

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

**Annual Audit Report  
Fiscal Year 2019**



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 .....	1
II.	INTERNAL AUDIT PLAN FOR FISCAL YEAR 2019 .....	2
III.	CONSULTING SERVICES & NON-AUDIT SERVICES COMPLETED .....	11
IV.	EXTERNAL QUALITY ASSURANCE REVIEW .....	12
V.	INTERNAL AUDIT PLAN FOR FISCAL YEAR 2020.....	13
VI.	EXTERNAL AUDIT SERVICES FOR FISCAL YEAR 2018 .....	15
VII.	REPORTING SUSPECTED FRAUD AND ABUSE .....	15
VIII.	CONTRACTING AUDITS .....	16



**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 2019 Internal Audit Annual Report, which includes its approved FY 2020 Annual Audit Plan (see Section V), a summary of weaknesses/concerns and related actions taken resulting from the FY 2019 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 2019**

<b>FY 2019 Audit Plan – Engagements</b>	<b>Status of Plan</b>
<b>Assurance Engagements</b>	
UT Share User Access Review (System Admin)	11/30/18
Oil and Gas Audit - QEP Resources	10/26/18
Oil and Gas Audit - TBD Company	Cancelled
Contracting Monitoring Process Audit	7/11/19
System Administration Wireless Networks Audit	6/5/19
Incident Detection and Response Audit (TAC Section 202) - System Administration	Cancelled
UTIMCO TBD Audit	Postponed to FY20
Group Purchasing Organization (GPO) Accreditation Applications Review	8/19/19
Group Purchasing Organization (GPO) Control Validation Review	7/31/19
TAC Section 202 Audit Assistance - UTT	Cancelled
TAC Section 202 Audit Assistance - UTHSCT	Complete – Report NA
<b>Advisory and Consulting Engagements</b>	
Internal Lending Program (ILP) Consulting	Carryforward to FY20
UT Health Intelligence Platform (HIP) Consulting	Ongoing – Report NA
Board Office Information Security Consulting	8/30/19
Donor Gift Management Process Consulting	Cancelled
Benefitfocus® Consulting	Ongoing – Report NA
Enterprise Risk Management (ERM) Consulting	Ongoing – Report NA
Health Affairs Consulting	Carryforward - 10/28/19
UTS 142.1 Consulting	Complete – Report NA
NCAA Athletics Consulting Assistance - UTT	Complete – Report NA
Construction Consulting - UT Austin, UTSW, UTMB, and UTMDACC	Cancelled
UT Share Operating and Executive Committees Participation	Ongoing – Report NA
Cybersecurity Reporting Framework	Complete – Report NA
General Audit Assistance to System Administration	Ongoing – Report NA
System Administration Committees and Councils	Ongoing – Report NA
UTIMCO Meetings and Oversight Activities	Ongoing – Report NA
<b>Required Engagements</b>	
UTIMCO CEO and Executive Travel and Other Expenses	11/30/18
Executive Travel and Entertainment	10/18/18
Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits - FY18	2/8/19
UT System Administration & Consolidated FY 2018 Financial Audit Assistance	Deloitte Report
UT System Administration & Consolidated FY 2019 Financial Audit Assistance	Deloitte Report
Teacher Retirement System (TRS) Employer Audit	3/27/19
Joint Admission Medical Program (JAMP) Audit	11/9/18
Guidance to Institutions on Systemwide Financial Audit - FY 2018	Complete – Report NA
Guidance to Institutions on Systemwide Financial Audit - FY 2019	Complete – Report NA
NCAA Agreed-Upon Procedures at UT Arlington	1/15/19
NCAA Agreed-Upon Procedures at UT El Paso	1/15/19
NCAA Agreed-Upon Procedures at UT Permian Basin	1/15/19 reissued 2/12/19
NCAA Agreed-Upon Procedures at UT Rio Grande Valley	1/15/19
NCAA Agreed-Upon Procedures at UT San Antonio	1/15/19
Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits - FY19	Carryforward -10/28/19



<b>Investigations</b>	
UTSA Special Project	Internal Memo
UTT Special Project	Internal Memo
UTA Special Project	External Report
<b>Follow-Up</b>	
System Audit Follow Up Procedures	Various Memos
<b>Development - Operations</b>	
Assistance to Institutions - Academic	Ongoing – Report NA
Assistance to Institutions - Health	Ongoing – Report NA
Assistance to Institutions - All	Ongoing – Report NA
Assistance to Institutions - IT Related	Ongoing – Report NA
Systemwide Annual Risk Assessment and Audit Plan	Complete – Report NA
Audit, Compliance, and Risk Management Committee (ACRMC) & Board of Regents	Quarterly – Report NA
Systemwide Internal Audit Council, Communication, and Education	Ongoing – Report NA
Fraud and Investigation Tracking	Ongoing – Report NA
Systemwide Internal Audit Annual Reporting	Complete – Report NA
Internal Audit Strategy	Ongoing – Report NA
General Communications	Ongoing – Report NA
Systemwide TeamMate Administration Support	Ongoing – Report NA
Online Reporting	Ongoing – Report NA
Systemwide Findings Tracking	Ongoing – Report NA
Data Analytics	Ongoing – Report NA
UT System Administration Internal Audit Committee	Quarterly – Report NA
Management of the Internal Audit Activity	Ongoing – Report NA
System Audit Office Annual Risk Assessment and Audit Plan	Complete – Report NA
System Audit Quality Assurance Activities	Ongoing – Report NA
TeamMate Maintenance, Website Updates, SharePoint Site Management	Ongoing – Report NA
External Reporting and Requests	Complete – Report NA
Systemwide TeamMate Administration Processes	Ongoing – Report NA
<b>Development - Initiatives and Education</b>	
Systemwide Initiative - Advisory Services	Ongoing – Report NA
Systemwide Initiative - Auditor IT Skill Development	Ongoing – Report NA
Quality Program and Metrics Implementation	Ongoing – Report NA
Resource Capabilities and Knowledge/Resource Management	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 2019 annual audit plan except for the deviations noted below. A few engagements for which reports had not yet been issued at the end of FY 2019 were carried forward for completion in FY 2020. Changes from the original FY 2019 annual audit plan were presented to and approved by the UT System Administration Internal Audit Committee throughout the fiscal year as follows.

- *Engagements Cancelled:* Oil and Gas Audit; Incident Detection and Response Audit; UTIMCO TBD Audit; TAC Section 202 Audit Assistance; Donor Gift Management Process Consulting; Construction Consulting
- *Engagements Added:* Health Affairs Consulting; UTS 142.1 Consulting;



***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 2019, 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:***

State of Texas General Appropriations Act (86th Legislature, House Bill 1) Section 6.08 requires an audit of appropriation years 2018 and 2019. To comply with this, a benefits proportionality audit will be conducted as part of the FY 2020 annual audit plan. This audit was not done in FY 2019 because the prior Act only required audits of appropriation years 2015-2017, which was completed as part of the FY 2018 audit plan.

***TGC Section 2102.015:***

A summary table of recommendations made to address issues identified from FY 2019 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.



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2019

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
10/18/18	Executive Travel and Entertainment (T&E) Expenses Audit	This audit resulted in no reportable recommendations.		
10/26/18	Oil and Gas Audit - QEP Resources	The report contains confidential information and is not subject to the disclosure requirements of the Texas Public Information Act based on the Texas Education Code §66.81. Specific results of the audit were provided to University Lands and appropriate members of UT System management.		
11/09/18	JAMP Audit	This audit resulted in no reportable recommendations.		
11/30/18	UT Share User Access Review (System Admin)	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.		
11/30/18	UTIMCO CEO and Executives T&E Expenses Audit	This audit resulted in no reportable recommendations.		
Various - 10/08/18 through 02/08/19	Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits (Carryforward from FY 2018)	<p><b>Recommendation 1 (UTRGV):</b> The Office of the President should implement a process to ensure that travel and entertainment expenses that are paid using methods other than the president's One Card are also reviewed by the Chief Business Officer (CBO) with documented approval.</p> <p><b>Recommendation 2 (UTRGV):</b> The Office of the President should implement a process to ensure that the president provides a completed tax exemption certificate for Texas lodging so that hotel occupancy taxes are not paid going forward. Additionally, a review of past Texas trips should be performed to identify if other payments of hotel occupancy tax were made, either with state or local funds. If discovered, efforts should be made to request refunds from the hotels. If any reimbursements were received from the State Comptroller for payments from state funds, they should be returned.</p>	<p><b>Management Response 1:</b> The Office of the President is working with the offices of the Executive Vice President for Finance &amp; Administration, Procurement and Internal Audits to implement an electronic process where the CBO will be able to approve all presidential travel and entertainment expenses. Until the electronic process is implemented, the Office of the President will continue to provide hard copies to the CBO for review of documented expenses.</p> <p><b>Management Response 2:</b> The Office of the President is strengthening the process by providing the President with the tax exemption form for all his travels. Furthermore, the Executive Assistant to the President is making sure to send the tax exemption form for the lodging so that hotel occupancy taxes are not charged. After the travel, the Executive Assistant and the Accountant for the Office of the President will review the hotel folio for the trip to ensure that the state taxes were not paid. If the tax exemption form is omitted and the taxes are paid, the Executive Assistant will contact the hotel to ensure that the taxes are refunded to the President's One Card. A review of the past Texas trips for the President is being performed by the Accountant and Executive Assistant to ensure that no additional state taxes were paid during the year. The hotels will be contacted if the taxes were paid to request a refund to the university account.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2019

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
Various - 10/08/18 through 02/08/19	Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits (continued)	<p><b>Recommendation 3 (UTRGV):</b> The Office of the President should ensure that adequate explanation is included in the supporting documentation submitted with travel and entertainment expenses, specifically when there is a special or unusual occurrence, to assist in the CBO review process. Consideration should be given to adding information to show cost per person for business entertainment expenses, so that any overages are clearly identified, reviewed, and approved.</p> <p><b>Recommendation 4 (UTPB):</b> The President's Office, working with Business Affairs, should implement a process, or modify current processes, as determined to be most practical, to ensure that all direct-billed actual expenses for the president and her spouse are reviewed with documented approval by the CBO.</p> <p><b>Recommendation 5 (UTMDACC):</b> The Office of the President, working with the Office of Business Affairs, should facilitate a process to retain documentation of the CBO's review and approval of direct billed travel and entertainment expenses for the president. Documented CBO approval should also be kept for the president's spouse's direct-billed and reimbursed travel and entertainment expenses, if paid with Office of the President funds.</p>	<p><b>Management Response 3:</b> The Office of the President will ensure that adequate explanation is included in all supporting documentation for travel and entertainment expenses to assist the CBO in the review process. For travel, the documentation sent to the CBO will include the business purpose as well as the reasons, if any, for flight changes/cancellations that occur during the trip and any planned personal expenses that the President might make. For entertainment expenses, the documentation submitted to the CBO for approval will include the business purpose, participants and their title (when 10 or less), and will clearly identify any entertainment overages in the cost allowance per person to ensure that the CBO has all relevant information necessary when reviewing and approving these expenses.</p> <p><b>Management Response 4:</b> The Vice President of Business Affairs and Chief Financial Officer (CFO) will review/ approve all costs that are directly billed for travel and entertainment. Current estimates for direct billed travel costs will be as accurate as possible, and if the amount is more than a \$100 difference (from the time the travel was created, and the time it is approved), the authorization form will be re-submitted for review and approval by the CFO.</p> <p>In addition, in the event that a correction has been made to a travel reimbursement, this amendment will be resubmitted to be reviewed and resigned by the CFO.</p> <p>All social fees are now being reviewed and approved by the CFO. This was implemented immediately, as soon as the observation was made known to our department.</p> <p><b>Management Response 5:</b> Due to a change in Concur, airfare is no longer tied to other expenses related to trips approved by the CBO. A process will be implemented to have the CBO review and approve all direct billed airfare and entertainment expenses for the president and his spouse in her role as first lady.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>





The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2019

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
Various - 10/08/18 through 02/08/19	Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits (continued)	<p><b>Recommendation 6 (UTMDACC):</b> The Office of the President should implement a process to ensure that state hotel occupancy taxes are not paid for Texas lodging going forward. Additionally, a review of past Texas trips should be performed to identify if any other payments of state hotel occupancy taxes were made, either with state or local funds. If discovered, efforts should be made to request refunds from the hotels. If any reimbursements were received from the State Comptroller for amounts paid with state funds, they should be returned.</p>	<p><b>Management Response 6:</b> Will make every effort to have the president present the hotel tax exempt form when checking in to a State of Texas hotel. If he is billed for hotel taxes, the Office of the President will make every effort to work with the hotel to seek reimbursement and ensure no taxes are paid from State funds.</p>	Follow-up to be performed
3/27/19	Teacher Retirement System (TRS) Employer Audit	<p><b>Recommendation 1:</b> The Office of Human Resources (OHR), should work with the Office of General Counsel (OGC) and Contracts &amp; Procurement to develop policies and procedures for the supervision and monitoring of independent contractors to ensure those contractors are being treated as described in agreed upon statements of work and not being treated as employees.</p> <p><b>Recommendation 2:</b> OHR should work with OGC and Contracts &amp; Procurement to develop a consistent procedure for evaluating the employment status of all contractors to facilitate compliance with Internal Revenue Service (IRS), Texas Workforce Commission (TWC), and TRS requirements. This process should incorporate elements of the TWC 20-factor test, include consideration of the TRS retirement status of potential contractors, and be applied consistently to all contractors (including those who provide services through a UT System vendor or UT System institution).</p> <p><b>Recommendation 3:</b> The Payroll Office should work with Shared Information Services to ensure that the query used to prepare the Employment After Retirement (EAR) report includes all TRS retirees and captures actual hours worked by TRS retirees and ensure that employees are not inadvertently dropped from reports due to TRS kicking back error records. Additionally, UT System should remit any surcharges due to TRS.</p>	<p><b>Management Response 1:</b> OHR will form a task force to formally establish a comprehensive contractor employment process in compliance with all federal and state requirements. The task force will be comprised of representatives from the UT System OHR, OGC and Office of Contracts &amp; Procurement. The desired outcomes of the task force are implementation of the following: a UT System policy (HOP), process improvement, training resources and an internal communication plan.</p> <p><b>Management Response 2:</b> OHR will form a task force to formally establish a comprehensive contractor employment process in compliance with all federal and state requirements. The task force will be comprised of representatives from the UT System OHR, OGC and Office of Contracts &amp; Procurement. The desired outcomes of the task force are implementation of the following: a UT System policy (HOP), process improvement, training resources and an internal communication plan.</p> <p><b>Management Response 3:</b> The Payroll Office will work with Shared Information Services to create a more inclusive query that includes all TRS retirees and all hours worked by TRS retirees. A monthly manual review will prevent TRS retirees being dropped from the report. UT System has remitted all surcharges due to TRS as of 3/25/2019.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2019

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
3/27/19	Teacher Retirement System (TRS) Employer Audit (continued)	<p><b>Recommendation 4:</b> OHR should develop a process to monitor hourly and temporary employees for TRS eligibility and UT System benefits eligibility, similar to or concurrent with the process currently in place to monitor compliance with the Affordable Care Act (ACA). Any employees who meet eligibility requirements should be offered the opportunity to participate in employee benefits programs.</p> <p><b>Recommendation 5:</b> The Payroll Office should work with Shared Information Services to ensure that the query used to prepare the Regular Payroll (RP) report includes all TRS participants and ensure that employees are not inadvertently dropped from reports due to TRS rejecting records with potential errors.</p> <p><b>Recommendation 6:</b> OHR should:</p> <ul style="list-style-type: none"> <li>• Develop a process to ensure that Optional Retirement Program (ORP)-eligible positions are properly designated as such in PeopleSoft and that only ORP-eligible employees enroll in the ORP;</li> <li>• Retain supporting documentation that enrolled employees were eligible at the time of their election; and</li> <li>• Develop a consistent process for recording ORP eligibility and election dates in PeopleSoft and reporting those dates to TRS. This process should align with the UT System ORP Plan Document.</li> </ul>	<p><b>Management Response 4:</b> Using internal (current ACA process) and external benchmarks (UTShare institutions) OHR will establish processes which will monitor 1) TRS eligibility and 2) UT System benefits eligibility (specifically for classified hourly/wages employees). OHR will need to accurately identify the employee pool to monitor i.e. classified hourly and return to work retirees. Additional consideration will be given to the appropriate methodology for identifying this pool systemically such as modifying job codes. Further consideration will be given to documenting and communicating a formal process to hiring classified hourly employees.</p> <p><b>Management Response 5:</b> The Payroll Office will work with Shared Information Services to improve the queries used to prepare RP reports. We will also take advantage of enhanced access to TRS files in order to verify that employees are not inadvertently dropped from reports.</p> <p><b>Management Response 6:</b> In partnership with Shared Information Services, OHR has recently finalized process design documents specifically named "Complete Candidate Processing." This process design document includes management of ORP-eligible positions and is being applied to a PeopleSoft "modernization" initiative. OHR will create a team to revisit the processes applicable to an ORP-eligible position and will include, but not limited to, review of position management, hiring process (state service verifications), and PeopleSoft entry/documentation in accordance with UT System ORP plan document.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>
06/05/19	System Administration Wireless Networks Audit	<p>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.</p>		



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2019

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
07/11/19	Contracting Monitoring Process Audit	<p><b>Recommendation 1:</b> The Office of Contracts and Procurement (CNP) should work with executive management to procure a contract management software solution, which could improve the efficiency of the entire contracting process for both CNP and contract managers. Software could significantly enhance CNP's ability to monitor high-risk contracts, including expiration and renewal dates, and more quickly identify potential challenges. Software could also facilitate the monitoring of contract spending and other specific contract attributes, such as meetings with vendors, receiving vendor reports, and Historically Underutilized Business (HUB) compliance, without the use of spreadsheets so that offices can readily obtain or report information as part of their contract monitoring responsibilities. A contract management solution, if implemented well, could improve the overall efficiency in procuring and managing contracts for System Administration.</p> <p><b>Recommendation 2:</b> CNP should work with the Office of the Controller to determine whether an existing field in PeopleSoft could be used to facilitate tracking and summarizing of spending by individual contract. Alternately, CNP could determine whether Shared Information Services could incorporate a contract tracking field into the appropriate PeopleSoft pages. If such a field can be implemented, communicate appropriate usage of this field to UT Share users at System Administration and the other UT Share institutions to ensure the contract reference information is included with each contract payment.</p> <p><b>Recommendation 3:</b> Based on feedback received from contract managers, CNP should consider developing and offering training in separate sessions for office leaders and contract managers to communicate the appropriate level of detail to each group, including providing additional guidance on any specific attributes that should be monitored by contract managers.</p>	<p><b>Management Response 1:</b> CNP agrees. CNP and the Controller's Office are currently evaluating a product from AMTdirect which will address both GASB 87 lease reporting requirements and has functionality to serve as a contract management database and data repository.</p> <p><b>Management Response 2:</b> CNP agrees that this would provide a partial solution for System Administration contracts. Master agreements that are executed at the campus level via project addenda or work order would be excluded since, with the exception of UT Share sites, all instances of PeopleSoft (and in the case of UT Austin, Workday) are not integrated.</p> <p><b>Management Response 3:</b> CNP agrees. Contract manager training for 2019 will be developed based on this recommendation.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>



The University of Texas System Administration  
System Audit Office

Annual Audit Report  
Fiscal Year 2019

Report Date	Report Name	Recommendations to address Issues	Management Response/Action Plan	Status
07/11/19	Contracting Monitoring Process Audit (continued)	<p><b>Recommendation 4:</b> CNP should consider adjusting the risk assessment so that some factors, such as Data Security Issues (which may have HIPAA, FERPA , or other statutory implications) and contracts with undermined total amounts, can be ranked as high risk to raise the level of monitoring activities required for that contract, and add written definitions of each risk factor for clarification.</p> <p><b>Recommendation 5:</b> CNP should ensure that an appropriate contact is listed to receive certificates of insurance in future contracts. Offices should be reminded of their responsibility to collect certificates of insurance prior to the commencement of work (e.g., by including this in the monitoring plan), and if appropriate, develop a workflow to ensure that the certificates are stored in Content Navigator (System Administration’s document repository).</p> <p><b>Recommendation 6:</b> CNP should develop a mechanism for the responsible offices to obtain and provide feedback for Systemwide contracts that are used by the institutions and include this step as either part the monitoring plans or contract close out, as applicable. Such information could provide valuable performance information and assist in developing new contracts or renewing or amending existing ones.</p>	<p><b>Management Response 4:</b> CNP agrees. CNP will review all risk categories and risk levels to ensure that they are appropriate moving forward. CNP will work with the Information Security Office and Privacy Officer to determine more appropriate approaches to identifying risk levels and development of risk mitigation strategies to be included in Contract Monitoring Plans.</p> <p><b>Management Response 5:</b> CNP agrees. CNP will include this requirement in contract manager training and include as a requirement on contract monitoring plans. A process will need to be developed that is inclusive of all contracts with insurance requirements given that not all contracts require written monitoring plans. Inclusion of the insurance certificate may be best initiated as part of a new contract management system. The system under consideration has workflow and reminder capability, as well as folders for storing documents associated with a contract.</p> <p><b>Management Response 6:</b> CNP agrees. The Contract Close-Out checklist that is being developed will add a section for Contract Managers to assess supplier performance including feedback from UT institutions that utilized the agreement.</p>	<p>Follow-up to be performed</p> <p>Follow-up to be performed</p> <p>Follow-up to be performed</p>
07/31/19	GPO Control Validation Review	Sourcing and contract management controls as communicated during the accreditation process are in place and working as intended.		
Various - 08/19/19 through 10/28/19	Chief Administrator Travel, Entertainment & University Residence Maintenance Expense Audits	This audit resulted in no reportable recommendations.		



**III. Consulting Services & Non-audit Services Completed**

<b>Report Date</b>	<b>Report Name</b>	<b>High-Level Objectives(s)</b>	<b>Observations/Results/Recommendations</b>
01/15/19	UT Arlington NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' Statement of Revenues and Expenses (SRE)	Enhance certain processes over student financial aid
01/15/19	UT El Paso NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Ensure appropriate classifications of certain SRE line items.
01/15/19 and reissued 02/12/19	UT Permian Basin NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Ensure the accuracy of select SRE line items, adjust funding source for some Athletics employees' compensation, improve accuracy of athletic student aid information reported to the NCAA, and reconcile student aid amounts recorded in different systems.
01/15/19	UT Rio Grande Valley NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	None
01/15/19	UT San Antonio NCAA Agreed-Upon Procedures	Perform NCAA Agreed-Upon Procedures on Athletics' SRE	Ensure accuracy and proper use of funds for certain SRE line items; maintain supporting documentation for the foundation, budget approvals, and financial aid; and review the calculation of equivalencies.
08/17/19	GPO Accreditation Review	Perform accreditation review of GPO applicants	Internal memo issued
08/30/19	Board Office Consulting Project	Perform an advisory review of the security of Board Office e-data.	Internal memos issued
10/28/19	Health Affairs Consulting	Review on the use of distributions from the UT Professional Medical Liability Benefit Plan funds.	Internal report issued
Various	Special Reviews	Special investigative reviews conducted at select UT institutions	Reports/memos issued, as appropriate



#### IV. External Quality Assurance Review



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 2020**

FY 2020 Audit Plan	Budget	% of Total	General Objective/Description
<b>Assurance Engagements</b>			
Business Process and Departmental Reviews	400		Ensure processes and controls are adequate and in place for select departments impacted by the System Administration restructure and reduction in resources.
Employee Onboarding and Offboarding Process Audit	400		Determine if there are proper processes and controls around onboarding and offboarding of System Administration employees related to legal/policy requirements, system access, coverage of duties, etc.
Account Reconciliation Process Audit	300		Determine if the new account reconciliation process and system set up in PeopleSoft for System Administration is appropriate to adequately monitor reconciliation of accounts and segregations of duties.
Oil and Gas Audit - TBD Company	500		Determine if a selected operator (TBD) has accurately reported and paid oil and gas royalties to University Lands.
Governance and Management of Shared Systems, Services, and Infrastructure Audit	400		Assess the effectiveness and efficiency of governance structures and service delivery for shared information systems and technology infrastructure (will be <i>co-sourced</i> ).
IT Asset Management Audit (TAC 202)	300		Determine if there are adequate processes/controls surrounding the management of information technology assets, including both hardware and software, and if they comply with TAC 202 information security control standards.
Database Applications Audit	250		Assess controls protecting information resources stored and processed by database applications developed and managed by System Administration.
Group Purchasing Organization (GPO) Accreditation Applications Review and Control Validation	200		Determine if controls, as reported by GPO accreditation applicant, meet standards and are functioning as represented for a sample GPO.
<b>Assurance Engagements Subtotal</b>	<b>2750</b>	<b>17.5%</b>	
<b>Advisory and Consulting Engagements</b>			
Security Assessments Action Plans Monitoring	75		Monitor the implementation of action plans resulting from the Security Assessments.
Benefitfocus® Consulting	50		Assist the Office of Employee Benefits on implementation of Benefitfocus®, their benefits replacement system.
UT Health Intelligence Platform (HIP) Consulting	75		Participate in project meetings, etc. related to the development of UT-HIP.
Construction Consulting	100		Obtain <i>co-source</i> assistance to provide guidance on the appropriate processes and controls to manage major capital construction projects in the new office structure.
Enterprise Risk Management Consulting	100		Assist Compliance with development of an ERM process for UT System.
UTIMCO Risk Information Consulting	400		Review the information provided to the UTIMCO Risk Committee and the monitoring activities surrounding it based on agreed upon procedures with management.
UTIMCO Meetings and Oversight Activities	50		Attend UTIMCO Board of Directors, Committee, and other oversight meetings.
General Audit Assistance to System Administration	300		Provide general assistance and support to System Administration departments and response to management requests.
System Administration Committees and Councils	200		Participate on System Administration Committees and Councils, including UT Share Operating and Executive Committees.
<b>Advisory and Consulting Engagements Subtotal</b>	<b>1350</b>	<b>8.6%</b>	
<b>Required Engagements</b>			
Chief Administrator and Executive Travel and Entertainment Expense Audits, including UTIMCO	1400		Determine if travel and entertainment expenses are appropriate, accurate, and in compliance with applicable policies for Chief Administrators and executives.
Benefits Proportionality Audit & Guidance to the Institutions	75		Audit of the processes surrounding the calculation of proportional benefits at System Administration.
UT System Administration & Consolidated Financial Audit Assistance, including Guidance to Institutions	250		Assist the external auditor on the System Administration and Consolidated FY 2019 financial statements audit. Provide guidance and coordination to institutions.
NCAA Agreed-Upon Procedures	1250		Perform procedures on revenues/expenses of athletics at UTA, UTEP, UTRGV, and UTSA.
<b>Required Engagements Subtotal</b>	<b>2975</b>	<b>18.9%</b>	
<b>Investigations</b>			
Investigations Reserve	400		Reserve for investigations that may arise.
<b>Investigations Subtotal</b>	<b>400</b>	<b>2.5%</b>	
<b>Reserve</b>			
TBD Special Requests	800		Assist management in addressing unexpected issues.
<b>Reserve Subtotal</b>	<b>800</b>	<b>5.1%</b>	
<b>Follow-Up</b>			
System Audit Follow Up Procedures	300		Follow-up on open recommendations from previous audits conducted by System Audit.
<b>Follow-Up Subtotal</b>	<b>300</b>	<b>1.9%</b>	



FY 2020 Audit Plan	Budget	% of Total	General Objective/Description
<b>Development - Operations</b>			
Audit, Compliance, and Risk Management Committee (ACRMC) and Board of Regents	400		Prepare for and attend ACRMC and Board of Regents meetings. May also include other reports for and requests from Regents.
UT System Administration Internal Audit Committee	400		Prepare for and attend System Administration Internal Audit Committee meetings.
System Audit Office & Systemwide Annual Risk Assessment and Audit Plan	500		Develop the System Audit Office's annual audit plan. Prepare the Systemwide annual audit plan and analyze Systemwide risk, audit, and issue trends.
Systemwide Internal Audit Council	500		Hold Internal Audit Council meetings, including efforts on Internal Audit strategic activities, communication and education among the Chief Audit Executives and senior staff.
Assistance to Institutions	1000		Provide oversight, guidance, and assistance to the internal audit Systemwide.
Internal Audit Strategy	50		Develop internal audit strategy - System Audit and Systemwide, including operations reporting.
Data Analytics	800		Provide data analytics technical operations, script development, guidance, and support.
Tracking Systems	550		Track, summarize, and report on audit reports, fraud/investigation activities, audit findings, etc. Systemwide
System Audit Quality Assurance Activities	150		Conduct internal quality assurance activities, including quality related enhancements to System Audit Office's processes and implementation of recommendations from External Quality Assessment (EQA).
External Reporting and Requests	100		Prepare State Auditor's Office (SAO) annual report and other SAO/external agency reporting requests. Includes TEC 51.9337 Compliance work.
Systemwide TeamMate Administration Process and Support, Website Management	450		Support the Systemwide administration of the audit management software. Manage/update websites.
Management of the Internal Audit Activity	400		Manage the System Audit Office's internal audit activities such as prioritization and status updates of engagements.
<b>Development - Operations Subtotal</b>	<b>5300</b>	<b>33.7%</b>	
<b>Development - Initiatives and Education</b>			
Systemwide Initiative - Auditor IT Skill Development	150		Systemwide Initiative to develop IT audit capabilities in all auditors with facilitation by Postlethwaite & Netterville.
Systemwide Initiative - Advisory Services	100		Systemwide Initiative to add more value through Advisory, Risk Based, and Consulting services.
Quality Program and Metrics Implementation	300		Strengthen leading practice and standards use with quality program implementation.
Resource Capabilities and Knowledge/Resource Management	300		Expand resources and capabilities of auditors and facilitate knowledge/resource management development.
Internal Audit Staff Training	900		Attend Continued Professional Education training.
Professional Organizations and Associations	100		Participate in professional organizations.
<b>Development - Initiatives and Education Subtotal</b>	<b>1850</b>	<b>11.8%</b>	
<b>Total Budgeted Hours</b>	<b>15725</b>	<b>100.0%</b>	

**Risk Assessment/Methodology Used to Develop FY 2020 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 2020 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 6/6/19 and by the UT System Board of Regents' Audit, Compliance, and Risk Management Committee on 8/14/19 as part of the Systemwide Audit Plan.

The System Audit Office's risk assessment approach was accomplished by evaluating important strategic initiatives and operational objectives that were previously defined for each of the System Administration offices. Meetings were held with department heads, members of executive management, and other risk collaborators to review the activities, associated risks, and potential audits and consulting projects. Risks were ranked, based on probability and impact ratings as well as past audit coverage and other interrelated risks. Engagements were identified to address the highest risks. In addition, the FY 2020 Audit Plan includes other required engagements and reserve time for unanticipated items.





As in past years, 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 IT Asset Management is planned for FY 2020. In addition, the FY 2020 plan includes hours to monitor actions planned to address results from the network assessment and incident response project commissioned by the Information Security Office.

An audit of benefits proportionality for appropriation years 2018-2019 is on the FY 2020 Audit Plan. An audit of the contracts monitoring process at System Administration was completed in FY 2019 and follow-up procedures to determine implementation of recommendations will be conducted in FY 2020. Additionally, the State Auditor's Office conducted an audit of contracts at UT System Administration in FY2019. The FY 2020 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; however, 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, finance, and auxiliary services. While related engagements are not part of the FY 2020 Annual Audit Plan, there are other mitigating activities that address the objectives at risk.

## **VI. External Audit Services Procured in FY 2019**

The University of Texas System contracted with Deloitte & Touché, LLP (Deloitte) to perform an independent audit of the FY 2018 UT System financial statements (including stand-alone audits at some of the institutions) and an independent audit of the FY 2018 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 2019 financial statements.

In addition, UT System contracted with Deloitte to complete audits of Cancer Prevention Research Institute of Texas (CPRIT) grants at select UT institutions to conclude on the Schedule of Expenditures of State Awards for the CPRIT program and compliance over CPRIT programs (scope of FY 2018 grant activity). Other UT institutions may separately contract with other vendors to perform agreed upon procedures.

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 (84<sup>th</sup> 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.

**VIII. Contracting Audits**

Senate Bill 65 (86th Legislature, Regular Session) requires the SAO to assign a level of contract monitoring to each of the 25 largest state agencies in a state fiscal year as determined by the Legislative Budget Board (LBB). The rating is based on a variety of factors, including the results of an audit of an applicable agency’s contracts and contract processes and controls conducted by the agency’s internal auditors.

UT System Administration is one of the 25 designated state agencies. To assist the SAO in performing this function, audit reports related to contracts and contract processes and controls completed in the last five years (fiscal years 2015 to current) are included below.

<b>Report Title</b>	<b>Report Date</b>	<b>Follow-Up</b>
UT Austin Procurement Special Review	11/04/2014	Recommendations closed
Procurement Workgroup Consulting - GPO Accreditation Application Reviews	05/31/2016	Not applicable
Compliance Review - TEC 51.9337	11/01/2016	Not applicable
UTMDACC Procurement Special Review	01/31/2017	Not applicable
Contracting and Procurement Process Audit	01/27/2017	Not applicable. Improvements were planned and in process when the audit was conducted; therefore, no management action plans were required.
GPO Accreditation Application Reviews	05/19/2017	Not applicable
UTSW Procurement Special Review	05/30/2017	Not applicable
UTMDACC Procurement Special Review	07/18/2017	Not applicable
GPO Control Validation Review - UT Supply Chain Alliance	08/18/2017	Not applicable
Compliance Review - TEC 51.9337	10/24/2017	Not applicable
GPO Control Validation Review - E&I	08/20/2018	Not applicable
GPO Accreditation Application Reviews	08/27/2018	Not applicable
Compliance Review - TEC 51.9337	10/31/2018	Not applicable
Contract Monitoring Process Audit	07/11/2019	Follow-up will be performed in FY20.
GPO Control Validation Review - Premier Inc.	07/31/2019	Not applicable
GPO Accreditation Application Reviews	08/19/2019	Not applicable
Compliance Review - TEC 51.9337	11/01/2019	Not applicable