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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

Committee Meeting: 8/24/2011
Austin, Texas

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

1. **U. T. System: Report on the Systemwide internal audit activities, including the results of the System Audit Office's External Quality Assurance Review Report**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on the following items:

1. **External quality assessment review of the U. T. System Audit Office conducted in May 2011** - The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* requires that internal audit functions obtain a comprehensive external peer review or quality assessment review (QAR) at least once every five years. Additionally, the *Texas Internal Auditing Act* requires that governmental internal audit functions obtain a QAR every three years. The overall objective of the QAR was to assess the System Audit Office's compliance with the IIA *Standards*. The QAR team that reviewed the internal audit function and operations opined that the U. T. System Audit Office "generally conforms" to the IIA *Standards*, which is the highest rating. The team identified several positive attributes and also made recommendations for enhancement in the areas of risk assessment and audit planning in addition to support to institutional auditors and to institutions. A summary of implementation status for these recommendations may be found on Pages 12 - 13.

2. **Implementation status of significant audit recommendations** - The third quarter activity report on the Implementation Status of Outstanding Significant Findings/Recommendations is set forth on Page 14. Satisfactory progress is being made on the implementation of all significant recommendations. 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.

3. Other audit reports issued by the Systemwide audit program as set forth on Page 15.

4. Annual internal audit plan status as of June 30, 2011, which follows on Page 16.

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
System Audit Office External Quality Assurance Review
Status of Implementation of Recommendations Summary

Overall, the UT System Audit Office was judged to "generally conform" to Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), which is the highest rating. The quality assurance review process identified several positive attributes as well as opportunities for improvement, as described below.

Positive Attributes:

- *Audit Committee and Senior Management Support* – The System Audit Office is respected, is involved in many institutional and UT System-level activities, and management feels comfortable drawing the System Audit Office into problematic situations. There is a high level of support from the UT System Board of Regents' Audit, Compliance and Management Review Committee and from the UT System Administration Internal Audit Committee.

- *Direct Interaction with UT System Board of Regents (Board)* – The Chief Audit Executive meets frequently with the Chairman and Vice Chairman of the Board's Audit, Compliance, and Management Review Committee (ACMRC) and quarterly with the Chancellor. The Chief Audit Executive and his staff also report quarterly to the UT System Administration Internal Audit Committee. These meetings result in robust discussions on important issues.

- *Focus of Engagements* – The System Audit Office performs a mix of audits and consulting engagements that have a Systemwide or broad based impact. Systemwide engagements traditionally are performed at the request of senior management and/or the Board and reflect the high level of confidence in the internal audit organization. The System Audit Office also provides extensive information technology audit expertise to institutional auditors.

- *Audit Function Reputation* – The quality of the internal audit work and the confidence in the entire internal audit staff is very strong. Individuals ranging from Regents to UT System Administration senior staff to individual institutional representatives expressed a high degree of confidence in the work product and professionalism of the System Audit Office.

- *Quality Assurance (QA) Program* – The entire quality assurance process is extremely strong. Each engagement is assigned both an engagement manager and a QA manager. The System Audit Office performs periodic self-assessments and undergoes an external quality assessment every three years with a follow-up review in between to ensure any recommended changes have been implemented. These practices exceed both the requirements of the IIA Standards and the requirements of the *Texas Internal Auditing Act*.

Opportunities for Continuous Improvement:

Risk Assessment and Audit Planning Recommendations

- *Annual Audit Plan Timing* –Discuss with ACMRC Chairman the pros and cons of providing additional time between the ACMRC's audit plan approval and the start of the audit plan year. Also, provide opportunities for Regents to provide up-front input to the risk assessment and audit planning process.

- *Current Implementation Status – We discussed the timing of the annual audit plan process with the Committee Chairman and determined the ACMRC will approve the proposed audit plan early in the first quarter through a special called meeting. We also sought input on the development of the FY 2012 annual audit plan from the ACMRC members through individual interviews in the early stages of the annual audit plan process (mid Q4 FY 2011). Implemented*

- *Risk Assessment Documentation* – Document the risk assessment process in greater detail to include the various information sources and analytical methods used to determine the list of risks and ranking information. Additionally, ensure that the criteria for conducting consulting engagements are clearly defined in the internal audit charter. Finally, ensure that individual audit engagement risk assessments and plans include documentation of potential fraud risk and the overall audit plan risks that the engagement is supposed to address.
- *Current Implementation Status – We have formally documented our annual audit plan and risk assessment process in an internal policy included in our Audit Manual. Using the IIA Standards as guidance, we updated our internal audit charter to clarify the criteria used for conducting consulting engagements. We modified our working paper software template so that the planning phase steps include documentation to show the consideration of fraud and the link between the risk(s) of the engagement to the overall audit plan.* **Implemented**

- *Audit Results Trend/Theme Analysis* – Provide a high-level trend/theme analysis that highlights audit results and residual risk across the UT System. Ensure that the trend/theme analysis ties back to the original risk assessment and reflects the extent to which the risks, risk rankings, and exposure have changed.
- *Current Implementation Status – We plan to present a high-level trend/theme analysis for Systemwide and other commonly performed audits in FY 2011 to the ACMRC and the UT System Administration Internal Audit Committee.* **Implementation Date: November 30, 2011**

Support to Institutional Auditors and to Institutions Recommendations
- *Communication* – Expand communication efforts to better address emerging issues and concerns from the audit perspective (e.g., audit trends, best practices recommendations, updates on internal audit methodology, etc.).
- *Current Implementation Status – We are in the process of soliciting feedback from the audit directors on effective methods to expand communication across the System. After analyzing this information, we will work with the audit directors to identify practical ways to implement the proposed suggestions.* **Implementation Date: November 30, 2011**

- *Interaction with Institutional Auditors* – Expand efforts to support institutional auditors to include conducting at least one in-person meeting each year. Conduct regular teleconferences that include time for information sharing/discussion among all participants that provide opportunities for increased learning, a shared view of emerging risks, and an understanding of Systemwide-level trends.
- *Current Implementation Status – We are hosting an in-person meeting with the internal audit directors in August 2011 and will continue to have regular Internal Audit Council meetings throughout the year. We consulted with the internal audit directors to develop the meeting agenda to ensure and encourage interaction amongst the Council participants.* **Implemented**

Enterprise Resource Planning (ERP) Involvement Recommendation
- *ERP Involvement* – Ensure that internal audit involvement in ERP implementations is expanded to include participation in the beginning/planning stages of an ERP project.
- *Current Implementation Status – We worked with management and developed a general plan to keep us informed on and involved in the progress of the current ERP implementation of PeopleSoft. We will continue this process for future ERP projects.* **Implemented**

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

U. T. SYSTEM AUDITS

Report Date	Institution	Audit	2nd Quarter 2011 Ranking	# of Significant Findings	3rd Quarter 2011 Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note)
2010-06	UTEP	Gifts and Endowments	(yellow)	1	(green)	0	4/30/2011	Implemented
2011-05	UTEP	Human Resource Services - Phase II			(green)	0	5/2/2011	Implemented
2010-08	UTPA	Effort Reporting	(yellow)	1	(green)	0	3/31/2011	Implemented
2010-12	UTPB	Annual Financial Report for the Fiscal Year Ended August 31, 2010	(red)	1	(yellow)	1	11/30/2011	Satisfactory
2010-01	UTSA	Information Technology Asset Management	(yellow)	1	(yellow)	1	11/30/2011	Satisfactory
2010-11	UTSA	Information Security Program	(yellow)	3		3	8/31/2012	Satisfactory
2010-05	UTT	Texas Administrative Code Chapter 202	(yellow)	1	(green)	0	4/30/2011	Implemented
2010-11	UTT	Annual Financial Report for the Fiscal Year Ended August 31, 2010	(red)	1	(green)	0	7/31/2011	Implemented
2010-11	UTHSC - Houston	Fiscal Year 2010 Financial Assurance Work		1	(yellow)	1	8/31/2011	Satisfactory
2010-04	UTHSC - San Antonio	UT Medicine: Information Technology Review of Data Security	(yellow)	1	(green)	0	7/1/2011	Implemented
2010-05	UTHSC - San Antonio	UT Medicine: Back End Billing	(yellow)	3	(yellow)	2	11/30/2012	Satisfactory
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials		1	(yellow)	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		2	11/30/2011	Satisfactory
2009-05	UTMDACC - Houston	Business Continuity Plan Review		1		1	2/28/2010*	Satisfactory
2010-02	UTMDACC - Houston	Information Security Organization Review		4		4	11/30/2011	Satisfactory
2010-10	UTMDACC - Houston	Physicians Referral Service Practice Plan Bylaws Implementation Review	(yellow)	1	(green)	0	2/28/2011	Implemented
2010-12	UTMDACC - Houston	Human Resources Contingent Workforce	(orange)	1	(yellow)	1	2/28/2012	Satisfactory
2011-02	UTHSC - Tyler	Information Security Program Index	(red)	1	(green)	0	6/30/2011	Implemented
2011-04	UT System Admin	UT San Antonio Institutional Compliance Program Audit			(red)	1	8/31/2011	Satisfactory
		Totals		**27**		**19**		

STATE AUDITOR'S OFFICE AUDITS

Report Date	Institution	Audit	2nd Quarter 2011 Ranking	# of Significant Findings	3rd Quarter 2011 Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note)
2011-02	UTPB	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010	(yellow)	4	(orange)	4 **	5/31/2011 ***	Satisfactory
2011-02	UTSWMC	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010	(orange)	1	(yellow)	1	7/31/2011	Satisfactory
2011-02	UTSWMC	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010	(orange)	5	(yellow)	4	3/31/2012	Satisfactory
		Totals		**10**		**9**		

Color Legend:

- (red) 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.
- (orange) Significant finding for which substantial progress towards implementation was made during the quarter that the significant finding was first reported.
- (yellow) Significant finding for which substantial progress towards implementation was made during the quarter.
- (green) 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.

** The Federal Portion of the Statewide Single Audit for the Year Ended August 31, 2010 contained the same findings as the prior year audit. The significant findings will be tracked under the fiscal year 2010 audit report.

*** Institution is taking the necessary steps to implement recommendations and is awaiting validation of this by the State Auditor's Office.

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 3/2011 through 5/2011	
Institution	**Audit**
UTARL	Endowments Stewardship
UTARL	Information Security Program Index
UTAUS	Change in Management - Department of Aerospace Engineering and Engineering Mechanics
UTAUS	Change in Management - Department of Computer Science
UTAUS	Change in Management - Department of Educational Psychology
UTAUS	Change in Management - Department of Germanic Studies
UTAUS	Change in Management - Department of Human Ecology
UTAUS	Change in Management - Department of Journalism
UTAUS	Change in Management - Department of Marketing Administration
UTAUS	Change in Management - Department of Radio-Television-Film
UTAUS	Change in Management - Department of Theatre and Dance
UTAUS	Change in Management - K-16 Education Center
UTAUS	Change in Management - Sanger Learning and Career Center
UTAUS	Endowments
UTAUS	Human Resource Management System (HRMS)
UTAUS	Petty Cash - Applied Research Laboratories
UTAUS	Petty Cash - Department of English, Shakespeare at Winedale
UTAUS	Petty Cash - Longhorn Aquatics
UTAUS	UTS165 Information Resources Use and Security Policy - McCombs School of Business
UTD	Dean of Students Departmental Audit
UTD	McDermott Library Departmental Audit
UTD	Student Access Ability
UTD	Student Counseling Center Departmental Audit
UTD	University Police Follow-UP Departmental Audit
UTEP	Server Inventory - Phase II
UTEP	Time and Effort Reporting -Additional Procedures
UTPA	College of Science and Engineering Dean's Office
UTPA	International Education Fee
UTPA	National Collegiate Athletic Association Compliance Review
UTPA	Year-Round Pell Grant
UTPB	Change in Management - Office of Admissions Audit
UTPB	Information Security Program Index Audit
UTPB	Work Study Program Audit
UTSA	Institute of Texan Cultures Business Office
UTSA	Payment Card Industry Data Security Standards
UTT	Audit Follow-up Procedures
UTSMC	Human Resources Benefits and Leave Management
UTSMC	Information Security
UTSMC	Pathology Laboratory Information Systems
UTSMC	Texas Administrative Code 202
UTMB - Galveston	Clinical Equipment Services
UTMB - Galveston	Data Protection
UTMB - Galveston	Information Security Program Index
UTMB - Galveston	Nursing Shortage Reduction Program
UTMB - Galveston	Time and Effort
UTHSC - Houston	University of Texas Harris County Psychiatric Center Compliance to Mental Health and Mental Retardation Authority Contract Guidelines
UTHSC - Houston	Follow-up of Open Recommendations
UTHSC - Houston	Health Information Technology for Economic and Clinical Health Compliance
UTHSC - Houston	Institutional Information Security Program
UTHSC - San Antonio	Front End Revenue Cycle
UTHSC - San Antonio	Residual Balance Transfers
UTHSC - San Antonio	Texas Administrative Code Section 202 - Compliance Assessment
UTMDACC - Houston	Charge Capture - Pathology and Lab Medicine
UTMDACC - Houston	Licensure and Certification
UTMDACC - Houston	MedAptus: Appointment Status Impact
UTHSC - Tyler	Conflict of Interest Policies and Governance Consulting Report
UTSYS ADM	Consulting on Authorization for Professional Services Form
UTSYS ADM	Occidental Petroleum Corporation Oil and Gas Producer Audit
UTSYS ADM	Office of Employee Benefits Texas Administrative Code Section 202 Audit
UTSYS ADM	Office of Risk Management Departmental Audit
UTSYS ADM	Office of the Director of the Police Change in Management and Follow-Up Audit
UTSYS ADM	Oil and Gas Follow-Up Audit
UTSYS ADM	SandRidge Energy, Inc. Oil and Gas Producer Audit
UTSYS ADM	Status of Internal Controls in Departments Involved in the System Administration Reorganization
UTSYS ADM	University of Texas at Dallas Compliance Audit
UTSYS ADM	University of Texas Health Science Center at Tyler Office of the President Audit
UTSYS ADM	University of Texas Investment Management Company Information Security Application Audit
UTSYS ADM	University of Texas Pan American Change in Management Review Follow-Up

STATE AUDITOR'S OFFICE AUDIT REPORTS ISSUED 3/2011 through 5/2011	
Institution	**Audit**
UTHSC - Houston	Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program

U. T. Systemwide Internal Audit Program
FY 2011 Annual Internal Audit Plan Status
(as of June 30, 2011)

	Financial	Operational	Compliance	Information Technology	Follow-up	Projects	Credit for Priority Hours (*Note 1*)	Total Priority Budget Hours (*Note 2*)	Variance (Hours)	Percentage Completion
U. T. System Administration	4,090	3,501	1,865	1,858	767	3,244	15,325	17,450	2,125	**88%**
Large Institutions:										
U. T. Austin	2,250	1,456	1,789	958	76	3,285	9,814	13,900	4,086	**71%**
U. T. Southwestern	2,966	2,130	851	1,555	500	3,570	11,571	15,150	3,580	**76%**
U. T. Medical Branch at Galveston	1,189	663	623	1,529	350	1,632	5,986	8,389	2,403	**71%**
U. T. HSC - Houston	1,704	948	589	645	319	1,076	5,280	6,970	1,691	**76%**
U. T. HSC - San Antonio	673	1,311	266	918	400	2,339	5,907	7,190	1,283	**82%**
U. T. MDA Cancer Center	1,860	2,160	1,898	2,017	450	2,157	10,541	12,815	2,274	**82%**
Subtotal	**10,642**	**8,667**	**6,015**	**7,621**	**2,095**	**14,059**	**49,098**	**64,414**	**15,316**	**76%**
Mid-size Institutions:										
U. T. Arlington	1,216	340	980	283	452	970	4,240	5,265	1,026	**81%**
U. T. Brownsville	702	725	428	236	170	1,048	3,309	4,459	1,151	**74%**
U. T. Dallas	523	1,730	364	553	48	464	3,682	5,820	2,138	**63%**
U. T. El Paso	759	624	515	1,154	750	2,144	5,946	8,951	3,005	**66%**
U. T. Pan American	768	350	1,048	400	71	648	3,285	4,862	1,577	**68%**
U. T. San Antonio	1,259	957	904	947	350	834	5,251	6,930	1,679	**76%**
Subtotal	**5,227**	**4,726**	**4,239**	**3,573**	**1,841**	**6,108**	**25,712**	**36,287**	**10,575**	**71%**
Small Institutions:										
U. T. Permian Basin	670	220	312	215	64	212	1,693	2,128	435	**80%**
U. T. Tyler	686	285	192	288	93	340	1,884	2,272	388	**83%**
U. T. HSC at Tyler	616	500	418	250	124	434	2,341	2,751	410	**85%**
Subtotal	**1,972**	**1,005**	**922**	**753**	**281**	**986**	**5,918**	**7,151**	**1,233**	**83%**
TOTAL	**21,930**	**17,899**	**13,040**	**13,805**	**4,984**	**24,396**	**96,053**	**125,302**	**29,249**	**77%**
Percentage of Total	**23%**	**19%**	**14%**	**14%**	**5%**	**25%**	**100%**			

NOTE 1:

"Credit for Priority Hours" reflects the priority budgeted hours apportioned based on completion status of the audits/projects as of 6/30/2011. The time period from 9/1/2010 through 6/30/2011 represents approximately 83% of the annual audit plan year.

NOTE 2:

Original Total Priority Budget Hours, approved by the ACMRC for priority projects, was 127,376 hours. However, due to changes in priorities and staffing resources during the fiscal year, some institutions changed their Total Priority Budget Hours and/or the allocation of hours among the various categories. These changes have been communicated to/approved by the institution's respective president and/or internal audit committee. In addition, MDACC's total priority budget hours above excludes 400 co-sourced hours for construction audits (the progress of this audit work will be reported at fiscal year-end). The total priority budget hours are approximately 80-85% of total budget hours.

2. **U. T. System: Overview of the Systemwide annual audit plan process, including details on U. T. Dallas and U. T. M. D. Anderson Cancer Center internal audit departments' specific processes**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will present an overview of the process for developing the Fiscal Year 2012 U. T. Systemwide Annual Audit Plan. Then, Ms. Toni Messer, Executive Director of Audit and Compliance at U. T. Dallas, and Mr. Mike Peppers, Executive Director of Internal Audit at U. T. M. D. Anderson Cancer Center, will discuss their institution's specific approach for preparing their individual annual audit plans.

General samples of priority audit plan and high-level institutional risk assessment may be found on Pages 19 - 20 (for an academic institution) and Pages 21 - 22 (for a health institution).

BACKGROUND INFORMATION

The FY 2012 U. T. Systemwide Annual Audit Plan is a blueprint of the internal audit activities that will be performed by the internal audit function throughout U. T. System. The Systemwide Annual Audit Plan is comprised of the System Audit Office's and the institutional internal audit departments' individual annual audit plans (audit plan). These 16 audit plans are risk-based to ensure that areas and activities specific to each institution with the greatest risk are identified to be audited.

To provide consistency at the Systemwide level, the U. T. System Audit Office provides the institutional audit departments with guidance each June on the audit plan format, content, and development methodology, which includes the general risk assessment process. The guidance on content provides the institutions suggestions for audits of high-risk areas to be conducted across the U. T. System. These audits are generally recommended based on concerns from U. T. System leadership or as a result of arising high profile issues.

The process of preparing the individual audit plans, which occurs from late June through August, includes reviewing the operations of the institution's functions to identify changes in activities performed, as well as changes in the external environment that might affect operations. In addition, the U. T. System Audit Office and internal audit departments meet with their respective institutional internal audit committee members, executive management, and operational/functional department administrators to obtain validation of the risk areas and ensure that all risk areas are considered. The information obtained is used to update the previous year's risk assessments, which support the development of the draft audit plans. While each institution is responsible for the preparation and execution of its audit plan, the U. T. System Audit Office and the Offices of Academic or Health Affairs provide feedback on the draft versions.

Each institutional internal audit committee formally reviews and approves its institution's proposed audit plan during August and early September. The final approved audit plans are consolidated into the comprehensive Systemwide Annual Audit Plan to present to the Audit, Compliance, and Management Review Committee for review and approval at a special called meeting of the Committee in October 2011.

Then, upon recommendation by the Audit, Compliance, and Management Review Committee, the U. T. System Board of Regents will be asked to approve the Systemwide Annual Audit Plan at the November 2011 meeting.

Fiscal Year 2012 Audit Plan

Audit/Project	Budgeted Priority Hours	% of Total
Financial		
Financial Statements FY 2011 Year End Assurance Work	400	
Financial Statements FY 2012 Interim Assurance Work	100	
ATP/ARP Grant Audits (grant required)	150	
Presidential Travel and Entertainment Audit	100	
NCAA Agreed Upon Procedures Assistance	100	
Consulting/Reviews/Management Requests/Investigations	100	
Financial Audits Subtotal	**950**	**15%**
Operational		
Student Housing Audit	500	
Financial Aid and Scholarships Audit	500	
Procard Continuos Monitoring	200	
Change in Management Departmental Audits	200	
Consulting/Reviews/Management Requests/Investigations	200	
Operational Audits Subtotal	**1600**	**25%**
Compliance		
Research Compliance Audit	400	
Dependent Eligibility Audit	300	
NCAA Recruiting Compliance Audit	250	
Assistance to State Auditor's on Federal Portion of Statewide Single Audit	100	
THECB Facilities Audit	200	
Consulting/Reviews/Management Requests/Investigations	200	
Compliance Audits Subtotal	**1450**	**23%**
Information Technology		
Follow-up on Deloitte Security Assessment	175	
Peoplesoft Pre-Implementation Consulting	300	
Network Security Audit	350	
Texas Administrative Code Section 202 Audit (biennial state requirement)	250	
Consulting/Reviews/Management Requests/Investigations	100	
Information Technology Audits Subtotal	**1175**	**18%**
Follow-up		
Follow-up on Open Recommendations	300	
Follow-up Audits Subtotal	**300**	**5%**
Projects		
Internal Audit Committee	300	
UT System Requests	200	
FY 2013 Audit Plan	120	
Internal Audit Annual Report	30	
External Quality Assurance Review	300	
Projects Subtotal	**950**	**15%**
Total Audit Plan Hours	**6425**	

UT Academic Institution
Fiscal Year 2012 Audit Plan
Institutional Risk Assessment

Legend:

    = An audit is scheduled on the FY 2012 Audit Plan that covers this risk

ACTIVITIES	Risks 1	2	3	4	5	6	7	8
Information Technology	HH Insecure systems or applications containing sensitive information (i.e., FERPA, SSN, etc.)	HM Inadequate security and configuration controls over networks	HM Inadequate security of information resources in decentralized departments	HM Inadequate management of the implementation of shared IT application systems	HM Lack of strategic planning for purchase of IT projects	HL Ineffective management of IT infrastructure	HL Potential lack of contingency and disaster recovery capabilities in the infrastructure	
Auxiliary & Service Departments	HM Noncompliance with NCAA regulations	HM Potential health and safety issues of students in university housing	ML Inadequate procedures to prevent potential fraud and abuse	ML Unsafe campus environment with potential for injuries/lawsuits	LL Inadequate management of contracts	Getting into businesses outside core competencies		
Research & Development	HM Failure to comply with federal statutes related to grants and contracts	HM Failure to properly execute and manage technology transfer	HL Inadequate management of conflicts of interest	HL Inadequate processes to ensure compliance with biosafety federal and state regulations	HL Failure to comply with Institutional Animal Care and Use Committee regulations	Lack of adequate pre-award processes	LM Researchers not attending required training	
Instruction & Academic Support	HM Failure to process and monitor student financial aid	HL Charging incorrect tuition due to improper rates, fees, waivers, or exemptions	HL Inadequate resources for faculty recruitment and retention	HL Loss of accreditation	MM Ineffective enrollment management	Failure to recruit and retain key faculty	ML Improper use of Student Health Services fees	
Institutional Compliance Program	HM Inadequate monitoring of research compliance	HL Insufficient training and education of faculty, students, and staff on regulatory and legal matters	MM Inadequate monitoring of potential conflicts of interest and conflicts of commitment	ML Inadequate monitoring of fiscal administration and procurement	ML Compliance risks are not communicated to executive management	LL Various compliance efforts are not coordinated at the institutional level		
Human Resource Management	HM Ineligible dependents claimed on employee benefit plans	HL Background/reference checks not performed and other hiring processes not followed	Lack of compliance with FMLA, FSLA, ADA regulations and VSL policies	MH High staff turnover	HL Inadequate resources for a sufficiently skilled workforce	MM Lack of diversified faculty and staff		
Purchasing & Warehousing	HM Improper procurement purchases, including misuse of departmental procurement cards	ML Inadequate monitoring of conflicts of interest in conducting business	ML Inappropriate use of exceptions to normal purchasing	ML Unauthorized employees entering into contracts	ML Inadequate monitoring of contract performance	LL Use of split purchases to bypass purchasing limits		
Financial Management	HL Accounting policies and procedures are not followed	HL Inaccurate financial reporting	HL Inadequate financial training, processes, and monitoring in departments	HL Ineffective institutional financial planning/budgeting	HL Improper cash handling/management	HL Inadequate management of contracts		
Governance & Leadership	HL Ineffective strategic planning to meet high-level mission, vision, goals of the university	HL Ineffective communication with stakeholders	HL Lack of contingency planning for expected state deficit in financial support	MH Lack of succession planning	MH Conflicts of interest	MH No monitoring of job performance and no benchmarks for evaluating faculty	MM Inadequate governmental and public relations	
Plant Operations & Maintenance	HL Construction projects not adequately supervised and monitored	HL Environmental release of potentially hazardous agent, infliction of environmental damage, misuse of select agents	HL Compliance with regulations, i.e., ADA	MM Outdated or inadequate facilities or equipment	ML Inadequate building maintenance	ML Inadequate management of procurement/warehousing process		
University Relations & Alumni Affairs	HL Inability to obtain financial support through gifts and endowments	HL Loss of public's trust	ML Funded endowed positions not filled	ML Misuse or lack of use of endowment funds	ML Inadequate media relations to be visible	ML Nonqualified people in endowed position	LL Incorrect classification of donations (restricted vs. unrestricted)	
Asset Management	HL Inadequate controls over purchase and inventory of assets	HL Inadequate controls over cash	ML Inadequate controls over disposals of assets	ML Failure to maintain machinery and equipment in proper condition	LL Inadequate process to track and report stolen or missing assets			

Probability

Impact		H	M	L
	H	HH	HM	HL
	M	MH	MM	ML
	L	LH	LM	LL

Fiscal Year 2012 Audit Plan

Audit/Project	Budgeted Priority Hours	% of Total
Financial		
Financial Statements FY 2011 Year End Assurance Work	600	
Financial Statements FY 2012 Interim Assurance Work	300	
Presidential Travel and Entertainment Audit	100	
ARP/ATP Grant Audits (grant required)	200	
Consulting/Reviews/Management Requests/Investigations	200	
Financial Audits Subtotal	**1400**	**15%**
Operational		
MSRDP - Contract Administration	500	
Revenue Cycle - Front End Process Audit	500	
Hazardous Materials Disposal and Handling Audit	500	
Medical Equipment Audit	400	
Change in Management Departmental Audits	200	
Consulting/Reviews/Management Requests/Investigations	300	
Operational Audits Subtotal	**2400**	**27%**
Compliance		
Clinical Trials Billing Audit	500	
Audit of the Uses of MSRDP Income and Accumulated Balances	400	
Dependent Eligibility Audit	300	
ICD-10 Coding Audit	200	
Research Compliance Audit	500	
Consulting/Reviews/Management Requests/Investigations	200	
Compliance Audits Subtotal	**2100**	**23%**
Information Technology		
Follow-up on Deloitte Information Security Assessment	150	
Hospital Billing System Application Audit	500	
Peoplesoft - Post Implementation Review	400	
Security of Portable Devices	350	
Texas Administrative Code Section 202 Audit (biennial state requirement)	250	
Consulting/Reviews/Management Requests/Investigations	100	
Information Technology Audits Subtotal	**1750**	**19%**
Follow-up		
Follow-up on Open Recommendations	400	
Follow-up Audits Subtotal	**400**	**4%**
Projects		
Internal Audit Committee	400	
UT System Requests	200	
FY 2013 Audit Plan	150	
Internal Audit Annual Report	50	
Quality Assurance Review - Self Assessment	200	
Projects Subtotal	**1000**	**11%**
Total Audit Plan Hours	**9050**	

Legend:

☐ = An audit is scheduled on the FY 2012 Audit Plan that covers this risk

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ACTIVITIES	Risks 1	2	3	4	5	6	7	8
Information Technology	HH Insecure systems or applications containing sensitive information (i.e., FERPA, PHI, SSN, etc.)	HM Potential for a data breach due to lack of vulnerability scanning	HM Lack of strategic planning for purchase and implementation of IT projects	HM Inadequate management of institutional IT application systems	HL Ineffective management of IT infrastructure	HL Potential lack of contingency and disaster recovery capabilities in the infrastructure		
Patient Care	HM Ineffective management of billing/collections and coding/charge capture	HM Ineffective management of medical equipment and supplies	HM Inadequate preparation for conversion to ICD 10 coding standards by October 2013 deadline	HL Inadequate care and treatment	HL Inappropriate management of medical waste and hazardous materials	HL Ineffective management of patient registration	HL Inadequate management of medical buildings/facilities	MM Failure to supervise residents/fellows providing patient care
Institutional Compliance Program	HM Inadequate monitoring of medical (hospital and physician) and clinical trials billing	HM Inadequate monitoring of research compliance	HL Insufficient training and education of faculty, students, and staff on regulatory and legal matters	MM Inadequate monitoring of potential conflicts of interest and conflicts of commitment	ML Inadequate monitoring of fiscal administration and procurement	ML Compliance risks are not communicated to executive management	LL Various compliance efforts are not coordinated at the institutional level	
Governance & Leadership	HM Ineffective strategic planning	HM Ineffective communication with stakeholders	HL Lack of contingency planning for expected state deficit in financial support	MH Lack of succession planning	MH Conflicts of interest	MH No monitoring of job performance and no benchmarks for evaluating faculty	MM Inadequate governmental and public relations	
Research & Development	HM Inappropriate Federal grants billing	HL Inadequate processes to ensure compliance with biosafety federal and state regulations	HL Failure to comply with Institutional Animal Care and Use Committee regulations	HL Institutional Review Board approval not obtained (Human Subject Research)	MM Inadequate management of conflicts of interest	MM Lack of adequate pre-award processes	LM Researchers not attending required training	
Financial Management	HM Inadequate management of contracts	HL Accounting policies and procedures are not followed	HL Inaccurate financial reporting	HL Ineffective institutional financial planning/budgeting	HL Medicare and Medicaid cost report is inaccurate	MM Inadequate financial training, processes, and monitoring in departments		
Human Resource Management	HM Ineligible dependents claimed on employee benefit plans	HL Healthcare providers may not have appropriate credentials	HL Background/reference checks not performed and other hiring processes not followed	HL Lack of compliance with FMLA, FSLA, ADA regulations and VSL policies	MH High staff turnover	MM Benefits-eligible employees treated as casual employees		
Asset Management	HH Loss of portable equipment	ML Inadequate controls over disposals of assets	LL Failure to maintain machinery and equipment in proper condition	LL Inadequate process to track and report stolen or missing assets	LL Inadequate controls over cash equivalents			
Auxiliary & Service Departments	HM Inadequate procedures to prevent potential fraud and abuse	ML Unsafe environment with potential for injuries/lawsuits	LL Inadequate management of contracts	LL Getting into businesses outside core competencies				
Plant Operations & Maintenance	HL Construction projects not adequately supervised and monitored	HL Environmental release of potentially hazardous agent, infliction of environmental damage, misuse of select agents	HL Compliance with regulations, i.e., ADA	MM Outdated or inadequate facilities or equipment	ML Increased cost due to inefficient use of utilities	ML Inadequate building maintenance	ML Inadequate management of procurement/warehousing process	
Education	HL Loss of accreditation	HL Ineffective enrollment management	MM Charging incorrect tuition due to improper rates, fees, waivers, or exemptions	MM Failure to recruit and retain key faculty	MM Failure to process and monitor student financial aid	ML Improper use of Student Health Services fees		
University Relations & Alumni Affairs	HL Inability to obtain financial support through gifts and endowments	HL Loss of public's trust	MM Funded endowed positions not filled	MM Misuse or lack of use of endowment funds	ML Inadequate media relations to be visibile	ML Nonqualified people in endowed position	LL Incorrect classification of donations (restricted vs. unrestricted)	
Purchasing & Warehousing	ML Inadequate monitoring of conflicts of interest in conducting business	ML Inappropriate use of exceptions to normal purchasing	ML Unauthorized employees entering into contracts	ML Inadequate monitoring of contract performance	LH Misuse of procurement cards	LL Use of split purchases to bypass purchasing limits		

Probability

Impact		H	M	L
	H	HH	HM	HL
	M	MH	MM	ML
	L	LH	LM	LL

3. **U. T. System: Update on the progress of the external audit of the Fiscal Year 2011 U. T. System Consolidated Annual Financial Report**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will discuss the progress made on the external audit of the Fiscal Year 2011 U. T. System Consolidated Annual Financial Report conducted by Deloitte & Touche, LLP (Deloitte) as set forth in the status report on Pages 24 - 25.

BACKGROUND INFORMATION

On November 13, 2003, the U. T. System Board of Regents (Board) approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, the Board sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm, and a contract with Deloitte was negotiated to provide an audit of the U. T. System Consolidated Financial Statements for Fiscal Year 2005. The contract was renewed on March 28, 2006, to provide the same audit for Fiscal Year 2006.

On April 16, 2007, the Board voted not to renew the contract for the fiscal year ended August 31, 2007, but expressed confidence in the financial audit work that could be performed by the institutional and U. T. System Administration auditors. As a result of that decision, the U. T. System Audit Office put together a plan to oversee and coordinate the internal audit of the U. T. System Consolidated Financial Statements for Fiscal Years 2007, 2008, 2009, and 2010.

During the August 19-20, 2009 meeting, the Committee and the Board approved implementing a process to solicit proposals for the performance of an independent external audit of the U. T. System financial statements for Fiscal Year 2011. At the August 11-12, 2010 meeting, the Committee and the Board approved the hiring of Deloitte as the external auditor to provide financial auditing services for Fiscal Year 2011.

Deloitte & Touche, LLP (Deloitte) is currently conducting the external audit of the Fiscal Year (FY) 2011 U. T. System Consolidated Annual Financial Report. Deloitte has taken a team approach with this audit and is leveraging our internal audit resources. The scope of the procedures performed across the U. T. System varies primarily based on size of the institution. During the fourth quarter of FY 2011, Deloitte, with the assistance of internal audit, completed their information technology (IT) and interim financial audit work. The final financial audit procedures will be conducted starting the last week of September through the end of October 2011. NOTE: The external financial audits of the UTIMCO funds and U. T. M. D. Anderson Cancer Center financial statements are separate audits but will follow a similar timeline.

Information Technology Audit Work
In support of the financial audit, Deloitte obtained an understanding of information systems, including the related business processes, relevant to financial reporting. Deloitte's testing approach covered three areas of general IT controls: physical security, access security, and change management.

Deloitte gained an understanding of the design and implementation of general IT controls over application systems that process financial data through analysis of a questionnaire at U. T. Brownsville, U. T. El Paso, U. T. Pan American, U. T. Permian Basin, U. T. Tyler, and U. T. Health Science Center (HSC) - Tyler. At the remaining institutions, Deloitte gained an understanding of the general IT controls, evaluated their design, and tested their existence. The IT testing performed was limited at U. T. Arlington and U. T. San Antonio and more detailed at U. T. System Administration, U. T. Austin, U. T. Dallas, U. T. Southwestern, U. T. Medical Branch, U. T. HSC - Houston, and U. T. HSC - San Antonio. At U. T. M. D. Anderson Cancer Center and UTIMCO, Deloitte also tested operating effectiveness of the controls to determine if they were adequately implemented (working as intended).

Deloitte has completed all of the IT audit work and plans to communicate the results with each institution by the end of the fiscal year.

Financial Audit Work
Deloitte categorized the institutions into different groups based on the financial statement line items to be audited (outlined below) and the extent of audit procedures to be performed. This was determined primarily based on size and type of the institution.

U. T. System Administration*

- Cash
- Property, Plant, and Equipment
- Derivatives
- Debt
- Accounts Payable
- Other Post Employment Benefits

- Operating Expenses
- Journal Entries
- Net Assets
- State Appropriations
- Due to/Due From
- Reporting Package

U. T. Southwestern, U. T. Medical Branch, U. T. HSC Houston, U. T. HSC San Antonio*

- Cash
- Property, Plant, and Equipment
- Patient Accounts Receivable
- Accounts Payable
- Deferred Revenue
- Patient Revenue

- Grant Revenue
- Investment Income (U. T. Southwestern only)
- Operation Expenses
- 3rd Party Settlements (U. T. Medical Branch only)
- Journal Entries
- Reporting Package

U. T. Austin*

- Cash
- Property, Plant, and Equipment
- Deferred Revenue
- Tuition and Fees
- Tuition Discount and Allowances
- Operating Expenses
- Accounts Payable

- Federal Grant Revenue
- Sales and Services of Educational Activities
- Auxiliaries
- Gifts for Capital
- Journal Entries
- Reporting Package

U. T. Arlington, U. T. Dallas, U. T. El Paso, U. T. San Antonio**

- Cash
- Property, Plant, and Equipment
- Deferred Revenue
- Tuition and Fees

- Tuition Discount and Allowances
- Operating Expenses
- Journal Entries
- Reporting Package

U. T. Brownsville, U. T. Pan American, U. T. Permian Basin, U. T. Tyler, U. T. HSC Tyler**

- Cash
- Property, Plant, and Equipment
- Reporting Package

* Deloitte will be on-site at these institutions and manage the audit with internal audit assistance.

** Deloitte will not be on-site at these institutions and will re-perform some of internal audit work.

Deloitte is conducting standalone audits of the UTIMCO funds and U. T. M. D. Anderson Cancer Center financial statements with individual materiality levels and separate comprehensive audit procedures.

Audit Results and Reporting
Internal audit at each institution will prepare and submit a summary memo of their work to Deloitte, including any adjustments, control deficiencies or additional issues identified, around the end of the first quarter of FY 2012.

The U. T. System Chief Audit Executive will report on the progress and preliminary results of the audit at the November 2011 U. T. System Board of Regents' meeting. Deloitte will present the final report at the February 2012 U. T. System Board of Regents' meeting.

4. **U. T. System: Student opportunities provided by U. T. System internal audit offices**

REPORT

Ms. Paige Buechley, Assistant Director of Audits, will provide an overview of student opportunities provided by the U. T. System internal audit offices and highlight successful internship programs, using a PowerPoint presentation set forth on Pages 27 - 35.

Then, Mr. Nick Saleh, a U. T. Austin student intern, will speak about his internship experience at the U. T. System Audit Office.

Providing Opportunities for Students in Internal Audit

Paige Buechley, Assistant Director of Audits

U. T. System Audit Office

The University of Texas System Board of Regents' Meeting

Audit, Compliance, and Management Review Committee

August 2011

Student Opportunities

Internal audit offices Systemwide have provided opportunities to more than 90 students in the last two years. Students have:

- Performed audits as part of a course project
- Worked as a paid intern or for course credit
- Worked on staff as a student worker

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Student Auditors

Students work on several campuses:

	Course Project	Interns	Student workers
U. T. Austin	12	7	
U. T. Brownsville			1
U. T. Dallas	46	4	
U. T. El Paso		1	
U. T. Permian Basin		1	1
U. T. San Antonio		3	
U. T. Tyler		1	
U. T. HSC San Antonio		1	
U. T. Southwestern Medical Center	2	6	
U. T. System Administration	12	12	

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Course Projects

Many internal audit offices sponsor student teams as part of internal auditing courses:

- Audit directors and audit course professors work together to develop projects

- Student teams perform audits with internal audit staff

- Audit work corresponds to course work

- Students present audit results to class

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Internships

Many internal audit offices offer student internships:

- Students earn wages or course credit
- Students are involved in all phases of audit
- Students work on a variety of projects
- Many internships result in full-time employment at U. T. System institutions

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Student Workers

Internal audit offices hire student workers:

- Students assist with audits and are assigned routine office duties

- Students can participate in the Federal Work-Study Program to work on campus:
  - Wages paid in part by federal funding
  - Must make satisfactory academic progress
  - Work less than 20 hours a week
  - Earn at least minimum wage

Highlight of Success: U. T. Dallas Internal Auditing Education Partnership

The U. T. Dallas Office of Audit and Compliance partners with the School of Management's Center for Internal Auditing Excellence. As part of the partnership, the U. T. Dallas Office of Audit and Compliance:

- Offers students internships
- Supervises up to 15 students each semester as part of the internal auditing course
- Has hired three interns as full-time auditors after graduation

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U. T. Dallas Center for Internal Auditing Excellence is a unique center:

- Endorsed by the Institute for Internal Auditing
- Provides graduates students the opportunity to have a concentration in internal audit
- Leverages accounting and information management courses to build a strong multidisciplinary program in internal audit
- Was developed with input from local business community

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U. T. System Audit Office Internship Program

The U. T. System Audit Office selected a team of students to participate in the summer internship program:

- Students performed an audit of financial controls at six U. T. System Administration departments
- Program included classroom-type training
- Our team joined interns from other U. T. System Administration offices for a bi-weekly speaker series with presentations from members of executive management