The University of Texas System Administration
System Audit Office

Annual Audit Report
Fiscal Year 2018

The University of Texas System
System Audit Office
210 West 7th Street
Austin, Texas 78701

TABLE OF CONTENTS

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

The System Audit Office FY 2018 Internal Audit Annual Report, which includes its approved FY 2019 Annual Audit Plan (see Section V), a summary of weaknesses/concerns and related actions taken resulting from the FY 2018 Annual Audit Plan (see Section II) can be found on the UT System website (specifically, the "Reports to State" webpage http://www.utsystem.edu/documents/reports-state , choosing "Annual Audit Reports" from the "Report Type" drop down menu). The annual report can be found at http://www.utsystem.edu/offices/system-audit/about-internal-audit

II. Internal Audit Plan for Fiscal Year 2018

FY 2018 Audit Plan – Engagements	Status of Plan
Risk Based Audits	
Wide Area Network Management Audit	07/17/18
Web Accessibility Audit	Cancelled
System Administration UT Share User Access Review	Carried Forward
Oil and Gas Producers Audit - QEP	10/26/18
AUF Projects Oversight and Monitoring Review	08/01/18
Conflicts of Interest and Commitment Audit	02/02/18
GPO Accreditation Applications Review	8/27/18
GPO Control Validation Review	8/20/18
Faculty STARs Program Outcomes Review	Cancelled
UT Austin Dell Medical School Use of AUF Audit	11/03/17
Required (Externally and Internally) Audits	
UT System Administration & Consolidated FY 2017 Financial Audit Assistance	Deloitte Report
UTS142.1 Account Reconciliations & Subcertifications FY 2017 Audit	12/04/17
UT System Administration & Consolidated FY 2018 Financial Audit Assistance	Deloitte Report
Guidance to Institutions on Systemwide Financial Audit - FY 2017 and FY 2018	Complete – Report NA
NCAA Agreed-Upon Procedures at UT Arlington	01/16/18
NCAA Agreed-Upon Procedures at UT El Paso	01/16/18
NCAA Agreed-Upon Procedures at UT San Antonio	01/16/18
NCAA Agreed-Upon Procedures at UT Rio Grande Valley	01/16/18
Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits	Carried Forward
UTIMCO CEO/CIO & Executive Travel and Other Expenses Audit	Carried Forward
Benefits Proportionality Audit	05/31/18
Executive Travel and Entertainment Expenses Audit	10/18/18
Presidential Travel and Entertainment Expenses Audit	02/26/18
Texas Administrative Code Section 202 Audit	11/03/17
Consulting Projects	
UTIMCO Software Development Life Cycle (SDLC) Review	02/23/2018
Data Governance Consulting	Cancelled
Benefits Administration System Consulting	Ongoing – Report NA
UT Share Post Implementation Review	08/06/18
UT Share Operating and Executive Committees Participation	Ongoing – Report NA
Key Performance Indicators for Institutional Leadership Project	Cancelled
Pilot Institutional Review Project	Cancelled
Policy Management Review	Ongoing – Report NA
Quantum Leaps Consulting	Ongoing – Report NA
Construction Consulting	Cancelled
Uniform Guidance Consulting	Cancelled
Enterprise Risk Management Consulting	Ongoing – Report NA
System Administration Committees and Councils	Ongoing – Report NA
General Audit Assistance to System Administration	Ongoing – Report NA
OGC Claims & Financial Litigation Review	04/13/18
Continuous Monitoring Project	Complete – Report NA
Cybersecurity Reporting Framework	Ongoing – Report NA

Investigations	Status of Plan
UTPB Special Review	Internal Memo
UTT Special Review	Internal Memo
UTPB Special Review	Internal Memo
Follow Up	
System Audit Follow Up Procedures	Various Memos
Development – Operations	
Internal Audit Strategy	Ongoing – Report NA
Assistance to Institutions	Ongoing – Report NA
General Communications	Ongoing – Report NA
Systemwide Internal Audit Council, Communication, and Education	Ongoing – Report NA
Online Reporting	Ongoing – Report NA
Fraud and Investigation Tracking	Ongoing – Report NA
Priority Findings	Ongoing – Report NA
Metrics	Cancelled
Data Analytics	Ongoing – Report NA
ACRM Committee and Board of Regents	Ongoing – Report NA
Systemwide Annual Risk Assessment and Audit Plan	Ongoing – Report NA
Systemwide TeamMate Administration Support	Ongoing – Report NA
Systemwide TeamMate Administration Processes	Ongoing – Report NA
Management of the Internal Audit Activity	Ongoing – Report NA
UTIMCO Meetings and Oversight Activities	Ongoing – Report NA
UT System Administration Internal Audit Committee	Ongoing – Report NA
External Reporting and Requests	Ongoing – Report NA
TeamMate Maintenance, Website Updates, SP Site Management	Ongoing – Report NA
System Audit Office Annual Risk Assessment and Audit Plan	Ongoing – Report NA
System Audit Quality Assurance Activities	Ongoing – Report NA
Development – Initiatives and Education	
Audit Governance	Ongoing – Report NA
Risk Assessment Process	Ongoing – Report NA
Quality Program and Metrics Implementation	Ongoing – Report NA
Resource Capabilities and Knowledge/Resource Management	Ongoing – Report NA
Common Audit Reporting	Ongoing – Report NA
Audit Team Capabilities and Leadership Development	Ongoing – Report NA
Internal Audit Staff Training	Ongoing – Report NA
Professional Organizations and Associations	Ongoing – Report NA

Deviations from Audit Plan Submitted:
The System Audit Office completed its FY 2018 annual audit plan except those noted above as "in progress" and the deviations noted below. Engagements in progress at the end of FY 2018 were carried forward for completion in FY 2019. Changes from the original FY 2018 annual audit plan were presented to and approved by the UT System Administration Internal Audit Committee throughout the fiscal year as follows.

- *Projects Cancelled:* Web Accessibility Audit; Faculty STARs Program Outcomes Review; Data Governance Consulting; Key Performance Indicators for Institutional Leadership Project; Pilot Institutional Review Project; Construction Consulting; and Uniform Guidance Consulting; and Metrics.
- *Projects Added:* Benefits Proportionality Audit; Office of General Counsel Claims & Financial Litigation Review; Continuous Monitoring Project; Cybersecurity Reporting Framework.

TEC Section 51.9337(h):
Senate Bill 20 (84th Legislative Session) made several modifications and additions to Texas Government Code (TGC) and Texas Education Code (TEC) related to purchasing and contracting. Effective September 1, 2015, TEC §51.9337 requires that, "The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor." The System Audit Office conducted this required assessment for FY 2018, and found the following:

> Based on review of current institutional policy and the UT System Board of Regents' Rules and Regulations, UT System Administration has generally adopted all of the rules and policies required by TEC §51.9337. Review and revision of System policy is an ongoing process. These rules and policies will continue to be assessed annually to ensure continued compliance with TEC 51.9337.

Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institution:
Rider 8, page III-45, of the General Appropriations Act (85th Legislature, Conference Committee Report), requires that higher education institutions conduct an internal audit during fiscal year 2018 of benefits proportional by fund, using a methodology prescribed by the State Auditor's Office. The rider requires that the audit examine appropriation years (AY) 2015 through 2017 and be completed no later than August 31, 2018. To comply with Rider 8, a benefits proportionality audit was conducted as part of the FY 2018 annual audit plan and issued on May 31, 2018 (and is included in Section II below).

TGC Section 2102.015:
A summary table of recommendations made to address issues identified from FY 2018 engagements, the actions planned to be taken by management, and the current implementation status is included on the following pages to address web site posting requirements as required by Texas Government Code Section 2102.015.

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
09/18/17	Treasury Function Audit	**Recommendation 1:** SBO management should work with SIS to obtain the access they need to generate reports within PeopleSoft that will allow the department to perform periodic reviews of users with assigned user roles and permission lists that provide access to critical treasury and payroll data to ensure that user access is appropriate for their job duties.	**Management Response 1:** SBO management concurs with the recommendation to enhance the review of access for critical treasury and payroll data. Instead of handling the review on a decentralized basis, SBO management respectfully recommends the SIS team lead the access control review for the UTShare cohort in consultation with SBO. SIS has staff that is trained in information security and access control as well as access to the appropriate PeopleSoft tools. Once the cohort-wide review is complete, OTIS can work with SBO, OHR, the Controller's Office and other applicable functional departments to review whether user access is appropriate.	Follow-up to be performed
		Recommendation 2: SBO should coordinate with the Controller's Office, since System Administration has completed its move to the new UT System Building, to perform a review of those with access to the check printing room to ensure access is still appropriate.	**Management Response 2:** SBO management concurs with the recommendation to enhance the review of physical access for secured areas. Due to a logistics change prior to move-in, the check printers are located on floor 13 (instead of floor 12) of the new UT System building in an "unsecured" room. Although the room can be locked with a physical key, the room does not have a camera or electronic/pass code security. SBO is waiting on Facilities Management to provide information about whether the check printing room will be converted into a fully secured room as well as the timing of any construction required (similar to the construction of the "secure" room on floor 12). Currently, SBO does not have a key to access the check printing room on floor 12.	Implemented
11/3/17	UT Austin Dell Medical School Use of AUF Audit	**Recommendation 1:** After UT Austin publishes its contract management handbook and establishes a risk analysis procedure, the DMS finance department should develop and implement a risk-based contract monitoring process.	**Management Response 1:** DMS finance and legal departments have started to develop and implement a risk-based contract monitoring process in partnership with UT Austin that is compliant with the finalized contract management handbook. DMS has hired a dedicated contract manager and is seeking to purchase and implement a contract management system by the end of 2017 to assist with the post-contract execution process.	Follow-up to be performed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
11/3/17	UT Austin Dell Medical School Use of AUF Audit (continued)	**Recommendation 2:** DMS management should ensure that its procurement activities comply with UT Austin procurement procedures and coordinate with appropriate departments when available services are not suitable to meet the needs of the medical school.	**Management Response 2:** In the spring and summer of 2017, DMS management instituted additional controls and processes to coordinate purchasing and contracting with UT Austin Procurement and Payment Services. DMS management will continue to partner with UT Austin Procurement and Payment Services to ensure compliance with UT Austin procurement procedures.	Follow-up to be performed
		Recommendation 3: DMS management should obtain all approvals required by the DMS Approval Matrix and establish consistent methods of documenting those approvals.	**Management Response 3:** All DMS expenditures are processed through the internal control environment of UT Austin. In the spring and summer of 2017, DMS management developed an internal documentation of approvals matrix to enhance the internal control environment within DMS. DMS management will ensure that appropriate approvals and documentation are obtained according to the internal DMS approval matrix. However, it should be noted that certain transfers to other UT Austin departments or schools for goods and services may occur within the UT Austin accounting system without prior written approval from DMS management for the specific transaction.	Follow-up to be performed
		Recommendation 4: Consistent with the stated purpose of the STARs program, DMS management should ensure that future STARs projects submitted to UT System directly support the recruitment and retention of outstanding faculty.	**Management Response 4:** DMS management will continue to work with UT Austin and UT System to ensure that STARs funding is spent according to all applicable policies and guidelines.	Implemented
11/3/17	Texas Administrative Code Section 202 Audit	**Recommendation 1:** The Information Security Office (ISO) should implement and maintain a risk management strategy across the organization to manage security risk to UT System Administration IT operations and assets.	**Management Response 1:** The ISO has recently become aware of an effort to develop a strategic enterprise-level risk management program. This program may also include a security risk management strategy that satisfies this finding. The Audit, Compliance, and Risk Management Committee of the Board of Regents is meeting on November 8th and November 9th, 2017 to discuss enterprise risk management. The ISO will publish an update with a plan to develop this strategy by February 28th, 2018.	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
11/3/17	Texas Administrative Code Section 202 Audit (continued)	**Recommendation 2:** The ISO should update and maintain an IT inventory to include the classification of data stored or processed on all UT System Administration hardware and software assets.	**Management Response 2:** 1) The ISO will use available tools to perform scans and improve our existing inventory of UT System Administration-owned or managed computing devices deployed throughout the institution. 2) The inventory will designate mission critical applications, systems that contain Confidential data, and the Information Resource Owner. 3) The inventory will be classified through a collaborative effort between the ISO, the department Information Security Administrator, and data owner. 4) The inventory will be updated at least annually or after a significant change has occurred that may lead to reclassification of the information system resource(s).	Implemented
		Recommendation 3: The ISO should create a process for ensuring milestones exist for plans of action and security remediation activities.	**Management Response 3:** 1) The ISO will use industry-accepted methodologies and processes to establish and track milestones for security remediation activities. These milestones are intended to correct deficiencies noted during ongoing assessments of the security controls in order to reduce risk to an acceptable level and align with current policy and standards. 2) Plan of Action and Milestones will include high level objectives inclusive of remediation tasks; scheduled dates for reaching these milestones; criticality rating; and responsible parties. 3) The ISO will approach this in two phases 4) The ISO will report the status in the FY19 annual security report.	Follow-up to be performed
		Recommendation 4: The ISO should provide additional training more frequently than the two-year requirement to ensure end users are aware of and able to assist in guarding against high risk, pervasive cybersecurity threats.	**Management Response 4:** 1) The ISO will design a general security awareness program for all System Administration users which will include at least annual security awareness training that will be implemented through a variety of avenues. 2) The ISO will collaborate with other technology and privacy teams to review the general security awareness program annually and update as necessary based on industry-recognized emerging security threats.	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
11/3/17	Texas Administrative Code Section 202 Audit (continued)	**Recommendation 5:** The ISO should perform a training analysis and create a strategic plan for cyber-security related positions.	**Management Response 5:** 1) The ISO has already begun to organize an initiative to conduct a needs-assessment and training analysis for ISO staff based off the roles and knowledge, skills, and abilities as defined in the NICE Cybersecurity Workforce Framework. A parallel initiative to develop a needs assessment for Information Security Administrators has also begun and expected to be complete by the implementation date. 2) The Information Security Officer and each ISO staff member will develop a customized training and/or certification plan. 3) The ISO will publish staff cybersecurity-related certifications on a UT System Administration internal security website.	Implemented
12/4/17	UTS142.1 Account Reconciliations & Subcertifications FY 2017 Audit	The audit resulted in no reportable recommendations. Minor opportunities were identified for each office audited to improve the completeness of reconciliation documentation and communicated individually to the respective offices.		
2/2/18	Conflicts of Interest and Commitment Audit	**Recommendation 1:** Systemwide Compliance, in coordination and consultation with the Executive Compliance Committee, should review UTS180, review its disclosure requirements, and determine whether additional disclosures in the Outside Activity Portal beyond those required by statute (and handled through the procurement process) from individuals involved in procurement activities is necessary. The Outside Activity Portal could continue to be used for annual disclosures for leadership from UT System Administration and the UT institutions and potentially those involved in contract management but may not be involved in vendor selection. Disclosures that are required to be made should be monitored to protect the credibility and reputation of System Administration and each UT institution. In addition, other policy requirements should also be reviewed to ensure the appropriate balance of risk and the efforts needed to achieve compliance with policy requirements to protect the credibility and reputation of the UT System Administration, of each UT institution, and their employees.	**Management Response 1:** The Office of Systemwide Compliance has met with the UT System Executive Compliance Committee regarding this report. Management concurs with System Audit's recommendation to review the policy requirements of UTS180 and related INTs. This review will involve System Administration and affected UT institutions. Management stands ready to begin implementation of System Audit's recommendation to the policy as it currently exists. However, before beginning those efforts, management agrees with System Audit that we should first ensure that our policies are aligned to most effectively protect the credibility and reputation of the UT System Administration, each UT institution, and their employees. To the extent that our policies are currently mis-aligned, management will undertake a Systemwide effort to amend UTS180 to better accomplish its critical goals. Due to the substantial revisions currently contemplated, most of the System Audit recommendations contained in this report will be addressed through policy changes. For the audit recommendations contained in the remainder of this report, the management response will be brief.	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
2/2/18	Conflicts of Interest and Commitment Audit (continued)	**Recommendation 2:** Management should establish a monitoring process, possibly during the annual disclosure reporting period, to determine whether all executive officers and administrative leaders of UT System Administration offices have completed their annual disclosures. This process can be facilitated with development of custom reports or reporting groups within the Outside Activity Portal. Using these reports, management could provide email notifications to the intended recipients and their immediate supervisors.	**Management Response 2:** As indicated in the first management response, management intends to amend UTS180. The disclosures discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation. To the extent that the revised policy has not resolved this issue, management intends to establish a monitoring process to ensure that executive officers have completed their annual disclosure requirements.	Implemented
		Recommendation 3: Management should: 1. Implement a process to ensure that individuals who access the Outside Activity Portal have completed the procurement and contract management questions. This could be facilitated with edit checks that prompt users to provide responses to the procurement activity questions and/or with customized reports that identify disclosures that do not include responses to procurement activity questions. 2. Implement a process to ensure that individuals who have self-disclosed that they are part of the procurement process are, in fact, completing disclosures required by policy. This could be facilitated by developing a customized report in the Outside Activity Portal to identify these individuals and review whether such individuals have successfully completed a disclosure for a given calendar year. The monitoring described could include monitoring by the C&P for C&P led procurements, by OFPC for OFPC led procurements, and confirmation review by Systemwide Compliance.	**Management Response 3:** As indicated in the first management response, management intends to amend UTS180. The disclosures discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
2/2/18	Conflicts of Interest and Commitment Audit (continued)	**Recommendation 4:** While there is no specific requirement that UT System Administration provide oversight for institutional disclosures, management should consider implementing a process to have the institutions provide assurance to UT System Administration that the institutional employees participating in System Administration procurements have completed their annual certifications. This could take the form of a certification or development of a customized report that could identify exceptions that could be reported back to the institutions. Certifications or copies of specific disclosures could come from institutions that do not use the portal and exception reports could be developed for UT institutions that use the Outside Activity Portal.	**Management Response 4:** As indicated in the first management response, management intends to amend UTS180. The disclosures discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation. For inter-institutional procurements, the current processes of our System Administration procurement office protect UT from un-managed conflicts of interest. Management does not anticipate creating an inter-institutional certification or verification process in addition to our procurement department's existing processes.	Implemented
		Recommendation 5: Management should review data requested for disclosure and determine, in coordination with the institutions, whether less information could be requested while still providing necessary information to allow for appropriate monitoring. For information that is required, management should ensure there are sufficient edit checks in the Outside Activity Portal to ensure information requested from employees is complete. Management should also explore the feasibility of providing email confirmations and summaries to individuals of disclosures made. This would give users a chance to review a summary report of information disclosed and may prompt users to go back into the system to ensure accuracy. Management should also explore the feasibility of providing emails to individuals that either logged into the system or attempted but did not complete a disclosure and prompt those users to complete a disclosure, if they intended to do so. In addition, management should require users to complete the contracting questions so that management can monitor whether those individuals involved in procurement and contract management have completed their required disclosures.	**Management Response 5:** As indicated in the first management response, management intends to amend UTS180. The issues discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation.	Implemented

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
2/2/18	Conflicts of Interest and Commitment Audit (continued)	**Recommendation 6:** To ensure outside activities are reviewed and approved prior to when they begin, management should monitor approvals of outside activities to determine which employees are receiving after-the-fact approval and provide targeted reminders to the individuals and their immediate supervisors that approval is needed before an outside activity begins. This will reduce the risk that future outside activities begin before they are approved or that employees are engaged in outside activities that may impair the reputation of UT System Administration.	**Management Response 6:** As indicated in the first management response, management intends to amend UTS180. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation. To the extent that policy changes cannot address this issue, management will explore the feasibility of creating software notifications in the outside activity portal to notify managers when a particular request for outside activity appears to seek prior approval for said activity.	Implemented
		Recommendation 7: Management should identify and review higher risk requests for outside compensated activities that exceed a risk-based dollar amount. Such activities should undergo a secondary review by the UT System ethics officer to ensure the potential risks are evaluated and adequately addressed. With respect to conflict of commitment represented by outside activities, management should consider establishing a risk-based hour threshold that would trigger a mandatory second review by the UT System ethics officer. UT System Administration policy INT129.1 could be updated to include the thresholds described above. Any updates to policy need to be clearly communicated to UT System employees and System Administration office leaders.	**Management Response 7:** As indicated in the first management response, management intends to amend UTS180. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation. Management concurs with System Audit's recommendation regarding highly compensated outside activities. To the extent that policy changes do not affect this issue, management will explore the feasibility of creating a software based "check" where the ethics officer is notified when a requested outside activity exceeds some pre-determined threshold. With respect to conflicts of commitment, to the extent that policy changes do not affect this issue, management will explore the feasibility of creating a software-based notification to the requesting employee's manager so that the manager is fully informed regarding the total aggregate amount of requested outside activity.	Implemented
		Recommendation 8: To ensure that training requirements are met and that employees are aware of and understand their responsibilities with respect to conflicts of interest and commitment, management should develop a process to identify individuals that should attend training. INT129.1 may also need to be updated, as the training is only required for those responsible for approving and managing outside activities and interests. Training should be expanded to include all administrative heads of System Administration offices and all employees involved in procurement activities. Periodic refresher training should also be considered.	**Management Response 8:** As indicated in the first management response, management intends to amend UTS180. The training issues discussed in this recommendation will be heavily impacted by the anticipated policy revisions. Management believes that policy changes will resolve the issues raised by System Audit in this recommendation. Further, any changes to policy will necessitate training to ensure that employees are adequately informed regarding the new policy.	Closed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
2/2/18	Conflicts of Interest and Commitment Audit (continued)	**Recommendation 9:** While UT System Administration policies include the key requirements of UTS180, opportunities exist to update and clarify current policies. To pursue this end, management should consider: • Consolidating INT129.1 and INT129.2 into a single policy; • Clarifying that an approved outside activity should also include a related annual disclosure since estimated commitment and compensation from an approved outside activity could be different from what was actually realized; • Updating the policy regarding the Chancellor's approval for outside activities for individuals involved in outside activities that are more than 8 hours per week be limited to those employees whose outside activities take place during regular work hours; • Updating the policy to assigning approval to office administrative leaders for employees that would like to work a second job outside of normal working hours (i.e., weekends and/or outside of normal working hours); • Clarifying the policy to include administrative heads of offices along with executive officers as individuals required to complete annual disclosures; • Clarifying the policy, as consistent with UTS180, to clearly require that prior approval is to be obtained annually. UTS180 specifically states that that institutional policies are to require prior annual approval; and • Limiting frequency of disclosures by the UT institutions to once per year.	**Management Response 9:** As indicated in the first management response, management intends to amend UTS180. Management intends to address each issue raised in this recommendation in the policy revision process. Amending a UTS is a collaborative process between UT System Administration and each affected UT institution. Therefore, it is not possible for management to guarantee any particular outcome. However, management appreciates the recommendations of System Audit and intends to fully address the issues raised by these recommendations during the policy revision process.	Implemented
Various – Last on 2/26/18	Presidential Travel and Entertainment Expenses Audit	**Recommendation 1 (UTAUS):** The President's Office should discontinue purchasing premium airfare for the president and his spouse to comply with the current UT Austin institutional travel policy requirements or revise the policy to allow additional parameters to purchase premium airfare.	**Management Response 1:** The University acknowledges the findings. The President's Office will conform to the current UT Austin institutional travel policy.	Follow-up to be performed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
Various – Last on 2/26/18	Presidential Travel and Entertainment Expenses Audit (continued)	**Recommendation 2 (UTEP):** The President's Office should work with Facilities Management to develop a process to ensure that all Hoover House maintenance expenses exceeding $1,000 are identified and included in the annual report submitted to UT System. Maintenance expenses are defined as "expenses related to a State-owned residence," which includes furnishing, maintenance, or repair/renovation of the residence and its grounds. In addition, approval by the CBO should be documented for maintenance expenses per the revised Regents' Rule 20205 (reimbursements of any amount and payments made on behalf of the president that are greater than $1,000). For those maintenance expenses exceeding $10,000, the President's Office should also consistently obtain advance and documented approval from the UT System committee.	**Management Response 2:** We concur with the recommendations and with the revised Regents' Rule 20205, Section 5.2.	Follow-up to be performed
05/21/18	Benefits Proportionality Audit	This audit resulted in no findings. Based on audit procedures performed, the Benefits Proportionality by Fund Report for all three appropriation years, as submitted to the State Comptroller, were accurate.		
07/17/18	Wide Area Network Management Audit	The report contains confidential information and is not subject to the disclosure requirements of the Texas Public Information Act, based on the Texas Government Code §552.139. Specific results of the audit were provided to appropriate members of UT System management.		
08/1/18	AUF Projects Oversight and Monitoring Review	**Recommendation 1:** Prior to requesting BOR approval for AUF funding, UT System leadership should formally adopt a consistent, collaborative approach to be used when planning UT System initiatives. This approach should include representatives from UT System and UT institutions at appropriate levels of leadership to ensure the appropriate level of buy-in for proposed initiatives, address key risks that may impair achievement of objectives, and incorporate development of a comprehensive business plan that addresses budget, deliverables, performance measures, and sustainability, as applicable. Formal adoption of the approach should be documented in a UT System policy or operating procedure to help ensure that sufficient planning steps are taken for each initiative. UT System leadership should also carefully evaluate the merit of proposed initiatives to encourage sustained commitment over time and to increase the likelihood that objectives can be achieved.	**Management Response 1:** Initiatives vary widely in scope, budget, duration, and complexity. However, each initiative should have appropriate levels of planning, engagement of institutions, budget controls, leadership responsibility, leadership accountability, and reporting requirements. UT System Administration will develop guidelines for ensuring that future projects embrace these essential elements. A template will be developed to facilitate identification of key elements, and a plan will be developed for implementation.	Follow-up to be performed

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
08/1/18	AUF Projects Oversight and Monitoring Review (continued)	**Recommendation 2:** UT System leadership should leverage existing efforts to encourage centralized monitoring and oversight of UT System initiatives which can have disparate objectives and are managed in a decentralized manner. This may include using centralized project management tools and providing relevant training to project owners. UT System leadership should also determine whether a single executive or team of executives should be charged with oversight of UT System initiatives and receive regular, consistent reports on each initiative's progress.	**Management Response 2:** These recommendations will be considered and included as appropriate in the guidelines (mentioned above) to be developed.	Follow-up to be performed
		Recommendation 3: UT System leadership should develop a comprehensive status report of UT System initiatives to the BOR. This report should include the financial status and progress toward achievement of desired objectives of UT System initiatives funded AUF and other sources of funds. This report could be provided to the BOR in coordination with the annual budget process and could assist in decision-making with respect to allocation of resources.	**Management Response 3:** Status report to BOR to be developed on a recurring basis in alignment with annual budget process. A one-time status report in late 2018 is planned to assist the new Chancellor in understanding status of various projects.	Follow-up to be performed
		Recommendation 4: UT System leadership should develop a consistent approach which project owners should utilize to evaluate closed initiatives. This approach should be designed to capture best practices and lessons learned that could be applied to the development of future initiatives.	**Management Response 4:** Recommended approach will be included in guidelines document to be developed.	Follow-up to be performed
		Recommendation 5: Leadership from the Offices of the BOR, Controller, General Counsel, and Governmental Relations should coordinate to develop a standard, finding of fact document that clearly supports management's eligibility determination prior to BOR approval for the allocation of AUF. Management should also consider formalizing its January 2016 internal guidance as a UT System policy or operating procedure and, within that, include guidance for completing the standard finding of fact document.	**Management Response 5:** Standard documentation for procedures for the review of eligibility for allocation of AUF will be drafted and in place for implementation for reviews in time for preparation for any items submitted for Board review at the February 2019 Board meeting.	Follow-up to be performed
08/20/18	GPO Control Validation Review	Sourcing and contract management controls as communicated during the accreditation process are in place and working as intended.		

III. Consulting Services & Non-audit Services Completed

Report Date	Report Name	High-Level Objectives(s)	Observations/Results/Recommendations
01/16/18	UT Arlington NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/16/18	UT El Paso NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/16/18	UT San Antonio NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/16/18	UT Rio Grande Valley NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Develop written procedures for the preparation of the Statement of Revenues and Expenses (SRE).
02/23/18	UTIMCO Software Development Life Cycle (SDLC) Review	Review the processes and controls surrounding Agile SDLC at UTIMCO.	Automate the movement of system changes, improve segregation of duties, and perform a risk analysis of system changes to improve the efficiency of the change migration process.
04/13/18	Office of General Counsel (OGC) Claims and Financial Litigation Review	Perform management review of the operations of OGC's Claims and Financial Litigation Section.	Develop measures related to resolving operational issues and increasing capacity, efficiency, and effectiveness.
08/06/18	UT Share Post Implementation Review	Conduct post-implementation review of UT Share PeopleSoft Financial Management Services and Human Capital Management production systems at UT System Administration and provide related guidance and oversight to the institutions.	Develop reference guide for institutional security administrators and automate reporting of access based on roles.
Various	Special Reviews	Special investigative reviews conducted at select UT institutions	Internal memos issued
Various	Procurement Workgroup Consulting – GPO Reviews	Perform GPO reviews	Internal memos issued

IV. **External Quality Assurance Review**

BAKER TILLY

Candor. Insight. Results.

May 25, 2017

Mr. J. Michael Peppers, Chief Audit Executive
The University of Texas System Administration

In May 2017, The University of Texas (UT) System Administration Audit Office (System Audit or IA) completed a self-assessment of internal audit activities in accordance with guidelines published by the Institute of Internal Auditors (IIA) for the performance of a quality assessment review (QAR). System Audit engaged an independent review team consisting of three internal audit professionals with extensive higher education and healthcare experience to perform an independent validation of System Audit's QAR self-assessment. The primary objective of the validation was to verify the assertions made in the QAR report concerning IA's conformity to the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* (the IIA *Standards*) and Code of Ethics, Generally Accepted Government Auditing Standards (GAGAS), and the relevant requirements of the Texas Internal Auditing Act (TIAA).

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally conforms" is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Based on our independent validation of the QAR performed by System Audit, we agree with System Audit's overall conclusion that the internal audit function **"Generally Conforms"** with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, as well as with System Audit's conclusions regarding GAGAS and TIAA requirements. Our review noted strengths as well as opportunities for enhancing the internal audit function.

This information has been prepared pursuant to a client relationship exclusively with, and solely for the use and benefit of, UT System Administration and System Audit and is subject to the terms and conditions of our related contract. Baker Tilly disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than UT System Administration and System Audit.

The review team appreciates the cooperation, time, and candid feedback of executive leadership, stakeholders, and System Audit personnel.

Very truly yours,

Baker Tilly Virchow Krause, LLP

V.   Internal Audit Plan for Fiscal Year 2019

FY 2019 Audit Plan	Budget	% of Total	General Objective/Description
Assurance Engagements			
Internal Lending Program (ILP) Audit	500		Determine if ILP management processes are adequate and appropriate.
Oil and Gas Audit - TBD Company	500		Determine if selected operator has accurately reported and paid royalties to University Lands.
Contracting Monitoring Process Audit	400		Determine if contract monitoring processes/controls are adequate and functioning.
System Administration Wireless Networks Audit	400		Determine if there are adequate processes/controls for managing the wireless networks in the new System Administration office building.
Texas Administrative Code (TAC) Section 202 Audit Assistance	90		Assist UTT and UTHSCT internal audit in their TAC Section 202 audits.
Incident Detection and Response Audit (TAC Section 202) - System Administration	400		Determine if there are adequate processes/controls for detecting and responding to cybersecurity incidents, and if they comply with TAC 202 information security control standards.
UTIMCO TBD Audit	400		Audit area will be chosen based on risk with UTIMCO management/Audit & Ethics Committee.
Group Purchasing Organization (GPO) Accreditation Applications Review and Control Validation	250		Determine if controls, as reported by GPO accreditation applicant, meet standards and are functioning as represented for a sample GPO.
Various Carryforward Audits	200		Completion of various FY 2018 risk based audits.
Assurance Engagements Subtotal	**3140**	**15.8%**	
Required Engagements			
Teacher Retirement System (TRS) Employer Audit	350		Determine accuracy/completeness of employee data reported to TRS.
UT System Administration & Consolidated Financial Audit Assistance	370		Assist the external auditor and institutions on the FY 2018 financial statements audit.
Joint Admissions Medical Program (JAMP) Audit	150		Provide opinion on JAMP financial statements.
NCAA Agreed-Upon Procedures	1650		Perform procedures on revenues/expenses of athletics at UTA, UTEP, UTPB, UTRGV, and UTSA.
Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits	1000		Determine if expenses are appropriate, accurate, and in compliance with applicable policies.
Carryforward Audits	500		Completion of FY 2018 required audits.
Required Engagements Subtotal	**4020**	**20.2%**	
Advisory and Consulting Engagements			
Enterprise Risk Management (ERM) Consulting	400		Assist Compliance with development of an ERM process for UT System.
Benefitfocus® Consulting	100		Assist the Office of Employee Benefits on implementation of benefits replacement system.
Construction Consulting - UT Austin, UTSW, UTMB, and UTMDACC	100		Assist institutions with delegated approval authority to ensure there are proper processes/controls over major capital construction.
UT Health Intelligence Platform (HIP) Consulting	100		Participate in project meetings related to the development of UT-HIP.
Board Office Information Security Consulting	200		Review processes and controls to assess the IT protections (e.g., security, access, etc.) that are in place over confidential information.
Donor Gift Management Process Consulting	150		Review processes in place to track donor gift funds used by System Administration.
Cybersecurity Reporting Framework	50		Coordinate Cybersecurity Reporting Framework project.
NCAA Athletics Consulting Assistance - UTT	50		Assist UTT internal audit, as needed, related to the institution's transition to be NCAA Division II.
System Administration Committees and Councils	300		Participate on System Administration Committees and Councils, including UT Share Operating and Executive Committees.
General Audit Assistance to System Administration	200		Provide general assistance and support to System Administration departments and response to management requests.
Advisory and Consulting Engagements Subtotal	**1650**	**8.3%**	
Reserve			
TBD Special Requests	600		Assist executive management in addressing unexpected issues.
Reserve Subtotal	**600**	**3.0%**	
Investigations			
Investigations Reserve	600		Reserve for investigations that may arise.
Investigations Subtotal	**600**	**3.0%**	
Follow-Up			
System Audit Follow Up Procedures	500		Follow-up on open recommendations from previous audits conducted by System Audit.
Follow-Up Subtotal	**500**	**2.5%**	

FY 2019 Audit Plan	Budget	% of Total	General Objective/Description
Development - Operations			
Internal Audit Strategy and Assistance to Institutions	1650		Develop strategy. Provide oversight, guidance, and assistance to internal audit Systemwide.
Systemwide Internal Audit Council, Communication, and Education	600		Manage Internal Audit Council meetings. Develop and deliver educational materials and communications to internal audit Systemwide.
Tracking Systems	350		Track audit reports, fraud/investigation activities, audit findings, etc. Systemwide.
Data Analytics	1000		Provide data analytics technical operations, script development, guidance, and support to internal audit.
Audit, Compliance, and Risk Management Committee (ACRMC) and Board of Regents	400		Prepare for ACRMC and Board of Regents meetings and address other requests from Regents.
UT System Administration Internal Audit Committee	400		Prepare for and attend System Administration Internal Audit Committee meetings.
Systemwide Annual Risk Assessment and Audit Plan	600		Prepare the Systemwide annual audit plan (including for System Audit Office) for approval by the ACRMC and analyze Systemwide trends.
Systemwide TeamMate Administration Process and Support, Website Management	700		Support the Systemwide administration of the audit management software (TeamMate) and develop P&Ps. Manage/update websites.
Management of the Internal Audit Activity	500		Manage the System Audit Office's internal audit activities such as prioritization and status updates of engagements.
UTIMCO Meetings and Oversight Activities	40		Attend UTIMCO Board of Directors, Committee, and other oversight meetings.
External Reporting and Requests	50		Prepare State Auditor's Office (SAO) annual report and other SAO/ external agencies reporting requests. Includes SB20 Compliance work.
System Audit Quality Assurance Activities	100		Conduct internal quality assurance activities, including quality related enhancements to System Audit Office's P&P and implementation of recommendations from External Quality Assessment (EQA).
Development - Operations Subtotal	**6390**	**32.1%**	
Development - Initiatives and Education			
Quality Program and Metrics Implementation	200		Strengthen leading practice and standards use with quality program implementation (Post TeamMate Implementation/EQA metrics).
Resource Capabilities and Knowledge/Resource Management	250		Expand resources and capabilities of auditors and facilitate knowledge/resource management development. Pilot Office 365 functionality for communication, resource management, etc.
Systemwide Initiative - Advisory Services	500		Systemwide Initiative to add more value through Advisory, Risk Based, and Consulting services.
Systemwide Initiative - Auditor IT Skill Development	500		Systemwide Initiative to develop IT audit capabilities in all auditors.
Internal Audit Staff Training and Professional Organizations	1550		Attend CPE training and participate in professional organizations.
Development - Initiatives and Education Subtotal	**3000**	**15.1%**	
Total Budgeted Hours	**19900**	**100.0%**	

Risk Assessment/Methodology Used to Develop FY 2019 Annual Audit Plan & High Risks Not Included
The Audit Plan outlines the internal audit activities that will be performed by the System Audit Office during FY 2019 in accordance with responsibilities established by UT System, the TIAA, the IIA *Standards*, and GAGAS. The plan is prepared using a risk-based approach to ensure that areas and activities with the greatest risk are identified for consideration to be audited. The Audit Plan includes audit work, which is included in the Assurance, Advisory and Consulting, Required, Investigations, and Follow-up sections; Development – Operations (ongoing System Administration and oversight activities); and Development – Initiatives & Education (developmental initiatives that may be employed over multiple years). The Audit Plan was approved by the UT System Administration Internal Audit Committee on 7/23/18 and by the UT System Board of Regents' Audit, Compliance, and Risk Management Committee on 8/9/18 as part of the Systemwide Audit Plan.

The System Audit Office's risk assessment approach was accomplished by defining important strategic initiatives and operational objectives of each of the System Administration offices. The risk assessment process was updated from past years by starting with activities self-assessed as important by over 30 System Administration offices. Activities were given risk ratings for Probability and Impact by the respective office. Subsequently, meetings were held with department heads, members of executive management, and other risk collaborators to review the activities, risks, and potential audits and consulting projects. Final ratings also incorporated past audit coverage and other interrelated risks. Using the risk ratings, engagements were identified to address the highest risks. In addition, the FY 2019 Audit Plan includes other required audits and reserve time for unanticipated items. As IT risks were the most prevalent in the prior years' risk assessment, additional focus was placed on IT risk through collaboration with IT and Information Security leadership to identify and agree upon critical services and

functions that could have a significant impact on business objectives. This included specific IT risks related to Title 1, Texas Administrative Code (TAC), Chapter 202, Information Security Standards. An audit of TAC 202 compliance in the area of Incident Detection and Response is planned for FY 2019.

An audit of benefits proportionality for appropriation year 2018 is not required for the FY 2019 Audit Plan. While a contract management audit is not on the FY 2019 Audit plan, the State Auditor's Office is conducting an audit of contracts at UT System Administration. Additionally, the FY 2019 Audit Plan does not include an internal audit related to expenditure transfers, capital budget controls, or other limitation or restriction in the General Appropriations Act (these areas may be reviewed as part of the external financial audit).

Additional critical/high risks that were identified but not part of the Audit Plan, were in the general areas of governance, legal, and information technology. While related engagements are not part of the FY 2019 Annual Audit Plan, there are other mitigating activities that address the objectives at risk.

VI. External Audit Services Procured in FY 2018

The University of Texas System contracted with Deloitte & Touche, LLP (Deloitte) to perform an independent audit of the FY 2017 UT System financial statements (including stand-alone audits at some of the institutions) and an independent audit of the FY 2017 financial statements of The University of Texas Investment Management Company (UTIMCO) Corporation, the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund (collectively, the Funds). Also, Deloitte performed interim work for the audit of the UT System and Funds' FY 2018 financial statements.

In addition, UT System contracted with Deloitte to complete audits of Cancer Prevention Research Institute of Texas (CPRIT) grants at seven UT institutions to conclude on the Schedule of Expenditures of State Awards for the CPRIT program and compliance over CPRIT programs (scope of FY 2017 grant activity), and with Weaver & Tidwell to perform agreed upon procedures at four UT institutions to determine compliance with CPRIT's rules, requirements, and Policies and Procedures guide; budget terms and conditions; and the institution's internal policies and procedures for FY 2017 activity. This was required by the granting agency, CPRIT.

The University of Texas System Administration contracted with Wolcott and Associates to perform benefit audits for the Office of Employee Benefits of employee and retiree medical and prescription insurance claims and contracted with R.L. Townsend and Associates to perform ongoing construction billing and final contract review audits for the Office of Facilities, Planning and Construction.

VII. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of General Appropriations Act (84th Legislature), Article IX, Section 7.09, Fraud Reporting and Texas Government Code, Section 321.022 include:

- SAO fraud reporting link on the bottom right of UT System homepage (http://www.utsystem.edu/)
- UT System policy UTS118 pertaining to fraudulent activities, including coordination of investigations and reporting of suspected fraud (https://www.utsystem.edu/sites/policy-library/policies/uts-118-dishonest-or-fraudulent-activities) UT System Hotline, which provides employees a way to report instances of suspected wrongdoing (http://www.utsystem.edu/offices/systemwide-compliance/hotline), including a link to report suspected fraud, waste, and abuse involving state funds to the SAO (https://sao.fraud.texas.gov/)
- The System Audit Office continues coordination with Systemwide Compliance and the Office of General Counsel regarding a Systemwide fraud reporting protocol and tool to help ensure consistent and timely communication.