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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 2/7/2007

Board Meeting: 2/8/2007
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
A. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE	<i>2:00 p.m.</i> <i>Chairman</i> <i>Rowling</i>		
1. U. T. System: Report on the Fiscal Year 2006 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP	<i>2:00 p.m.</i> Report <i>Mr. Wallace</i> <i>Mr. Lenfant,</i> <i>Deloitte &</i> <i>Touche</i> <i>Mr. Chaffin</i> <i>Ms. Barrett</i>	Not on Agenda	139
B. CONVENE AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE MEETING	<i>2:20 p.m.</i> <i>Regent</i> <i>Rowling</i>		
2. U. T. System: Approval to renew the contract with Ernst & Young, LLP, as the external auditor for the 2007 audit of funds managed by The University of Texas Investment Management Company (UTIMCO) and to negotiate for additional audit services related to UTIMCO	<i>2:20 p.m.</i> Action <i>Mr. Chaffin</i>	Action <i>Regent</i> <i>Estrada</i>	139
3. U. T. System: Report on System-wide Information Security	<i>2:25 p.m.</i> Report <i>Mr. Watkins</i> <i>Mr. Chaffin</i>	Not on Agenda	140
4. U. T. System: Report on System-wide Internal Audit Activity	<i>2:30 p.m.</i> Report <i>Mr. Chaffin</i>	Not on Agenda	140
5. U. T. System: Report on System-wide Institutional Compliance Activities	<i>2:35 p.m.</i> Report <i>Mr. Chaffin</i>	Not on Agenda	145

**Committee
Meeting**

2:40 p.m.

**C. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS
GOVERNMENT CODE, CHAPTER 551**

1. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

U. T. System: Discussion with institutional auditors and compliance officers concerning evaluation and duties of individual System and institutional employees involved in internal audit and compliance functions

2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071

D. ADJOURN

3:10 p.m.

A. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE

1. **U. T. System: Report on the Fiscal Year 2006 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP**

See Item 7 on Page 137 of the Finance and Planning Committee.

B. CONVENE AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE MEETING

2. **U. T. System: Approval to renew the contract with Ernst & Young, LLP, as the external auditor for the 2007 audit of funds managed by The University of Texas Investment Management Company (UTIMCO) and to negotiate for additional audit services related to UTIMCO**

RECOMMENDATION

Committee Chairman Estrada recommends approval to renew the auditing services contract with Ernst & Young, LLP, to perform audits for the fiscal year ending August 31, 2007, for funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

- a. Permanent University Fund (PUF)
- b. The University of Texas System General Endowment Fund (GEF)
- c. Permanent Health Fund (PHF)
- d. The University of Texas System Long Term Fund (LTF)
- e. The University of Texas System Intermediate Term Fund (ITF).

Approval is also requested for U. T. staff to negotiate an amendment to the contract renewal with Ernst & Young, LLP, to provide additional audit services related to UTIMCO, including UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

BACKGROUND INFORMATION

Fiduciary responsibility for the PUF, GEF, PHF, LTF, and ITF rests with the U. T. System Board of Regents. *Texas Education Code* Section 66.08(f) requires that the U. T. System provide for an annual financial audit of the PUF if the PUF is within the scope of funds managed by an external management corporation.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in April 2003. Four proposals were received. After a review of the proposals and firm interviews by Regent Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, at the July 7, 2003 Board of Regents' meeting. The contract was for one year with a right to renew in one-year increments for four years. The contract was renewed by the Board of Regents on February 4, 2004, February 10, 2005, and February 9, 2006. The fiscal year ending August 31, 2007, is the fourth and final year this contract can be up for renewal.

3. U. T. System: Report on System-wide Information Security

REPORT

Mr. Lewis Watkins, Chief Information Security Officer, and Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will provide an update on the implementation of the 2006 Action Plan to Enhance Information Security. Included in the update will be reports on the staffing of the information security function with the appointment of a Chief Information Security Officer (CISO) and hiring of an Information Security Policy and Resourcing Analyst. Reports on the establishment of the Information Security Officer Council, meetings between the CISO and various stakeholder groups, and data collection for the purpose of creating an initial high level assessment of information security across the U. T. System will be included.

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

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on System-wide audit activity for the first quarter of Fiscal Year 2007, including the status of significant audit recommendations.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 142 - 143. The report shows that satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports that have been issued by the System-wide audit program follows on Page 144.

BACKGROUND INFORMATION

Significant audit findings/recommendations are submitted to and tracked by the U. T. System Audit Office. Quarterly, the chief business officers are asked for the status of implementation, and the internal audit directors verify implementation. A summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. System Board of Regents. Additionally, the Committee members receive a detailed summary of "new" significant recommendations quarterly.

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	4th Quarter 2006		1st Quarter 2007		Targeted Implementation Date	Overall Progress Towards Completion (Note)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
2006-06	UTARL	Mav Express Cash Handling Audit		1		1	1/31/2007	Satisfactory	O
2004-03	UTAUS	Information Security Management		1		1	12/31/2006	Satisfactory	C, O
2006-02	UTAUS	UT Elementary (by West, Davis & Company)		1		1	12/31/2006	Satisfactory	C
2004-03	UTB	Contracts and Grants		1		1	1/31/2007	Satisfactory	C, O
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office		1		1	2/28/2007	Satisfactory	C, O
2004-10	UTB	Physical Plant		3		3	1/31/2007	Satisfactory	C, O
2006-03	UTB	Change in Management Audit of Athletics		1		0	12/1/2006	Completed	C, O
2003-12	UTD	Lab and Biological Safety		1		1	3/31/2007	Satisfactory	C, O
2005-05	UTEP	Office of the Registrar		1		1	2/28/2007	Satisfactory	C, O
2005-08	UTEP	Texas Success Initiative		1		1	3/31/2007	Satisfactory	C, O
2006-08	UTEP	Change in Management: College of Science				0	9/30/2006	Completed	C, O
2006-10	UTEP	Change in Management: Alumni Relations and Association				0	10/31/2006	Completed	C, O
2006-04	UTPA	Gear Up		1		1	12/31/2006	Satisfactory	C
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		1	2/28/2007	Satisfactory	C
2006-07	UTSA	Information Technology Change Management		1		1	4/30/2007	Satisfactory	O
2006-10	UTSA	Library Audit				1	1/1/2007	Satisfactory	O
2006-04	UTTY	Endowment Compliance		1		0	12/31/2006	Completed	O
2006-05	UTSMC - Dallas	Accounts Payable		1		1	7/1/2007	Satisfactory	C, O
2006-09	UTSMC - Dallas	Hospital Compliance Program				1	2/1/2007	Satisfactory	C, O
2004-02	UTMB - Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		1		0	12/31/2006	Completed	F, O
2005-03	UTMB - Galveston	Compliance Update with the HIPAA Final Security Rule (Institutional)		1		1	2/1/2007	Satisfactory	C, O
2005-07	UTMB - Galveston	Compliance Update with the HIPAA Final Security Rule (Correctional Managed Care)		3		3	2/1/2007	Satisfactory	C, O
2005-08	UTMB - Galveston	Audit of Institutional Review Board Human Subjects Protection		1		0	11/30/2006	Completed	C, O
2005-12	UTMB - Galveston	System-wide Financial Audit		1		1	2/1/2007	Satisfactory	F, C, O
2006-04	UTHSC - Houston	Hematology Inventory Review		3		1	1/2/2007	Satisfactory	F, O
2006-04	UTHSC - San Antonio	Medical Services, Research, and Development Plan Collections		3		3	3/31/2007	Satisfactory	O
2001-08	UTMDACC - Houston	Lotus Notes Environment		1		1	8/31/2008	Satisfactory	O
2004-01	UTMDACC - Houston	PeopleSoft Payroll		1		1	2/28/2007	Satisfactory	O
2006-07	UTMDACC - Houston	Pharmacy Inventory Review		3		2	5/31/2007	Satisfactory	O
2006-07	UTMDACC - Houston	Pharmacy Application Security Review		5		5	5/31/2007	Satisfactory	O
2006-09	UTMDACC - Houston	Centralized Backup, Storage and Recovery				3	8/31/2008	Satisfactory	C, O
2005-04	UTHC - Tyler	Texas Administrative Code 202 Compliance		1		1	1/31/2007	Satisfactory	C
2005-06	UTHC - Tyler	Medical Services, Research, and Development Plan Annual Financial Report 8/31/04		1		1	8/31/2007	Satisfactory	F, O
2005-11	UTHC - Tyler	IT Security Audit of Meditech and Lake Superior Software Patient Information Systems		1		1	2/28/2007	Satisfactory	C
2006-06	UTHC - Tyler	Review of the Office of the President's Travel & Entertainment		1		1	1/31/2007	Satisfactory	F
2005-12	UTSYS ADM	System-wide Financial Audit		4		4	8/31/2008	Satisfactory	F, O
2006-05	UTSYS ADM	UTIMCO Institutional Investment and Compliance Audits		11		8	8/31/2007	Satisfactory	C
2006-08	UTSYS ADM	UTIMCO CEO Travel and Entertainment Expenses		1		1	12/31/2006	Satisfactory	C, O
Totals				60		55			

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	4th Quarter 2006		1st Quarter 2007		Targeted Implementation Date	Overall Progress Towards Completion (Note)	Ranking Significance Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
STATE AUDITOR'S OFFICE AUDITS									
2002-09	UTB	Financial Review		1		0	3/31/2007	Completed	F
2004-02	UTSA	Financial Review		2		2	2/28/2007	Satisfactory	F
2004-06	UTSMC - Dallas	Protection of Research Data at Higher Education Institutions		1		1	1/31/2007	Satisfactory	O
2006-02	UTMB - Galveston	Federal Portion of the Statewide Single Audit FY 2005		1		1	2/1/2007	Satisfactory	F, C, O
2004-06	UTHSC - San Antonio	Protection of Research Data at Higher Education Institutions		1		1	2/28/2007	Satisfactory	O
2002-11	UTMDACC - Houston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		1		1	2/28/2007	Satisfactory	C
2005-02	UTMDACC - Houston	Federal Portion of the Statewide Single Audit FY 2004		2		2	5/31/2007	Satisfactory	C
Totals				9		8			

Color Legend:

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

Note:

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

*** OTHER U. T. SYSTEM AUDITS COMPLETED - 9/2006 through 11/2006**

Month Received by System	Institution	Audit
Sep-06	UT Dallas	Change in Management Review of the Office of the Vice President of Development
Sep-06	UT Southwestern Medical Center	Medical Services, Research, and Development Plan (MSRDP) Billing and Accounts Receivable
Sep-06	UT Southwestern Medical Center	Hospital Billing and Accounts Receivable
Sep-06	UT Southwestern Medical Center	Network Intrusion, Detection, and Remediation
Sep-06	UT Southwestern Medical Center	Follow-Up on Audit Recommendations Implemented or Due Prior to June 1, 2006
Sep-06	UT Southwestern Medical Center	Hospital Compliance Program
Sep-06	UTHSC San Antonio	Information Technology <i>Texas Administrative Code 202</i>
Sep-06	UT System Administration	University Lands-West Texas Operations Oil and Gas Company Audit: ConocoPhillips
Oct-06	UT Arlington	Joint Admissions Medical Program (JAMP)
Oct-06	UT Arlington	Financial Audit of Auxiliary Enterprises
Oct-06	UT Dallas	Change in Management Review of Recreational Sports
Oct-06	UT Pan American	Joint Admissions Medical Program (JAMP)
Oct-06	UT San Antonio	Campus Security: Overnight Summer Programs
Oct-06	UT San Antonio	Information Technology Incident Management Report
Oct-06	UT San Antonio	Minority Business Enterprise Center
Oct-06	UT San Antonio	Student Travel Audit Report
Oct-06	UT Southwestern Medical Center	Auxiliary Enterprise Management Review
Oct-06	UT Southwestern Medical Center	Utilities Management
Oct-06	UT Southwestern Medical Center	University Hospitals' Emergency Preparedness for Utility Systems Failures
Oct-06	UT Medical Branch at Galveston	Joint Admissions Medical Program (JAMP)
Oct-06	UTHSC San Antonio	President's Office Expenditures
Oct-06	UTHSC San Antonio	UT Medicine Financial Reporting
Oct-06	UT M. D. Anderson Cancer Center	Cloverleaf Change Management Audit
Oct-06	UT M. D. Anderson Cancer Center	LanVision Clinical Application Database Security
Oct-06	UT M. D. Anderson Cancer Center	M. D. Anderson Physicians Network Review
Oct-06	UT M. D. Anderson Cancer Center	Phillips PACS (Picture Archiving and Communications Systems) Clinical Application Database Security Review
Oct-06	UT M. D. Anderson Cancer Center	Post-implementation of the Outpatient Charge Capture Reconciliation Process
Oct-06	UT System Administration	UTIMCO Internal Controls Over Financial Reporting
Nov-06	UT Arlington	Academic Department of Accounting - Departmental Review
Nov-06	UT Arlington	President's Travel, Entertainment and Housing Expenditures
Nov-06	UT Austin	Joint Admissions Medical Program (JAMP)
Nov-06	UT Austin	Travel, Entertainment, and Housekeeping Expenses - Office of the President
Nov-06	UT Dallas	Joint Admissions Medical Program (JAMP)
Nov-06	UT Dallas	President's Travel and Entertainment Expenses
Nov-06	UT El Paso	Change in Management: Graduate School
Nov-06	UT El Paso	Change in Management: Research and Sponsored Projects
Nov-06	UT El Paso	Joint Admissions Medical Program (JAMP)
Nov-06	UT Pan American	President's Travel, Entertainment and Housing Expenses
Nov-06	UT Permian Basin	Joint Admissions Medical Program (JAMP)
Nov-06	UT San Antonio	Joint Admissions Medical Program (JAMP)
Nov-06	UT San Antonio	Presidential Travel, Entertainment and Housing Expense Audit Report
Nov-06	UT Tyler	College of Engineering and Computer Science
Nov-06	UT Tyler	Compliance Audit of NCAA Division III Requirements
Nov-06	UT Tyler	Environmental Health and Safety Department
Nov-06	UT Tyler	Joint Admissions Medical Program (JAMP)
Nov-06	UT Tyler	Office of the President
Nov-06	UT Southwestern Medical Center	Information Technology <i>Texas Administrative Code 202</i>
Nov-06	UT Southwestern Medical Center	Joint Admissions Medical Program (JAMP)
Nov-06	UT Southwestern Medical Center	President's Travel and Entertainment Expenditures
Nov-06	UT Medical Branch at Galveston	Review of Hospital Un-sponsored Charity Care
Nov-06	UT Medical Branch at Galveston	Review of Patient Information Management Processes
Nov-06	UTHSC Houston	Joint Admissions Medical Program (JAMP)
Nov-06	UTHSC Houston	Presidential Travel and Entertainment
Nov-06	UTHSC San Antonio	Joint Admissions Medical Program (JAMP)
Nov-06	UTHSC San Antonio	Student Services
Nov-06	UT M.D. Anderson Cancer Center	President's Travel, Entertainment and Housing Expense
Nov-06	UT System Administration	Academic Affairs Departmental Audit
Nov-06	UT System Administration	Follow-Up Audit 3rd Quarter Fiscal Year 2006
Nov-06	UT System Administration	Follow-Up Audit 3rd Quarter Fiscal Year 2006 - Information Technology Observations/Assessments
Nov-06	UT System Administration	Chancellor's Travel, Entertainment, and Housing Expenses

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 9/2006 through 11/2006**

Month Received by System	Institution	Audit
Oct-06	UT Medical Branch at Galveston	An Audit Report on the Cost of the State's Correctional Managed Health Care

5. **U. T. System: Report on System-wide Institutional Compliance Activities**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will brief the Audit, Compliance, and Management Review Committee on the first quarter report of the System-wide Compliance Program, set forth on Pages 244 - 247 of the Supplemental Materials (Volume 2) of the Agenda Book. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis. The last activity report was sent on January 19, 2007.

Mr. Chaffin will then provide an update on the System-wide Compliance Program peer review.