

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

**Annual Audit Report
Fiscal Year 2010**



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

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I. Internal Audit Plan for Fiscal Year 2010

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION

(Part 1 of 2 - System Administration)

Total Institution FY 2010 Budgeted Expenditures = \$150 (in millions)

Total Number of FY 2010 Budgeted Audit Positions (gross of vacancies) = 15.2

Fiscal Year 2010 Audit Plan - System Administration

Audit Areas	Priority Budgeted Hours	% of Total
<u>Financial</u>		
FY 2009 System Administration and Consolidation Financial Audit	800	
FY 2010 System Administration and Consolidation Financial Audit	200	
Chancellor's Travel, Entertainment & Housing Expense Audit	100	
UTIMCO Financial Statement Audit Assistance	500	
UTIMCO CEO/CIO Travel and Other Expenses Audit	100	
UTIMCO Meetings and Oversight Activities	100	
<u>Carryforward Audits</u>		
UTIMCO CEO Travel and Other Expenses Audit	30	
Financial Subtotal	1830	22%
<u>Operational</u>		
Audit of Payments to Insurance Carriers	300	
Shared Services Initiative Review	300	
Board of Regents Travel and Entertainment Expense Audit	200	
System Administration Hosted Conferences Audit	200	
University Lands Audit	500	
Oil and Gas Producers Audits	1500	
Office of Facilities, Planning, and Construction (OFPC) Audits	500	
General Audit Assistance to System Administration Departments	100	
<u>Change in Management/Departmental Audits</u>		
Office of Strategic Management Departmental Audit	150	
Facilities Services Departmental Audit	150	
Real Estate Departmental Audit	150	
<u>Carryforward Audits</u>		
Office of the Director of the Police (ODOP) Operations Review	25	
OFPC Co-source Audit with Townsend	75	
Oil and Gas Company Audit - Pioneer Natural Resources	75	
Vendor Selection Process Review	75	

Operational Subtotal	4300	47%
<u>Compliance</u>		
Ethics Audit	300	
Office of Employee Benefits Dependent Eligibility Audit	200	
UTIMCO Derivatives Policy Audit	300	
UTIMCO Due Diligence Audit	300	
Compliance Subtotal	1100	11%
<u>Information Technology</u>		
Information Technology (IT) Governance Audit	300	
University Lands OGCIS System Audit	300	
UT Federation's Membership Operating Practices (MOP) Audit	200	
<u>Carryforward Audits</u>		
UT Arlington Profile Application Audit	100	
Information Technology Subtotal	900	7%
<u>Follow-up</u>		
System Administration Follow Up FY 2010	500	
<u>Carryforward Audits</u>		
System Administration Follow Up FY 2009	50	
Follow Up Subtotal	550	6%
<u>Projects</u>		
System Administration IT Systems Assessment	100	
Internal Audit Committee	300	
State Auditor's Office Reporting and Requests	25	
FY 2011 Audit Plan and Risk Assessments	50	
Special Requests	450	
Projects Subtotal	925	7%
<u>Total Hours</u>	9605	100%

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION

(Part 2 of 2 - Oversight)

Total Institution FY 2010 Budgeted Expenditures = \$150 (in millions)

Total Number of FY 2010 Budgeted Audit Positions (gross of vacancies) = 15.2

Fiscal Year 2010 Audit Plan - Oversight

Audit Areas	Priority Budgeted Hours	% of Total
<u>Financial</u>		
Guidance Provided to the Institutions related to the Systemwide Financial Audit - FY 2009	500	
Guidance Provided to the Institutions related to the Systemwide Financial Audit - FY 2010	250	
NCAA Agreed Upon Procedures at UT Arlington	400	
NCAA Agreed Upon Procedures at UT El Paso	400	
NCAA Agreed Upon Procedures at UT San Antonio	400	
NCAA Agreed Upon Procedures at UT Pan American	400	
NCAA Agreed Upon Procedures at UT Permian Basin	400	
Jackson Estate	300	
Financial Subtotal	3050	37%
<u>Operational</u>		
Audit Assistance to Smaller Institutions	50	
UT Southwestern President's Travel, Entertainment & Housing Expense Audit	125	
UT Medical Branch at Galveston President's Travel, Entertainment & Housing Expense Audit	125	
UT El Paso President's Travel, Entertainment & Housing Expense Audit	125	
<u>Change in Management/Departmental Audits</u>		
UT San Antonio President Office Audit	300	
UT Brownsville President Office Audit	300	
UT Tyler President Office Audit	300	
Operational Subtotal	1325	16%
<u>Compliance</u>		
UTHSC-San Antonio Practice Plan Audit	300	
UTHSC-Houston Practice Plan Audit	300	
Guidance Provided to the Institutions related to the Practice Plan Audits	50	
Guidance Provided to the Institutions related to the Stimulus Money (ARRA)	50	
Compliance Subtotal	700	9%
<u>Information Technology</u>		
Texas Administrative Code (TAC) 202 Audit at UTPB	200	
Peoplesoft Audit at UT Tyler	300	

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Guidance provided to UTHSC-Tyler on the TAC 202 and Information Technology Governance Audits	200	
Systemwide Huron Time & Effort Application Audit	450	
Systemwide Wireless Access Audit	450	
Guidance Provided to the Institutions related to IT Audits	50	
Information Technology Subtotal	1650	20%
<u>Follow-up</u>		
Systemwide Significant Findings/Recommendations Tracking (Red, Orange, Yellow, Green - ROYG)	350	
Follow Up Subtotal	350	4%
<u>Projects</u>		
Institution Liaison Activities	500	
Guidance/Assistance Provided to the Institutions related to Audits conducted Systemwide	50	
Exchange Program Coordination	25	
FY 2011 Systemwide Audit Plan	25	
FY 2011 Institutional Annual Audit Plan Hearings	100	
Audit, Compliance, and Management Review Committee and Board of Regents Meetings	300	
Internal Audit Council	100	
Special Requests	200	
<u>Carryforward</u>		
2010 System-wide Audit Plan	25	
Projects Subtotal	1325	14%
Total Hours	8400	100%

Deviations from the Audit Plan

The System Audit Office performed all FY 2010 System Administration priority audits with the following deviations.

- The OFPC Fee Benchmarking Consulting engagement is in the reporting phase and is planned to be completed in September 2010.
- The UTHSC-Houston Practice Plan Audit is in the reporting phase and is planned to be completed in September 2010.
- The UTIMCO CEO/CIO Travel and Other Expenses Audit was delayed until September 2010 at the request of the client because of scheduling conflicts and is planned to be completed by the end of September 2010.
- The hours for the System Administration Cost Efficiencies and Strategic Audits were reallocated to other originally non-priority audits to make them priority audits. The change was approved by the Chancellor and Internal Audit Committee.
- The hours for the Shared Services Review were reallocated to the departmental audits of offices closing at System Administration. The change was approved by the Chancellor and communicated to the Internal Audit Committee.

All audits in progress at the end of FY 2009 that were carried forward to FY 2010 were completed, and the audits in progress at the end of FY 2010 were carried forward for completion by the early part of FY 2011 (as noted in the first three bullets above).

The System Audit Office also performed several special request projects deviating from the plan as part of the oversight function and executive management requests during the fiscal year that were communicated to the Internal Audit Committee.

II. External Quality Assurance Review

The University of Texas System Administration
System Audit Office
Quality Assurance Review – February 2010

The Review

The follow-up engagement related to the 2008 Quality Assurance Review (QAR) of The University of Texas System Audit Office internal audit program was completed on February 10, 2010. The primary objective of the follow-up engagement was to determine the implementation status of the best practice considerations and recommendations made in the original report dated June 17, 2008. In addition, the Chief Audit Executive requested suggestions to further enhance the program. The objective was achieved by means of interviewing the Chancellor, Executive Vice Chancellor for Academic Affairs, Executive Vice Chancellor for Health Affairs, Chief Audit Executive, and members of internal audit management; reviewing certain quality control documentation; and reviewing examples of the Office's work products, reports to the System Administration Internal Audit Committee, and annual audit plans.

Implementation Status

The 2008 Quality Assurance Review resulted in nine outstanding recommendations. Seven of the recommendations have been implemented, one has been implemented with continued opportunities, and one has been partially implemented.

New Recommendations

During this follow-up engagement, two new recommendations were made relating to the areas of 1) continuous self-assessment, and 2) project management processes.

Overall Conclusion

The University of Texas System Audit Office complied with the standards in all material respects during the period under review.

III. List of Audits Completed

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
10/06/2009	Chancellor's Travel, Entertainment & Housing Expenses Audit	The specific objective of this audit was to determine whether the travel, entertainment and housing expenses paid on behalf of or reimbursed to the Chancellor or his spouse are appropriate and accurate	Finding None	N/A	Ensure controls are in place and functioning appropriately and ensure regulatory compliance.
10/08/2009	Office of Director of Police (ODOP) Operational Review	<p>The objectives of this audit were to:</p> <ul style="list-style-type: none"> • Provide reasonable assurance that controls are in place to meet the missions and goals of the department effectively and efficiently; and assess the extent to which the organizational goals and objectives are being achieved; • Provide reasonable assurance that the Police are in compliance with relevant laws and professional standards of performance and conduct; and • Analyze the cost effectiveness of the program and academy. 	<p>Finding ODOP should evaluate and improve their mission statement and goals to make them clearer and more easily measurable. In addition, ODOP does not formally evaluate whether or not they are achieving their goals. UT System Police Standards for University Police Operations, section 5.2 requires goals and objectives to be updated annually and a system for evaluating progress made toward the attainment of goals and objectives.</p> <p>Recommendation ODOP should conduct an annual review of its mission and goals, and evaluate the need to restate them, in order to develop measurable objectives. ODOP should also establish and document a process for evaluating the progress made toward the attainment of its goals and objectives.</p> <p>Finding ODOP's policies require that institutions are inspected every two years; however, not all institutions have been inspected within the past two years. Although several site visits have been conducted, not all of the reports have been issued. There are no detailed procedures on how to conduct the on-site section of the inspection process so that they are conducted consistently. Some</p>	Scheduled follow-up to be performed during FY 2011	Ensure controls are in place and functioning appropriately and ensure regulatory guidelines compliance.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>inspection reports for the past two years lack standardization, and management responses do not always include a plan of action and time to remedy the finding as required in Policy A-2.</p> <p>Recommendation ODOP should develop and document formal procedures for the institution inspection process. Procedures should include steps for annual review/planning, following-up on previous findings, conducting the inspection, writing the inspection report, and requiring corrective action deadlines. In addition, ODOP should take appropriate steps to ensure that reports are consistent in format and issued in a timely manner.</p> <p>Finding UT System Police standards A-1 are not reviewed annually, as required by Standard section 4.2 "Written Directives." Some of the policies have not been reviewed since 2004.</p>	Scheduled follow-up to be performed during FY 2011	
			<p>Recommendation ODOP should develop a system to ensure that standards are reviewed and updated annually and disseminated to institutional personnel in a timely manner. In addition, ODOP should consider incorporating the use of best practices into its policies when a formal guideline does not exist.</p> <p>Finding ODOP could improve their method for tracking TCLEOSE licensing requirements. While campus police departments submit a record of firearms qualification and completed training to ODOP, those records are not reviewed to ensure that all commissioned officers have completed the firearms qualifications and the training required by TCLEOSE. Firearms qualifications are required once per year by TCLEOSE and twice per year by UT System.</p>	Scheduled follow-up to be performed during FY 2011	
			<p>Recommendation ODOP should improve their</p>	Implemented	

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>method for tracking TCLEOSE licensing requirements to ensure that all commissioned UT Police officers have complete the firearms qualifications and training requirements.</p> <p>Finding ODOP could improve their management of the badge system that allows access to System Administration buildings. ODOP does not perform a regular review of access to determine if assigned access is appropriate. .</p> <p>Recommendation On an annual basis, ODOP should review the badge list and verify that access has been appropriately granted including badges assigned to tenants and contractors. Each Picture Perfect user should have an individual login. ODOP should consider establishing a written agreement with UT Austin to replace the verbal agreement limiting access that currently exists.</p> <p>Finding ODOP should evaluate the cost effectiveness of the System Academy. Last year, the academy cost UT System \$532,075 to graduate 26 cadets for an average cost of \$20,464 per cadet. This does not include the salaries that the institutions pay while the cadets are in training. DPS had a cost of \$4,500,000 for 400 cadets, (\$11,250 per cadet) and City of Austin \$1,354,131 for 70 cadets (\$19,345 per cadet).</p> <p>Recommendation ODOP should continue to explore alternatives to enhance efficiencies in cadet training.</p> <p>Finding ODOP should evaluate whether the current age and type of vehicles meet their needs (fleet vehicles)</p> <p>Recommendation ODOP should review the policy and evaluate whether they need the</p>	<p>Implemented</p> <p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed</p>	

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>current number of vehicles and whether they should replace the vehicles. ODOP might also consider rental of vehicles as needed for special events/trips as an alternative to purchasing replacement vehicles.</p> <p>Finding ODOP should evaluate the guard staffing level needed.</p> <p>Recommendation ODOP should review the services provided by its guards in order to determine the cost effectiveness of the arrangement and if those services could be provided in other ways. The review should include an analysis of the services provided by both UT System guards, as well as those employed by UT Austin. ODOP should consider the level of security required by System Administration and the staffing level needed to achieve the requirements.</p>	<p>during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	
10/08/2009	UTIMCO CEO/CIO Expenses Audit	The objective of this audit was to determine whether expense reimbursements to and payments on behalf of the CEO and any elements of compensation and benefits not included in the UTIMCO Compensation Plan were appropriate and accurate.	Finding None	N/A	Ensure controls are in place and functioning appropriately and ensure regulatory compliance.
10/08/2009	UTIMCO CEO/CIO Expenses Follow Up	The objective was to follow up on open recommendations from the fiscal year 2008 UTIMCO CEO/CIO expenses audit	Finding No new recommendations	We followed up on the implementation status of two outstanding recommendations from 2008 UTIMCO CEO/CIO Expenses Audit and determined that both the recommendations have been implemented	Monitor and communicate the level of implementation of recommendations included in audit reports.
10/21/2009	UTIMCO Follow Up	The objective of the audit was to perform follow-up audit of open	Finding No new recommendations	We followed up on the implementation status	Monitor and communicate the

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
		UTIMCO audit recommendations with implementation dates on or before May 31, 2009.		of seven outstanding recommendations from UTIMCO Internally Managed Fixed Income audit report and determined that all the seven recommendations have been implemented.	level of implementation of recommendations included in audit reports.
10/27/2009	Pioneer Oil and Gas Audit	To objectives of the audit were to determine whether: <ul style="list-style-type: none"> • Production reported to the University was reasonable; • Proceeds from oil and gas sales were reasonable, and that the corresponding royalties have been remitted to the University; • Gas sales meters were calibrated regularly; and • Gas stream sampling is conducted in accordance with the Board for Lease Rules and Regulations. 	Finding Details on the observations/findings, recommendations, and implementation status from oil and gas company audit reports are confidential pursuant to Texas Education Code, Section 66.81, and thus not included.	N/A	Ensure accuracy of reporting and ensure compliance with guidelines.
10/30/2009	Hosted Conferences Audit	The objective of this audit was to determine whether conferences are conducted in a cost-efficient and cost-effective manner. The scope of this engagement included activity in selected departments which hosted conferences.	Finding We found that there is no central oversight to approve conferences. There are no existing minimal requirements to ensure that conferences foster the goals of UT System. Additionally, there appears to be no centralized guidance for conference management. Finally, we found that System Administration does not provide centralized resources for departments to use to organize conferences in an efficient way Recommendation We recommend that the Vice Chancellor for Administration designate a staff member that is responsible for approving conferences that meet certain criteria. This	Scheduled follow-up to be performed during FY 2011	Ensure internal controls are in place and improve internal controls at a departmental level Ensure compliance with guidelines

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			individual should be responsible for defining which conferences need approval and the procedures for approval. Additionally, the designated individual should be responsible for developing guidelines for departments to use in organizing conferences, including best practices and limitations on using System Administration facilities, obtaining sponsorships, and avoiding conflicts of interest. Finally, the designated individual should ensure that appropriate resources are available for departments to use to organize conferences.		
11/03/2009	Real Estate Office Departmental Audit	The specific objectives of this audit were to determine: <ul style="list-style-type: none"> The reliability and integrity of the department's key financial information; Whether controls are adequate and effective in safeguarding assets; and Whether internal control procedures are in place and functioning as intended. 	Finding None	N/A	Ensure and improve internal controls at a departmental level.
11/03/2009	UTEP President's Travel, Entertainment & Housing Expense Audit	The objective of the audit was to determine whether the travel, entertainment, and housing expenses paid on behalf of, or reimbursed to, the president are appropriate and accurate	Finding None	N/A	Ensure internal controls are in place. Ensure compliance with guidelines
11/04/2009	OFPC Follow Up Audit	The objective of the audit was to perform follow-up audit of open OFPC audit recommendations with implementation dates on or before May 31, 2009.	Finding No new recommendations	We followed up on the implementation status of 12 outstanding recommendations from two audit reports: i) Audit of Project Costs of UTHSCSA Academic Administration Building as managed by OFPC ii) OFPC	Monitor and communicate the level of implementation of recommendations included in audit reports.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
				Conflicts of Interests Audit and determined that ten recommendations have been implemented and two have been partially implemented. Further follow up to be performed in FY 2011.	
11/09/2009	UTSWMC President's Travel & Entertainment Expenses Audit	The objective of the audit was to determine whether the travel, entertainment, and housing expenses paid on behalf of or reimbursed to the President or his spouse are appropriate and accurate.	<p>Finding During testing, we found that four business expenses for catering services, which had proper departmental approval, were not subsequently reviewed and approved by the EVPBA. A third-party catering service directly bills UTSWMC for services provided during official university events held on campus. All four expenses appeared to be reasonable, appropriate, and in compliance with UTSWMC policy.</p> <p>Recommendation The EVPBA should review and approve all travel, entertainment, and housing expenses reimbursed to the President or directly paid to a vendor on the President's behalf.</p>	Implemented	Ensure internal controls are in place. Ensure compliance with guidelines
11/16/2009	UTMB President's Travel, Entertainment & Housing Expenses Audit	The objective of the audit was to determine whether the travel, entertainment, and housing expenses paid on behalf of or reimbursed to the President and his spouse are appropriate and accurate.	<p>Finding None</p>	N/A	Ensure internal controls are in place. Ensure compliance with guidelines
11/20/2009	UT System Administration FY 2009 Annual Financial Report Audit	<p>The objectives of this audit are to provide assurance to executive management and the Board of Regents that:</p> <ul style="list-style-type: none"> the information included in System 	<p>Finding None</p>	N/A	Ensure accuracy of reporting.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
		<p>Administration's FY 2009 Annual Financial Report (AFR) is accurate in all material respects and consistent in accounting principles and presentation with the prior year, and that</p> <ul style="list-style-type: none"> the internal controls in the key processes that provide information for the AFR may be relied upon to detect and correct potential material misstatements that may be caused by fraud or errors. 			
12/02/2009	UT System Administration IT Governance Audit	<p>The objectives of this audit are to</p> <ul style="list-style-type: none"> Assess whether System Administration's IT Governance supports its strategic goals and objectives Review the criteria applied and cost analysis performed in determining whether to build or purchase IT software used at System Administration 	<p>Finding System Administration has an informal IT governance structure, and lacks a designated person responsible for aligning System Administration's IT activities with the UT System strategic goals and objectives.</p> <p>Recommendation In order for IT activities to support strategic goals and objectives, System Administration should establish a formal IT governance structure and assign a responsible party for overseeing and coordinating the technology decisions at System Administration. We recommend the vice chancellor for administration (VCA) be assigned as the responsible party for IT governance. As responsible party, the VCA should establish an IT Oversight Executive Committee, responsible for ensuring that all significant System Administration IT decisions support and align with UT System's strategic goals and objectives. Committee members should include executive management and other internal customers involved in making strategic IT decisions. The VCA and the Committee should have the final authority and approval regarding IT decisions, in order to ensure that they support System Administration's strategic goals and objectives. In addition, the VCA should consider developing a stand-alone strategic plan for System Administration.</p>	<p>Scheduled follow-up to be performed during FY 2011</p>	<p>Ensure compliance with guidelines.</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>Finding Under the current IT governance structure, departments may purchase redundant or conflicting IT products and they may acquire or build software applications with departmental funds, without having considered all of the appropriate criteria for the purchase, such as ongoing expenses, the availability of off-the-shelf solutions, and internal staff member talents. OTIS is not always asked to consult in technology decisions, or they are contacted too late in the process to provide value. Although System Administration IT costs are low relative to the UT System as a whole, this inconsistent and decentralized acquisition process may result in an inefficient use of resources.</p> <p>Recommendation The VCA should establish a policy or internal procedure requiring that consistent criteria and cost analysis is used in the IT acquisition process. The policy or internal procedures should establish a process whereby departments will be required to obtain guidance and approval from the IT Oversight Executive Committee for all significant acquisitions. For projects below pre-established limits, narrow in scope, and without potential for affecting other departments within System Administration or other institutions, OTIS should be engaged as early as possible and must approve the acquisition. When a project exceeds the limits of the size and scope set by the policy, or has the potential to affect a variety of departments within System Administration or other institutions, the IT Oversight Executive Committee should be required to determine if the acquisition is in line with UT System strategic goals and objectives.</p>	Scheduled follow-up to be performed during FY 2011	
12/09/2009	UT System Annual Financial Report Consolidation		<p>Finding The revised UTS142.1 requires that institutional financial reporting officers annually prepare and update a monitoring plan to ensure</p>		Ensure accuracy of reporting.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
	Process Audit – FY 2009		<p>segregation of duties and account reconciliations, and that institutional financial reporting officers certify the execution of the monitoring plans in the annual certification letters they submit to the Office of the Controller. Based on a review of submitted certification letters, we confirmed that many institutions have developed and executed the UTS142.1 Monitoring Plan; however, we identified opportunities for enhancement at a few UT institutions related to the development of monitoring plans and the execution of monitoring activities.</p> <p>Recommendation To ensure the accuracy, completeness, and integrity of information included in the institutional AFRs and the Consolidated AFR, the Office of the Controller, and/or the Executive Vice Chancellor for Business Affairs, should continue to work with institutional financial reporting officers until the UTS142.1 monitoring plans are fully executed and verified by institutional internal audit.</p> <p>Finding From time to time, complex accounting issues arise which require the Office of the Controller to make difficult decisions regarding their proper disclosure and reporting. While an informal advisory committee currently exists, consisting of select members of the Committee on Financial Reporting and Procedures (COFRAP), it is important, because of the complexity of the accounting issues faced by UT System, that the Office of the Controller create a formal committee. When making decisions regarding significant financial matters that affect many institutions, it would be beneficial to make use of the System-wide expertise available.</p> <p>Recommendation To ensure that complex accounting issues are addressed appropriately, the Office of the Controller should formalize a</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			System-wide financial accounting and reporting committee based on the ad hoc advisory committee already in existence. The Office of the Controller should select members from COFRAP and experienced accounting staff from UT System institutions. As issues arise throughout the year, the committee should convene to discuss and give opinions, especially as it relates to UT System-wide accounting and reporting issues.		
12/18/2009	Facilities Management Departmental Audit	<p>The specific objectives of this audit were to determine:</p> <ul style="list-style-type: none"> • The reliability and integrity of the division's key financial information; • Whether controls are adequate and effective in safeguarding assets; and • Whether internal control procedures are in place and functioning as intended. 	<p>Finding UTS166, Cash Management and Cash Handling Policy, requires: "All deposits totaling over \$500 must be made or prepared for next day deposit, within one business day. Those departments or locations that do not collect revenue each day or whose deposits are not cost efficient for daily deposits must make deposits at least twice weekly. Checks requiring additional research or internal handling shall be photocopied by the department without delay of the deposit." During testing, we found that an energy rebate check of \$3,277 from the City of Austin was not deposited with Accounting & Purchasing Services (APS) until three months after the initial receipt of the check by FM. We also found that two checks received were not date-stamped by the department.</p> <p>Recommendation We recommend that FM implement procedures to ensure that checks are deposited timely in accordance with UTS166. In order to track the check receipt dates, FM should require that all checks received are date-stamped. We also recommend that FM actively monitor expected income from various sources by comparing the amount of expected income to backup documents (such as letters accompanying the checks) and to deposits recorded in *DEFINE on a regular basis to assist in detecting late deposits.</p>	Implemented	Ensure adequacy of controls and compliance with guidelines.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>Finding Segregation of duties: The Facility Manager has authority to initiate a purchase requests, approve payments for purchases, and approve the account reconciliations. We found that there are no procedures to control when the Facility Manager uses all three aspects of this authority for certain purchases. Although these cases may be limited in occurrence, it is always necessary that a different person with knowledge and appropriate authority review and provide documented approval of these purchases.</p> <p>Recommendation We recommend that FM enhance the segregation of duties over the purchasing process by limiting purchases that are both initiated and approved by the Facility Manager to emergency circumstances. For these instances, when it is necessary that the Facility Manager both initiate a purchase request and approve its payment, we recommend that a different person, with knowledge and appropriate authority, review and provide documented approval of these purchases as soon as practical.</p>	Implemented	
01/25/2010	FY 2010 UT System Administration IT Follow Up	Perform follow-up audit of open Information Technology audit recommendations with implementation dates on or before November 1, 2009.	<p>Finding No New Recommendations</p>	We followed up on the implementation status of six outstanding recommendations from four audit reports and determined that five recommendations have been implemented. Also, performed further follow up and determined that the last (sixth) recommendation has been implemented.	Monitor and communicate the level of implementation of recommendations included in audit reports.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
01/26/2010	Facilities Management Operational Audit	The objective of this audit was to assess Facilities Management's effectiveness and efficiency in delivering repair and remodeling projects for System Administration departments.	Finding None	N/A	Ensure internal controls are in place. Ensure compliance with guidelines.
2/18/2010	Board of Regents Travel & Entertainment Expense Audit	The objectives of this audit were to: •Controls are in place at UT System to ensure that expenses paid on behalf of, or reimbursed to a member of the Board are reasonable, appropriate and accurate ; • Whether controls are in place at UT System to ensure that travel & entertainment expenses paid for presidential searches are reasonable, appropriate and accurate.	Finding What is considered to be a reasonable expense incurred as part of a Board member's duties is not directly addressed by existing statute or UT System policies or procedures. When processing expenses and reimbursements, OBR utilizes UT System policies and procedures applicable to UT System employees, including executive management, as guidance. Though reference to UT System policies and procedures is a good practice, there can be circumstances that fall outside the scope of typical business expenses currently addressed by UT System policy. Additionally, the OBR has certain practices with respect to business meetings and related travel, which appear to be reasonable, that should be documented to ensure consistent application over time. Recommendation OBR should draft sufficient guidelines related to handling and processing of expenses incurred as a result of a member's official duties. These written guidelines should include guidance related to advance approvals, reimbursements, supporting documentation, timeliness of reimbursements, delegation of signature authority, and other administrative processes. Finding While OBR has detailed administrative procedures for the presidential search process, these procedures do not include written guidelines for contract selection, fee negotiation, or processing and handling of	Scheduled follow-up to be performed during FY 2011	Ensure adequacy of controls and compliance with guidelines

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			<p>search firm and candidate expenses. In the absence of such guidance, the Offices of Academic and Health Affairs utilize UT System policies as guidance for handling presidential search expenses. Though such guidance can be appropriate, there are activities and practices that are unique to presidential searches that are not specifically covered by current UT System policy.</p> <p>The Executive Vice Chancellors of Academic and Health Affairs are responsible for selecting the search firms from the population of pre-approved firms. The director of employee services has assisted the Office the General Counsel in the development of these contracts which reflect the type used for executive corporate searches. The fees, overhead, and travel do not include the travel expenses incurred by a candidate or expenses for third party firms used for extensive background checks. Additionally, the contracts include a provision that search firm travel expenses be subject to the Travel Allowance Guide promulgated by the Texas Comptroller of Public Accounts. As currently structured, the search firm contracts place a relatively high administrative burden on staff from the Offices of Academic and Health Affairs to ensure contract compliance. Simplifying the fee structure could significantly reduce the time required of UT System staff to track presidential search expenses and monitor contract compliance, freeing up staff resources to be reallocated to other important needs.</p>		
			<p>Recommendation OBR, in consultation with the Office of the Chancellor, should set up a working group to develop adequate written guidelines to ensure that all presidential search expenses and reimbursements are handled appropriately and consistently over time. Such guidelines should address vendor selection, contract negotiation, contract fee</p>	Scheduled follow-up to be performed during FY 2011	

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			structure, processing and handling of presidential expenses, and other activities that are unique to presidential searches. The working group should include representation from OBR, the Offices of Academic and Health Affairs, and the Director of Employee Services. The working group should also include representation from the Office of General Counsel to ensure that any proposed changes to the contract structure comply with applicable Texas statute.		
2/23/2010	UTB President Office Audit	<p>The specific objectives of this audit were to:</p> <ul style="list-style-type: none"> • Determine the reliability and integrity of the Office of the President's key financial information; • Determine whether internal controls are adequate and effective in safeguarding assets; • Determine whether other internal controls are in place and functioning as intended; and • Review overall departmental operations 	<p>Finding Although no inappropriate use of funds was found during the testing of transactions, we noted that an account manager both initiated and approved purchase requisitions, which causes improper segregation of duties. Adequate segregation of duties reduces the risk that intentional or unintentional errors will go undetected by ensuring that no one individual employee can complete a significant business transaction in its entirety. The instructions for completing the paper Requisition to Purchase form states the initiator ("Requested By") should be the Account Manager and the department head or designee should sign for approval. However, the Requisition to Purchase form requires the Account Manager signature for approval rather than that of the department head or designee. Therefore, the form allows an account manager to both initiate and approve a purchase requisition. Additionally, the On-line Purchasing System, which can be accessed directly by institutional departments for purchase requisitions, does not prevent the same person from both initiating and approving a purchase requisition, if that person is the account manager.</p> <p>Recommendation The President's Office should ensure that the same person does not initiate a purchase and sign as the approver on</p>	Scheduled follow-up to be performed during FY 2011	Ensure adequacy of controls and compliance with guidelines

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			Requisition to Purchase forms. In addition, the President's Office should work with the Purchasing Office and the Information Technology Services Division to ensure that the Requisition to Purchase form and the On-line Purchasing System are revised so that there is appropriate segregation of duties between the purchase initiator and approver for both the manual and automated processes.		
3/02/2010	Effort Certification and Reporting Technology Implementation Audit	The objectives of this audit were to determine the current status and cost of ECRT system implementation and to identify past successes and opportunities for improvement to benefit future ECRT and other System wide application implementations.	Finding No New Recommendations	Ten institutions have implemented ECRT as a shared service. Significant initial cost savings have been realized as a result of the Systemwide implementation of the ECRT application. Opportunities for improvement have been identified in the areas of environment, application, data and documentation.	Monitor and communicate the level of implementation of recommendations included in audit reports.
03/08/2010	Jackson Estate Trust Minerals Audit	The objectives of this audit included evaluating the: <ul style="list-style-type: none"> Administration of ownership records; Receipt of oil and gas royalty payments; Controls to ensure reported production accurately reflects actual production; and Controls to ensure appropriate royalty interest payments have been received. 	Finding On average, the Foundation received approximately \$350,000 per month in fiscal year 2009 from oil and gas royalty interest payments. These royalty payments are received sporadically throughout the month. UTS 166 – Cash Management and Cash Handling Policy requires that all receipts totaling \$500 or more should be deposited within the next business day or deposited biweekly for departments that do not collect revenue each day. We tested a sample of checks received and noted several instances where checks were not deposited timely with UT Austin's Bursars Office in accordance with UTS 166.		Ensure compliance with contract agreements and ensure the accuracy of royalty payments

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			<p>Recommendation The Foundation should ensure the timely deposit of oil and gas royalties in accordance with UTS 166.</p> <p>Finding The Foundation, as part of UT Austin, is exempt from state taxes and operators paying royalty income to the Jackson Estate should not withhold severance taxes from royalty payments to the Foundation. However, due to factors such as lease transfers and inflexible payment systems used by operators, an immaterial amount of taxes have been withheld from the Foundation during fiscal years 2007, 2008, and 2009. Although the Foundation tracks taxes using a database, there is no process in place to address or recover severance taxes withheld.</p> <p>Recommendation The Foundation should develop and document a standard periodic process analyzing taxes withheld from the royalties due to the Jackson Estate, and ensure appropriate tax recoveries are obtained in a timely manner.</p> <p>Finding The Foundation performs a variety of reconciliations for a sample of properties to ensure the accuracy of royalty payments. These include monthly gross value reconciliations, an analysis of the gross value of sales as reported by the operator to the gross value reported to the Texas State Comptroller (TSC); monthly decimal reconciliations, an analysis of royalty interest percentages as reported on check stubs to the relevant division orders; and quarterly production reconciliations. We reviewed these reconciliation processes and determined that they are adequate. However, we noted that the gross value reconciliations only analyze properties operated by Devon, the Foundation's largest royalty payer. While this is a good practice, the Foundation can improve its</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	

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			reconciliation process by including all operators within the scope of its review. Recommendation The Foundation should improve its monthly gross value reconciliations by including all operators in the population from which a sample of wells are selected for analysis. The gross value reconciliation should focus on wells with large production volumes and royalty payments.	Scheduled follow-up to be performed during FY 2011	
03/26/10	HighMount Oil and Gas Audit	The objectives of this audit were to determine whether: <ul style="list-style-type: none"> • Production reported to the University was reasonable; • Proceeds from oil and gas sales were reasonable, and that the corresponding royalties have been remitted to the University; • Gas sales meters were calibrated regularly; and • Gas stream sampling was conducted in accordance with the Board for Lease Rules and Regulations. 	Details on the observations/findings, recommendations, and implementation status from oil and gas company audit reports are confidential pursuant to Texas Education Code, Section 66.81, and thus not included.	N/A	Ensure accuracy of reporting and ensure compliance with guidelines.
04/09/2010	Payment to Insurance Vendors Audit	The objectives of this audit were to determine whether there are adequate internal controls to ensure that insurance payments to vendors are correct, appropriate, and timely; and whether those controls are functioning as intended.	Finding Wolcott presents to OEB management the results of each audit, its findings, and the vendor's responses, if available, to ensure staff in each functional area are knowledgeable of the external audit findings and are responsible for addressing issues within their areas. We reviewed Wolcott's audit reports for FY 2007 and FY 2008. Based on our examination of the reports and discussions with OEB, it does not appear that OEB's efforts for resolving findings is adequately documented. Without this documentation, we were not able to determine whether all open issues, especially those		Ensure adequacy of controls and compliance with guidelines

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			<p>related to claims-accuracy deficiencies and overpayments, are resolved in a timely manner and in the best interest of UT System's benefit plans. Wolcott follows up on previously-identified findings; however, its follow-up is limited to one year prior to the year audited. Findings not implemented by the second year will not be included in their follow-up process.</p> <p>Recommendation We recommend that OEB centrally document its efforts (by multiple OEB functional areas) to resolve issues included in Wolcott's audit reports. The documentation should track all findings included in the Wolcott's reports and provide evidence of the following:</p> <ul style="list-style-type: none"> • Timely communication with Wolcott and the vendors to determine the financial magnitude and impact of the findings, • Determination of the proper action (discard, correct immediately, correct in a reasonable time frame, seek retroactive recoveries, assessing vendor penalty) for each identified finding, based on the financial magnitude and impact of the findings, • Communication regarding the implementation of the corrective action, and • Follow-up for issues not resolved within one year. <p>Finding Wolcott is a leader in the field of auditing third-party insurance administrators serving state agencies. OEB places reliance upon Wolcott for its expertise and knowledge. While we were able to confirm that Wolcott provides audit services in accordance with the agreement with expertise and knowledge, we found that they test the same physician</p>	Scheduled follow-up to be performed during FY 2011	

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			<p>procedure codes each year to determine whether fees produced by BCBSTX's claim processing system are similar to, or less than, those used industry-wide for the same medical procedures. Testing the same procedure codes every year limits the assurance provided by this step.</p> <p>Recommendation OEB should work with Wolcott to use a risk-based approach to determine which codes should be tested by considering factors, such as fees, use-frequency of codes, and trend of erroneous coding by the industry. By using this risk-based approach, Wolcott may test some new codes while retesting a small group of codes each year, if justified.</p> <p>Finding Based on our fieldwork, it does not appear that OEB receives and reviews details of claims representing excess payments (identified by Viant, Aim, as well as BCBSTX) to determine whether any of the excess payments were caused by BCBSTX's policy or system errors and therefore should be credited back 100% to UT System, leaving BCBSTX responsible for paying Viant and Aim for their services.</p> <p>Recommendation For the identified excess payments caused by BCBSTX policy or system errors, OEB should work with BCBSTX to receive 100% of recouped excess payments. In addition, OEB should work with BCBSTX to ensure the errors are corrected in the claims processing system.</p> <p>Finding To identify claims paid for ineligible members, OEB receives claims files from BCBSTX and matches them against member eligibility data kept internally. For identified ineligible claims, OEB works with BCBSTX to</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	

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			<p>recover funds paid by the plan. This is a proactive step and we commend OEB for its due diligence. However, this eligibility comparison is not currently performed between Medco drug claims files and the internally maintained eligibility data.</p> <p>Recommendation We recommend that OEB extend its eligibility verification and recovery to Medco claims, using a process similar to the one used for BCBSTX claims.</p> <p>Finding The contracts for both BCBSTX and Medco require the vendors to advance payments for claims paid during the invoiced billing cycle. This contractual requirement reflects OEB's conscientious fund management intent. Based on this requirement, both BCBSTX and Medco fronted payments to providers and pharmacies at the initial contract execution. However, over time, the vendors' practices appear to have deviated from the ones that are contractually required. Our examination noted that the claim data received from BCBSTX and Medco supporting their reimbursement requests does not include enough information for OEB to discover whether provider and pharmacy payments included in the invoices represent payments debited from the vendors' bank accounts. Paying vendors earlier than the contractually-permitted due date causes the plan to lose interest revenue that would be generated by keeping the funds in The University of Texas Investment Management Company's Short Term Investment Fund.</p> <p>Recommendation OEB should clarify the contractual payment requirements with the vendors and monitor the fund clearance date from vendors' bank accounts to eliminate the time period when vendors have possession of both UT System reimbursement funds and their</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	

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			own funds to be paid out to providers and pharmacies, keeping benefit-plan funds as long as permitted by the contract to generate more interest revenue.		
04/09/2010	OEB Dependent Eligibility Audit	The audit objective is to determine the adequacy of the processes used by the institutional benefits offices to collect and verify dependent eligibility information.	<p>Finding Based on the results of our testing, discussions with OEB, and our understanding of institutional eligibility verification procedures, we determined that UT institutions are not consistently verifying mid-year status changes, as required by OEB policy. Additionally, each institutional benefits office does not verify eligibility of all dependents initially enrolled in UT Select, generally because this practice is not required by OEB policy. However, not all UT institutions are able to collect eligibility documentation for all dependents at all times. Compliance with this requirement would create or increase the administrative burden for some of the larger institutions that have high turnover. On any particular day, these institutions may have about 100 employees to process at new hire orientation. Resource limitations at the institutions should be balanced against UT System's need to demonstrate due diligence in monitoring dependent eligibility. To demonstrate due diligence regarding managing dependent eligibility and in complying with IRS regulations, we have recommended 1) Training of Institutional Benefits Offices and 2) Certification of Dependent Eligibility.</p> <p>Recommendation 1) To demonstrate due diligence in complying with the IRS Department of Treasury Regulation §1.125 and ensuring employees change their benefit elections only after a proven qualifying change in status, OEB should conduct additional training with institutional benefits offices regarding the need for reviewing appropriate documentation during</p>	Scheduled follow-up to be performed during FY 2011	Ensure adequacy of controls and compliance with guidelines

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			<p>a change in status event. The training should reinforce why this documentation is significant to the program and the ramifications if the necessary documentation is not obtained. The requirement to verify a qualifying change in status event should be added to UTS127 - Office of Employee Benefits Administrative Manual, Policy 230, "Dependent Eligibility and Enrollment."</p> <p>Recommendation 2) So as not to substantially increase the administrative burden and additional staff needed to process documentation supporting dependents' eligibility, we recommend that each institutional benefits office add a certification clause to dependent enrollment forms so that subscribers self-certify that dependents added to the plan meet OEB eligibility guidelines. Self-certification will serve to inform subscribers that they are responsible for the eligibility of their dependents and may be asked to provide proof of relationship upon request. In July 2009, dependent certification language was added to the electronic My UT Benefits enrollment system. The dependent certification language should also be added to UTS127 - Office of Employee Benefits Administrative Manual, Policy 230, "Dependent Eligibility and Enrollment."</p>	Scheduled follow-up to be performed during FY 2011	
04/09/2010	OEB Dependent Eligibility Audit – Follow Up	Perform follow up on open recommendations from the Office of Employee Benefits Dependent Eligibility Audit report issued in June 2009	<p>Finding No New Recommendations</p>	As part of the OEB Dependent Eligibility audit, we followed up on the implementation status of one recommendation from the 2009 OEB Dependent Eligibility report and determined that the recommendation is	Monitor and communicate the level of implementation of recommendations included in audit reports.

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				partially implemented with satisfactory progress towards implementation. Also, performed further follow up and determined that the one recommendation has been implemented.	
04/09/2010	OEB Follow Up	Perform follow-up audit of open OEB audit recommendations with implementation dates on or before December 31, 2009.	Finding No New Recommendations	We assessed the current status of three audits with OEB. The Employee Group Insurance Financial & Information Technology audit report has one open recommendation with a revised implementation date of 12/31/2010. We followed up on the implementation status of three outstanding recommendations from the Employee Assistance Program Review report issued in June 2009 and determined that all three recommendations have been partially implemented with satisfactory progress towards implementation.	Monitor and communicate the level of implementation of recommendations included in audit reports.
4/16/2010	UT San Antonio President's Office Audit	This audit primarily focused on financial controls, such as capital asset tracking, account reconciliations, and	Finding The President's (Dr. Romo's) spouse holds a unique position at UTSA. She is a faculty member, Director of the Mexico Center,		Ensure adequacy of controls and compliance with

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		<p>proper expenditure approval, as well as operational controls, such as safeguarding of assets and proper segregation of duties. The specific objectives of this audit were to:</p> <ul style="list-style-type: none"> • Determine the reliability and integrity of the Office of the President's key financial information; • Determine whether internal controls are adequate and effective in safeguarding assets; • Determine whether other internal controls are in place and functioning as intended; and • Review overall departmental operations. 	<p>and also serves as first lady. The Office of the President pays for expenses related to her role as first lady, but in some situations she may be acting in more than one role. In these situations, it can be difficult to determine which source of funds to use for her expenses</p> <p>Recommendation The Office of the President should develop guidelines to address reimbursements to and expenses paid on behalf of the president's spouse in each of her roles. The guidelines should assist staff in determining the most appropriate source of funds is used for expenses incurred by the president's spouse.</p> <p>Finding The Chief Business Officer reviews and approves all reimbursements to the president for travel expenses. However, he does not approve travel expenses paid directly to a vendor through the corporate travel card to ensure that the expenditures support the mission and purpose of UT System and UTSA and comply with all regulations and policies. While the Chief Business Officer does not approve travel expenses paid directly to a vendor through the corporate travel card, all reimbursements to the president for travel expenses are reviewed and approved by the Chief Business Officer to ensure that the expenditures support the mission and purpose of the UT System and UTSA and comply with all regulations and policies. There has not been an instance where airfare charged on the corporate card did not have other business-related expenses that the Chief Business Officer would approve, except for travel that was fully paid by another party.</p> <p>Recommendation The Office of the President should ensure that the Chief Business Officer reviews and approves travel expenses paid directly to a vendor. In addition, when</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	<p>guidelines</p>

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			submitting a request for travel reimbursements to the Chief Business Officer, the Office of the President should also include documentation for expenses paid directly to a vendor so that he can review and approve all expenses related to the president's travel.		
4/20/2010	Office of Strategic Management – Change in Management Audit	<p>The System Audit Office conducts an audit when there is a change in management of a department. The System Audit Office's performance of this audit provides the new Vice Chancellor assurance on whether the existing internal controls in the department are in place, adequate, and functioning as intended.</p> <p>The specific objectives of this audit were to determine:</p> <ul style="list-style-type: none"> • The reliability and integrity of the department's key financial information; • Whether controls are adequate and effective in safeguarding assets; and • Whether internal control procedures are in place and functioning as intended. 	<p>Finding None</p>	N/A	Ensure adequacy of controls.
4/20/2010	FY 2010 Oil and Gas Follow Up Audit	Perform follow-up audit of open audit recommendations with implementation dates on or before February 28, 2010.	<p>Finding No new recommendations</p>	We assessed the current status of two audits of oil and gas operators on University Lands that includes a total of five recommendations with implementation dates on or before February 28, 2010 and determined that management has fully implemented the five	Monitor and communicate the level of implementation of recommendations included in audit reports.

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				recommendations.	
5/12/2010	FY 2010 Non-Major Areas Follow Up Audit	As part of this audit, we performed follow-up procedures on previously open and new recommendations from audit reports in non-major areas with implementation dates on or before February 28, 2010 to determine their implementation status.	Finding No new recommendations	We completed follow-up on 38 recommendations, of which 33 were determined to be implemented, two were found to be partially implemented, and three were not implemented. The status of each of these recommendations was individually communicated to the responsible party/department head of the area.	Monitor and communicate the level of implementation of recommendations included in audit reports.
6/15/2010	UTHSC-San Antonio Practice Plan Audit	The objective of this audit was to determine whether UTHSCSA has implemented the amended practice plan bylaws.	Finding As part of the transition of certain business operations of the physicians' clinical practice to UTHSCSA, the 501(a) entity has been renamed the University Physicians Group (UPG). Since the transition of the 501(a) has not yet been completed, the UTMSA Board of Directors functions as the UPG board. Except for the president and the executive vice president of business affairs, the MSRDP and UTMSA Boards are identical. We were informed that the MSRDP and UTMSA Boards will function as one MSRDP Board starting in September 2010, and that a separate UPG board will meet quarterly on behalf of the 501(a). Recommendation As planned, leadership of the practice plan should ensure that there is just one MSRDP Board. Effectively, the MSRDP Board has at least one executive committee that provides leadership for the	Scheduled follow-up to be performed during FY 2011	Ensure compliance with guidelines.

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			<p>practice plan. Currently, the UTHSCSA bylaws do not address this. The bylaws have a mechanism that allows the president, in consultation with the MSRDP Board, to create other standing committees. Though not required, the President, in consultation with the Board, should consider establishing membership of one MSRDP Executive Committee, its overall roles and responsibilities, make appropriate revisions to the bylaws, and communicate this update to members of the practice plan. Roles and responsibilities should include frequency of meetings, maintaining of minutes, and reporting of executive committee actions and recommendations, in writing, to the Board.</p> <p>Finding One of the goals of the model bylaws was to enhance transparency of the practice plan for its membership. This includes communicating information and, at a minimum, making information available to the membership. To gain an understanding of whether information about practice plan business was effectively communicated and made available to members, we surveyed a sample of division chiefs, all three at-large board members, and each clinical department chair. Overall, the survey indicates a general disconnect between division chiefs' understanding of the practice plan and department chairs. As expected, department chairs are much better informed about the practice plan.</p> <p>Recommendation We commend the MSRDP leadership for their efforts to implement a technological solution in making practice plan information available to all practice plan members. However, opportunities exist to improve the consistency, quality, and frequency of information communicated to practice plan members. Leadership should:</p>		
				Scheduled follow-up to be performed during FY 2011	Ensure compliance with guidelines.

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			<ul style="list-style-type: none"> Clearly articulate and communicate its strategic plan, including key metrics, to indicate the achievement of goals and objectives. Embedded within this is the utilization of the Medical Arts & Research Center to expand the clinical enterprise. Additionally, leadership should consider developing an annual report that it actively shares with members that includes meaningful fiscal year-end financial information, key operating results and metrics, marketing initiatives, and the implementation status of strategic initiatives. Clearly inform plan members that the bylaws have been updated and what the changes mean for members of the plan. Communicate to department chairs that they play a critical part in disseminating practice plan information and should share a consistent quality and quantity of information with members within their departments and divisions. Seek opportunities to increase attendance at the annual meeting and provide information and activities that members will find valuable. <p>Finding The bylaws require that three members-at-large from the plan membership be included as members of the MSRDP Board. At the January 13, 2010 annual meeting, three at-large members were selected to serve two-year terms. As part of our audit, we interviewed a current and a former at-large member of the MSRDP board. We were informed that an at-large member's primary role is to attend board meetings more as an observer and learn about the practice plan, but not necessarily be responsible for any specific tasks or have an active role.</p> <p>Recommendation The role of a member-at-</p>		Ensure compliance with guidelines.
				Scheduled follow-up	

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			<p>large in practice plan governance could be better defined to encourage a more active role. Practice plan leadership should consider asking members-at-large to fulfill minimum-defined duties. Since they provide board representation on behalf of plan members, members-at-large could be asked to help develop thoughtful, creative ways to communicate board activity to members, solicit membership feedback, and assist the Chief Medical Officer in serving as a liaison between the board and plan members.</p> <p>Finding Overall, there is currently no process in place to identify all active practice plan members or ensure that all members have executed annual Agreements of Participation as required by the bylaws. Without a comprehensive list of active members, UTHSCSA cannot ensure that all plan members are provided with communications required in the bylaws.</p> <p>Recommendation Practice plan leadership should establish a process to ensure that:</p> <ul style="list-style-type: none"> • All practice plan members are identified, • Membership is kept up to date as changes occur, • All Agreements of Participation are executed annually and in a timely manner, • Members are provided with access to the amended bylaws and that subsequent changes to the bylaws are clearly communicated to them, and • Members are clearly informed as to what sources of professional income are to be deposited into the institutional trust fund and what should be retained by members. <p>Finding The bylaws indicate that the "Budget and Finance Committee shall prepare a fee schedule, which shall be used for billing purposes, subject to approval by the president, in consultation with the Board." It appears that</p>	<p>to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	<p>Ensure compliance with guidelines.</p> <p>Ensure compliance with guidelines.</p>

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			<p>the fee schedule was approved by the Budget and Finance Committee in November 18, 2009; however, those meeting minutes we were provided did not indicate approval by the president in consultation with the MSRDP Board. We were subsequently provided confirmation that the fee schedule was approved at the April 22, 2010 joint meeting of the MSRDP and UTMSA Boards.</p> <p>We were also provided a fee schedule policy entitled UT Medicine San Antonio Fee Schedule. The policy provided was in draft form and did not include evidence of approval. Additionally, net physician revenue is impacted by the institution's discounting policies. The bylaws state that "guidelines for discounting fees, if any, will be developed by the Board."</p> <p>Recommendation The president, in consultation with the MSRDP Board, should ensure that:</p> <ul style="list-style-type: none"> • The fee schedule is approved by the president, in consultation with the Board, in a timely manner; • The final fee schedule policy is appropriately approved; and • Given the impact on net physician revenue, the MSRDP Board should review and approve the discounting policies. <p>Finding The institutional audit committee serves as the Audit Committee of the practice plan. As a standing committee, the Audit Committee is required to report actions and recommendations, in writing, to the board. Although internal audit attends MSRDP board meetings, it does not report its actions to the full board. Additionally, the 501(a) is required to undergo an external audit. The executive director of the practice plan reported to the MSRDP Board that an external audit was conducted and that there were no significant</p>	<p>Scheduled follow-up to be performed during FY 2011</p>	<p>Ensure compliance with guidelines.</p>

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			<p>issues. However, it does not appear that detailed audit results were presented or that the external auditors were present to address any questions that MSRDP Board members might have had.</p> <p>Recommendation As required within the bylaws, the institutional audit committee should report its actions and recommendations to the MSRDP Board. The committee should present its work, with respect to the practice plan, at the quarterly MSRDP Board meetings. Additionally, the MSRDP Board should consider having the external auditors engaged by the institution report the results of their work to either to the institutional audit committee or the MSRDP Board and be available for any questions that the audit committee or the MSRDP Board members might have. The external audit reports should be provided, or made available, to all members of the board. Ideally, the institutional audit committee should be responsible for reporting external audit results of the practice plan to the MSRDP Board.</p> <p>Finding Like the Audit Committee, the Professional Affairs Committee is a standing committee of the MSRDP Board. Its overall responsibilities are to develop and oversee a plan that assures appropriate credentialing and peer review of all plan members and to develop and oversee a quality improvement and patient safety program. The Professional Affairs Committee had its first meeting on March 31, 2010. The minutes indicate that the Professional Affairs Committee is appropriately fulfilling its responsibilities. However, we were informed that the committee intends to meet semi-annually. The bylaws require that each standing committee meet at least quarterly.</p> <p>Recommendation Given the importance of the</p>	<p>Scheduled follow-up to be performed during FY 2011</p>	<p>Ensure compliance with guidelines.</p>
				Scheduled follow-up	

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>credentialing, peer review, and quality improvement and patient safety programs, the Professional Affairs Committee should meet at least quarterly as required by the bylaws.</p> <p>Finding The amended bylaws require that the compensation plan be composed of three major components with subparts as determined by the president after consulting with faculty. The three components are (a) Base Salary, (b) Supplemental Compensation, and (c) Incentive Compensation. At UTHSCSA, and other institutions, the three- part compensation plan is referred to as an XYZ compensation plan. UTHSCSA's XYZ plan was implemented in the current fiscal year.</p> <p>Given that this is the first year that the XYZ plan has been implemented, we would not expect implementation to be executed without challenges. We were informed that implementation of the XYZ plan is about 50% complete and that clinical productivity has not reached the point of generating sufficient net revenues to provide incentive compensation across the board.</p> <p>We were also informed that implementation of the XYZ plan remains a work in progress and that it may take at least "a couple of years" to fully implement the XYZ plan.</p> <p>Recommendation We commend UTHSCSA for implementation of a three-part compensation plan whose overall structure conforms to the bylaws. As progress continues in implementing the XYZ plan, we encourage the president and the MSRDP board to monitor implementation to ensure that it is consistent, fair, and strategically aligned with expanding the clinical enterprise.</p> <p>Finding The bylaws require the establishment</p>	<p>to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	<p>Ensure compliance with guidelines.</p> <p>Ensure compliance</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>of a Faculty Compensation Advisory Committee (FCAC) as a standing committee of the board. The overall purpose of this committee is to advise the board on matters related to compensation and to provide advice related to developing mechanisms for obtaining faculty input. The bylaws require the Dean of the School of Medicine to serve as chair of the FCAC. However, the Dean has delegated this role to the Division Head and Division Chief of Infectious Diseases. Membership of this committee has been established but has not yet met. We were informed that this committee has not yet met because it was intended to be on an "as needed" basis and that there have been no committee meetings because there has not yet been a need.</p> <p>Recommendation The president, in consultation with the MSRDP Board should ensure that:</p> <ul style="list-style-type: none"> • The FCAC meets quarterly and begins to work on its assigned duties as soon as practicable; • The committee membership includes a member of the Faculty Senate or the Medical Faculty Assembly, whoever is most appropriate for the practice plan. If the chair of the Medical Faculty Assembly is a viable option, the bylaws should be updated to reflect this as an alternative; and • The bylaws should be updated to allow the dean to assign a designee to chair this committee. Alternatively, the president may approve the designation since he may appoint a designee to carry out certain functions described in the bylaws. <p>Finding The practice plan requires that certain policies and procedures be approved by the EVC for Health Affairs. Additionally, the Board of Regents has specifically authorized the EVC</p>	<p>Scheduled follow-up to be performed during FY 2011</p>	<p>with guidelines.</p> <p>Ensure compliance with guidelines.</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>for Health Affairs to approve non-substantive revisions to the Amended and Restated Model Bylaws. The bylaws state that the compensation plan is subject to the approval of the EVC for Health Affairs. As part of our audit, we requested evidence of the EVC for Health Affairs' approval of the XYZ compensation plan. We were informed that the compensation plan was verbally approved by the Vice Chancellor for Health Affairs on behalf of the EVC for Health Affairs.</p> <p>Recommendation While the bylaws do not specifically require documented approval (e.g., signature and date), it is a best practice that any policy, procedure, or action that requires the approval of the EVC for Health Affairs be documented. UTHSCSA should work with the UT System Office of Health Affairs to ensure that requisite policies, procedures, or actions receive documented approval.</p>	Scheduled follow-up to be performed during FY 2011	
6/24/2010	UTIMCO Derivatives Policy Audit report	The objective of this audit was to determine whether UTIMCO is in compliance with its Derivative Investment Policy. The requirements embedded in the Derivative Investment Policy are supplemented with the specific controls and processes pertaining to the implementation of a derivative investment, including approval, monitoring, and reporting, as outlined in UTIMCO's Derivative Investments Controls and Processes (DICP) procedure document and related exhibits, which were used as our testing criteria.	<p>Finding While UTIMCO was able to easily locate and provide the majority of the documentation requested during the audit, we found that there was limited or inadequate supporting documentation to provide sufficient evidence of the performance of some procedures required in the DICP procedure document related to internal and external derivatives.</p> <p>Recommendation Risk Management and Accounting and Operations, working with the Chief Compliance Officer (CCO), should augment the documentation maintained in the derivative files to ensure there is systematic and sufficient evidence to support the performance of the procedures described in the DICP procedure document and the conclusions made based on the results of these procedures. In particular, the following</p>	Scheduled follow-up to be performed during FY 2011	Ensure adequacy of controls and compliance with guidelines

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>enhancements are recommended:</p> <ol style="list-style-type: none"> 1) Initial Process for Internal Derivatives: <ul style="list-style-type: none"> • Document the effect that the proposed derivative would have on the aggregate portfolio risk prior to initiating the investment. • Retain any information that supports verification that entering into the proposed derivative does not cause other limits described in the Derivative Investment Policy and the DICP procedure document to be exceeded, particularly in situations when the Funds may already be approaching these limits. • Supplement the Exhibit B Risk Management Form to include an item to note that Risk Management has checked that the Funds will not exceed the established limits for asset allocation, downside deviation, and risk ranges as set forth in the Funds' Investment Policy Statements upon implementation of the proposed derivative. Additionally, evidence that supports this analysis should be kept. • Update the Exhibit B Risk Management Form to include signature approval by the CCO to demonstrate that a compliance review was performed to ensure the proposed derivative investment is within UTIMCO staffs delegated authority and that the required procedures and analysis were performed and are adequately supported with documentation. 2) Execution and Renewal of Internal Derivatives: Accounting and Operations should document their confirmation that internal exchange-traded derivatives were executed in accordance with the approved terms outlined in the Exhibit A Derivative Investment Initiation Form. Additionally, if a decision is made to roll or change the 		

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
6/24/2010	UTIMCO Internally Managed Derivatives Follow Up Audit	As part of this audit, we performed follow-up procedures on previously issued audit report on internally managed derivatives at UTIMCO and determined their implementation status.	<p>notional size and/or counterparty of an internal derivative, Risk Management should validate that the proposed changes remain in with the Derivative Investment Policy and the Funds' Investment Policy Statements and retain related documentation.</p> <p>3) Ongoing Monitoring of External Derivatives: In its ongoing monitoring, Risk Management should document the conclusions made as a result of its review regarding the volatility of mandates with external derivatives and the accuracy of external derivatives' marked-to-market values.</p> <p>Finding No new recommendations</p>	Follow-up procedures were performed on the five open recommendations from the previously issued audit report. Four of the five recommendations were verified to be implemented, and one recommendation was determined to be closed.	Monitor and communicate the level of implementation of recommendations included in audit reports.
6/24/2010	University Lands IT Audit	The objectives of this audit were to gain an understanding of the information technology used by University Lands (UL) and evaluate whether any information technology efforts should be considered for consolidation.	<p>Finding Because of the decentralized nature of UL's IT, UL's managed IT has not been previously included in the scope of information security compliance audits. Texas law requires all state agencies (including UT System Administration) to meet or exceed the information security standards set forth in the Texas Administrative Code § 202 (TAC § 202). While the System Audit Office and UT Austin Internal Audit Department have performed TAC § 202 audits of centralized IT operations, a TAC § 202 audit of UL IT has not been performed.</p>		Ensure adequacy of controls and compliance with guidelines

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>Recommendation UL should consider performing a TAC § 202 self-assessment to determine if decentralized UL technology services are compliant. If areas of noncompliance are identified, UL should develop a remediation plan, based on risk and cost of mitigation.</p> <p>Finding We tested server-to-server and workstation-to-server connections. No noticeable delays were experienced when data was sent server-to-server and workstation-to-server within the UL network segment. However, when data was sent between Midland and Austin for both server-to-server and workstation-to-server, a noticeable delay was observed. While these delays did not preclude operations, it is likely that operations would be adversely impacted. Therefore, if all, or a portion of the applications and tables currently on the UL network segment were moved to a central location, such as OTIS, it is likely that speed would adversely affect productivity.</p> <p>Recommendation UL should consider assessing whether adding connectivity redundancy and improving speed would be cost-effective.</p> <p>Finding Every effort should be made to improve efficiencies while maintaining a high level of service. Consolidation of efforts can reduce redundant use of resources but should not adversely affect the mission. UL currently utilizes consolidated IT services, such as network security, email, infrastructure and image repository (FileNet); however, there is no service level agreement (SLA) with OTIS or UT Austin that clearly communicates individual responsibilities. Historically, UL - like other System Administration departments - has not had any documented SLAs between itself</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	

UT System Administration					
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			<p>and other System institutions. SLAs are a good business practice that ensures each party's responsibilities are formally established and aids in a clear understanding of these responsibilities. Without an SLA, the likelihood increases that misunderstandings between parties (regarding the responsibility for areas or services) could occur. In turn, this could result in non-coverage of a needed area or a duplication of efforts. Additionally, the lack of an SLA increases the risk of perception that the burden of the responsibility is not equitable.</p> <p>Recommendation UL should consider working with OTIS to establish a service level agreement to formalize each party's responsibilities, or "rules of engagement." If UL continues to receive services from UT Austin, we recommend UL consider establishing a similar agreement with them.</p>	Scheduled follow-up to be performed during FY 2011	
07/02/2010	Clayton Williams/ Southwest Oil and Gas Audit	<p>The objectives of this audit were to determine whether:</p> <ul style="list-style-type: none"> • Production reported to the University was reasonable; • Proceeds from oil and gas sales were reasonable, and that the corresponding royalties have been remitted to the University; • Gas sales meters were calibrated in accordance with the Board for Lease Rules and Regulations; and • Gas stream sampling was conducted in accordance with the Board for Lease Rules and Regulations. 	<p>Finding Details on the observations/findings, recommendations, and implementation status from oil and gas company audit reports are confidential pursuant to Texas Education Code, Section 66.81, and thus not included.</p>	N/A	Ensure accuracy of reporting and ensure compliance with guidelines.

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
07/09/2010	UT Tyler President's Office Audit	<p>The specific objectives of this audit were to:</p> <ul style="list-style-type: none"> • Determine the reliability and integrity of the Office of the President's key financial information; • Determine whether internal controls are adequate and effective in safeguarding assets; • Determine whether other internal controls are in place and functioning as intended; and • Review overall departmental operations. 	<p>Finding UT Tyler does not have a policy to provide specific guidance on the appropriate use of institutional and gift funds for entertainment expenses. Although the transactions we tested were in compliance with relevant policies, providing specific guidance that includes dollar limits will help ensure the prudent use of funds across the institution. Guidance should be provided in areas such as the purchase of gifts or flowers for employees, donations, purchase of alcohol, and reimbursement for meals during administrative meetings.</p> <p>Recommendation UT Tyler should develop and implement an institutional policy regarding entertainment expenses with specific guidance on the use of institutional and gift funds</p> <p>Finding The Office of the President has one procurement card which is used by three individuals. The Texas State Comptroller discourages "card sharing," and the card issuer will not honor fraudulent charge claims when a card has been shared. One of the three card users also performs the reconciliations, resulting in inadequate segregation of duties.</p> <p>Recommendation The Office of the President should improve segregation of duties related to the use of the procurement card by ensuring that the card holder does not also perform the reconciliation and that separate cards are issued for each user.</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	<p>Ensure internal controls are in place. Ensure compliance with guidelines</p>

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
08/09/2010	COG Oil and Gas Audit	<p>The objectives of this audit were to determine whether:</p> <ul style="list-style-type: none"> • Production reported to the University was reasonable; • Proceeds from oil and gas sales were reasonable, and that the corresponding royalties have been remitted to the University; • Gas sales meters were calibrated in accordance with the Board for Lease Rules and Regulations; and • Gas stream sampling was conducted in accordance with the Board for Lease Rules and Regulations. 	<p>Finding Details on the observations/findings, recommendations, and implementation status from oil and gas company audit reports are confidential pursuant to Texas Education Code, Section 66.81, and thus not included.</p>	N/A	Ensure accuracy of reporting and ensure compliance with guidelines.
08/09/2010	University Lands AUF Audit	<p>The objectives of this audit were to:</p> <ul style="list-style-type: none"> • Evaluate the controls and administration of revenue related to PUF • Evaluate the controls and administration of revenue related to AUF • Evaluate the controls and administration of revenue related to trust mineral interests 	<p>Finding We evaluated the billing and receipt processes and found that the segregation of duties related to billing should be enhanced. Currently the same person has access to the lessee self reports, access to and custody of invoices sent to lessees, and is responsible for the monitoring of cash receipts and account reconciliations. These processes should not be controlled by any single individual.</p> <p>Recommendation UL should ensure that the initiating, invoicing, monitoring and reconciliation processes for grazing leases are adequately segregated</p> <p>Finding We tested a random sample of Easements & Commercial (E&C) Lease contracts and rental payments to ensure proper controls were in place. We noted no material exceptions during our testing of rental payments; however, we determined that the same individual is responsible for billing and monitoring the easement and commercial lease revenue</p>	Scheduled follow-up to be performed during FY 2011	Ensure internal controls are in place. Ensure compliance with guidelines

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>Recommendation UL should ensure that the initiating, invoicing, monitoring and reconciliation processes for E&C leases are adequately segregated</p> <p>Finding UL Accounting receives receipts two ways: electronic funds transfer ("EFT") and by check. EFTs are wired directly to the Texas Comptroller and represents approximately 95% of total revenue, while 5% of revenue is paid by check and deposited daily with the Texas Comptroller. Monthly reconciliations are performed to ensure all funds received are appropriately deposited and properly recorded to the correct fund and account. The PUF and AUF checks are mailed daily to the Texas Comptroller via FedEx. Banking technology that allows checks to be scanned and immediately deposited could improve the efficiency of the deposit process.</p> <p>Recommendation UL should work with the System Administration Office of Finance to determine if banking technology is available for the PUF and AUF check deposit process</p> <p>Finding UL receives approximately 2,000 trust mineral interest royalty checks annually. Royalty checks are entered into a database, deposited locally, and tracked for each benefiting endowment fund. We reviewed the cash receipt process and determined that one individual is responsible for custody of trust mineral checks, data entry, preparing checks for deposit, and performing monitoring activities resulting in inadequate segregation of duties. During our review, we determined that trust mineral checks are not deposited during the absence of the Certified Mineral Manager and noted several instances during testing where checks were not deposited timely.</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>Recommendation UL should ensure that the initiating, invoicing, monitoring, and reconciliation processes for trust minerals are adequately segregated. Additionally, banking technology is currently available to scan checks and have them immediately deposited and posted to a bank account. To improve timeliness of deposits, UL should work with the Office of Finance to consider applying such technology.</p> <p>Finding UL utilizes a custom software product, Trust Minerals Program (TMP), to assist in understanding, tracking, and monitoring the information provided on the trust mineral royalty receipts. Information from the royalty check stub, including production volume, unit pricing, and taxes are entered into TMP. Periodically, the trust mineral staff will visit the Texas State Comptroller's website to search for fund names and additional royalties that are potentially due. Annually, UL compares the yearly revenue received to the 1099s issued by the royalty payers to ensure completeness. However, UL does not currently have the necessary trust mineral staff to monitor the trust mineral revenue for appropriateness by performing production comparisons, price comparisons, or other analytics.</p> <p>Recommendation UL should evaluate the trust mineral program to determine if an increased level of monitoring is cost beneficial.</p>	<p>Scheduled follow-up to be performed during FY 2011</p> <p>Scheduled follow-up to be performed during FY 2011</p>	
8/19/2010	System Administration Wireless Access Audit	The objective of this engagement was to evaluate whether adequate controls exist over the wireless local area network (WLAN).	Finding Details on this report are not included due to their IT sensitivity as pursuant to Texas Education Code.		Ensure adequacy of controls

UT System Administration					
Report Date	Name of Audit Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
8/20/2010	FY 2010 OFPC Follow Up Audit	Perform follow-up audit of open audit recommendations with implementation dates on or before April 30, 2010.	Finding No new recommendations	We assessed the current status of two audits that includes a total of two recommendations with implementation dates on or before April 30, 2010 and determined that management has fully implemented the two recommendations.	Monitor and communicate the level of implementation of recommendations included in audit reports.
8/27/2010	Departmental Audits of Offices Closing FYE 2010	We conducted a departmental audit of the offices closing as of August 31, 2010 at the request of senior management. The specific objectives of this audit were to determine: <ul style="list-style-type: none"> The reliability and integrity of the departments' key financial information; and Whether the departments properly accounted for all of their assets. 	Finding None	N/A	Ensure adequacy of controls.

IV. List of Consulting Engagements and Non-audit Services Completed

UT System Administration					
Report Date	Name of Engagement Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
1/13/2010	UTEP NCAA FYE 8/31/09	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	There were no findings and recommendations from agreed-upon procedures performed.	N/A	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
1/13/2010	UTSA NCAA FYE 8/31/09	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	There were no findings and recommendations from agreed-upon procedures performed.	N/A	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
1/14/2010	UTA NCAA FYE 8/31/09	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<p>Finding We noted that the initial SRE did not include \$12,700 in other revenue and \$12,647 in game expenses from the Intercollegiate Golf Tournament accounts. Additionally, the salary and related benefits for a part-time University staff member who provides academic support on behalf of the Athletics Department was not initially included on the SRE. Athletics made the corrections to the final SRE.</p> <p>Recommendation The Athletics Department should ensure that all relevant revenues and expenses related to the Athletics Department are included on the SRE.</p>	Scheduled follow-up to be performed during NCAA audit in FY 2011.	Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities
1/15/2010	UTPA NCAA FYE 8/31/09	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<p>Finding We noted during our review that UTPA athletics calculates Indirect Facilities Support and Indirect Costs by applying a 50% allocation rate to employee salaries and wages. However, the University amended this rate to 43.6% effective September 1, 2008. As such, UTPA Athletics miscalculated the values of Indirect Facilities Support and Indirect Costs by using the 50% allocation rate, therefore overstating the respective line items in the SRE by \$103,778. The adjustments recommended</p>		Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

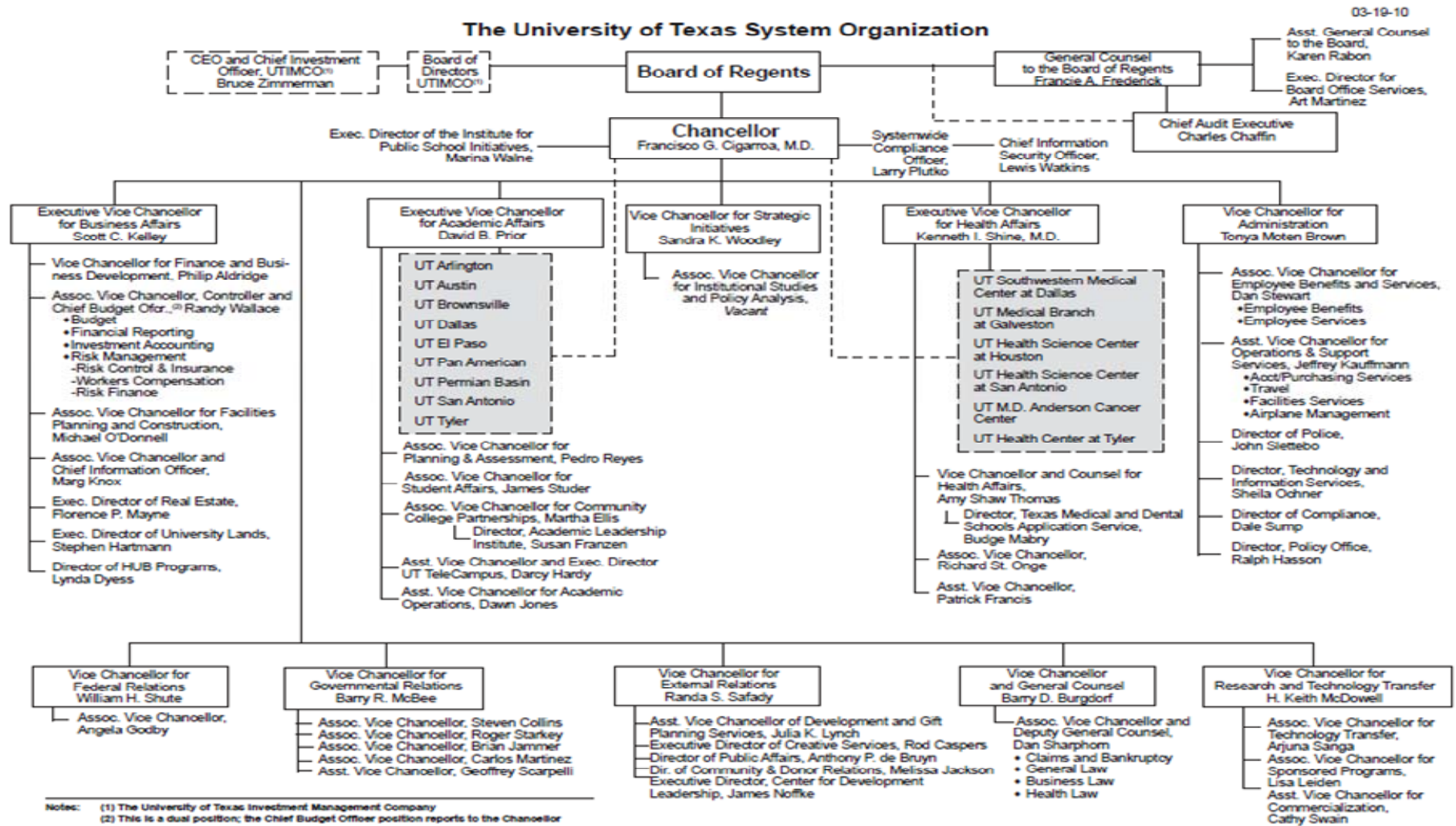
UT System Administration					
Report Date	Name of Engagement Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>were made to the SRE</p> <p>Recommendation We recommend that UTPA Athletics accurately calculate Indirect Facilities Support and Costs using the appropriate allocation. As a result of the miscalculation, Indirect Facilities Support and Indirect Costs decreased by \$103,778. Note that both revenues and expenses were reduced by the same amount; therefore, the excess revenues over expenses were not affected.</p> <p>Finding We found that a game guarantee expense was recorded on the 2009 SRE for games that were played in FY 2008. The guarantee expense was not paid by UTPA Athletics until FY 2009, resulting in an overstatement of guarantee expenses by \$12,000 in FY 2009 and an understatement in FY 2008 by the same amount. However, no changes were made to the SRE in order to account for the payment of the game guarantee expense.</p> <p>Recommendation We recommend that UTPA Athletics ensures all guarantee expenses are reported on the SRE in the fiscal year they are incurred in accordance with accrual accounting methods. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.</p>	<p>Scheduled follow-up to be performed during NCAA audit in FY 2011.</p> <p>Scheduled follow-up to be performed during NCAA audit in FY 2011.</p>	
1/15/2010	UTPB NCAA FYE 8/31/09	The objective of the engagement is to perform certain agreed upon procedures to fulfill the requirements of external auditors specified in the NCAA guide.	<p>Finding The initial SRE presented to UT System Audit Office did not agree to the FY 2009 transactions included in the general ledger. Additionally, we were not able to agree all line items included on the SRE to the general ledger. This was a result of multiple transactions being combined in the general ledger (e.g. game guarantee and ticket sales recorded on the same voucher) and improper</p>		Reduce the risk of incomplete revenue and expenditure reporting on athletic department activities

UT System Administration					
Report Date	Name of Engagement Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>object codes being assigned to transactions. Additionally, the SRE should be prepared using current year income and expense transactions and not include prior year balances.</p> <p>Recommendation We recommend that UTPB Athletics classify revenues and expenses on a monthly basis to simplify the SRE preparation at year-end. UTPB Athletics should also map the general ledger transactions to the SRE and ensure that they reconcile. Since the NCAA Agreed-Upon Procedures are only required every 3 years the SRE should be submitted to UTPB Internal Audit on an annual basis so they can ensure the accuracy of the numbers through analytical review. In addition, UTPB Athletics should work with the Office of Accounting to ensure that the proper object codes are assigned to transactions.</p> <p>Finding UTPB Athletics did not maintain supporting documentation for game guarantees.</p> <p>Recommendation We recommend that UTPB Athletics maintain all supporting documentation that is applicable to the NCAA Agreed-Upon Procedures and ensure that they are maintaining records in accordance with the institution's record retention policy.</p> <p>Finding The Athletic Compliance Director and Sports Information Director salaries are paid by the Vice President of Business Affairs Office. Initially these amounts were recorded as indirect facilities and administrative support; however, based on the NCAA definition the salaries are more appropriately classified as Direct Institutional Support. The appropriate adjustments were made to the SRE</p> <p>Recommendation We recommend that</p>	<p>Scheduled follow-up to be performed during NCAA audit in FY 2011.</p> <p>Scheduled follow-up to be performed during NCAA audit in FY 2011.</p> <p>Scheduled follow-up</p>	

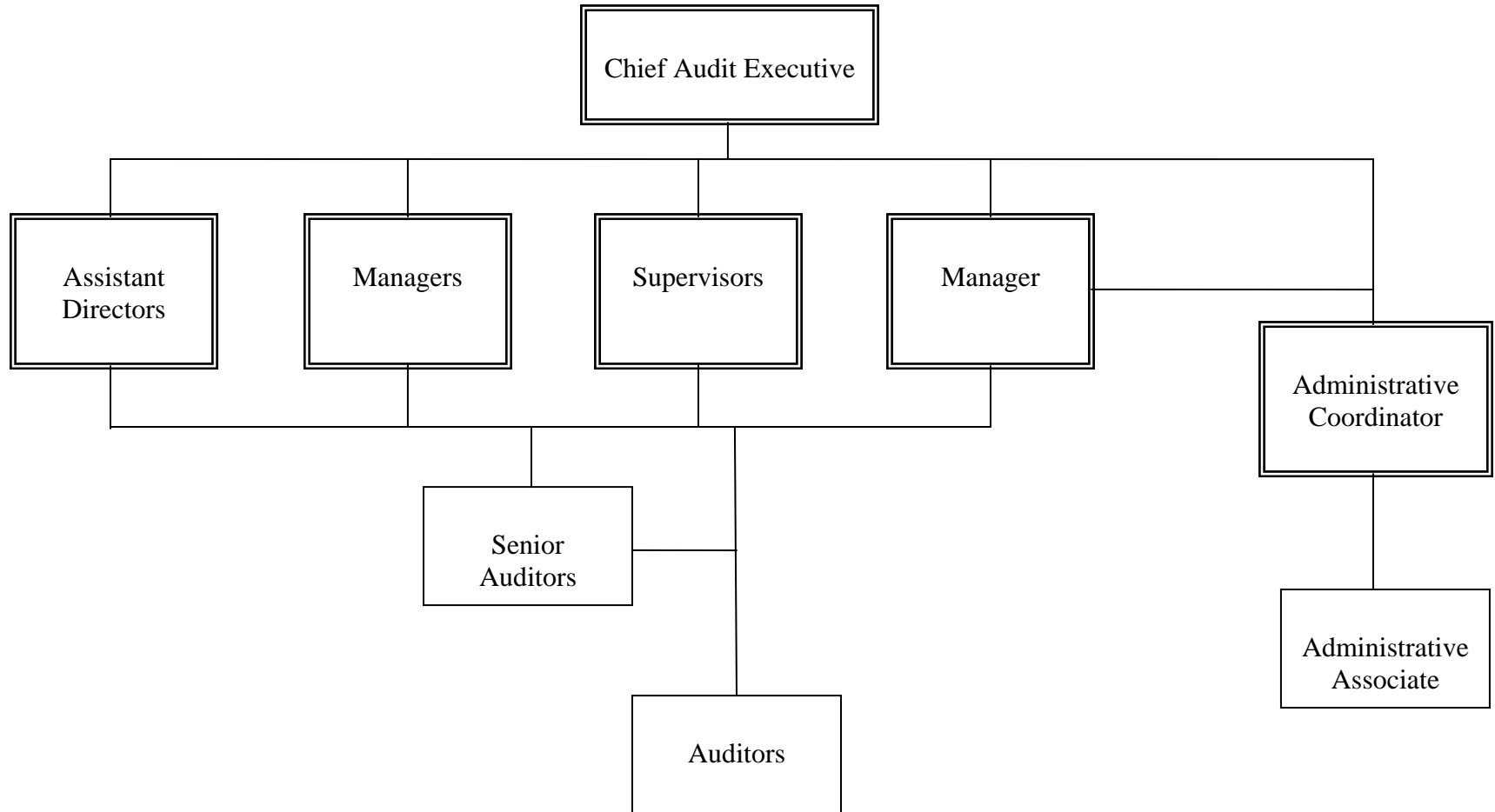
UT System Administration					
Report Date	Name of Engagement Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
			<p>UTPB Athletics ensure that amounts paid from non-athletic university accounts are properly classified in the SRE as direct institutional support.</p> <p>Finding During testing of revenues we found several instances where checks did not appear to be deposited in accordance with UTS 166 – Cash Management and Cash Handling Policy, which states that all deposits totaling over \$500 must be made or prepared for next day deposit, within one business day. Those departments or locations that do not collect revenue each day or whose deposit is not cost efficient for daily deposits, must make deposits at least twice weekly. Additionally, we found that the UTPB Athletic Department did not maintain a check log to record incoming checks or cash. Maintaining a check log helps to ensure all checks received by the department are deposited in a timely manner and recorded in the appropriate account.</p> <p>Recommendation We recommend that UTPB Athletics review UTS 166 and develop procedures to ensure compliance. Additionally, UTPB Athletics should perform cross training for employees to ensure deposits are timely in the event the responsible employee is absent.</p> <p>Finding During testing of camp revenues we found that there are inadequate segregation of duties surrounding camp revenues. The same person handles registration and cash collection.</p> <p>Recommendation We recommend that UTPB Athletics have at least two people handle camp revenues. The person who handles registration should be different than the person who collects the revenue.</p>	<p>to be performed during NCAA audit in FY 2011.</p> <p>Scheduled follow-up to be performed during NCAA audit in FY 2011.</p> <p>Scheduled follow-up to be performed during NCAA audit in FY 2011.</p>	

UT System Administration					
Report Date	Name of Engagement Report	High-Level Audit Objectives(s)	Observations/Findings and Recommendations	Current Status	Fiscal Impact/ Other Impact
10/07/2009	Vendor Selection Process Review	The objective of this review was to determine whether there are opportunities to improve the vendor selection process for small purchases.	Finding None	N/A	Ensure accuracy of reporting and ensure compliance with guidelines.
2/01/2010	UT Southwestern Special Request Project	On January 19, 2010, the University of Texas (UT) System's executive vice chancellor for health affairs requested that the UT System Audit Office review the UT Southwestern Medical Center's (UT Southwestern) practices with respect to use of facilities by external entities, specifically those practices in relation to the Dallas Opera. The purpose of our review was to determine whether those practices are appropriate, reasonable, and in compliance with applicable Regents' Rules & Regulations (Regents' Rules).	Overall, UT South western's practices are appropriate, reasonable, and in compliance with the "spirit" of the Regents' Rules.	N/A	Ensure practices are appropriate , reasonable and in compliance with Regents' Rules and Regulations
2/08/2010	UT Federation Member Operating Practices (MOP) Consulting report	At the request of UT Federation management, The University of Texas System Audit Office (System Audit) performed agreed-upon procedures to determine the extent to which the UT Federation members are operating in compliance with the MOP.	Provided Federation management with suggestions that can help ensure that a secure, collaborative environment is maintained.	Federation management is taking necessary steps to implement the recommendations.	To maintain a secure collaborative environment, a common set of practices to ensure confidentiality, integrity, and availability of electronic resources.
8/25/2010	Ethics Consulting	The objective of this consulting engagement is to review the elements of the current Systemwide and System Administration ethics programs and provide potential recommendations for consideration.	Provided Ethics Officer suggestions to enhance the System Administration and Systemwide Ethics Programs	N/A	Ensure practices are appropriate and reasonable.

V. Organization Charts



UT System Audit Office



VI. Report on Other Internal Audit Activities

<i>Activity</i>	Impact
Entered into agreements with executive management to review areas that they requested our services in.	Provided executive management valuable feedback through performance of special request projects, including assistance to General Counsel, work with Deloitte on UTIMCO due diligence process, and assisting on external construction reviews.
Presentations to Other Organizations and Peer Review Participation	Participated in advancing the internal auditing profession in a variety of capacities and shared knowledge gained in information security, internal controls, and internal auditing through presentations for and executive/board membership in professional organizations. Participated in the peer review process at other UT institutions and the University of Toledo.
Provided the Audit, Compliance, and Management Review Committee, information on the internal audit function for fiscal year 2010	Communicated with Board of Regents on the internal audit activities, including oversight at the institutions.
Provided consultation, guidance, assistance and in some cases oversight to the institutions' internal audit departments	Improved independence, expertise, and audit oversight at the UT institutions. Specifically, we reviewed and provided feedback on institutional annual audit plans, were involved in peer reviews, and provided guidance on some of the more complex audits, such as the financial audit work and practice plan audits. We also provided assistance to some of the institutions on information technology audits/projects, including UT Arlington, UT Tyler, UTHSC Tyler, and UT Permian Basin.

VII. Internal Audit Plan for Fiscal Year 2011

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
Fiscal Year 2011 Audit Plan
System Administration - Part 1 of 2

Audit Areas	Priority Budgeted Hours	% of Total
<u>Financial</u>		
FY 2010 System Administration & Consolidation Financial Audit	850	
FY 2011 System Administration & Consolidation Financial Audit	360	
JAMP Audit	200	
Alzheimer's Council Fiscal Agreement Audit	100	
Office of Finance Audit	500	
UTIMCO Financial Statement Audit Assistance	500	
UTIMCO Meetings and Oversight Activities	200	
Financial Subtotal	2710	28%
<u>Operational</u>		
Shared Services Initiative Review	300	
Oil and Gas Producers Audits	1000	
Chancellor's Travel, Entertainment & Housing Expense Audit	100	
UTIMCO CEO/CIO Travel and Other Expenses Audit	100	
OFPC Project Management Process Audit	500	
Consulting on Authorization for Professional Services	200	
General Audit Assistance to System Administration Departments	200	
<u>Change in Management/Departmental Audits</u>		
Internal Controls Survey	100	
Office of the Director of Police Change in Management Audit	150	
To Be Determined (based on mgmt changes/mgmt request)	150	
<u>Carryforward Audits</u>		
UTIMCO CEO Travel and Other Expenses Audit	50	
Operational Subtotal	2850	29%
<u>Compliance</u>		
UT Systemwide Compliance Program Audit	300	
Office of Employee Benefits Dependent Eligibility Audit	200	
Compliance Subtotal	500	5%

Information Technology

TAC 202 Audit	200
OFPC OPUS System Audit	300
UT Systemwide Information Security Program Audit	300
UTIMCO Information Security Program Audit	350
UTIMCO IT Application Audit	350
UT Austin Student IT Project	50

Information Technology Subtotal	1550	16%
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Follow-up

System Administration Follow Up FY 2011	500
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Follow Up Subtotal	500	5%
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Projects

Internal Audit Committee	400
Peer Review Self-Assessment and Preparation	400
TeamMate and Website Updates	50
State Auditor's Office Reporting and Requests	50
FY 2012 Audit Plan and Risk Assessments	150
System Audit Office Annual Activity Report	100
Special Requests	570

Projects Subtotal	1720	17%
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Total Hours	9830	100%
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THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
Fiscal Year 2011 Audit Plan
Oversight - Part 2 of 2

Audit Areas	Priority Budgeted Hours	% of Total
<u>Financial</u>		
Guidance Provided to the Institutions related to the Systemwide Financial Audit - FY 2010	500	
Guidance Provided to the Institutions related to the Systemwide Financial Audit - FY 2011	250	
NCAA Agreed Upon Procedures at UT Arlington	250	
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	250	
NCAA Follow Up at UT Permian Basin	100	
Financial Subtotal	1850	24%
<u>Operational</u>		
UT Southwestern Construction Management Process Audit	300	
UT Pan American Management Review Follow Up	300	
UT Dallas President's Travel, Entertainment & Housing Expense Audit	125	
UT Permian Basin President's Travel, Entertainment & Housing Expense Audit	125	
UT M. D. Anderson President's Travel, Entertainment & Housing Expense Audit	125	
Audit Assistance to Smaller Institutions	50	
<u>Change in Management/Departmental Audits</u>		
UT Arlington President Office Audit	200	
UT Permian Basin President Office Audit	200	
UT Health Science Center - Tyler President Office Audit	200	
Operational Subtotal	1625	21%
<u>Compliance</u>		
UT Dallas Institutional Compliance Program Audit	250	
UT San Antonio Institutional Compliance Program Audit	250	
UT Southwestern Practice Plan Audit	400	
UT Medical Branch Practice Plan Audit	350	
Guidance Provided to the Institutions related to the Practice Plan Audits	50	
Guidance Provided to the Institutions related to the Institutional Compliance and Time & Effort Audits	50	
Compliance Subtotal	1350	17%
<u>Information Technology</u>		
UT Shared Data Centers Audit	450	
UT Southwestern Wireless Access Audit Assistance	150	
Guidance Provided to the Institutions related to IT Audits	150	
Information Technology Subtotal	750	10%

Follow-up

Systemwide Significant Findings/Recommendations Tracking (Red, Orange, Yellow, Green - ROYG) 350

Follow Up Subtotal	350	4%
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Projects

To Be Determined - Special Requests 570

Institution Liaison Activities 500

Peer Review Participation 50

Guidance/Assistance Provided to the Institutions related to Audits conducted Systemwide 50

Systemwide Annual Activity Report 50

Exchange Program Coordination 25

FY 2012 Systemwide Audit Plan 50

FY 2012 Institutional Annual Audit Plan Hearings 100

Audit, Compliance, and Management Review Committee and Board of Regents Meetings 400

Internal Audit Council 100

Carryforward

2011 System-wide Audit Plan 25

Projects Subtotal	1920	24%
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Total Hours	7845	100%
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VIII. External Audit Services

The University of Texas Investment Management Company (UTIMCO) contracted with Deloitte & Touche, LLP, to perform an independent audit of the Fiscal Year 2009 Financial Statements of UTIMCO Corporation, the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund.

IX. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of Article IX, Section 17.05, and Article XII, Section 5(c), the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022:

- Fraud reporting (per General Appropriations Act 81r, Article IX, Section 17.05)
 - Link to SAO fraud reporting is on UT System homepage.
 - UT System policy (UTS118) reflects reporting fraud involving state funds to SAO.
- Reporting requirements (per GAA 81r, Article XII, Section 5(c))
 - Not applicable. UT System Administration is not required to submit an ARRA report.
- Texas Government Code, Section 321.022
 - UT System policy includes information relating to fraudulent activities.
 - Provided fraud training during FY 2010, required of all new UT System Administration employees. Refresher fraud training required on a biennial basis.