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Committee Meeting: 5/11/2011

Brenda Pejovich, Chairman
Paul L. Foster, Vice Chairman
Alex M. Cranberg
Wallace L. Hall, Jr.

Board Meeting: 5/12/2011
Austin, Texas

	Committee Meeting	Board Meeting	Page
A. CONVENE	4:00 p.m. <i>Chairman Pejovich</i>		
1. U. T. System: Report on the external audit of the Fiscal Year 2010 U. T. M. D. Anderson Cancer Center Annual Financial Report and the plan for the external audit of the Fiscal Year 2011 U. T. System Annual Financial Report	4:00 p.m. Report/Discussion <i>Ms. Vicki Keiser,</i> <i>Deloitte & Touche</i>	Not on Agenda	25
2. U. T. System Board of Regents: Approval of proposed appointment of members to the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company (UTIMCO)	4:20 p.m. Action <i>Chairman Pejovich</i>	Action	37
3. U. T. System: Report on the Systemwide internal audit activities, including the status of the State Auditor's Office issued audit reports	4:23 p.m. Report/Discussion <i>Mr. Chaffin</i>	Not on Agenda	37
4. U. T. System: Presentation on the U. T. Systemwide Endowment Compliance Program	4:30 p.m. Report/Discussion <i>Dr. Safady</i>	Not on Agenda	45
B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551			
Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - <i>Texas Government Code Section 551.074</i>	4:50 p.m. Report/Discussion <i>Mr. Chaffin</i> <i>Mr. Plutko</i>	Not on Agenda	
U. T. System: Discussion with institutional auditors and compliance officers concerning evaluation and duties of individual System Administration and institutional employees involved in internal audit and compliance functions			
C. RECONVENE IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEM AND TO ADJOURN	5:00 p.m.		

1. **U. T. System: Report on the external audit of the Fiscal Year 2010 U. T. M. D. Anderson Cancer Center Annual Financial Report and the plan for the external audit of the Fiscal Year 2011 U. T. System Annual Financial Report**

REPORT

Ms. Vicki Keiser, Deloitte & Touche, LLP, will report on the results of the audit of U. T. M. D. Anderson Cancer Center's financial statements for Fiscal Year 2010.

Ms. Keiser will also present the plan, including key audit areas, scope, and timeline for the upcoming external audit of the Fiscal Year 2011 U. T. System Annual Financial Report as set forth on Pages 26 - 36.

BACKGROUND INFORMATION

On August 12, 2010, the Board authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche, LLP, to provide independent financial auditing services for the audit of the U. T. System and the U. T. M. D. Anderson Cancer Center financial statements for Fiscal Year 2011 and The University of Texas Investment Management Company (UTIMCO) managed funds for Fiscal Year 2011.

The source of funding for this contract is Available University Funds, as approved for the prior contract.



The University of Texas System
External Audit Plan Summary
May 2011

Implementing Deloitte Audit across UTS' components

Based on our knowledge of UTS, UTIMCO and M.D. Anderson and our extensive understanding of your operations, we have identified the following key areas of audit focus.

Key areas of audit focus	Key audit procedures	Opportunities to add value	Related reporting unit
Information Technology	<ul style="list-style-type: none"> Involve Deloitte information technology audit specialists to evaluate and test the automated controls in business cycles, such as revenue, expenditures and payroll and personnel. Perform audit procedures directly on the computer-generated information Design and discuss a testing plan of the following general computer control areas: Data center and network operations Information security Change management of systems and applications 	<ul style="list-style-type: none"> Make suggestions for enhancing the internal control environment Benchmark UTS' control environment—including information systems controls—to leading industry practices 	<ul style="list-style-type: none"> UT System M.D. Anderson UTIMCO
Treasury	<ul style="list-style-type: none"> Confirm significant cash, investment and debt balances Test the recorded fair value of investments and the controls utilized by management to periodically assess that fair value Review support for valuation of investments for potential impairment Review bond transaction-related agreements Audit recorded transactions related to the recording of any new debt, the refunding/modification of the existing debt and any resulting gain or loss Review management's calculation of debt covenants in accordance with debt agreements 	<ul style="list-style-type: none"> Provide responsive feedback on various financing vehicles UTS may consider, including accounting treatments and impacts of future rulemaking Provide perspectives on management's process to value investments Offer observations from financial instruments specialists on relevant issues 	<ul style="list-style-type: none"> UT System M.D. Anderson UTIMCO
Fraud identification procedures	<ul style="list-style-type: none"> Make inquiries of management and others about the risk of fraud and whether they are aware of any fraud Evaluate accounting estimates for management bias Evaluate business rationale for significant or unusual transactions Test the financial reporting process and controls over journal entries Examine journal entries and other adjustments for evidence of possible misstatement 	<ul style="list-style-type: none"> Provide recommendations for enhancement of UTS' documentation of its assessment of the risk of fraud Offer recommendations to strengthen UTS' documentation of the processes it uses to detect possible fraud 	<ul style="list-style-type: none"> UT System M.D. Anderson UTIMCO
Capital expansion and other business initiatives	<ul style="list-style-type: none"> Understand capital expansion projects and future capital project plans. Based on the nature and status of these projects, modify our audit approach to address the related specific risks, as well as accounting and disclosure requirements Involve Deloitte professionals from the construction industry as appropriate in determining accounting treatment and disclosures 	<ul style="list-style-type: none"> Provide recommendations for management's assessment of the accounting and disclosure risks Provide perspectives from Deloitte specialists on efficiency of allocation and use of capital resources and the processes used to determine this use 	<ul style="list-style-type: none"> UT System M.D. Anderson

Key areas of audit focus	Key audit procedures	Opportunities to add value	Related reporting unit
	<ul style="list-style-type: none"> Obtain a detailed understanding of business initiatives and assess the specific technical accounting requirements posed by each initiative 		
Patient accounts receivable	<ul style="list-style-type: none"> Review patient receivables performance on an annual basis to understand trends and management's perspectives Evaluate and test key control elements of the patient accounting process Review methodologies and procedures used to establish the allowances for uncollectible accounts and contractual adjustments Conclude as to the adequacy of the allowance for uncollectible accounts through review of management's analyses and reporting processes, including reviewing accounts balances by payor class, collection and aging statistics Evaluate management's estimate of net patient accounts receivable for reasonableness 	<ul style="list-style-type: none"> Provide an independent perspective on management's process for recognizing revenue and determining the allowance for uncollectible accounts Assist management in the identification of revenue cycle controls Identify opportunities for revenue cycle process improvements that increase efficiency 	<ul style="list-style-type: none"> UT System M.D. Anderson
Third-party settlements	<ul style="list-style-type: none"> Involve a Deloitte reimbursement specialist to assist the financial audit team in evaluating and testing key control elements of the third-party settlement process Review the impact of tentative and final settlements received and management's treatment of Notices of Program Reimbursement received subsequent to year-end Review settlement positions for prior periods, based on third-party clearings (charges, discharges, days, etc.) reflected in the reimbursement schedules Review allocated and specific allowances for adequacy against potential exposures 	<ul style="list-style-type: none"> Provide insights into future changes in Medicare payment systems and the impact on UTS' components Benchmark third-party settlement policies and procedures with those of other providers of similar size Provide an independent perspective on the process to reserve for receivables from third-party payors 	<ul style="list-style-type: none"> UT System M.D. Anderson
Federal and student receivables	<ul style="list-style-type: none"> Review student receivables performance on a periodic basis to understand trends and management's perspectives Evaluate and test key control elements of the federal and student accounting process Review methodologies and procedures used to establish the allowances for uncollectible accounts Conclude as to the adequacy of the allowance for uncollectible accounts through review of management's analyses and reporting processes, including reviewing accounts balances by payor class, collection and aging statistics Evaluate management's estimate of net federal and student accounts receivable for reasonableness 	<ul style="list-style-type: none"> Provide an independent perspective on management's process for recognizing revenue and determining the allowance for uncollectible accounts Assist management in the identification of revenue cycle controls Identify opportunities for revenue cycle process improvements that increase efficiency 	<ul style="list-style-type: none"> UT System M.D. Anderson
Reserves for self-insured risks	<ul style="list-style-type: none"> Obtain an understanding of the risk management system Evaluate and test key elements in the incident reporting systems based on claims being evaluated or litigated 	<ul style="list-style-type: none"> Provide perspectives on management's process to measure and value reserves Offer observations from human capital specialists on relevant 	<ul style="list-style-type: none"> UT System

Key areas of audit focus	Key audit procedures	Opportunities to add value	Related reporting unit
	<ul style="list-style-type: none"> Utilize actuarial specialists to review actuarial methodologies used to calculate incurred but not reported liability exposures Correspond with internal and external legal counsel and other specialists regarding sufficiency of reserves set on known incidents 	issues	
Revenues – Student tuition and fees, net, federal, state and local sponsored programs, auxiliary enterprises, net	<ul style="list-style-type: none"> Review student tuition and fees, federal, state and local sponsored programs and auxiliary enterprises revenue recognition accounting policies and procedures through walkthroughs of revenue cycles during internal control testing Audit revenues recorded through substantive analytical reviews and/or detail testing Incorporate compliance understanding and testing into testing of federal, state and local sponsored programs, including inquiries of management and State Auditor on Single Audit results 	<ul style="list-style-type: none"> Provide an independent perspective on management's process for recognizing revenue related discounts and allowances Assist management in the identification of revenue cycle controls Identify opportunities for revenue cycle process improvements that increase efficiency 	<ul style="list-style-type: none"> UT System M.D. Anderson
Investments in alternative investments	<ul style="list-style-type: none"> Confirm existence of 100% of underlying fund investments Apply analytical procedures to underlying fund investment returns to ensure that they are reasonable Perform testing of pre-investment due diligence and on-going due diligence in compliance with the AICPA Technical Practice Aid which defines the auditing standards in this area Review of our work in this area by a subject matter specialists to ensure work is complete and conforms to professional standards 	<ul style="list-style-type: none"> Provide feedback on the due diligence process used by management Perform detailed reviews of documentation to ensure portfolio managers and analysts are documenting their work 	<ul style="list-style-type: none"> UTIMCO

Key areas of audit focus	Key audit procedures	Opportunities to add value	Related reporting unit
Derivative instruments	<ul style="list-style-type: none"> Evaluate management’s process regarding derivative identification Utilize Deloitte specialists in evaluating management’s valuation methodology 	<ul style="list-style-type: none"> Provide insight as to valuation best practices, including consideration of non-performance risk Provide insight into area of changing accounting standards as it pertains to financial instrument and valuation matters Assist management in implementing GASB 53 and its related disclosures 	<ul style="list-style-type: none"> UT System UTIMCO

Multi-location audit plan

We understand and appreciate the investment you are making in your selected audit provider at each UTS component. In an effort to ensure appropriate attention to each component, we have created a proposed plan for the multiple locations of UTS and its components. While the economic conditions present will change over time, our plan is to visit and perform audit procedures at the following locations on an annual basis:

- UT Southwestern Medical Center at Dallas
- UT Medical Branch at Galveston
- UT Health Science Center at Houston
- UT Health Science Center at San Antonio
- M.D. Anderson Cancer Center
- System Administration
- UT Austin
- UTIMCO

We also intend to incorporate certain procedures annually and also can visit the following locations on a rotational basis if considered appropriate:

- UT Health Science Center at Tyler
- UT Arlington
- UT Brownsville
- UT Dallas
- UT El Paso
- UT Pan American
- UT Permian Basin
- UT San Antonio
- UT Tyler

Timing

The following table sets forth our proposed timing for UTS based on discussions with management and deadlines outlined in the RFQ.

UTS – Financial audit for fiscal year ending August 31, 2011	Prior to June	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan/Feb
Detailed audit plan — Planning and internal controls									
Planning and risk assessment									
Hold meetings with management to review critical accounting matters	UTS								
Preliminary fieldwork (beginning balance testing) (February 2011)	UTS								
Hold meetings with IT resources to further understand the environment	UTS								
Assess fraud, control environment and engagement risk		UTS	UTS						
Develop and document detailed understanding of control processes			UTS						
Conduct detailed discussion regarding litigation, claims and assessments			UTS						
Develop and document detailed understanding of accounting and financial closing and reporting processes			UTS						
Provide client request listing (January 2011)	UTS								
Evaluation and testing of the internal control environment									
Update understanding of control environment		UTS	UTS						
Understand detailed transaction flow		UTS	UTS						
Evaluate all general IT controls			UTS						
Evaluate entity-level controls			UTS						
Test design, implementation and operating effectiveness of controls		UTS	UTS						

UTS – Financial audit for fiscal year ending August 31, 2011	Prior to June	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan/Feb
Detailed audit plan — Substantive audit work and reporting									
Interim Testing									
Perform interim testing of account balances		UTS	UTS						
Complete review of financial statement templates			UTS						
Conduct interim summary results meeting			UTS						
Preparation for year-end field work									
Provide updated client request listing			UTS						
Perform administration (including confirmation process)			UTS	UTS					
Detailed audit plan — Substantive audit work and reporting									
Year-end field work									
Perform year-end tests of account balances					UTS	UTS			
Perform roll-forward tests of account balances					UTS				
Review drafts of financial statements and provide comments							UTS		
Evaluate and conclude						UTS	UTS		
Issue opinion and report to management								UTS	
Meet with ACMR Committee (February 2012)									UTS
Deliver reports to SAO									UTS

Timing for M.D. Anderson is generally similar to UTS; differences include that M.D. Anderson interim fieldwork is performed in July and August and reporting to their audit committee is in December.

Timing for UTIMCO is generally similar to UTS; differences include issuing opinions in October.

Active leverage of Internal Audit work to increase efficiencies

A high degree of teaming and communication between internal and external auditors supports our combined success and is crucial to performing an efficient audit. One of the first areas of collaboration is to review Internal Audit's work plans to assess the impact on the nature and extent of our audit procedures at the various components. Wherever possible, we will rely on Internal Audit's work.

We will actively leverage the hours Internal Audit provides throughout the audit process. Our experience working with Internal Audit on the previous audit of UTS and in our ongoing work at M.D. Anderson and UTIMCO allowed us to craft the following work plan relating to the upcoming external audit. We will work collaboratively with Mr. Chaffin and Internal Audit directors at the component institutions to identify appropriate resources in the UTS audit office and the component institution Internal Audit offices to team for the external audit testing.

One of the first items to be addressed for the 2011 audit is beginning balance testing. Deloitte will be relying on work performed by internal audit for the fiscal year 2010 financial statement balances at System Administration, UT Austin, HSC-Houston, HSC-San Antonio, UTMB and UT Southwestern. Because of the continuing audits at M.D. Anderson and UTIMCO, no such beginning balance testing will be required at those locations.

In the spring and summer of 2011, we will utilize Internal Audit to perform certain documentation and testing of internal controls at components throughout UTS. We will also utilize Internal Audit to assist us at interim and final fieldwork testing in various financial statement areas. When appropriate, we intend to rely on testing completed in the internal audit plan to improve efficiency and reduce the workload of UTS' staff. Additionally, we will work closely with Internal Audit to plan and coordinate external audit support and testing.

Going forward, we will coordinate with Internal Audit as it develops the subsequent year's audit plan. We will provide input to the process that will prove helpful in best leveraging each other's work.

Lead client service partner

Full name	Vicki Keiser, vkeiser@deloitte.com; 713.858.7515
Deloitte title	Partner, Deloitte & Touche LLP
Length of time at Deloitte	More than 32 years with Deloitte
Primary office	Houston, TX
Project responsibilities and areas of specialization	In her role as lead client service partner, Vicki will be responsible for all services we perform for the University of Texas System.
Qualifications, relevant experience and education	<p>Qualifications</p> <ul style="list-style-type: none"> • Vicki is the leader of our Mid-America Healthcare Provider practice, dedicating all of her time to serving governmental, not-for-profit and for-profit healthcare clients in Texas and neighboring states in the region. • She also serves on our national leadership team serving healthcare providers. • She is experienced with Uniform Grants Management Standards (“UGMS”) and federal grants (A-133). • Vicki serves or has served as lead client service partner for the audits of multi-state/multi-location organizations, governmental healthcare organizations in Texas and academic medical centers. <p>Relevant experience</p> <ul style="list-style-type: none"> • Serves or served as lead client service partner for the audits of multi-state/multi- location organizations, including Harden Healthcare, CHRISTUS Health and Via Christi Health System • Serves or served as the lead client service partner for the audits of governmental healthcare organizations located in Texas, including Dallas County Hospital District (Parkland Health & Hospital System), Tarrant County Hospital District (JPS Health), Lubbock County Hospital District (University Health System), Ector County Hospital District (Medical Center Hospital) and El Paso County Hospital District (RE Thomason General Hospital) • Serves as lead client service partner for the audits of academic medical centers, including MD Anderson Cancer Center, The Methodist Hospital System. Served as audit partner for University of Texas Medical Branch and University of Texas Southwestern for prior consolidated audits of The University of Texas System. Served as lead client services partner for Baylor College of Medicine • Serves as lead client service partner for Presbyterian Health (NM) where she oversees internal audit and other advisory services. Serves as advisory partner for CHRISTUS Health and Ochsner Health System • Serves as quality review partner for audits, including SSM Healthcare, Aurora Health, University of Wisconsin Hospitals and Clinics Authority <p>Education</p> <ul style="list-style-type: none"> • MBA, Accounting & Finance, University of Texas at Austin • BA, Biology, University of Texas at Austin
Certifications and affiliations	<ul style="list-style-type: none"> • Certified Public Accountant (“CPA”), licensed in the State of Texas • Member of the Texas Society of Certified Public Accountants Healthcare Committee, Past Chair • Has served on numerous boards, including the national Alzheimer’s Association serving as Treasurer, the Greater Southeast Texas Alzheimer’s Association serving as Treasurer and President, St. Stephen’s Episcopal School (Houston) serving as chair and treasurer, Amazing Place serving as President and treasurer • Served as a regional leader for Women’s Initiative Network from 1992 until 1999; during that time, she helped implement programs and activities which resulted in significant progress in the advancement and retention of women at Deloitte

Higher education team

Your higher education team will be led by Julia Petty, director. Julia has more than 21 years of public accounting experience and is a specialist in higher education and state and local government accounting, reporting and auditing.

Full name	Julia Petty , jpetty@deloitte.com ; 281.682.3712
Deloitte title	Director, Deloitte & Touche LLP
Length of time at Deloitte	More than 21 years with Deloitte
Primary Office	Houston, TX
Project responsibilities and areas of specialization	In her role as higher education lead audit director, Julia will lead the work at System Administration as well as coordinate the work among the teams at the individual institutions. Her GASB and higher education background will allow her to provide technical advice to the engagement team and UT System.
Qualifications, relevant experience and education	<p>Qualifications</p> <ul style="list-style-type: none"> Julia is a director in our Mid-America Public Sector practice, dedicating substantially all of her time to serving government, not for profit and higher education clients in Texas. Julia serves as an instructor on governmental accounting, reporting and compliance topics for internal firm trainings as well as for other organizations such as the Texas Society of CPAs. Julia is a specialist in governmental accounting. <p>Relevant experience</p> <ul style="list-style-type: none"> Serves or served as director in charge of the financial and/or compliance audits of higher education institutions such as the University of Texas System, Baylor University, and New Mexico State University Serves or served as director in charge of the financial and/or compliance audits of state agencies such as Texas Department of Housing & Community Affairs, New Mexico Taxation and Revenue Department, New Mexico Department of Labor, and the New Mexico Educational Retirement Board Serves as director in charge of the financial and compliance audits of local government organizations such as Harris County, Houston Independent School District, Trinity River Authority, and Port of Houston Authority, among others Serves as the quality review director on the West Virginia University system institutions. <p>Education</p> <ul style="list-style-type: none"> BBA, Texas A&M University
Certifications and affiliations	<ul style="list-style-type: none"> Certified Public Accountant ("CPA"), licensed in the State of Texas Serves as chair the Single Audits and Governmental Accounting Conference for the Texas Society of CPAs Member of the Government Finance Officers Association ("GFOA") Certificate of Achievement for Excellence in Financial Reporting Special Review Committee

UTIMCO team

Tom has served UTIMCO for the past four years and he will continue to lead the UTIMCO team.

Full name	Thomas Wagner, twagner@deloitte.com; 617. 510. 7855
Deloitte title	Partner, Deloitte & Touche LLP
Length of time at Deloitte	More than 17 years with Deloitte
Primary office	Dallas, TX
Project responsibilities and areas of specialization	In his role as investment management partner, Tom will lead the work at UTIMCO. Tom has shared, and will continue to share, perspectives as a professional advisor and will identify any emerging issues that may affect the investment management industry.
Qualifications, relevant experience and education	<p>Qualifications</p> <ul style="list-style-type: none"> • Tom is the leader of our Mid-America Investment Management practice, dedicating all of his time to serving the investment management industry. • Serves many investment related clients including investment companies (including hedge funds, private equity funds, venture capital funds and mutual funds), investment advisors and family offices. • Has served as the Regional leader for the Alternative Investment Subject Matter Expert program for Deloitte's Mid- America's region since 2005. • Served in management development program for two years working with the lead technical partner for Deloitte nationally on industry related technical matters. <p>Relevant experience</p> <ul style="list-style-type: none"> • Served as Deloitte's audit partner for UTIMCO for past four years, since August 31, 2007. • Assists investment management clients with various operational matters including assistance with structuring matters, review of valuation policies, consultations on newly issued accounting pronouncements, regulatory changes and accounting and financial reporting matters. <p>Education</p> <ul style="list-style-type: none"> • BS, Bentley University

2. **U. T. System Board of Regents: Approval of proposed appointment of members to the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the appointment of Mr. R. Steven Hicks and Mr. James P. Wilson to the Audit and Ethics Committee of the UTIMCO Board of Directors.

BACKGROUND INFORMATION

Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents approve the appointment of members of the Audit and Ethics Committee of the UTIMCO Board of Directors.

The UTIMCO Board of Directors recommended this appointment at their meeting held on April 14, 2011, conditioned on the approval of the U. T. System Board of Regents. Mr. Hicks, Vice Chairman of the U. T. System Board of Regents, and Mr. Wilson, a member of The Texas A&M University System Board of Regents, were appointed to the UTIMCO Board of Directors by the U. T. System Board of Regents on February 17, 2011 and March 18, 2011, respectively.

The other members of the UTIMCO Audit and Ethics Committee include Regent Printice L. Gary and Director Charles W. Tate.

3. **U. T. System: Report on the Systemwide internal audit activities, including the status of the State Auditor's Office issued audit reports**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on the State Auditor's Office State of Texas Federal and Financial Portion of the Statewide Single Audit Reports for Fiscal Year 2010. The summary report is on Pages 39 - 41.

Mr. Chaffin will also report on the implementation status of significant audit recommendations. The second quarter activity report on the Implementation Status of Outstanding Significant Findings/Recommendations is set forth on Pages 42 - 43. Satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports issued by the Systemwide audit program is on Page 44.

BACKGROUND INFORMATION

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

The University of Texas System
State Auditor's Office FY 2010 Statewide Single Audit Reports
Summary of Results for UT Institutions

As part of the fiscal year (FY) 2010 State of Texas **Financial** Portion of the Statewide Single Audit (Financial Audit), the Texas State Auditor's Office (SAO) performed audit procedures on limited financial statement line items at various University of Texas (UT) institutions, which included a review of controls over systems and processes used by the institutions to record financial activities and performing follow-up audit procedures on outstanding findings from previous year audits.

In addition, as part of the fiscal year (FY) 2010 State of Texas **Federal** Portion of the Statewide Single Audit (Federal Audit), the SAO audited student financial aid and research and development programs, including programs funded by the American Recovery and Reinvestment Act of 2009 (ARRA) at various UT institutions. Their procedures included assessing compliance with regulatory requirements, assessing internal controls over federal funds and performing follow-up audit procedures on outstanding findings from previous year audits.

The SAO categorizes its findings in the categories of control deficiencies, significant deficiencies, and material weaknesses, of which the latter is most severe (see definitions below).

- *Control Deficiency:* the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
- *Significant Deficiency:* deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- *Material Weakness:* deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In the **Financial Audit**, the SAO did not identify any findings categorized as material weaknesses at the audited UT institutions. The findings, all of which fall under significant deficiencies, are summarized as follows:

Finding	UT Institution
Insufficient management of internal or state information system access	UT Austin UT Medical Branch UT Southwestern
Non-compliance with TAC password standards	UT Austin
Failure to maintain capital asset records as required or lack of straightforward process to locate such records	UT Medical Branch UT HSC - Houston
Lack of adequate review of FY 2010 Schedule of Expenditures of Federal Awards (SEFA)	UT Arlington UT Austin UT Brownsville UT El Paso UT Pan American UT Southwestern UT Medical Branch UT HSC - Houston UT HSC - San Antonio UT M. D. Anderson

The University of Texas System
State Auditor's Office FY 2010 Statewide Single Audit Reports
Summary of Results for UT Institutions

Management at each of the UT institutions provided responses to the recommendations made from the **Financial Audit**, which indicated general concurrence and that corrective action to address the findings had already been taken or is in progress.

Corrective actions have been taken for findings from the SAO's previous Financial Audits with the exception of the SEFA-related findings and the finding related to inadequate management of system access at UT Southwestern, all of which were reissued as new findings in the FY 2010 Financial Audit report.

In the **Federal Audit**, the SAO did not identify any findings categorized as material weaknesses at the audited UT institutions. The findings, all of which fall under significant deficiencies, are summarized as follows:

Finding	UT Institution	Questioned Cost
Student Financial Assistance Cluster		
Awarding financial assistance to students not meeting Satisfactory Academic Progress requirements	UT San Antonio UT Southwestern	\$16,324 \$0
Awarding financial assistance in excess of the Cost of Attendance or aggregate loan limit	UT El Paso	\$3,223
Failure to verify all required items on the Free Application for Federal Student Aid	UT San Antonio	\$137
Incorrect enrollment or disbursement data reported to federal agencies	UT Austin UT San Antonio	\$0 \$0
Failure to return the proper amount of federal grants or to return them in a timely manner	UT San Antonio	\$0
Delayed disbursement notification when federal grants or loans were disbursed, missing the required language in the notification, or not retaining evidence that the notification was sent timely	UT Austin UT El Paso UT San Antonio UT Southwestern	\$0 \$0 \$0 \$0
Failure to send out the secondary overdue notice to defaulted borrower	UT Austin	\$0
Insufficient change management controls or inappropriate access for financial aid system and/or accounting system	UT Austin UT El Paso UT San Antonio UT Southwestern	\$0 \$0 \$0 \$0
Research and Development Cluster (including ARRA funded programs)		
Overcharging indirect costs or failure to monitor indirect cost limitation	UT M. D. Anderson	\$255,528
Cost recovery by specialized service facilities exceeded aggregate actual cost of services and the service rate was not adjusted	UT Austin	\$0
Failure to calculate or remit interest earned on advanced federal funds to the federal government prior to use of funds	UT HSC - Houston UT Southwestern	\$0 \$0
Failure to complete the time and effort certification in a timely manner, or with correct information; or inadequate monitoring of commitment reported in time and effort certifications	UT HSC - Houston UT Southwestern	\$0 \$0
Reporting incorrect financial information and insufficient review procedures to detect errors	UT M. D. Anderson	\$0
Failure to maintain accurate or complete equipment record or disposition data	UT HSC - Houston UT Southwestern	\$0 \$0

The University of Texas System
State Auditor's Office FY 2010 Statewide Single Audit Reports
Summary of Results for UT Institutions

Finding	UT Institution	Questioned Cost
Failure to provide documentation that vendor suspension or debarment was verified at the time of procurement.	UT HSC - Houston	\$0
Failure to provide federal award information (including ARRA-specific information) to subrecipients or to accurately report ARRA fund expenditures	UT M. D. Anderson UT Southwestern	\$0 \$0
Insufficient change management controls or user access controls for the general accounting or research and grant accounting system	UT Austin UT Brownsville UT Southwestern UT M. D. Anderson	\$0 \$0 \$0 \$0
Total		\$275,212

Management at each of the UT institutions provided responses to the recommendations made from the **Federal Audit**, which indicated general concurrence and that corrective action to address the findings had already been taken or is in progress. UT Southwestern accepted the risk of not implementing two recommendations related to user access to critical systems. UT Southwestern indicated that the deficiency would ultimately be resolved with full implementation of the PeopleSoft system with an anticipated completion date of March 2012.

Corrective actions have been taken for the majority of findings from the SAO's previous Federal Audits, and management has provided updated corrective action plans for the remaining open recommendations. A few recommendations were reissued as new findings in the FY 2010 Federal Audit report.

THE UNIVERSITY OF TEXAS SYSTEM
Implementation Status of Outstanding Significant Findings/Recommendations

Report Date	Institution	Audit	1st Quarter 2011		2nd Quarter 2011		Targeted Implementation Date	Overall Progress Towards Completion (Note)	
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
			2010-04	UTARL	Payment Card Industry Data Security Standard				1
2010-06	UTEP	Gifts and Endowments		1			1	4/30/2011	Satisfactory
2010-10	UTEP	Exports Control		2			0	3/1/2011	Implemented
2010-08	UTPA	Effort Reporting		2			1	3/31/2011	Satisfactory
2010-12	UTPB	Annual Financial Report for the Fiscal Year Ended August 31, 2010					1	11/30/2011	Satisfactory
2008-09	UTSA	Information Technology Change Management		1			0	2/28/2011	Implemented
2010-01	UTSA	Information Technology Asset Management		1			1	11/30/2011	Satisfactory
2010-11	UTSA	Information Security Program		3			3	8/31/2012	Satisfactory
2010-05	UTT	Texas Administrative Code Chapter 202		1			1	4/30/2011	Satisfactory
2010-11	UTT	Annual Financial Report for the Fiscal Year Ended August 31, 2010					1	7/31/2011	Satisfactory
2010-05	UTHSC - Houston	Personnel Management & Time Management System Controls		3			0	5/1/2011	Implemented
2010-11	UTHSC - Houston	Fiscal Year 2010 Financial Assurance Work		1			1	8/31/2011	Satisfactory
2010-04	UTHSC - San Antonio	UT Medicine: Information Technology Review of Data Security		3			1	7/1/2011	Satisfactory
2010-05	UTHSC - San Antonio	UT Medicine: Back End Billing		3			3	11/30/2012	Satisfactory
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials		1			1	2/28/2011*	Satisfactory
2008-05	UTMDACC - Houston	Clinical Trial Research		1			1	8/31/2011	Satisfactory
2009-03	UTMDACC - Houston	Wireless and Firewall Remote Access Security Assessment		3			3	11/28/2011	Satisfactory
2009-03	UTMDACC - Houston	Review of Patient History Oracle Database Security		3			0	5/31/2009	Implemented
2009-05	UTMDACC - Houston	Business Continuity Plan Review		1			1	2/28/2010*	Satisfactory
2010-02	UTMDACC - Houston	Information Security Organization Review		5			4	5/31/2011	Satisfactory
2010-10	UTMDACC - Houston	Physicians Referral Service Practice Plan Bylaws Implementation Review		1			1	2/28/2011*	Satisfactory
2010-12	UTMDACC - Houston	Human Resources Contingent Workforce					1	8/31/2011	Satisfactory
2011-02	UTHSC - Tyler	Information Security Program Index					1	6/30/2011	Satisfactory
Totals				37			27		

THE UNIVERSITY OF TEXAS SYSTEM
Implementation Status of Outstanding Significant Findings/Recommendations

Report Date	Institution	Audit	1st Quarter 2011		2nd Quarter 2011		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2010-03	UTPB	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009		4		4	5/31/2011	Satisfactory
2009-08	UTSWMC - Dallas	Campus Safety and Security Emergency Management Plans		1		0	3/1/2011	Implemented
2011-02	UTSWMC - Dallas	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010				1	4/1/2011	Satisfactory
2011-02	UTSWMC - Dallas	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010				5	3/31/2012	Satisfactory
Totals				5		10		

STATE AUDITOR'S OFFICE AUDITS

Color Legend:

- Either a new significant finding for which corrective action will be taken in the subsequent quarter or a previous significant finding for which no/limited progress was made towards implementation.
- Significant finding for which substantial progress towards implementation was made during the quarter that the significant finding was first reported.
- Significant finding for which substantial progress towards implementation was made during the quarter.
- Significant finding was appropriately implemented during the quarter and will no longer be tracked.

Note: **Implemented** - The Internal Audit Director deems the significant finding has been appropriately addressed/resolved and should no longer be tracked.
Satisfactory - The Internal Audit Director deems that the significant finding is in the process of being addressed in a timely and appropriate manner.
Unsatisfactory - The Internal Audit Director deems that the significant finding is not being addressed in a timely and appropriate manner.

* Recommendation deemed to be implemented per management and awaiting verification and validation by internal audit.

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 12/2010 through 2/2011

Institution	Audit
UTARL	Annual Financial Report Audit - Fiscal Year Ended August 31, 2010
UTAUS	Annual Financial Report Audit - Fiscal Year Ended August 31, 2010
UTAUS	Change in Management - Center for Women's and Gender Studies
UTAUS	Change in Management - Department of Biomedical Engineering
UTAUS	Change in Management - School of Nursing
UTAUS	College of Education - National Institute for Staff and Organizational Development and the Office of the Dean
UTAUS	National Collegiate Athletic Association Football Attendance - Intercollegiate Athletics
UTAUS	Office of Environmental Health and Safety - Hazardous Materials
UTAUS	Petty Cash - Parking and Transportation Services
UTAUS	Petty Cash - Texas Memorial Museum
UTAUS	Petty Cash - Thompson Conference Center
UTAUS	Purchasing Office - Procurement Cards
UTD	School of Economic, Political, and Policy Sciences
UTD	NanoTech Institute
UTD	Office of Undergraduate Education
UTEP	Center for Defense Systems Research and National Center for Border Security and Immigration
UTEP	Annual Financial Report Audit - Fiscal Year Ended August 31, 2010
UTEP	Digital Research Data
UTEP	National Collegiate Athletic Association Certified Attendance Letter for 2010 Season
UTPB	Sub-Certification and Account Reconciliation Monitoring Plan
UTSA	Cash Management of Research Centers and Community Service Programs
UTSA	WebCT/Blackboard Audit Report
UTT	PeopleSoft Student Information Systems Review
UTSMC - Dallas	Texas Higher Education Coordinating Board Medical and Graduate Medical Programs
UTSMC - Dallas	Cardiovascular Interventional Radiology
UTSMC - Dallas	Annual Financial Report Audit - Fiscal Year Ended August 31, 2010
UTSMC - Dallas	Joint Admission Medical Program
UTSMC - Dallas	National Pediatric Infectious Disease Foundation Fiscal Year 2010 Annual Financial Report
UTSMC - Dallas	Presidential Housing, Travel and Entertainment Expenses
UTMB - Galveston	Family Practice Residency Program
UTMB - Galveston	Center for Technology Development Change in Management
UTMB - Galveston	Primary Care Residency Program
UTHSC - Houston	Internal Medicine Residency Program Fiscal Year 2010
UTHSC - Houston	Center on Aging - Departmental Compliance with Information Technology Policies
UTHSC - Houston	Family Practice Residency Program Fiscal Year 2010 Annual Financial Report
UTHSC - Houston	Follow-Up of Open Recommendations
UTHSC - Houston	Follow-Up on the American Recovery and Reinvestment Act
UTHSC - Houston	Obstetrics and Gynecology Residency Program at Lyndon B. Johnson General Hospital - Fiscal Year 2010 Annual Financial Report
UTHSC - Houston	Obstetrics and Gynecology Residency Program at Memorial Hermann Hospital - Fiscal Year 2010 Annual Financial Report
UTHSC - San Antonio	MDAudit Guiding Principles
UTHSC - San Antonio	Information Security Program
UTHSC - San Antonio	School of Medicine Internal Control Review
UTMDACC - Houston	Department of Genetics
UTMDACC - Houston	Diagnostic Coding Review
UTMDACC - Houston	Identity Management Review
UTMDACC - Houston	Inflammatory Breast Cancer Program and Clinic
UTMDACC - Houston	Information Security Program Index
UTMDACC - Houston	Office of the Vice President for Clinical Research
UTMDACC - Houston	Regional Care Centers Information Technology
UTMDACC - Houston	Tissue Banking Review - Post Tissue Station Implementation
UTHSC - Tyler	Annual Financial Report Audit - Fiscal Year Ended August 31, 2010
UTHSC - Tyler	Family Medicine Residency Program Grant Audit Fiscal Year Ended August 31, 2010
UTSYS ADM	Council on Alzheimer's Disease and Related Disorders Report
UTSYS ADM	Contracting & Gift Acceptance at University of Texas M. D. Anderson Cancer Center
UTSYS ADM	Joint Admission Medical Program Statement of Revenues, Expenses, and Fund Balance
UTSYS ADM	Office of Employee Benefits - Fiscal Year 2011 Follow-Up Audit
UTSYS ADM	Office of Historically Underutilized Business Development Audit
UTSYS ADM	University of Texas at Arlington National Collegiate Athletic Association Agreed-Upon Procedures
UTSYS ADM	University of Texas - Pan American National Collegiate Athletic Association Agreed-Upon Procedures
UTSYS ADM	University of Texas at San Antonio National Collegiate Athletic Association Agreed-Upon Procedures
UTSYS ADM	University of Texas Investment Management Company Information Security Program Index Audit
UTSYS ADM	University of Texas System Annual Financial Report Consolidation Process Audit - Fiscal Year 2010
UTSYS ADM	University of Texas System Shared Services Initiative Agreed-Upon Procedures Consulting Engagement

STATE AUDITOR'S OFFICE AUDIT REPORTS ISSUED 12/2010 through 2/2011

Institution	Audit
UTMB - Galveston	Audit Report on Correctional Managed Health Care at The University of Texas Medical Branch at Galveston
UTAUS, UTB, UTEP, UTSA, UTSMC - Dallas, UTHSC - Houston, UTMDACC - Houston	Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010
UTAUS, UTSMC - Dallas, UTMB - Galveston, UTHSC - Houston	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010

4. **U. T. System: Presentation on the U. T. Systemwide Endowment Compliance Program**

REPORT

Vice Chancellor Safady will report on the U. T. Systemwide Endowment Compliance Program for the fiscal year ended August 31, 2010, using a PowerPoint presentation set forth on Pages 46 - 62.

Endowment Compliance Program FY 2010

Dr. Randa Safady
Vice Chancellor for External Relations



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Audit, Compliance,
and Management
Review Committee
May 2011



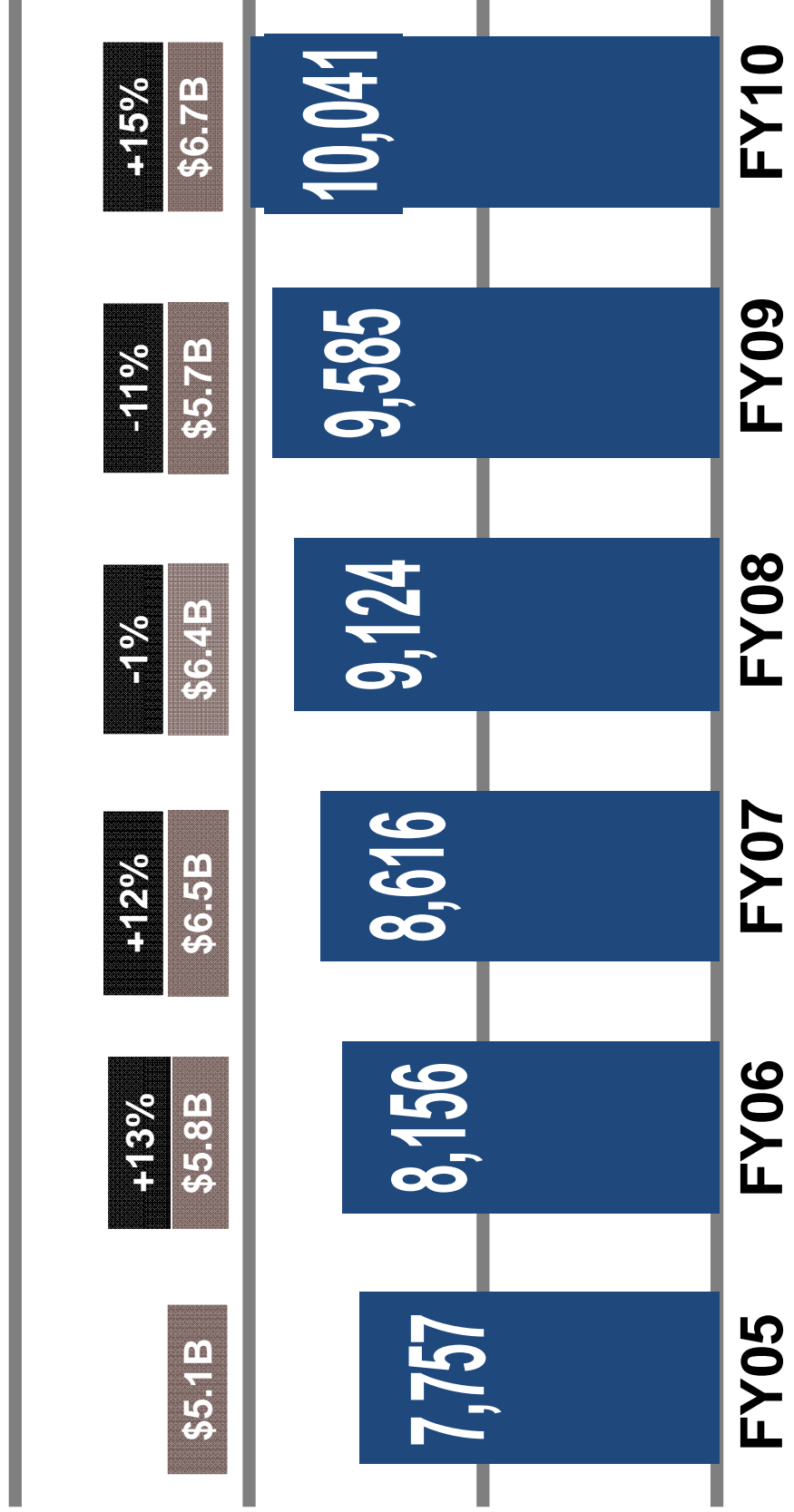
Program History and Mission

- Board of Regents authorized in November 2001
- Strengthens stewardship of the public trust and \$6.7 billion of endowed philanthropic contributions
- Compliance with laws, policies, and endowment agreements
- Maximization of endowment resources
- Improved reporting to donors and U. T. leadership



Growth in Endowment Numbers and Value

Numbers and Market Value of Endowments



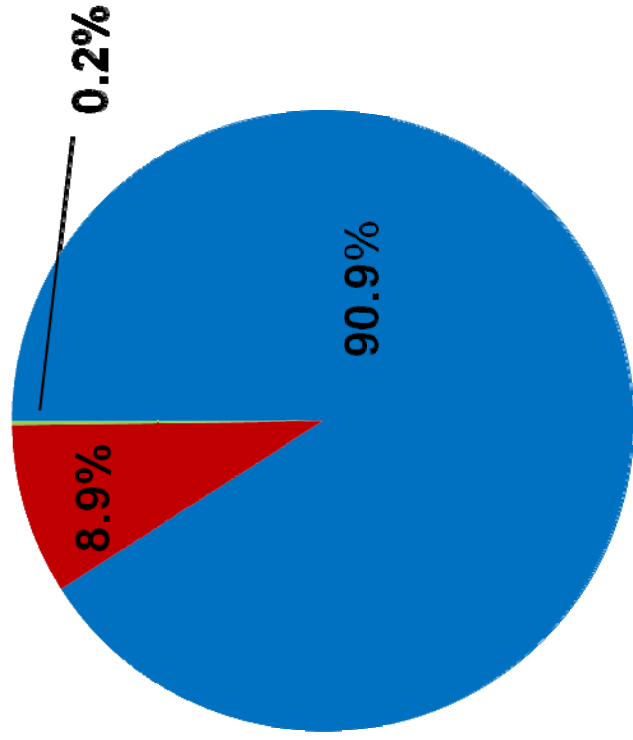


Where Endowments Are Held

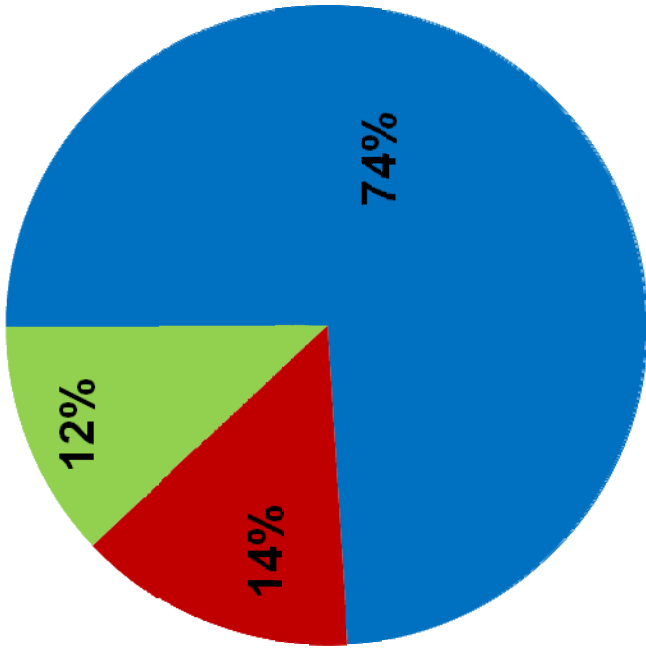
Total Numbers of Endowments: 10,041

Total Endowment Market Value: \$6.7 Billion

- Board - 9,131
- U.T. Affiliate - 890
- Others - 20



- Board - \$4.96B
- U.T. Affiliate - \$920.2M
- Others - \$822.3M



Endowments August 31, 2010 Academic Institutions



Institutions	Total Endowments	% Increase over 2009	Total Market Value	% Market Value +/- Over 2009
U. T. Arlington	457	13%	\$68,257,206	28%
U. T. Austin	4,911	3%	\$2,714,804,865	7%
U. T. Brownsville	104	12%	\$7,333,823	16%
U. T. Dallas	204	20%	\$233,909,618	19%
U. T. El Paso	573	6%	\$125,540,923	15%
U. T. Pan American	275	5%	\$56,582,407	11%
U. T. Permian Basin	105	9%	\$22,434,455	8%
U. T. San Antonio	319	5%	\$60,305,084	29%
U. T. Tyler	210	5%	\$62,834,592	7%



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Endowments August 31, 2010 Health Institutions, System Administration and Others

Institutions	Total Endowments	% Increase over 2009	Total Market Value	% Market Value +/- Over 2009
U. T. Southwestern	834	1%	\$987,947,543	7%
UTMB - Galveston	671	3%	\$1,166,840,276	17%
UTHSC - Houston	423	5%	\$145,134,338	11%
UTHSC - San Antonio	355	8%	\$152,352,330	9%
UTMDACC	424	8%	\$839,991,528	109%
UTHSC - Tyler	40	-2%	\$9,946,511	8%
U. T. System Administration	128	16%	\$32,817,160	8%
Multi-Institution	8	0%	\$14,862,592	5%



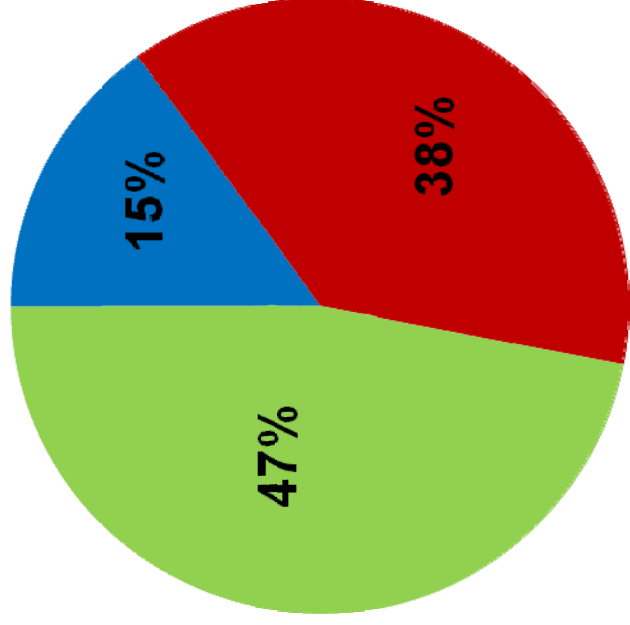
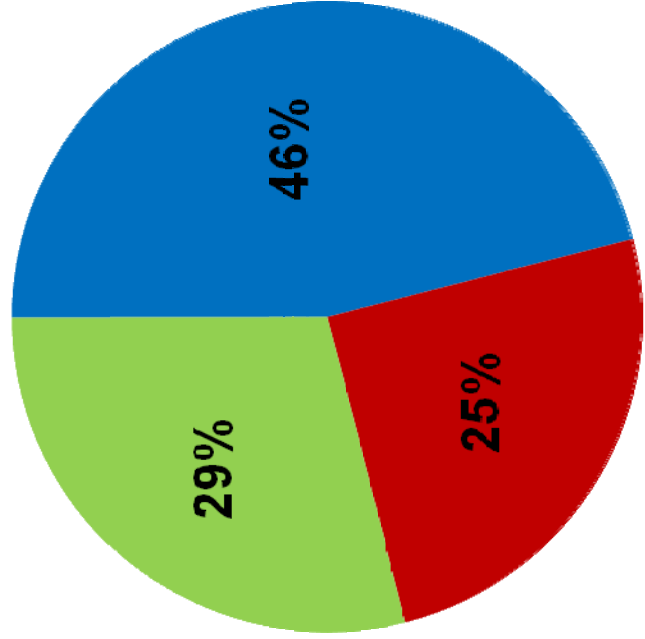
Board-Held Endowments as of August 31, 2010

Number of Endowments : 9,131

- Student Support - 4,230
- Academic Positions - 2,260
- Program Support - 2,641

Market Value \$4.96 Billion

- Student Support - \$762.1M
- Academic Positions - \$1.86B
- Program Support - \$2.34B





Board-Held Endowments as of August 31, 2010 (cont'd)

Distributions from Endowments

Endowment Purpose	Distributions	Percentage of Total
Student Support	\$38,077,608	16%
Academic Positions	\$93,218,205	38%
Program Support	\$114,060,262	46%
Total	\$245,356,075	100%



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Four Elements of Endowment Compliance Program

- Risk assessment
- Monitoring plan
- Education and training
- Reporting



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Primary Risks Monitored Through Endowment Compliance Program

- Inappropriate expenditures
- No expenditures
- Excessive accumulations
- Unfilled endowed academic positions



Monitored Risk 1: Inappropriate Expenditures

Fiscal Year	Percent of Endowments Reviewed	Percentage of Endowments Reviewed with Inappropriate Expenditures	Percentage of Amount of Inappropriate Expenditures to Market Value of Identified Endowments
2007	36%	0.78%	1.41%
2008	38%	2.22%	1.08%
2009	43%	1.51%	0.44%
2010	46%	0.84%	0.51%

- Inappropriate expenditures remain low
- 99.16% (4,274) of 4,310 endowments reviewed were compliant
- As of report date, all but one (\$2,731) had been corrected and action plans have been implemented to address



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Monitored Risk 2: No Expenditures

Fiscal Year	Percent of Endowments Reviewed	Percentage of Endowments Reviewed with No Expenditures and No Justification	Total Balances in Endowments with No Expenditures and No Justification
2007	36%	2.87%	\$1,917,425
2008	40%	3.60%	\$3,972,035
2009	44%	1.97%	\$1,245,077
2010	51%	0.30%	\$333,878

- Endowments with no expenditures with no justification are decreasing
- Over 99.70% (4,715) of 4,729 endowments reviewed were compliant
- Institutions are reviewing and implementing action plans to address others



Monitored Risk 3: Excessive Accumulations

Fiscal Year	Percent of Endowments Reviewed	Percentage of Endowments Reviewed with Excessive Accumulations and No Justification	Total Balances in Endowments with Excessive Accumulations and No Justification
2007	36%	3.77%	\$4,380,193
2008	40%	4.54%	\$7,541,780
2009	44%	2.61%	\$6,015,913
2010	51%	0.51%	\$1,512,798

- Endowments with excessive accumulations with no justification are decreasing
- Over 99.49% (4,705) of 4,729 endowments reviewed were compliant
- Institutions are reviewing and implementing action plans to address others



Monitored Risk 4: Unfilled Academic Positions

Fiscal Year	Percent of Positions Reviewed	Total Number of Fully-Funded Academic Positions	Percentage of Positions Unfilled as of 8/31/10	Average Number of Consecutive Months Unfilled
2007	100%	2,171	17.00%	32.51
2008	100%	2,201	14.45%	30.07
2009	100%	2,361	13.89%	29.99
2010	100%	2,306	15.78%	27.96

- Unfilled positions increased slightly in FY10, but the average number of months unfilled continues to decrease
- 84.22% (1,942) of 2,306 positions were filled at fiscal year end
- Institutions are reviewing and implementing action plans



Funding for the Program

- Board of Regents allows each institution to take an annual fee of 0.08% to 0.20% of the market value of its endowments, depending on eligibility
- In order to be eligible for a fee greater than 0.08%, an audited fee assessment must be submitted by the U. T. institution



Progress and Plans for Improvement

- Required management response has improved compliance
- Database to enhance reporting capabilities online by September 1, 2011
- Database will permit better tracking of progress through updates of data between reports.
- Beginning in FY10, each endowment reviewed at least every 3 years
- “Report of Use” letters now provided to donors of all endowment categories



Conclusions

- Program is working and continues to identify risks and increase compliance
- Has promoted strategic focus on endowment fund raising
- All endowments are now reviewed every 1 – 3 years
- Annual reporting continues to identify trends so that negative trends can be prevented or reversed
- Campuses must be applauded for hard work and good communication between leadership, faculty, and staff in producing such good numbers