respective faculty, these practices, provided they are approved by executive</p>	<p>lead to increases or decreases to the supplemental component of faculty salary. 3.) All faculty should be provided, on at least a quarterly basis, with scorecards outlining their performance on all incentive plan metrics.</p> <p>In addition, Health System is developing reports that will be sent on a monthly basis to all MSRDP members detailing productivity metrics such as wRVU that can be used by the faculty member to estimate their progress in achieving incentive payment goals.</p> <p>Management’s Response 4: A new management report has been developed. At the end of each fiscal year, Departmental Chairs and chief financial officers will be asked to report amounts of incentive paid to each faculty member for productivity measures and for group quality, safety and practice efficiency measures. Plans found to be out of compliance will be suspended until the incentive plan and/or its implementation is brought into compliance with MSRDP guidelines.</p> <p>Management’s Response 5: An attachment to the MSRDP Compensation Guidelines will outline policies and procedures for implementing incentive plans. Included in these policies and procedures is a requirement that plans making quarterly payments include a true-up mechanism prior to payment of 2nd, 3rd, or 4th quarter payments to avoid overpayment of incentives to faculty who do not meet or exceed individual productivity goals for the entire fiscal year. This document also explains that prolonged periods of FMLA (Family and Medical Leave) represent extenuating circumstances in which formula driven reductions in salary do not apply.</p> <p>Management’s Response 6: A standardized template for departmental incentive plans has been drafted. Included in this template is wording indicating that amounts of calculated incentive earnings not paid</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



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		<p>management, should be described within the departmental incentive plans. Executive management should inquire of the other clinical departments not included within the scope of this audit to ensure that the departments are administering incentive compensation greater than 30 percent of a faculty member's total compensation in an approved manner and that applicable departments disclose the approved methodology within their departmental compensation plans.</p> <p>Recommendation 7: As part of determining periodic incentives payments, executive management should request that the clinical departments confirm compliance with applicable baseline MSRDP expectations at least annually. In addition, executive management should prevent clinical departments from providing group incentives for achievement of baseline expectations that are applicable to all UT Southwestern clinical faculty members. However, consideration could be given to retention of the expectations as group metric elements so long as the related goals reasonably exceed the baseline expected of all clinical faculty members.</p>	<p>during a fiscal year are retained in departmental accounts for use in promoting departmental missions.</p> <p>Management's Response 7: To clarify, compliance with the above baseline expectations is and has been monitored on a regular basis by Health System administration with monthly, quarterly, or, in the case of billing compliance education, annual reports sent to all leaders of the practice plans including departmental chairs and medical directors of clinics. These reports routinely provide data at the level of individual physicians for expectations 1 and 3 and for groups of physicians for expectations 2, 4, 5, and 6. Additional review of individual data can be performed for expectations 2, 4, 5 and 6 although, in the realm of patient satisfaction surveys, statistical significance of calculated percentiles will not be routinely available at the individual physician level until the Fall of 2014 with the scheduled implementation of electronic Press Ganey survey tools. The results of recent audit interviews suggests that there might have been a failure to communicate the findings from these reports to the business staff involved in incentive payment calculations. To assure that, in the future, this data is shared with departmental business staff and utilized by departmental physician leadership prior to approval of calculated incentive payments, we have included, as an attachment to the MSRDP Guidelines, the expectation that the clinical departments will develop and implement procedures to integrate these management reports into the process of leadership approval of incentive compensation payments. The Department of Surgery plan, which inappropriately offered incentive pay for only meeting baseline expectations, is being extensively revised by the new chair and departmental administrator.</p>	<p>Follow-up to be performed</p>



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		<p>Recommendation 8: Executive management should require the clinical departments to develop well written procedures for administration of incentive compensation. Such a requirement could be included within the Compensation Guidelines.</p> <p>Recommendation 9: Together, the Compensation Guidelines and the departmental incentive compensation plans describe compensation goals and practices for hundreds of MSRDP faculty members. As illustrated with Radiology and Ophthalmology, approval emails are at higher risk of loss over time. Final approvals of the Compensation Guidelines and departmental incentive compensation plans should be formalized to include evidence of written approval (signature and date) from the provost/dean, the executive vice president for health system affairs, and the president. The departmental plans should also include formal approval (signature and date) of the department chairs.</p> <p>Recommendation 10: To ensure that the clinical departments include all disclosures required by the Compensation Guidelines, executive management, as part of the upcoming incentive plan review process, should consider developing an incentive plan document template for the departments which includes all necessary disclosures required in each departmental plan.</p>	<p>Management's Response 8: The expectation that the departments will develop well-written procedures for administration of incentive compensation has been included in the new attachment to the MSRDP Compensation guidelines.</p> <p>Management's Response 9: A standardized template for departmental incentive plans has been drafted. Included in this template is a signature page that includes signatures and dates of written approval from the departmental chair, provost/dean, the executive vice president for health system affairs, and the president.</p> <p>Management's Response 10: A standardized template for departmental incentive plans has been drafted. This template addresses the disclosures A-E. Disclosure F is individualized by department and is reviewed individually at time of MSRDP Faculty Compensation Advisory Committee review as shown in the review template provided during the audit.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



IV. Consulting Services & Non-audit Services Completed

Report Date	Report Name	High-Level Objectives(s)	Observations/Results/Recommendations
11/5/13	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	Minimize direct payments by the Law School Foundation and document spending policies.
11/12/13	UT M. D. Anderson Procurement Special Project	Perform investigation into complaint received by the SAO	Allegations were found to be unsubstantiated
01/06/14	UT El Paso NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' Statement of Revenues & Expenses (SRE)	None
01/10/14	UT San Antonio NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/15/14	UT Pan American NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Retain adequate supporting documentation for travel expenses and properly review athletic award letters.
01/15/14	UT Arlington NCAA Agreed Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
N/A	UTShare/PeopleSoft System Implementation Agreed Upon Procedures	Provide management with an independent analysis of the PeopleSoft implementation.	Observations were communicated to management on this multi-year project, which ended in FY 2014. No formal report was issued.

V. External Quality Assurance Review (Peer Review)

See next page



September 12, 2014

Mr. J. Michael Peppers, Chief Audit Executive
The University of Texas System
210 W. 6th Street, Suite B.140E, Austin, TX 78701

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,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 1201 Louisiana, Suite 2900, Houston, TX 77002-5678
T: (713) 356 4000, F: (713) 356 4717, www.pwc.com/us

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



VI. Internal Audit Plan for Fiscal Year 2015

FY 2015 System Administration Audit Plan Engagements	Budgeted Hours	Description
Financial		
UT System Administration & Consolidation Financial Audit Assistance - FY 2014	210	Assistance on the external audit of the System Administration and Consolidated financial statements for FY14 (year-end work).
UTS 142.1 Account Reconciliations & Subcertifications Audit - FY 2014	150	Audit of the monitoring of account reconciliations and segregations of duties per UTS 142.1 (year-end work for FY14)
UT System Administration & Consolidation Financial Audit Assistance - FY 2015	275	Assistance on the external audit of the System Administration and Consolidated financial statements for FY15 (interim work).
Alzheimer's Council Fiscal Agreement Audit	150	Audit of the receipt and disbursement of all pass-through funds, as required by the fiscal agreement between UT System and the Texas Council on Alzheimer's Disease and Related Disorders (due Dec 2014).
Guidance to Institutions on Systemwide Financial Audit - FY 2014	40	Provide guidance and coordination of year-end work performed for the FY14 external financial statements audit.
Guidance to Institutions on Systemwide Financial Audit - FY 2015	40	Provide guidance and coordination of interim work performed for the FY15 external financial statements audit.
NCAA Agreed-Upon Procedures at UT Arlington	350	Perform agreed-upon procedures regarding internal controls, revenues, and expenses of the intercollegiate athletics programs for FY14 (due 1/15/15).
NCAA Agreed-Upon Procedures at UT El Paso	400	
NCAA Agreed-Upon Procedures at UT San Antonio	100	
NCAA Agreed-Upon Procedures at UT Pan American	400	
Financial Subtotal	2115	
Operational		
Executive Travel and Entertainment Expenses Audit	200	Audit of executive travel and entertainment expenses.
Oil and Gas Producers Audits	500	Audits of oil and gas producers to ensure compliance with lease agreements.
UTIMCO Separate Accounts Process Audit	350	Audit of the processes surrounding UTIMCO's separate accounts to ensure adequate controls are in place.
UTIMCO CEO/CIO Travel and Other Expenses Audit	150	Audit of CEO/CIO's travel and other expenses, consistent with audit requirements of UT System presidents and Chancellor.
UT Presidential Travel, Entertainment & University Residence Maintenance Expense Audits	750	Audit of presidential travel, entertainment and university residence maintenance (as applicable) expenses as required by Regents' Rule 20205.
Carryforward		
Executive Travel and Entertainment Expenses Audit	25	Carry forward audit from FY14
UT Presidential Travel, Entertainment & University Residence Maintenance Expense Audits	50	Carry forward audit from FY14
Operational Subtotal	2025	
Compliance		
Proportional Benefits Audit	150	Audit of the processes surrounding the calculation of proportional benefits.
Joint Admission Medical Program Audit	250	Audit of Joint Admission Medical Program (JAMP) financial statement as required by agreement with JAMP Council (due Dec 2014).
Library, Equipment, Repair and Rehabilitation (LERR) Expenditures Audit	350	Audit of the appropriate use of LERR funds.
UT Health Institution's Practice Plan Audits	500	Audit of practice plan at a TBD health institution (specific area/topic to be audited TBD based on further analysis).
Guidance to Institutions on Practice Plan Audits	100	Provide audit program and guidance on the institutional internal audit conducted practice plan audits.
Guidance to Institutions on Proportional Benefits Audits	100	Provide audit program and guidance on the institutional internal audit conducted proportional benefits 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
Carryforward		
UTHSC-Tyler PQRS Practice Plan	400	Carry forward audit from FY14
UT Southwestern Comp Plan Practice Plan	20	Carry forward audit from FY14
Compliance Subtotal	2370	
Information Technology		
Texas Administrative Code 202 Audit	150	Bi-annual audit of System Administration's compliance with the Texas Administrative Code (TAC) 202 information security requirements.
UT Tyler TAC 202 Audit	150	Bi-annual audit of UT Tyler's compliance with TAC 202 requirements.
IT Security Governance Audit	300	Audit of IT security governance across the UT System.
Mobile and Personal Device Management Audit	300	Audit of personal and mobile device management across the UT System.
UTShare Post Implementation Reviews	600	Conduct post implementation reviews of PeopleSoft at System Administration and provide related guidance and oversight to the institutions.
Information Technology Subtotal	1500	
Follow-up		
System Administration Follow Up FY 2014	300	Follow-up on open recommendations from previous audits.
Follow Up Subtotal	300	
Projects		
UT Rio Grande Valley Consulting Project	800	Provide consulting services on the development of UT Rio Grande Valley.
Carryforward		
UT Austin Procurement Special Project	40	Carry forward audit from FY14
Projects Subtotal	840	
Reserve		
Special Requests - TBD	1645	Provide assistance to UT System executive management in addressing unexpected issues (reviews, investigations, third-party engagements, etc.)
Reserve Subtotal	1645	
Total Hours	10795	



FY 2015 Audit Plan Operations	Budgeted Hours	Description
Internal Audit Operations	2930	Strategic planning, metrics oversight and communications are priorities in operations, followed by resource development, technology maintenance and timely responses to auditor and management requests for support.
Reporting	1050	Development and Delivery of reporting to the System Administration Audit Committee and the ACMRC Committee of the Board. This category includes risk assessment activities and reporting.
Oversight	1750	Oversight includes Institutional Audit Committee and UTIMCO audit meetings support and attendance. However, primary focus is on the monitoring of audit team needs, semi-annual Internal Audit Council Meetings and necessary education development and oversight for the deployment of initiatives and other reporting activities. Quality Review and System-wide analysis is part of this category.
Investigation Oversight & Management Collaboration	700	Preparation for and attendance at System Administration meetings for purposes of understanding the context and need of internal audit. Also includes investigations oversight and responses to State Auditors requests.
General and Administrative	400	General administration and coordination.
Total Hours for Operations	6830	

FY 2015 Audit Plan Initiatives	Budgeted Hours	Description
Institutional Audit Committee Independence and Capability	530	Strengthen institutional audit committee independence and capability
Systemwide and Institutional Risk Management	0	Assess System wide and institutional risk management
Governance Resources	300	Provide leading practice resources for governance
Internal Audit Mission, Values and Supporting Operations	700	Standardize internal audit mission, values and supporting operations
Risk Assessment Methodology	600	Enhance risk assessment methodology
Audit and Reporting Models	100	Develop audit and reporting models
Team Competencies	630	Quantify and improve team competency
Internal Audit Metrics and Quality Program	600	Align internal audit metrics and quality program with improvement plans
Total Hours for Initiatives	3460	
Total Budgeted Hours	21085	

Risk Assessment/Methodology Used to Develop FY 2015 Annual Audit Plan & High Risks Not Included

The System Audit Office FY 2015 Annual Audit Plan (Audit Plan) includes three sections: Engagements (audit work performed at System Administration and institutions), Operations (ongoing System Administration and oversight activities), and Initiatives (developmental System Administration and Systemwide initiatives that may be employed over multiple years).

The System Audit Office conducted research on System Administration departments to gather and analyze information on the activities of the area, past audit coverage, and related risks. The System Audit Office also held over 20 meetings with department heads, executive management members, and the audit committee chair to discuss high-risk areas and related potential audits. This information was used to develop the risk-based audits to be conducted at System Administration or at one or more of the institutions, which are included in the Engagements portion of the Audit Plan. 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 areas including, but not limited to, academic support, investment strategy, supply chain management, and compliance. Several of the risk areas are in some sort of transition and not ready to be audited. Additionally, some of the high risks are addressed by external party audits or have had internal audit coverage in recent fiscal years.



The Audit Plan was approved by the UT System Administration Internal Audit Committee on 8/8/14. In addition, it is noted that:

- The FY 2015 Annual Audit Plan includes a Proportional Benefits Audit, which is listed in Engagements under the Compliance section.
- The FY 2015 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.
- Consideration was given to contract management and information technology risks when developing the FY 2015 Annual Audit Plan.

VII. External Audit Services Procured in FY 2014

The University of Texas System contracted with Deloitte & Touche, LLP (Deloitte) to perform an independent audit of the FY 2013 UT System financial statements (including stand-alone audits at some of the institutions) and an independent audit of the FY 2013 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 2014 financial statements.

In addition, Deloitte was contracted to completed audits of Cancer Prevention Research Institute of Texas (CPRIT) grants at ten 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 from FY 2010 through FY 2013. 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 (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/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 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.