



**INTERNAL AUDIT AND COMPLIANCE
SUBCOMMITTEE
THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS**

October 9, 2002
1:00 p.m.
Conference Room, 9th Floor, Ashbel Smith Hall

1. Welcome and Opening Remarks

Internal Audit

- 2. Agenda Topic for November Board of Regents' Meeting**
 - **2003 Audit Plan [Action Item] (Tab 2)**
- 3. Strategic Plan (Tab 3)**
- 4. State Auditor's Office Activity (Tab 4)**
- 5. State Auditor's Office Tracking System (Tab 5)**
- 6. Audit Summaries (Tab 6)**

Compliance

- 7. Program Status (Tab 7)**
- 8. 2nd Annual Compliance Conference (Tab 8)**
- 9. Recess to Executive Session According to Texas Government Code, Chapter 551, Section 551.074**

Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees

- 10. Adjourn**

Executive Summary

The University of Texas System-wide fiscal year 2003 Audit Plan (“2003 Audit Plan”) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout The University of Texas System in FY 2003. Individual audit plans were prepared at each component and approved by the component Internal Audit Committee.

The Director of Audits provided direction to the internal audit directors prior to the preparation of the audit plans and provided formal feedback through conducting “audit hearings” with each component. The process of preparing the audit plans included identifying those areas considered to be specific to each component that are considered to be the most important and ensuring that activities with the greatest risk are audited.

The efforts of the internal audit function continue to expand into areas other than the performance of traditional audits. Examples of added services include consulting services and management audits in the institutions’ core business processes.

The *2003 Audit Plan* illustrates an economic and efficient use of internal audit resources, and addresses the risks of The University of Texas System by planning activities as follows:

Area	Audit Hours	% Of Total Hours
Key Financial and Operating Information	24,252	18%
Institutional Compliance Audits	18,044	13%
Information Technology Audits	20,640	15%
Core Business Processes	35,992	28%
Change in Management	6,985	5%
Follow-up projects	5,788	4%
Total	135,195	100%

Key Financial & Operational Information		Compliance		Information Technology		Core Business Processes		Change in Management		Follow-up		Projects		Total
U. T. System Administration		2,010	1,080	2,430	4,805	390	440	400	1,705	400	400	2,715	13,870	
Large Components:														
U. T. Austin	2,650	1,550	2,250	5,070	1,705	400	2,310	15,935						
U. T. Southwestern	1,630	1,750	1,600	3,590	1,000	400	2,500	12,470						
U. T. Medical Branch at Galveston	2,990	975	2,600	3,350	825	800	3,219	14,759						
U. T. HSC - Houston	1,345	1,590	2,365	2,445	285	65	2,930	11,025						
U. T. HSC - San Antonio	1,500	580	1,130	1,980	560	300	1,060	7,110						
U. T. MDA Cancer Center	3,160	1,750	2,270	5,080	120	600	2,694	15,674						
Subtotal	13,275	8,195	12,215	21,515	4,495	2,565	14,713	76,973						
Mid-size Components:														
U. T. Arlington	855	1,580	600	1,730	120	550	645	6,080						
U. T. Brownsville	700	820	900	710	150	460	842	4,582						
U. T. Dallas	980	1,210	1,130	1,130	360	190	540	5,540						
U. T. El Paso	3,050	1,190	1,550	2,700	1,175	755	1,452	11,872						
U. T. Pan American	870	1,430	825	980	75	400	860	5,440						
U. T. San Antonio	695	1,754	1,330	1,987	0	200	690	6,656						
Subtotal	7,150	7,984	6,335	9,237	1,880	2,555	5,029	40,170						
Small Components:														
U. T. Permian Basin	325	165	100	100	50	0	65	805						
U. T. Tyler	240	220	300	200	140	128	292	1,520						
U. T. HC at Tyler	1,252	400	990	840	30	100	680	4,292						
Subtotal	1,817	785	1,390	1,140	220	228	1,037	6,617						
Consolidation of IT and Core Bus. Hours *														
TOTAL	24,252	18,044	20,640	35,992	6,985	5%	5,788	23,494	135,195					
Percentage of Total	18%	13%	15%	28%	5%	4%	17%	100%						

(2,435)

(1,730) (705)

* 1,730 hours represents the amount of hours that System Administration budgeted to assist the components in specific information technology audits or consulting projects. The components also included this number of hours in their 2003 audit plan; therefore, the amount is taken out in the consolidation. 705 hours represents the amount of hours that System Administration budgeted in the core business processes area to provide the internal audit function to U. T. Permian Basin. U. T. Permian Basin also budgeted this number of hours in their 2003 audit plan.

The University of Texas System

Internal Audit Strategic Plan

DRAFT

Mission Statement

Assist the Board of Regents and executive management in accomplishing their goals by providing assurance and consulting activities to evaluate and improve the processes of risk management, control, and governance.

Primary Initiatives

- Adequate and Sustained Audit Resources
- Responsiveness to Risk
- Effective Communication
- Collaboration and Partnerships
- Compliance with Standards and Requirements
- Completion of Plan of Work

Adequate and Sustained Audit Resources

Objective: *To provide a professional, well-trained, and motivated team, at an appropriate level, for the benefit of The University of Texas System in the delivery of audit services.*

Strategies:

- Establish processes to enhance career development
- Encourage attainment of related professional certifications
- Provide continuing professional education and development
- Establish suitable criteria for all positions
- Consider external sources of personnel or resources, when necessary
- Encourage participation in professional organizations
- Encourage the exploration and development of specializations

The University of Texas System

Internal Audit Strategic Plan

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Responsiveness to Risk

Objective: *To become and remain informed and aware of risks in all environments that affect The University of Texas System and develop a plan of work that addresses those risks.*

Strategies:

- Perform specific risk assessment on an annual basis and update during year, as necessary
- Review and appraise the soundness of operating controls
- Exhibit a “risk focus” when performing audits and other activities
- Establish and maintain on-going communication with audit committee, executive management, and external auditors
- Maintain presence, relationships, and collaborations in critical administration and institutional entities

Effective Communication

Objective: *To provide a framework and process by which information can be exchanged and ideas expressed effectively.*

Strategies:

- Seek opportunities to be involved in planning and oversight committees, policy and guideline development, and other strategic efforts in an effort to promote internal controls, quality processes, and the alignment of resources early in the planning and implementation stages
- Develop a system-wide internal audit manual
- Develop a system-wide internal audit web site (include organization charts, contact information, presentations, training, information databases – significant findings, etc., audit programs, links to individual institution audit websites, etc.)
- Encourage support for TACUA through attendance at conference
- Establish and encourage participation on a listserv
- Enhance uses of liaison forms
- Provide guidance and training on appropriate topics, e.g., new IIA Standards

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Internal Audit Strategic Plan

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Collaboration and Partnerships

Objective: *To foster an environment that actively opens communications and develops relationships between the internal auditing activity and other organizational units for purposes that include education and the accomplishment of goals and objectives.*

Strategies:

- Establish processes and goals for the development of collaborating activities at all internal auditing staff levels
- Develop and enhance roles of internal auditors to assist management via consultative activities
- Utilize education activities and forums to promote the internal audit activity as a resource
- Seek opportunities to coordinate audit activities with external reviewers to maximize audit coverage of institutional risks and minimize duplicated efforts

Compliance with Standards and Requirements

Objective: *To ensure the internal auditing activity is conducted in accordance with relevant professional standards and other external requirements.*

Strategies:

- Maintain an internal audit charter which addresses accountability, independence, and responsibilities
- Ensure proficiency of internal auditing staff
- Maintain an active function of quality assurance

Completion of Plan of Work

Objective: *To accomplish activities outlined in the approved plan of work, developed through risk assessment to add value and improve operations.*

Strategies:

- Define assurance and consulting activities to be accomplished based on risk assessment
- Report results of work to management

The University of Texas System
Internal Audit Strategic Plan

DRAFT

- Monitor accomplishment of plan
- Conduct follow-up activities

The University of Texas System
State Auditor's Office Activity Summary
September 2002

The table lists State Auditor's Office activity at each component. KPMG has a three-year contract with the State Auditor's Office to perform audits of Research and Student Financial Aid*.

Component	Audit Area	Date/Status of Fieldwork
U.T. Arlington	None	n/a
U.T. Austin	Research* Student Financial Aid* Salaries, Disaster Preparedness & Recovery, Financial	Report issued; returning for follow-up in the Fall. Waiting on draft report. Waiting on draft report.
U.T. Brownsville	Financial Review* Student Financial Aid*	Working on responses. Preliminary fieldwork complete; returning in November 2002.
U.T. Dallas	None	n/a
U.T. El Paso	Research*	Fieldwork scheduled for October 2002
U.T. Pan American	None	n/a
U.T. Permian Basin	None	n/a
U.T. San Antonio	Research*	Fieldwork scheduled to begin October 28, 2002.
U.T. Tyler	None	n/a
U.T. Southwestern Medical	Research* Performance Measures	Preliminary work completed; returning in October 2002. Waiting on draft report.
U.T. Medical Branch Galveston	Information Technology Benefits Proportional by Fund Report Research*	Waiting on draft report. Report issued August 2002. Preliminary work completed; returning in October 2002.
U.T. M.D. Anderson	Patient Information Security	Fieldwork completed in June; received request for additional information.
U.T. Health Science Center Houston	Information Technology	Draft report is expected by the September 30, 2002.
U.T. Health Science Center San Antonio	Performance Measures Review	Waiting on draft report.
U.T. Health Center Tyler	None	n/a

The University of Texas System

State Auditor's Office Audit Findings/Recommendations Tracking System

Status as of the 4th Quarter of Fiscal Year 2002

The University of Texas System Administration Audit Office developed and maintains the *State Auditor's Office Significant Audit Findings/Recommendations* tracking system. This system identifies and monitors the status of the recommendations made by the State Auditor's Office that are related to The University of Texas System.

The applicable chief business officers provided the status of implementation as of the fourth quarter of fiscal year 2002; 16 recommendations were implemented and five were "in progress." These recommendations will be tracked until implementation. The recommendations and chief business officers' responses are attached to this summary.

Component	Report	Detailed on page	Report Date	In Progress as of 2nd Quarter FY 2002	New Recommendations	In Progress as of 4th Quarter FY 2002
U. T. M. D. Anderson Cancer Center	Statewide Single Audit report for Year Ended August 31, 2001	3	5/02	2	1	
U. T. Arlington	Statewide Single Audit report for Year Ended August 31, 2001	4	5/02	1	1	
U. T. Austin	Statewide Single Audit report for Year Ended August 31, 2001	5	5/02	5	5	
U. T. El Paso	Statewide Single Audit report for Year Ended August 31, 2001	7	5/02	1	1	
U. T. Health Science Center at Houston	Statewide Single Audit report for Year Ended August 31, 2001	8	5/02	2	1	
U. T. Health Science Center at San Antonio	Statewide Single Audit report for Year Ended August 31, 2001	9	5/02	3	3	

The University of Texas System

State Auditor's Office Audit Findings/Recommendations Tracking System

Status as of the 4th Quarter of Fiscal Year 2002

Component	Report	Detailed on page	Report Date	In Progress as of 2 nd Quarter FY 2002	New Recommendations	Implemented	In Progress as of 4 th Quarter FY 2002
U. T. Medical Branch at Galveston	Contract Administration Review at the University of Texas Medical Branch at Galveston	10	2/02	5	2		
	Statewide Single Audit report for Year Ended August 31, 2001		5/02				
U. T. San Antonio	An Audit Report on Management Controls at The University of Texas at San Antonio	12	2/98	0	1		
U. T. System	A Management Letter Concerning a Review of Facilities Planning at Four University Systems	13	8/99	0	1		
	Total			19	16		

State Auditor's Office
Significant Audit Findings / Recommendations

18-Sep-02

M.D. Anderson Cancer Center

Statewide Single Audit Report for Year Ended **Fiscal Year:** 2002 **Status:** **Implemented**
August 31, 2001

Report Date: May 2002

Research and Development Cluster

M.D. Anderson should strengthen controls over the drawdown process to ensure that program costs are paid prior to the request for reimbursement, or monitor drawdown transactions to determine how much of the drawdown is on an advance basis. Controls should either ensure that costs are paid within three days of the receipt of the Federal funds or interest is calculated on Federal funds that are not paid within three days of receipt.

Update 4th Qrt. FY 2002: Implemented. M.D. Anderson concurs with the recommendation of the auditor that strengthening controls over the drawdown process is necessary. In December 2001, M.D. Anderson instituted changes to their drawdown procedures and will continue to review these changes and make adjustments as necessary to ensure they remain compliant.

Statewide Single Audit Report for Year Ended **Fiscal Year:** 2002 **Status:** **Pending**
August 31, 2001

Report Date: May 2002

Research and Development Cluster

M.D. Anderson should seek further clarification from the Department of Health and Human Services (DHHS). The lack of response from DHHS cannot be interpreted as an approval.

Update 4th Qrt. FY 2002: In Process. M.D. Anderson concurs with the recommendation of the auditor to seek further clarification from DHHS for the plan confirmation system. M.D. Anderson, as noted by the auditor, has continued to work with DHHS, Division of Cost Allocation (DCA) in Washington, DC (national office) and Dallas, TX (regional office) to resolve the "approval" of the plan confirmation system under OASC-3. They are seeking this approval on two levels with DCA; (1) as a request for approval as an alternative effort reporting system under OASC-3 (this action is tabled pending proposed changes to OASC-3 by DHHS) and (2) incorporation of the plan confirmation system in the update of OASC-3 currently in final draft at DCA. Representatives of M.D. Anderson met with the National Director of DCA last November to review the status of the OASC-3 update. They discussed the unintentional delays to the update process caused by a change in administration at the Federal level and actions of the tragedy of September 11th and subsequent retirement that impacted the New York office dealing directly with the rewrite process. The results of that meeting are that the National Director is seeking senior governmental support to issue the updated OASC-3 document through the notice of proposed rulemaking process within the next few months. Subsequent to that process the updated OASC-3 document replacement will be issued in final form. At that time, the recommendation of the auditor above should be resolved.

U.T. Arlington

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status:

Implemented

Report Date: May 2002

Student Financial Aid Cluster

UTA should ensure that all enrollment changes are reported accurately and in a timely manner to the guarantor, the lender, or USDE. UTA should review its procedures to ensure that the transfer students enrollment status and graduates status is communicated within time frames established by the regulations. This recommendation takes the place of a recommendation made in 2000.

Update 4th Qrt. FY 2002: Implemented. UTA has reviewed and modified its procedures to ensure all enrollment changes for the Federal Family Education Loan program are reported accurately and timely. In addition, UTA has increased the frequency of reporting to the National Student Loan Database System to nine times per year from three times per year in order to ensure reporting timeframes are met.

U.T. Austin

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

We recommend U. T. Austin continue to focus on obtaining certifications prior to awarding the purchase orders.

Update 4th Qrt. FY 2002: Implemented. U. T. Austin will continue to focus on obtaining certifications prior to awarding purchase orders.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

We were informed by U. T. Austin that beginning September 2001 the cash position reports are now being maintained. We selected a sample of 5 cash draws for the month of September 2001 and noted the cash reports were maintained. Also, we noted the amount drawn was less than the negative cash position noted for the respective grant.

Update 4th Qrt. FY 2002: Implemented. Management agrees with the recommendation related to retention of cash position reports. As noted by KPMG, the University now maintains these reports.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

U. T. Austin should establish policies and procedures to ensure matching requirements are being met timely and to ensure program income is spent in accordance with the provisions of the respective grant agreements. The profile set-up could be configured to have required fields of information for matching and program income and reporting requirements. Reports should be available which identify the applicable grants and the related amounts. G&C could then monitor these reports on a periodic basis for compliance with matching and program income requirements.

Update 4th Qrt. FY 2002: Implemented. In August 2000 U. T. Austin's Office of the Vice President for Research established a task force consisting of representatives from the Office of the Vice President for Research, the Office of Sponsored Projects, the Office of Accounting, and the Office of Institutional Compliance. The task force is charged with assessing the policies and procedures of U. T. Austin and making any changes necessary to remove obstacles or barriers to conducting research at U. T. Austin, while maintaining compliance with all applicable rules and regulations.

The task force has been charged with examining the issue of cost sharing and matching, and has drafted recommendations. They are reviewing the communication with PI's through the course of a project. In addition U. T. Austin has tested and is utilizing a new electronic time keeping system, which will strengthen the ability to track contributed time on projects.

The issue of Program Income tracking was sent to the task force for prioritization; they concluded that U. T. Austin has few Federal programs with program income. The income is immaterial and adequate steps have been taken to fulfill program income requirements.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Student Financial Aid Cluster

A high percentage of graduates are not complying with exit counseling requirements prior to graduation. Also, the turn around time to mail the exit packets would appear to exceed the regulations intended time frame of 30 days. U. T. Austin should review its policies for holding exit counseling prior to graduation. Students who are unable to attend should be a low percentage and should receive their packets in a timely manner.

Update 4th Qrt. FY 2002: Implemented. U. T. Austin concurs with conducting exit counseling prior to graduation. The Student Loans Collections staff will develop initiatives to conduct exit interviews prior to graduation, in accordance with regulatory requirement set forth in 34 CFR, Part 674.42.

As per written agreement with the Office of Accounting and the Office of Student Financial Services (OSFS), responsibility for the exit interview activity will transfer to OSFS. OSFS has developed a web-based exit interview-counseling program to accommodate the Federal Perkins Loan requirements as required by 34 CFR, Part 674.42. The Student Loans Collections office will continue to store and retain control of original promissory notes. As the exit interview process includes completion of the counseling session, the distribution of the credit cost disclosure and a copy of the original promissory note, Student Accounts Receivable staff, and specifically Student Loans Collections staff, will work closely with OSFS to ensure the borrower completes the entire process as required.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

U. T. Austin should establish effective controls to enforce its policies and procedures with regard to monthly personnel effort reports being reviewed by the principle investigator. The personnel effort reports are required to meet the following standards:

- Reflect as after-the-fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Prepared at least monthly and coincide with one or more pay periods, and
- Signed by the employee.

Update 4th Qrt. FY 2002: Implemented. An electronic Effort Certification System (ECS) was developed, is operational, and is continuing to be tested. The ECS will ensure that all effort is certified in compliance with A-21 timelines, approved by a responsible and knowledgeable party, and consistent with Payroll and appointment records of where individuals were paid from.

U.T. El Paso

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Student Financial Aid Cluster

U. T. El Paso should change its practice of interpreting "days" in department of Education regulations to mean business days as opposed to calendar days.

Update 4th Qrt. FY 2002: Implemented. Management concurred with the finding and system disbursement controls were updated to reflect the required timeline. This was implemented September 1, 2001.

U.T. Health Science Center at Houston

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

UTHSAH should strengthen controls over the drawdown process to ensure that program costs are paid prior to the request for reimbursement, or monitor drawdown transactions to determine how much of the drawdown is on an advance basis. Controls should either ensure that costs are paid within three days of the receipt of the Federal funds or interest is calculated on Federal funds that are not paid out within three days of receipt.

Update 4th Qrt. FY 2002: Implemented. Management implemented the recommended corrective action as of January 2002. In addition, the questioned costs of \$1,525 have been reimbursed to the federal government.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Pending

Report Date: May 2002

Research and Development Cluster

UTHSCH should implement controls to ensure that cost transfers are not made for those efforts that have already been completed and signed.

Update 4th Qrt. FY 2002: Partially Implemented. As indicated in management's initial response to this finding, as of January 2002, cost transfers are no longer made when an effort report has already been completed and signed. Management has also taken additional corrective actions, not indicated in the initial response, which are also currently in progress. Specifically, formal policies and procedures relating to payroll adjustments, costs transfers and effort reports are being revised to ensure compliance and are expected to be in place during fiscal year 2003. In addition, the questioned costs of \$3,555 have been reimbursed to the federal government.

U.T. Health Science Center at San Antonio

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

UTHSCSA should continue its effort to correct the logic error between the payroll effort reporting system and PeopleSoft. In addition, UTHSCSA should reevaluate their controls over payroll effort reporting to determine a more effective method for ensuring verification of time and effort reports performed. Management indicated corrections would be made retroactive to March 2001 for professional staff and July 2001 for classified staff.

Update 4th Qrt. FY 2002: Implemented. Corrections have been made retroactively to March 2001. Currently, the completion of time and effort reports is centrally monitored on a monthly basis by the institutional Grants Management Office with the use of automated management reports.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

UTHSCSA should strengthen procedures to ensure identified period of availability exceptions are corrected.

Update 4th Qrt. FY 2002: Implemented. Additional review has been implemented within the Grants Management Office at the time of the completion of the final financial reports and account closeout to ensure all transactions posted after the expiration date of the grant are within the period of availability.

Statewide Single Audit Report for Year Ended
August 31, 2001

Fiscal Year: 2002

Status: Implemented

Report Date: May 2002

Research and Development Cluster

UTHSCSA should implement procedures to ensure that contractors receiving individual awards of \$100,000 or more certify that the organization and its principals are not suspended or debarred.

Update 4th Qrt. FY 2002: Implemented. The certification certificate is issued to and received back from all vendors who receive awards individually totaling \$100,000. The executed certificate is then retained along with the legal copy of the subsequent purchase order(s).

U.T. Medical Branch at Galveston

Contract Administration Review at The University of Texas Medical Branch at Galveston Fiscal Year: 2001-2002 Status: Implemented

Report Date: 2/15/02

To ensure compliance with state contract reporting requirements, the Medical Branch should consistently comply with all state contract reporting requirements.

Update 4th Qrt. FY 2002: Implemented. UTMB has reviewed its processes and is in compliance with state contract reporting requirements.

Contract Administration Review at The University of Texas Medical Branch at Galveston Fiscal Year: 2001-2002 Status: Pending

Report Date: 2/15/02

To ensure that contracts are adequately monitored, the Medical Branch should:

- Expand its contracting policies and procedures to provide detailed guidance to departments about how to monitor contracts.
- Provide regular training on contract monitoring to ensure that departments understand how to monitor contracts.
- Conduct periodic reviews to ensure that departments are monitoring contracts in accordance with contract monitoring policies and procedures.

Update 4th Qrt. FY 2002: In Progress. UTMB has drafted procedures and training materials to address these issues. These procedures and training will be implemented by 12/31/02.

Contract Administration Review at The University of Texas Medical Branch at Galveston Fiscal Year: 2001-2002 Status: Pending

Report Date: 2/15/02

To ensure that contract provisions hold contractors accountable, the Medical Branch should:

- Expand policies and procedures regarding contract provisions to ensure that contracts clearly convey sanctioning and spending restrictions and contractor performance.
- Provide regular training on its contracting policies and procedures to ensure that departments understand the required contract establishment process.

Update 4th Qrt. FY 2002: In Progress. All Contracts include provisions on contractor performance, spending restrictions, and/or sanctioning as appropriate and necessary considering the type and nature of the contract and risk associated therewith.

UTMB has also drafted procedures and training materials to ensure that all buyers and departmental personnel who are responsible for contract development and/or processing understand and are compliant with these requirements. These changes will be implemented by 12/31/02.

Contract Administration Review at The University of Texas Medical Branch at Galveston Fiscal Year: 2001-2002 Status: Implemented

Report Date: 2/15/02

To improve compliance with its contract procurement procedures, the Medical Branch should:

- Enforce its policy requiring inclusion of the logistics and acquisitions department in the procurement process for goods and services contracts prior to executing contracts.
- Establish and follow procedures requiring periodic oversight reviews to ensure that departments are routing contracts through the logistics and acquisitions department prior to execution.

Update 4th Qrt. FY 2002: Implemented. New Procedures have been put in place, and a Contract Routing Form is now being utilized which informs the authorized signatory that the proper review of the Contract has been completed by Logistics/Acquisition and Legal Affairs.

Statewide Single Audit Report for Year Ended
August 31, 2001 - Follow-up

Fiscal Year: 2002

Status:

Pending

Report Date: May 2002

The University should strengthen controls over equipment to ensure compliance with Federal requirements in the following departments:

- Cancer Cause and Prevention Research
- Heart and Vascular Disease Research
- Diabetes, Endocrinology and Metabolism Research.

The State Auditor's Office reported in the May 2002 report that the University has begun implementing procedures to strengthen controls over equipment, including completing a complete inventory of fixed assets, bar coding equipment, and tracking the bar code tags in a database and reconciling that information with the information in the fixed asset management system. Projected completion of inventory and bar coding is March 2002 and projected reconciliation adjustments completion is August 2002.

Update 4th Qrt. FY 2002: In Progress. UTMB completed Phase I consisting of a wall to wall physical inventory of all capital and controlled equipment which included: bar-coding rooms of all UTMB owned and leased property; replacing old metal tags with bar-coded tags; and scanning the room numbers and associated asset numbers. The items scanned during Phase I were compared to UTMB's existing Fixed Asset Database. Departments were provided a listing of all active assets not scanned during the initial phase of physical inventory and were asked to locate or otherwise account for these items. The final report of the fiscal year 02 reconciliation of Annual Physical Inventory will be completed and forwarded to the State Comptroller's Office on September 20, 2002. This same method of conducting a centralized wall to wall physical inventory will be implemented for FY03 and forward.

U.T. San Antonio

An Audit Report on Management Controls at The University of Texas at San Antonio

Fiscal Year: 1997-1998

Status: Implemented

Report Date: 2/98

Management should determine whether efficiencies are gained if the accounting and student information systems are interactive. Management should also consider further use of automation to: 1) Identify student receivables for all three summer sessions. 2) Produce standardized accounts receivable formats to analyze delinquent accounts. In addition, the University's Accounting Department should produce a formal policies and procedures manual that includes accounts receivable administration. The University should evaluate its collection procedures to ensure all efforts are made to collect student receivables.

Status 3rd Qtr. FY 1998: In progress.

Update 1st Qtr. FY 1999: In Progress. We have implemented a formal policies and procedures manual, but the other aspects of the recommendation remain in-progress. UTSA has initiated a new task force to review Student Records Systems. A new system should solve the two remaining issues. Update 1st Qtr. FY 2000: In progress. Target date 7/1/01.

Update 2nd Qtr. FY 2000: In Progress. The UTSA Student Records System ("NATISIS") is not capable of changes needed. The Student Information System Task Force is looking for a new student system which should address A/R issues. Target implementation date 8/31/01.

Update 4th Qtr. FY 2000: In progress. The current UTSA Student Records System (NATISIS) is not capable of changes needed. We expect to begin implementation of our new student information system within the next several months. We expect it to take approximately 18 months for full implementation. UTSA has implemented two parts of the recommendation; UTSA evaluates its collection procedures to ensure all efforts are made to collect student receivables, and UTSA's Fiscal Services Office should produce a formal policies and procedures manual that includes accounts receivable administration.

Update 2nd Qtr. FY 2001: Partially Implemented. UTSA is currently implementing a new student records system which we fully expect will be able to identify student receivables and produce reports.

Update 4th Qtr. FY 2001: Partially Implemented. UTSA Staff recently attended SCT Accounts Receivable ("A/R") training and in a follow-up meeting reviewed the setup tables for aging. The new Student Records System will not only age accounts, but it will automatically output letters based upon the age and type of account. Once the implementation is complete, this audit recommendation will also be complete.

Update 2nd Qtr. FY 2002: Partially Implemented. UTSA expects to "go live" with the Accounts Receivable portion of SCT Banner System on March 15, 2002. The aging tables have been completed. All accounts receivables, including installments, Tuition and Fees, and loan balances will be tracked and analyzed.

Update 4th Qrt. FY 2002: Implemented. SCT Banner is installed and functioning.

U.T. System

A Management Letter Concerning a Review of Facilities Planning at Four University Systems

Fiscal Year: 1998-1999 Status: Implemented

Report Date: 8/30/99

University systems and their components could improve facility condition tracking and reporting by: 1) Working with the advisory committee to develop consistent standards for assessing and reporting the condition of university facilities, including deferred maintenance. 2) Transmitting component assessments to the system for review to ensure compliance with standards and for further management and oversight.

Status 1st Qtr. FY 2000 : In progress. Each U.T. System component manages deferred maintenance issues for their campus. U.T. System Office of Facilities Planning and Construction ("OFPC") assists campuses in their reporting of deferred maintenance through the Campus Master Plans submitted to the Coordinating Board and provides technical support to assist components in evaluating facility problems. UT OFPC does not have the staff or mission, however, to assess and report the conditions of facilities on each campus.

Update 2nd Qtr. FY 2000: In Progress. The Coordinating Board has assigned working committees, made up of various component personnel from around the state, to develop an improved definition of Deferred Maintenance and address other issues related to facility condition assessments and facility management. The recommendations of these committees, when adopted, should improve the uniformity and quality of information reported to the Coordinating Board and the information available to U.T. System. This issue is a long-term project, and OFPC will continue to play a more active role in oversight to develop and report more meaningful facility management information. OFPC will be developing a systematic program for tracking and reporting facility conditions of all its components later this year.

Update 4th Qtr. FY 2000: In progress. The U. T. System Office of Facilities Planning and Construction has established an advisory committee of campus facility directors with the purpose of procuring a campus-by-campus assessment of the existing facilities, using a common set of parameters. The current schedule is for the advisory committee to issue an RFQ in the 1st quarter of FY 2001 with an award to a consultant in the 2nd quarter of FY 2001. The actual assessment should be completed by January 2002.

Update 2nd Qtr. FY 2001: In progress. The advisory committee of facility directors established to develop a common set of parameters for facility management oversight has refined the emphasis of the consultant contract solicitation to stress the requirements of capital renewal to maintain the viability of our campuses. Capital renewal requirements will be quantified by projecting detailed life cycle costs of facility components in each building on all campuses. This approach will also provide a more standard statistical oversight model of the magnitude of deferred maintenance on each campus and will highlight specific areas in which to focus detailed facility assessments. The current schedule is for the advisory committee to issue a consultant solicitation with an award in the 3rd quarter of fiscal year 2001. The actual target for completion of the first report remains January 2002. As a follow up to the 2nd Qtr fiscal year 2000 status report, the Texas Higher Education Coordinating Board currently projects a July 2001 adoption of their committee reports related to deferred maintenance, condition assessments, replacement value and other issues of facility management.

Update 4th Qtr. FY2001: In progress. The U.T. System advisory committee of facility directors is evaluating statistical software model proposals that forecast capital renewal requirements and project the magnitude of deferred maintenance. A contract award is anticipated in the 4th quarter 2001 with a completion of the first System-wide report in March 2002. As a follow up to the 2nd Qtr fiscal year 2000 status report, the Texas Higher Education Coordinating Board currently projects a fall 2002 adoption of their committee reports related to deferred maintenance, condition assessments, replacement value and other issues of facility management. December 2002 Update: The contract was awarded with an effective date of October 23, 2001. The projected contract schedule calls for the initial System-wide report to be presented to the Facilities Planning and Construction Committee in April 2002 and to the Board of Regents in May.

Update 2nd Qtr. FY 2002: In progress. The U.T. System facilities renewal forecasting model contract is proceeding on schedule with an initial System-wide facilities assessment report to be presented to the Facilities Planning and Construction Committee in April 2002 and to the Board of Regents in May with a more thorough report in August. The model software installation and staff training will be accomplished during the months of June, July and August to allow the System component campuses to update their reports annually.

Update 4th Qrt. FY 2002: Implemented. The initial U.T. System Facilities Renewal Forecasting Model report was presented to the Regents in July 2002. The Model developed consistent reporting standards System-wide and provides annual reports of backlog and projected renewal requirements for each campus. All backlog and renewal data is entered and maintained on a System web-based server to facilitate easy reporting and monitoring.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF INTERNAL AUDIT REPORTS
MAY, JUNE, JULY, AND AUGUST 2002**

The University of Texas component internal audit departments and The University of Texas System Audit Office submitted 88 audit reports during May, June, July, and August for summarization and review. In fiscal year 2002, 262 reports have been issued. The following components submitted reports during the period:

Component	Reports Submitted in May, June, July, and August	Reports Submitted in FY 2002
UT System Administration	13	24
UT Arlington	6	18
UT Austin	3	12
UT Brownsville	2	7
UT Dallas	6	20
UT El Paso	2	10
UT Pan American	7	17
UT Permian Basin	3	8
UT San Antonio	3	8
UT Tyler	4	11
UT Southwestern	12	26
UTMB at Galveston	5	18
HSC Houston	2	7
HSC San Antonio	10	27
MDA Cancer Center	7	40
HC Tyler	3	9
Total	88	262

The 88 audit reports can be categorized by scope of audit work. In many cases, an audit covered more than one area of scope as defined by the *Standards for the Professional Practice of Internal Auditing*, such that the percentages below will sum to greater than 100%. The following table shows a breakdown between areas of scope:

<u>Areas of Scope</u>	<u>Number</u>	<u>Percentage</u>
Reliability and Integrity of Information	61	69%
Economy and Efficiency of Operations and/or Program Results	36	41%
Safeguarding of Assets	28	32%
Compliance with laws, regulations, and contracts	58	66%
Follow-up	7	8%

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
MAY 2002**

System Administration Audit Office

OIR NETWORK FOLLOW-UP (MAY 2002)

The objective of this audit was to determine the implementation status of recommendations and observations included in the Office of Information Resources Review of Risk Assessment and Mitigation Strategies audit report issued April 2000, to ensure that management actions have been effectively implemented or senior management has accepted the risk of not taking action. Two of the original four recommendations were implemented, one was not implemented, and one was no longer applicable. Also, of 63 best practice observations made during the audit, 29 were fully implemented, 11 were partially implemented, 20 were not yet implemented, and 3 were no longer necessary. OIR has been addressing these observations since the audit according to relative risk. For the observations not implemented, corrective action is planned to take place no later than August 31, 2003.

PROCUREMENT CARD AUDIT REPORT (MAY 2002)

The objectives of the audit were to determine that Procurement Card purchases were in compliance with applicable laws, rules, regulations, policies, and procedures; departmental controls over Procurement Cards are adequate and effective in safeguarding assets; and administrative controls over Procurement Cards are in place and functioning as intended, and to review the compliance monitoring plan and specialized training for Procard use at U. T. System Administration. Overall, purchases were in compliance with applicable laws, rules, regulations, policies, and procedures and controls appeared adequate.

Recommendations were made to clarify policies and procedures, provide cardholder training, and ensure monitoring. Management agreed to implement all recommendations.

EMPLOYEE GROUP INSURANCE, MERCK-MEDCO PERFORMANCE

STANDARDS REVIEW (MAY 2002)

This engagement was performed at the request of the Director of Employee Group Insurance (“EGI”). The purpose of the engagement was to review Merck-Medco’s process for reporting performance standards results to EGI. The review was intended to provide EGI with a general understanding of Merck-Medco’s processes for calculating, verifying, and monitoring the performance standards. One recommendation was made to include the Merck-Medco division responsible for administering the prescription drug plan as a party contractually bound in the contract. Management agreed to implement the recommendation.

OFFICE OF HISTORICALLY UNDERUTILIZED BUSINESS (“HUB”)

DEVELOPMENT (MAY 2002)

This was a departmental audit that also included a review of the department’s compliance with HUB state reporting requirements. Overall, key financial information for the HUB Office appears accurate and reliable, and controls are adequate and effective in safeguarding assets. Reports compiled by the HUB Office appear to be in compliance with state reporting requirements; however, one report prepared by the HUB Office deviated from the reporting requirements in an effort by the department to properly report more

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
MAY 2002**

accurate HUB totals. Recommendations were made to maintain better supporting documentation, properly document any needed deviations from the reporting requirements, and ensure reports agree to source documents and are mathematically accurate.

Management agreed to implement all recommendations.

UTPA-INTERCOLLEGIATE ATHLETICS AGREED-UPON PROCEDURES (MAY 2002)

The objective was to perform agreed-upon procedures to provide assurance that the President is made aware of all athletic expenditures, and to assist the University in exercising controls over athletic expenditures. Recommendations related to enhancing existing internal controls and to the compilation process of the Statement of Revenues and Expenditure ("SRE") were made in the report. No material adjustments to the SRE were required. Management agreed to implement the recommendations.

UTSA-INTERCOLLEGIATE ATHLETICS AGREED-UPON PROCEDURES FOLLOW-UP (MAY 2002)

The audit objective was to determine the implementation status of recommendations included in the University of Texas at San Antonio Intercollegiate Athletics Agreed-Upon Procedures for the Year Ended August 31, 2001 report issued in March 2002. The auditors concluded that of the seven recommendations reviewed, two were in place, three were in progress, and two were not in place. The institution, with the assistance of a consultant, will review the functions performed by the Athletic Business Office and determine the level of staffing needed to accomplish these functions.

The University of Texas at Arlington

MILITARY SCIENCE DEPARTMENTAL AUDIT (APRIL 2002)

This was a departmental audit. Military Science appears to have an awareness of internal controls and a desire to improve them wherever possible. Internal Audit made several recommendations to enhance internal controls. Management has agreed to implement them.

The University of Texas at Austin

ACCOUNTS PAYABLE SYSTEM (MAY 2002)

The objective of the audit was to evaluate automated controls within the DEFINE Accounts Payable system. Recommendations were made to enhance control over purchases and post-payment auditing. In addition, other recommendations were made regarding the custody of checks not mailed to vendors, improving system and training documentation, and updating the existing contingency plan. Management agreed with findings, and is planning or has completed implementation of all recommendations.

DEPARMENT OF HISTORY (MAY 2002)

The objectives of the audit were to evaluate cash handling procedures, review revenues and expenditures for appropriateness, and determine compliance with applicable policies and procedures. Recommendations were made to enhance internal controls over cash handling

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
MAY 2002**

procedures and strengthen compliance with certain University policies. Management agreed with all recommendations.

The University of Texas at Brownsville – no reports issued.

The University of Texas at Dallas

ACADEMIC AFFAIRS-UNIVERSITY EVENTS AND TRAVEL (MAY 2002)

The objectives of the audit were to provide assurance that an effectively designed compliance program has been implemented and that the area is in compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports. A compliance program has been implemented and is operating effectively; no recommendations were made.

INFORMATION RESOURCES COMPLIANCE (MAY 2002)

The objectives of the audit were to provide assurance that Information Resources is in compliance with the Texas Department of Information resources standards and to provide assurance that an effectively designed compliance program has been implemented. Information Resources is generally in compliance with the Texas Department of Information Resources standards, and a compliance program is in the process of being formally implemented; no recommendations were made.

STUDENT AFFAIRS-UNIVERSITY EVENTS AND TRAVEL (MAY 2002)

The objectives of the audit were to provide assurance that an effectively designed compliance program has been implemented and that the areas is in compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports. A compliance program has been implemented and is operating effectively; no recommendations were made.

The University of Texas at El Paso – no reports issued.

The University of Texas at Pan American – no reports issued.

The University of Texas of the Permian Basin

EQUIPMENT (MAY 2002)

The objective was to provide assurance to executive management of the accuracy and completeness of the institution's equipment inventory prior to annual certification of physical inventory to the State Property Accounting Office. The \$16,592,631 for personal inventory items, which was included in the \$73,190,860 total assets reported to the State Property Accounting Office, was fairly stated.

The University of Texas at San Antonio – no reports issued.

The University of Texas at Tyler – no reports issued.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
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The University of Texas Southwestern Medical Center at Dallas

AMBULATORY SERVICES COMPLIANCE RISKS (MAY 2002)

The audit objective was to assess the adequacy and effectiveness of controls over the Ambulatory Services Administration compliance risks of bloodborne pathogens exposure and communicable disease reporting. A program has been implemented that promotes clinic employee awareness to minimize exposure to bloodborne pathogens and that provides guidance for immediate treatment when exposures do occur. A system captures notifiable diseases for ambulatory services clinic patients and reports them to the mandated state and local authorities. Two recommendations were made for training and use of engineered control devices. Management agreed to implement the recommendations.

TRANSPLANT SERVICES CENTER (MAY 2002)

The audit objectives were to examine and evaluate the adequacy of the system of internal controls at Transplant Services. The system of internal control relating to Transplant Services is adequate to ensure proper accountability for revenues, expenditures, personnel, and fixed assets. The department is operating in an efficient way, and its financial data appears to be accurate and complete. No recommendations were made.

STUDENT ACTIVITIES (MAY 2002)

The audit objectives were to examine and evaluate the adequacy and effectiveness of the system of internal controls in Student Activities. An adequate system of internal controls exists to ensure proper accountability for revenues, inventory, and personnel. Recommendations were made to strengthen controls over expenditures, student employee paychecks and subledger reconciliations. Management agreed to implement the recommendations.

INVESTMENT AND ENDOWMENT INCOME (MAY 2002)

The audit objective was to determine the reliability and integrity of investment and endowment income as reported in the Annual Financial Report for FY 2001. Additionally, internal control over endowment revenue recognition procedures and compliance with a requirement stipulated under House Bill 1945 pertaining to Tobacco Settlement Fund Activity was reviewed. The Medical Center is providing appropriate oversight of the investment and endowment income activity. The processes appear to be in compliance with internal and external requirements. No recommendations were made.

PHYSICAL PLANT RENOVATIONS AND REPAIRS (MAY 2002)

The audit objective was to examine and evaluate the adequacy of the system of internal controls in the Physical Plant over the renovations and repairs process. The system of internal control relating to Physical Plant's renovations and repairs process does not fully ensure adequate accountability for revenues, expenditures, personnel, and fixed assets. Six recommendations were made to increase the control environment and ensure adequate accountability. Management agreed to implement the recommendations.

The University of Texas Medical Branch at Galveston – no reports issued.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
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The University of Texas Health Science Center at Houston
REPORT ON OBSTETRICS AND GYNECOLOGY RESIDENCY PROGRAMS
REVIEW (APRIL 2002)

This was a review of the 2001 Annual Financial Report (AFR), which the OB/Gyn department submits to the Texas Higher Education Coordinating Board (Board). The purpose of the review was to gain assurances that State funds were used in accordance with the grant agreement, to confirm if revenues and expenditures were fairly presented, and to report the results of our review to the Board.

The department and audit's interpretation of the agreement's spending requirements differed. Accordingly, the audit department requested clarification from the Coordinating Board, who responded that the use of funds for the overall benefit of the Residency Program is acceptable, with certain restrictions. However, the restrictions are not clearly stated in the agreement, and verbal and written information received from the Board was inconsistent. Therefore, we were unable to give an opinion regarding the appropriateness of the expenditures as they relate to the grant agreement other than to say that the expenditures were related to and benefited the overall residency program. We recommended that future agreements include clarification regarding how funds may be used.

REPORT ON FAMILY PRACTICE RESIDENCY PROGRAM REVIEW (APRIL 2002)
We performed a review of the FY 2001 AFR, which Family Practice submits to the Texas Higher Education Coordinating Board. The purpose of the review was to gain assurances that State funds were used in accordance with the grant agreement, to confirm if revenues and expenditures were fairly presented, and to report the results of our review to the Board. We noted no discrepancies that would have a material affect on the AFR.

The University of Texas Health Science Center at San Antonio
LABORATORY ANIMAL RESOURCES FOLLOW-UP (APRIL 2002)

Follow-up procedures were performed to determine if management had implemented corrective action to ensure that internal controls were adequate and effective in safeguarding assets, and compliance with accreditation guidelines was achieved. Management has taken adequate corrective action on all seven of the prior audit recommendations.

FEDERAL INVENTION REPORTING (JANUARY 2002)
The audit objectives were to determine if patents and inventions were processed in accordance with applicable policies and procedures and reported in accordance with University of Texas Board of Regents and federal Bayh-Dole Act guidelines, and if royalty payments were processed in accordance with applicable policies and procedures.

A recommendation was made to the Grants Management Office related to reporting responsibilities and the need to implement procedures to ensure invention disclosures are

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
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made correctly in accordance with federal regulations. The Grants Management Office now has read access to the invention database maintained by the Office of Technology Ventures and will verify that disclosures are appropriately made in accordance with federal regulations.

A recommendation was made to the Office of Technology Ventures to evaluate future budget forecasts to ensure adequate funding is available to fund operating expenses in future years. The institution has committed institutional funds to the operations of OTV for FY 2003 and beyond to ensure that compliance efforts are adequately funded.

The University of Texas M. D. Anderson Cancer Center – no reports issued.

The University of Texas Health Center at Tyler – no reports issued.

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System Administration Audit Office – no reports issued.

The University of Texas at Arlington

NETWORK SUPPORT AUDIT (MAY 2002)

The objectives of this audit were to identify, document, and test control procedures that have been implemented to ensure the availability of the network to U. T. Arlington; and to determine if protection and integrity of the information in the network is adequate and consistent with management's intention. The vulnerability of the servers is minimized by appropriate security; however, security is not consistent throughout all areas of the University's infrastructure. Internal Audit made several recommendations related to the administration of network security and network disaster recovery. Management agreed to implement the recommendations.

SCHOOL OF SOCIAL WORK (MAY 2002)

This was a departmental audit. The School of Social Work appears to have an awareness of internal controls and a desire to improve them wherever possible. Internal Audit made recommendations to enhance internal controls. Management agreed to implement the recommendations.

The University of Texas at Austin – no reports issued.

The University of Texas at Brownsville

REVIEW OF THE OFFICE OF THE VICE PRESIDENT FOR ADMINISTRATION & PARTNERSHIP AFFAIRS (APRIL 2002)

This was a departmental audit. In addition, procedures were performed to verify that proper clearance steps were taken in the termination of the previous Vice President's responsibilities for this department. The department's system of internal control was generally effective and termination procedures for the outgoing Vice President were properly completed. To further strengthen controls, recommendations were made for the department to prepare a risk assessment and implementation plan and make improvements to inventory and account reconciliation procedures. Management agreed to implement the recommendations.

REVIEW OF PHYSICAL PLANT (APRIL 2002)

This was a departmental audit. In addition, procedures were performed to verify that proper clearance steps were taken in the termination of the previous Director's responsibilities for this department. The department had an effective system of internal control and termination procedures for the outgoing Director were properly completed. To further strengthen controls, recommendations were made for the department to prepare a risk assessment and implementation plan, update their inventory subsidiary listing, and make improvements to account reconciliation procedures for cell phones and full-time employee leave accruals. Management agreed to implement the recommendations.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
JUNE 2002**

The University of Texas at Dallas

QUALITY ASSURANCE REVIEW OF U. T. TYLER INTERNAL AUDIT (JUNE 2002)
The objective of this review was to determine whether the Internal Audit Department at U. T. Tyler was in compliance with the Standards for the Professional Practice of Internal Auditing, issued by The Institute of Internal Auditors. The U. T. Internal Audit Department did comply, on an overall basis, with the IIA Standards for Independence, Professional Proficiency, Scope of Work, Performance of Audit Work, and Management of the department.

The University of Texas at El Paso – no reports issued.

The University of Texas at Pan American

INSTITUTIONAL COMPLIANCE PROGRAM (MAY 2002)

The purpose of the audit was to examine the design and effectiveness of the institutional compliance program. The program continues to evolve; however, recommendations were made to: improve the monitoring and reporting plans; update the annual risk assessment and compliance manual; and enhance the Compliance Committee structure and meetings. Management agreed to implement the recommendations.

STUDENT HEALTH SERVICE (MAY 2002)

Recommendations were made in this departmental audit to improve internal controls over hazardous waste, cash handling, and property. Implementation of these recommendations will help ensure that inventory is properly accounted for, duties are segregated, activities and internal controls are monitored, and financial information is accurate. Management agreed to implement all recommendations.

ENGLISH DEPARTMENT (MAY 2002)

Recommendations were made in this departmental audit to improve internal controls over account reconciliations, outside employment, employee travel applications, and property. Implementation of these recommendations will help enhance operations and compliance with University policies and procedures. Management agreed to implement all recommendations.

**COLLEGE OF SOCIAL AND BEHAVIORAL SCIENCE – DEAN’S OFFICE
(MAY 2002)**

Recommendations were made in this departmental audit to improve internal controls over time reporting and property. Implementation of these recommendations will help enhance operations and compliance with University policies and procedures. Management agreed to implement all recommendations.

COLLEGE OF BUSINESS ADMINISTRATION – DEAN’S OFFICE (MAY 2002)

Recommendations were made in this departmental audit to improve internal controls over account reconciliations, policies and procedures, cash receipts, scholarships, time reporting, expenditures, and property. Implementation of these recommendations will help

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
JUNE 2002**

ensure that inventory is properly accounted for, transactions are properly authorized, duties are segregated, activities and internal controls are monitored, and financial information is accurate. Management agreed to implement all recommendations.

COMMUNICATIONS DEPARTMENT (MAY 2002)

Recommendations were made in this departmental audit to improve internal controls over account reconciliations, policies and procedures, employee travel, cash handling, and property. Implementation of these recommendations will help ensure that inventory is properly accounted for, transactions are properly authorized, duties are segregated, activities and internal controls are monitored, and financial information is accurate. Implementation of these recommendations will help enhance operations and compliance with University policies and procedures. Management agreed to implement all recommendations.

The University of Texas of the Permian Basin – no reports issued.

The University of Texas at San Antonio

REGISTRAR GRADE PROCESS (MAY 2002)

The audit objective was to evaluate internal controls over the process for entering and changing student grades in the Registrar's Office. The department needed to improve controls over this process. Recommendations included a one-time review of all grade changes during a specified period of time, a verification process for detecting unauthorized changes, an audit log for review of all grade maintenance activity, an assessment of the number of people having grade change capabilities, and termination of the practice of sharing user IDs. Management is evaluating the best way to implement the recommendations.

The University of Texas at Tyler

UNIVERSITY POLICE DEPARTMENT FOLLOW-UP AUDIT (APRIL 2002)

The audit objective was to determine the implementation status of recommendations from the November 2001 University Police Department audit report. All recommendations were implemented.

PHYSICAL PLANT FOLLOW-UP AUDIT (APRIL 2002)

The audit objective was to determine the implementation status of recommendations on the significant findings from the May 2001 Physical Plant audit report. Three of the four recommendations were fully implemented and one recommendation related to the accuracy of the department's Monthly Performance Measures report was removed because it was no longer deemed appropriate due to a change in University policy.

ACADEMIC COMPUTING SERVICES (MAY 2002)

This departmental audit was performed as a result of the change in budget authority. The internal control structure within the department was not adequate or effective under prior management. Recommendations were made to improve the department's financial

**THE UNIVERSITY OF TEXAS SYSTEM
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JUNE 2002**

stewardship, human resource management, and effective operations. New management has agreed to implement the recommendations.

VICE PRESIDENT FOR BUSINESS AFFAIRS (JUNE 2002)

This was a departmental audit. The internal control structure within the department is adequate and effective; however, recommendations were made to improve the department's financial stewardship and human resource management. Management has agreed to implement the recommendations.

The University of Texas Southwestern Medical Center at Dallas

DEPARTMENT OF PHARMACOLOGY (JUNE 2002)

This was a departmental audit. The system of internal control relating to Pharmacology is adequate to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. Three recommendations were made to improve accountability for revenue and expenditures. Management agreed to implement the recommendations.

NETWORK SECURITY (JUNE 2002)

The objective of this audit was to assess controls over network security at the Medical Center as of December 2001. Network security at the Medical Center is adequate; however, two recommendations were made to improve physical controls over network equipment closets and remote access interfaces. Management agreed to implement the recommendations.

BIOINSTRUMENTATION RESOURCE CENTER (MAY 2002)

The audit objective was to examine and evaluate the adequacy of the system of internal controls in the Bioinstrumentation Resource Center. Operations would be more efficient with an improved internal control system. Five recommendations from a prior audit remain outstanding. Three new recommendations were made to improve the internal control structure. Management agreed to implement all recommendations.

The University of Texas Medical Branch at Galveston – no reports issued.

The University of Texas Health Science Center at Houston – no reports issued.

The University of Texas Health Science Center at San Antonio

**SOUTHWEST TEXAS ADDICTION RESEARCH AND TECHNOLOGY (START)
CENTER (MAY 2002)**

The audit objectives were to determine if internal controls were adequate and effective in safeguarding assets; expenditures were properly accounted for, controlled, and recorded; and external grants and contracts were administered in compliance with federal regulations and specific grant terms. Management needs to enhance procedures over annual equipment inventory, documentation of vehicle use, monitoring of routine expenditures, petty cash, leave reporting, personnel evaluations, reimbursement of travel expenditures,

**THE UNIVERSITY OF TEXAS SYSTEM
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JUNE 2002**

effort committed by researchers, and allocation of salary. Management agreed to implement the recommendations.

LEGISLATIVE APPROPRIATIONS (JUNE 2002)

The audit objectives were to determine if the internal control system was adequate and effective in safeguarding assets, appropriations for the fiscal year 2001 were properly accounted for and recorded, and required reports were properly prepared and submitted. State appropriations for fiscal year 2001 were properly accounted for, recorded, and reconciled in conformity with state regulations.

The University of Texas M. D. Anderson Cancer Center – no reports issued.

The University of Texas Health Center at Tyler – no reports issued.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
JULY 2002**

System Administration Audit Office

OFFICE OF THE CHANCELLOR (AUGUST 2002)

Key financial and operating information for the Chancellor's Office is reliable, and controls are adequate and effective in safeguarding assets. No recommendations were made.

FILENET SYSTEM AUDIT (JULY 2002)

The audit objective was to evaluate controls over the integrity and security of electronic business records stored in the FileNet System. FileNet users were generally satisfied with the system's performance and ability to segregate data; however, additional controls were needed to provide assurance that archived documents would be consistently available and only accessible by appropriate individuals. Recommendations for corrective action included implementing an off-site tape rotation plan, obtaining a server to test full-scale system recovery, improving password controls and monitoring, and documenting FileNet security policies. Management agreed to implement the recommendations.

The University of Texas at Arlington – no reports issued.

The University of Texas at Austin

TEXAS AQUATICS (JUNE 2002)

The objectives of this audit were to document and review business processes and determine compliance with University rules and regulations. Recommendations were made to: complete the office manual, including job descriptions; monitor and reconcile the bank account on a regular basis; modify the cash handling procedures; and enhance procedures for reconciliation, authorization, and custody of funds. Management agreed to implement the recommendations.

The University of Texas at Brownsville – no reports issued.

The University of Texas at Dallas

BIOLOGY (JULY 2002)

Recommendations were made in this departmental audit to: ensure account reconciliations are being performed; comply with procurement card procedures over cardholder activity reports; enhance controls over receipts; enhance controls over time reporting; ensure transactions are properly authorized; and enhance existing controls over departmental operations. Management agreed to implement the recommendations by August 31, 2002.

ASSOCIATE VICE PRESIDENT FOR FINANCE (JULY 2002)

No recommendations were made in this departmental audit. It appears that existing internal controls appear to be adequate and effective to provide reasonable assurance of sound management.

The University of Texas at El Paso – no reports issued.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
JULY 2002**

The University of Texas at Pan American

TEXAS GRANT PROGRAM / FINANCIAL AID (MAY 2002)

The audit objective was to evaluate the Texas Grant Program for compliance with the Texas Higher Education Coordinating Board (“THECB”) requirements, and to evaluate the efficiency of the program operations. In addition, a departmental audit of the Financial Aid Office was performed. The Texas Grant Program was operating in accordance with requirements of the THECB and overall, the Financial Aid Office has an adequate and effective system of internal controls. Management has agreed to implement recommendations to enhance the verification process of student awards; to improve the control conscious environment; to submit travel vouchers in a timely manner; and to properly segregate duties.

The University of Texas of the Permian Basin

FOLLOW-UP AUDIT (JULY 2002)

The audit objective was to determine the implementation status of prior audit recommendations; 20 of the 27 recommendations have been implemented, four were partially implemented, and three had not been implemented. Management is monitoring all recommendations not fully implemented until resolution.

LABORATORY DIVISION (JULY 2002)

Recommendations were made in this departmental audit to improve internal controls over safeguarding of assets. Management agreed to implement all recommendations.

The University of Texas at San Antonio

SURPRISE CASH COUNTS (JUNE 2002)

The audit objectives were to ensure the permanent petty cash fund balances were fairly stated, to determine if the petty cash custodian was maintaining adequate control over the cash fund, and to ensure proper procedures were being followed. Adequate internal controls were in place to secure these funds and the cash balances were fairly stated in accordance with generally accepted accounting principles. Management agreed to implement recommendations for minor procedural improvements to strengthen the existing process.

The University of Texas at Tyler – no reports issued.

The University of Texas Southwestern Medical Center at Dallas

CAMPUS HOUSING (JULY 2002)

The audit objectives were to examine and evaluate the adequacy of the system of internal controls over Campus Housing, a department of Auxiliary Enterprises. A system of internal control exists within Campus Housing. Three recommendations were made to enhance the internal control structure related to expenditures, revenues, and safeguarding of assets. Management agreed to implement the recommendations.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
JULY 2002**

The University of Texas Medical Branch at Galveston

ANIMAL RESEARCH SUBJECT PROTECTION REVIEW (JULY 2002)

The purpose of this review was to assess the effectiveness of the institutional processes in place to help ensure compliance with the regulations, standards, and guidelines that govern the care and use of animal research subjects. Management has established an effective infrastructure and implemented effective controls to help ensure compliance with the regulations, standards, and guidelines that govern the care and use of animal research subjects.

CODING COMPLIANCE MONITORING PROGRAM DESIGN REVIEW (JULY 2002)

The objective of this review was to assess the adequacy of the design of the Coding Compliance Monitoring Program with a focus on the following key elements: planning strategies, risk assessment, audit process design, communication/reporting, and self-monitoring.

Overall, the program is well designed and all of the key elements have been incorporated into the program. Management has identified opportunities to improve the program's design to ensure that the following key areas are addressed: scope expansion, program effectiveness assessments, coding standards, follow-up review process, and billing data analysis. In addition, audit noted other opportunities for improvement in the following areas: documented corrective action plans and the corrected coding/claims resubmission process should be addressed. Full implementation of management's action plan to address the noted issues is expected by February 2003.

CLINICAL INTERFACE ENGINE (JULY 2002)

The purpose of this audit was to evaluate the reliability and integrity of the processes as well as the security of the Interface Engine. Recommendations were made related to functionally significant issues in the areas of vulnerability management, security management, backup management, and change control management. Full implementation of management's action plan to address these issues is expected by November 2002.

TDCJ-UTMB OUTPATIENT RETURN TO CLINIC VISITS (JULY 2002)

The purpose of this audit was to assess the effectiveness of the utilization review process for "return to clinic" visits to outpatient clinics. Recommendations were made related to the use of approved medical criteria and completion of documentation. Full implementation of management's action plan to address these issues is expected by November 2002.

OUTPATIENT TRANSCRIPTION SERVICES REVIEW (JULY 2002)

The purpose of this review was to help identify effective measures for achieving reductions in contracted outpatient transcription expenditures. The analysis indicated that substantial savings in outpatient transcription costs could be realized by adopting the following strategies: revise the transcription fee structure; revise clinic note and letter formats; increase monitoring of provider transcription utilization; and obtain the support of clinic

**THE UNIVERSITY OF TEXAS SYSTEM
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JULY 2002**

executive management, physician leadership, and the Health Information Committee. Adopting these strategies could result in an estimated 26% decrease in outpatient transcription expenditures in the coming fiscal year.

UTMB Clinics Administration is currently working with Health Information Management departmental management and physician leadership to implement their cost reduction plan by September 1, 2002.

The University of Texas Health Science Center at Houston – no reports issued.

The University of Texas Health Science Center at San Antonio

FACILITIES MANAGEMENT CONSTRUCTION AND BUILDING MAINTENANCE FOLLOW-UP (FEBRUARY 2002)

Follow-up procedures were performed to determine if management had implemented corrective action to ensure that the internal control system was adequate and effective in safeguarding assets; preventative maintenance was performed in a timely manner; construction projects were properly approved and monitored for safety, quality, and cost control; procedures were implemented to ensure costs of operations are recovered; and operations were performed in an efficient manner.

Management has taken adequate corrective action on eight of eleven prior audit recommendations. Management needs to implement procedures to ensure inspections are properly documented; projects are properly billed; and unused special items are properly accounted for. Management agreed to implement the remaining recommendations.

SOUTH TEXAS GERIATRIC EDUCATION CENTER (MAY 2002)

The audit objectives were to determine if the existing internal controls related to revenues and expenditures were adequate and effective in safeguarding assets; expenditures were appropriately supported and related; revenues were properly accounted for; and conferences sponsored by the South Texas Geriatric Education Center were managed appropriately.

Management needs to improve procedures to ensure expenditures are approved at the appropriate level and the ordering, authorization, and receiving functions related to purchases are properly segregated; account reconciliations are reviewed; purchases are related to the grant objectives and allowable per the grant agreement; revenues are properly accounted for; and conferences are properly managed. Management agreed to implement the recommendations.

TAXPAYER RELIEF ACT REPORTING (MAY 2002)

The audit objectives were to determine if information related to student tuition and fees was properly supported and reported in accordance with federal regulations; student loan interest payments were properly supported and reported in accordance with federal regulations; and the monitoring plan in place to achieve compliance was functioning

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effectively. Management needs to ensure supplemental tuition and fee information provided to students with form 1098T is accurate and adequately supported. Management agreed to implement the recommendation.

The University of Texas M. D. Anderson Cancer Center

SECURITY INCIDENT HANDLING PLAN (MARCH 2002)

The objective of this audit was to provide management with reasonable assurance that the Institution has an adequate and effective process for handling Information Security incidents. Security incident handling encompasses an organization's efforts to detect and respond to threats to its information assets. One recommendation was made to develop, document, and implement the appropriate suite of policies, procedures, and training material in accordance with current Department of Information Resources Guidelines. Management agreed to implement the recommendation.

DATACENTER PHYSICAL ENVIRONMENT (MARCH 2002)

The objective of this audit was to determine that adequate physical and environmental security exists for the Datacenter. The level of physical and environmental security maintained by the Communications and Computer Services Department is adequate and commensurate with the information being protected. Several recommendations were made to enhance the physical and environmental security including increasing security patrols by U. T. Police, developing procedures related to the timing and methods of obtaining additional fuel and lubricants for emergency generators, and performing complete integrity checks for mission critical data on backup media. Management is reviewing the recommendations.

PROCUREMENT CARD INTERNAL CONTROL ISSUES (MAY 2002)

Internal Audit, at the request of Biostatistics management, conducted an inquiry to determine if an employee made inappropriate charges to the Institutional Procurement Card. Internal Audit identified an internal control weakness and made a recommendation for improvement in the reconciliation of Procurement Card expenditures. Management is reviewing the recommendation.

ENTERTAINMENT EXPENSES (FEBRUARY 2002)

The objective of this audit was to verify that the controls for entertainment expenditures ensure they are properly authorized, classified, and supported. Five recommendations were made to ensure that adequate controls were established for entertainment expenditures. Recommendations were made to strengthen enforcement of policies and procedures related to spending maximums, approvals, and supporting documentation; develop policies and procedures defining fundraising activities; establish a mechanism to separate fundraising activities from institutional development activities; and establish guidance related to departmental holiday events. Management agreed to implement the recommendations.

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CHARGE CAPTURE - SURGERY (MAY 2002)

The objective of this audit was to assess the adequacy and effectiveness of controls over the capture of professional, operating room, and supply and equipment charges for Surgery. The controls established provide reasonable assurance that charges are captured accurately, completely, and timely. No recommendations were made.

COMPLIANCE PROGRAM – INSTITUTIONAL (MAY 2002)

The objective of this audit was to evaluate the design of the Risk Based Institutional Compliance Plan (ICP). The ICP was evaluated against the criteria stated in the 1998 U. T. System Action Plan to Ensure Institutional Compliance, the Federal Sentencing Guidelines, and the OIG Model Hospital Guidelines. The design of the ICP is in compliance with the majority of the criteria it was evaluated against. Recommendations were made to enhance the areas related to risk assessment, committee meetings, and monitoring of external reporting. Management is reviewing the recommendations.

The University of Texas Health Center at Tyler – no reports issued.

**THE UNIVERSITY OF TEXAS SYSTEM
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AUGUST 2002**

System Administration Audit Office

SECURITY AUDIT OF NETWORK REMOTE ACCESS (AUGUST 2002)

The objective of this audit was to determine whether security controls were adequate to detect and prevent unauthorized remote access to U. T. System Administration's computer network. Although the Office of Information Resources ("OIR") had made significant improvements to information security over the past two years, additional controls were needed to further reduce the risk of unauthorized remote access. OIR management agreed with the recommendations and developed plans for corrective action.

OFFICE OF HUMAN RESOURCES AND SALARIES, WAGES, AND STAFF

BENEFITS AUDIT (AUGUST 2002)

The objectives of the audit related to the payments of salaries, wages, staff benefits, and compliance were to: determine the reliability and integrity of the key financial information; assess the adequacy and effectiveness of internal controls; and review compliance with Fair Labor Standards Act guidelines. A change in management departmental audit was also performed.

The key financial information for salaries, wages, and staff benefits appears accurate and reliable, and controls appear adequate and effective in safeguarding assets. Payments appear to be made in accordance with the Fair Labor Standards Act guidelines. Areas for improvement include providing training to employees at System Administration and developing additional payroll controls when employees separate from System Administration.

The key financial information for the Office of Human Resources appears accurate and reliable, and controls appear adequate and effective in safeguarding assets. A recommendation was made for the Office of Human Resources to prepare an action plan to perform the items included in the System Administration Compliance Program Monitoring Plan for the Fair Labor Standards Act high-risk item. Management has agreed to implement the recommendations.

AUDIT OF TRAVEL AND ENTERTAINMENT EXPENDITURES (AUGUST 2002)

The objectives were to evaluate compliance with applicable policies, procedures, laws, and regulations relating to travel and entertainment expenditures; assess the reliability and integrity of financial information in regards to travel and entertainment expenditures; and to review for appropriateness, proper approval, and adequate supporting documentation. Overall, travel and entertainment expenditures selected for review were in compliance with applicable policies, procedures, laws, and regulations; appeared accurate and reliable; and had adequate supporting documentation. Recommendations were made to ensure proper approvals were obtained, to provide on-going training to employees, and to consider the development of policies and procedures for entertainment expenditures. Management agreed to implement the recommendations.

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AUGUST 2002**

DEVELOPMENT OFFICE CASH RECEIPTS AUDIT (AUGUST 2002)

The audit was requested by the Executive Director of Development due to the department's high employee turnover. The audit objective was to review internal controls over the cash receipts process and determine whether controls are adequate and effective in safeguarding assets. Internal controls over cash receipts appeared adequate and effective in safeguarding assets. A recommendation was made to immediately endorse checks received in the mail. Management agreed to implement the recommendations.

FOLLOW-UP AUDIT – 4TH QUARTER (AUGUST 2002)

The objective of this bi-annual follow-up audit was to determine the implementation status of audit recommendations to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. Of the 29 recommendations reviewed, 22 were implemented, three were substantially implemented, two were partially implemented, and two were not implemented. Status will be determined on the remaining recommendations the first quarter of fiscal year 2003.

The University of Texas at Arlington

UNIVERSITY CENTER BURSAR'S OFFICE CASH COUNT (JULY 2002)

Internal Audit performed a cash count of the University Center Bursar's Office. The objective of this audit was to determine that the total cash and cash equivalents was equal to the amount of authorized working cash fund plus the receipts since the reconciliation of cash and cash equivalents. No exceptions were noted. Internal Audit concluded that the cash on hand agreed to the Bursar's Office records.

SWEET CENTER DEPARTMENTAL AUDIT (JULY 2002)

The objective of this audit was to determine if the Southwest Environmental Education Training Center (SWEET) has performed the action steps outlined in the Internal Control Training Course, Effectively Controlling Risks: A Balancing Act. SWEET appears to have an awareness of internal controls and a desire to improve them wherever possible. Internal Audit made several recommendations to enhance internal controls. Management agreed to implement them.

FINANCIAL AID SYSTEMS AUDIT (JULY 2002)

The objective of this audit was to identify, document, and test control procedures that have been implemented to ensure the input, processing, and output activities surrounding the Financial Aid System (FAS) are consistent with administration's expectations and are adequate to help ensure compliance with applicable laws and statutes. The Financial Aid applications include the processes of student loans, financial aid, and payment processing. Controls appear to be implemented and are supporting management's objectives. Management appears to be effectively monitoring and maintaining control activities to mitigate risks related to the data and applications that make up FAS. Internal Audit made several recommendations to enhance internal controls. Management agreed to address the recommendations.

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The University of Texas at Austin – no reports issued.

The University of Texas at Brownsville – no reports issued.

The University of Texas at Dallas – no reports issued.

The University of Texas at El Paso

PEER REVIEW (JULY 2002)

A quality assurance review of the Office of Auditing and Consulting Services was performed in June 2002 to determine the department's compliance with The Institute of Internal Auditors' ("IIA") *Standards for the Professional Practice of Internal Auditing*. Based on the scope of the review, the department did comply, on an overall basis, with all the IIA *Standards*.

EQUIPMENT AUDIT (AUGUST 2002)

The audit objective was to provide assurance to executive management of the accuracy of the institution's equipment inventory prior to the annual certification of physical inventory to the State Property Accounting Office. The \$94,208,783 for personal inventory items, which was included in the \$296,593,585 (real and personal inventory) reported to the State Property Accounting Office, was fairly stated.

The University of Texas at Pan American – no reports issued.

The University of Texas of the Permian Basin – no reports issued.

The University of Texas at San Antonio

AMERICA READS (MAY 2002)

The audit objective was to evaluate internal controls over the America Reads payroll process for the student tutoring work program. Recommendations included control improvements to the processes for recording, approving, reconciling, and monitoring of student worker hours in this program. Management agreed to take corrective action by September 1, 2002.

The University of Texas at Tyler – no reports issued.

The University of Texas Southwestern Medical Center at Dallas

DEPARTMENT OF UROLOGY (AUGUST 2002)

The audit objectives were to examine and evaluate the adequacy of the system of internal controls at the Department of Urology. An adequate system of internal control exists within the department to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. No recommendations were made.

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DEPARTMENT OF CELL BIOLOGY (AUGUST 2002)

The audit objectives were to examine and evaluate the adequacy of the system of internal controls and the effectiveness of the policies and procedures in Cell Biology. Opportunities for enhancement of the internal controls over travel, policies and procedures, and safeguarding of assets were identified. Management agreed to implement the recommendations.

**REPORT ON CONTRACT REPORTING REQUIREMENTS AND EXPENDITURES
FOR ADVANCED RESEARCH (ARP), ADVANCED TECHNOLOGY (ATP) AND
GRADUATE MEDICAL EDUCATION (GME) PROGRAMS (AUGUST 2002)**

The audit objectives were to examine and evaluate the adequacy of the system of internal controls and financial reporting and audit requirements for the ARP, ATP and GME programs. The policies, procedures and internal controls relating to ARP/ATP/GME programs are adequate to ensure proper accountability for revenues and expenditures. Grant files were complete with required amended budgets, matching requirements, and accurate financial reporting. The ARP/ATP/GME programs are in compliance with prescribed rules and polices, and its financial data in the Medical Center accounting system was accurate and complete. One recommendation was made to strengthen controls related to monitoring of payments to other institutions for GME training. Management agreed to implement the recommendation.

The University of Texas Medical Branch at Galveston – no reports issued.

The University of Texas Health Science Center at Houston – no reports issued.

The University of Texas Health Science Center at San Antonio

MSRDP/DSRDP FINANCIAL REVIEW (MAY 2002)

The audit objectives were to determine whether: the MSRDP and DSRDP balances were presented fairly in the Annual Financial Report for fiscal year 2001; management complied with selected provisions of Business Procedure Memorandums Nos. 31-04-89 and 30-12-01; and if variances in MSRDP and DSRDP assets, revenues, and expenditures between fiscal years 2000 and 2001 were reasonable.

The MSRDP's "Summary of Operations" report, Schedule D-6, as well as the accounts receivable and the allowance for doubtful accounts for MSRDP and DSRDP, were fairly stated in all material respects in the Annual Financial Report for the fiscal year 2001. In addition, DSRDP maintained the required minimum fund balance; however, MSRDP had a deficient fund balance of approximately \$36 million.

Management recognizes the deficit fund balance and is striving to reduce it over a five to six year period of positive operating margins.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
AUGUST 2002**

SOUTH TEXAS BORDER INITIATIVES (JUNE 2002)

The audit objectives were to determine if South Texas Border Initiative (STBI) funds were properly accounted for and recorded; STBI funds were allocated and utilized in compliance with state legislative requirements; STBI program objectives and outcomes were met; and operations of the STBI administrative office were managed in an efficient and effective manner.

Recommendations were made regarding the need to develop procedures to ensure STBI appropriations are fully utilized; ensure that funds are appropriately applied to accomplish program objectives; and implement procedures to ensure information submitted in the STBI Progress Report to the State is accurate and progress reports required by the awardees are submitted in a timely manner. It was recommended that management consider expanding its accounting section to ensure fiscal program oversight maintains its effectiveness. Management concurred with the recommendations.

FAMILY NURSING CARE INTERNAL CONTROL REVIEW (JUNE 2002)

The audit objectives were to determine whether internal controls within the department were adequate to safeguard assets and ensure compliance with selected policies and procedures.

The audit noted four areas that need to be strengthened: management should develop procedures to ensure adequate segregation of duties over the cash receipts function and the accounts receivable function; controls and procedures related to safeguarding petty cash should be implemented; and management should implement procedures to ensure research participants are objectively selected to ensure the integrity of research data. Management has agreed to implement the recommendations.

**The University of Texas M. D. Anderson Cancer Center
PROPERTY CONTROL (MAY 2002)**

The objective of this audit was to review the adequacy and effectiveness of controls over the safeguarding of equipment to determine if the process of acquiring, tracking, and disposing of equipment is economical and efficient prior to the implementation of a new asset management system. Control weaknesses were identified that need to be addressed in the new asset management system. The control issues have been discussed with management and the auditors will continue to address them through the participation on the Equipment Compliance Committee.

**The University of Texas Health Center at Tyler
CHIEF OF POLICE DEPARTMENTAL AUDIT (AUGUST 2002)**

Recommendations were made in this departmental audit to improve controls and processes related to cash receipts, segregation of duties, and time sheet approvals within the department. Management agreed to implement all recommendations.

**THE UNIVERSITY OF TEXAS SYSTEM
SUMMARY OF AUDIT ACTIVITIES
AUGUST 2002**

CLINICS AGREED UPON PROCEDURES AUDIT (AUGUST 2002)

A finding of this departmental audit was inadequate controls over pharmaceutical medications maintained at clinic sites. All clinics restrict access to medication rooms and supply cabinets; however, procedures do not appear to be adequate to properly control medications in these areas. Recommendations to enhance procedures related to cash receipts, expenditures, time reporting, and account reconciliations were also made. Management agreed to implement all recommendations.

REVIEW OF ACCOUNTS IN WHICH THE VICE PRESIDENT OF MEDICAL EDUCATION HAS BUDGET AUTHORITY (AUGUST 2002)

A review of expenditures for the Vice President for Medical Education was performed due to his departure from the UTHCT on July 5, 2002. The objective of the expenditure testing was to determine if reimbursement for personal expenditures was required. It appeared that approximately \$500 in long distance charges should be reimbursed. The institution has received the reimbursement from the Vice President for Medical Education.

**The University of Texas System
System-wide Compliance Function**

**Institutional Compliance Quarterly Report
4th Quarter Fiscal Year 2002
June 1, 2002 – August 31, 2002**

Organizational Matters

The Internal Audit and Compliance Subcommittee of the Finance and Planning Committee of the Board of Regents had its initial meeting on June 21, 2002. The purpose the subcommittee is to provide Board of Regent oversight to the internal audit and compliance activities of the UT System. The topics discussed included background on the programs and the current program status.

The System-wide Compliance Executive Committee met on June 6, 2002. The focus of this committee is to provide guidance and oversight to the System-wide Compliance Function. The topics discussed included the status of the implementation of institutional compliance programs at U. T. Austin and HSC Houston.

On June 18, 2002, the System-wide Compliance Function facilitated the meeting of the System-wide Compliance Committee. The focus of this committee is to serve as an advisory group to provide guidance to the System-wide Compliance Function. Members of the committee include knowledgeable staff in the high-risk areas from the component institutions. The topics discussed included the institutional quarterly compliance reports, internal audit's role in compliance, general compliance training, and updates from the high-risk working groups.

High-risk Activity

The System-wide Compliance Function facilitates regular meetings of the high-risk work groups. Following is a synopsis of progress made during the fourth quarter of FY 2002.

Basic Research

Chair: Dr. Juan Sanchez, Vice President for Research, U. T. Austin

Facilitator: Mr. Lon Heuer, Director of Audits, U. T. Austin

Accomplishments: The working group issued its final report on June 27, 2002. Eight functional areas were assessed in terms of potential risk including: Financial Issues, Animal Research, Institutional Review Board, Office of Sponsored Projects, Research Conflicts and Integrity, Technology Licensing, Training in Responsible Conduct of Research, and Biosafety. The group has developed an extensive website to assist each other in the continued process of review and adjustment to procedures and oversight in the management of risk. U. T. Austin's Director of Research Support

and Compliance Office spoke on the Research Risk Assessment Process in Washington, DC at the June 2002 meeting of the Council on Governmental Relations, an association of research institutions.

Endowments

Chair: Ms. Shirley Bird Perry, Vice Chancellor for Development and External Relations, U. T. System

Facilitators: Ms. Julie Lynch, Trust Officer, U. T System
Ms. Kimberly Hagara, Assistant Director, U. T. System

Accomplishments: A videoconference training session was held on July 29, 2002 to assist the component institutions in the implementation of their Endowment Compliance Plans. The training session included risk assessment, specialized training programs, monitoring plans, and reporting.

Environmental Health & Safety (EH&S)

Chair: Dr. Robert Emery, Assistant VP for Research Administration and Executive Director EH&S, U. T. HSC – Houston

Facilitator: Ms. Kimberly Hagara, Assistant Director, U. T. System

Accomplishments: A semi-annual meeting for this working group was held on June 13, 2002. Topics discussed included the results of the recent set of peer reviews and the USA Patriot Act. Additionally, the working group developed strategies to address the compliance considerations of the USA Patriot Act. The System-wide Compliance Officer made a presentation to the South Texas Chapter of the Health Physics Society on the development of a comprehensive compliance program.

Fiscal Management

Chair: Mr. Kevin Dillon, Chief Financial Officer, U. T. HSC – Houston

Facilitator: Ms. Kimberly Hagara, Assistant Director, U. T. System

Accomplishments: An Equipment Compliance Plan for each component has been developed using the System-wide Equipment Compliance Standards. All components are finalizing their inventory counts. No components are at risk of losing funding this year or next because of missing equipment. This year the components preformed the most thorough and accurate inventory counts ever. One component is slightly over the 2% missing equipment threshold and is at risk of losing some funding in FY 2005.

Human Resources

Chair: Mr. Anthony Ramirez, Director of Human Resources, U. T. HSC – San Antonio

Facilitator: Ms. Sandra Neidhart, Assistant Director, U. T. System

Accomplishments: Monitoring plans of the identified high-risk items are currently being finalized. Additionally, a website is being developed to facilitate the sharing of information.

Intercollegiate Athletics

Chair: Ms. Lynn Hickey, Athletic Director, U. T. San Antonio

Facilitator: Mr. Richard St. Onge, Manager, U. T. System

Accomplishments: This group met on August 14, 2002 to review and enhance drafted monitoring plans. The group plans to continue face-to-face meetings to address the remaining four monitoring plans and to develop the specialized training plan. To date, ten of the fourteen high-risk area monitoring plans have been completed and approved by the group. Additionally, the group is developing a website to facilitate the sharing of information.

Medical Billing

Chair: Dr. John Sparks, Physician in Chief, U. T. HSC – Houston

Facilitator: Ms. Kimberly Hagara, Assistant Director, U. T. System

Accomplishments: This group met on July 30, 2002 to discuss medical billing issues in the areas of faculty and staff education, monitoring of outside billing arrangements, electronic medical records, and access to internal information. Additionally, the group discussed sharing of education curriculums and peer reviews. The group plans to meet again in November 2002.

Training Activity

The System-wide Compliance Function conducted the following training during the quarter:

- U. T. San Antonio - Presented a two-hour training seminar on the institutional compliance program to the compliance office, high risk area responsible parties, and the three working groups that support the executive compliance committee. Approximately 60 people participated.

- U. T. System Administration - Presented a two-hour training seminar on the institutional compliance program to the institutional compliance committee, the compliance office, and others. Approximately 25 people participated.

Action Plan Activity

The System-wide Compliance Function prepared to host the 2nd Annual Conference on Effective Compliance Systems in Higher Education. Preparation included arranging for the conference sponsorship, facilities, registration, and speakers. Announcements for the upcoming conference were distributed via email through the Association of College and University Auditors and the National Association of College and University Business Officers. The conference will be held in Austin on October 22-24, 2002.

The System-wide Compliance Function facilitated the development of the Risk Management Continuing Education Track at the Association of College and University Auditors Annual Conference to be held in October 2002. Members of the System-wide Compliance Committee, High-risk Working Groups, and System-wide Compliance Function are scheduled to make presentations. Topics will include:

- A Risk Management Partnership: The Assurance Continuum
- A Practical Application of the Risk Management Partnership: Implementing the Assurance Plan
- Risk Management in an Institutional Compliance Program: A Partnership between Management and Internal Auditing
- Storm Allison: Risk Management in a Natural Disaster
- Risk Management in Intercollegiate Athletics

**Second Annual Conference on Effective Compliance Systems
in Higher Education**

October 22-24, 2002
(Including pre-conference and post-conference workshops)
Joe C. Thompson Conference Center
The University of Texas at Austin
Austin, Texas

Conference Abstract

The conference is sponsored by the Business Measurement & Assurance Services Center of the McCombs School of Business at The University of Texas at Austin, and The University of Texas System-wide Compliance Program.

Speakers include the implementers of the two major approaches to compliance in higher education, Charles G. Chaffin, System-wide Compliance Officer of The University of Texas System, and Steven M. Jung, Institutional Compliance Officer at Stanford University. In addition, the outgoing chancellor of The University of Texas System will discuss his perspective on institutional compliance, including expectations, achievements, and benefits. There will also be a presentation by Dr. Lori Pelliccioni from PricewaterhouseCoopers on selling the compliance program to even the most reluctant members of the collegiate community. During her presentation, Dr. Pelliccioni will discuss the results of her research in the area of institutional compliance in higher education. The conference will close with an address by Dean William Powers of The University of Texas at Austin School of Law. Dean Powers, who was Chair of the Special Investigation Committee of Enron Corp., will discuss the impact of Enron and similar situations on the collegiate organization.

Among the highlights of this conference will be the special interest discussion groups on Wednesday morning.

- ♦ **Basic Research** - Dr. Juan Sanchez, Vice President for Research at The University of Texas at Austin, and his colleagues will present the exemplary work they have done in the area of basic research compliance. This group presented a report on this process at the Council on Governmental Relations (GOCR) meeting in Washington, D.C. in June 2002 that generated much interest within the basic research community. They will also discuss the unexpected benefits they have reaped from their efforts.
- ♦ **Environmental Health and Safety** - Dr. Robert Emery, Executive Director of Environmental Health & Safety for The University of Texas – Houston Health Science Center and Assistant Professor of Occupational Health at The University of Texas – Houston School of Public Health, will lead the discussion on environmental and life safety issues. He will present his most

- recent innovation in risk assessment for principal investigators. He will also discuss laboratory safety.
- ◆ **HIPAA** - Ms. Carrie King, Associate Vice President and Chief Compliance Officer at The University of Texas M.D. Anderson Cancer Center in Houston, will chair a discussion on HIPAA. She will present the work currently being done at M.D. Anderson Cancer Center as a catalyst to encourage a full discussion of the issues surrounding HIPAA.
 - ◆ **Other Subject Areas** – While no formal discussion groups have been planned in other areas, there will be resource experts available for informal discussion in the following compliance areas: **Human Resources, NCAA (Intercollegiate Athletics), Student Financial Aid, Clinical Research, Medical Billing, Endowments, and Financial Issues.**

This year's conference is preceded and followed by two workshops dealing with the practical side of implementing an institutional compliance program in an institution of higher education.

- ◆ The pre-conference workshop will present a practical, affordable risk management methodology.
- ◆ The post-conference workshop will concentrate on the detailed tasks that must be completed to ensure the successful implementation of an institutional compliance program. The basis for this workshop is the book from the First Annual Effective Compliance Systems Conference in 2001 entitled, *Effective Compliance Systems: A Practical Guide for Educational Institutions*.

Conference Program

Tuesday, October 22, 2002

Pre-conference Workshop

9:00 AM to 12 Noon

Risk Management in Higher Education
David B. Crawford, author, lecturer,
educator

Conference Program

3:00 PM to 3:15 PM

Welcome and Opening Remarks

Charles G. Chaffin, The University
of Texas System-wide Compliance
Officer and Conference Chairman

3:15 PM to 4:00 PM **General Session – What the Governance Function and Executive Management Expect From an Effective Compliance Program**

R.D. Burck, Immediate Former Chancellor of The University of Texas System, First System-wide Compliance Officer, and Special Assistant to the current Chancellor

4:00 PM to 5:00 PM **General Session – An Alternate Compliance Program: The Stanford University Institutional Compliance Program**

Dr. Steven M. Jung, Director of Internal Audit and Institutional Compliance, Stanford University

5:30PM to 8:30PM BBQ at the Salt Lick (Buses from the Thompson Center)

Wednesday, October 23, 2002

Conference Program (continued)

8:00 AM to 8:05 AM Announcements

8:05 AM to 9:20AM **General Session- How to Reach the Unreachable**

Dr. Lori Pelliccioni, Partner in the Healthcare Consulting Practice of PricewaterhouseCoopers and Principal Investigator for The Compliance Effectiveness Study

9:20 AM to 9:45 AM Break

9:45 AM to 12 Noon **Special Interest Discussions**

Basic Research – Moderated by **Dr. Juan Sanchez**, Vice President of Research, The University of Texas at Austin

Health and Safety - Moderated by **Dr. Robert Emery**, Executive Director of Environmental Health and Safety, The University of Texas Health Science Center at Houston

HIPAA - Moderated by **Ms. Carrie King**, JD, Chief Compliance and Privacy Officer, and **Ms. Carrie M. Gregg**, JD, Privacy Coordinator, M.D. Anderson Cancer Center

Other Subject Areas - Subject matter specialist will be available to answer questions and discuss issues in the following areas: **Human Resources, NCAA (Intercollegiate Athletics), Student Financial Aid, Clinical Research, Medical Billing, Endowments, and Financial Issues.**

12 Noon to 1:30 PM

Lunch and Exhibits

1:30 PM to 2:45 PM

General Session - Compliance, Ethics, and Integrity in Organizations

Dean William C. Powers, Jr., The University of Texas School of Law, and Chair of the Special Investigation Committee of Enron Corp.

2:45 PM to 3:00 PM

Closing Remarks

Charles G. Chaffin, Conference

Chairman

Thursday, October 24, 2002

Post-Conference Workshop

9:00 AM to 2:00 PM

**How to Implement an Effective
Compliance Program at Your Institution**
**David B. Crawford, Charles G. Chaffin,
and Scott Scarborough, authors of
*Effective Compliance Systems: A Practical
Guide for Educational Institutions***

Registration Information

Fees:

Main conference and both workshops	TC03079A
\$225	
Main conference and Risk Management Workshop	TC03079B
\$200	
Main Conference and How to Implement Workshop	TC03079C
\$200	
Main Conference Only	TC03079D
\$150	

How to Register:

Registration for the conference may be done on-line, by fax, by phone, or by mail. A Visa, MasterCard, Discover, or American Express credit card is required to register on-line or by phone. If you wish to use a purchase order for registration, you must fax or mail a copy of the purchase order and the registration form to the address indicated below.

On-line: www.utexas.edu/cee/tcc/registration.html
Fax: 1-2-471-0647
Phone: 1-800-882-8784 or 1-2-471-3121
Mail: P.O. Box 7879, Austin, TX 78713-7879

Included in these fees are:

- ♦ Lunch on Tuesday, October 22, and Thursday, October 24, for workshop participants
- ♦ Lunch on Wednesday, October 23 for main conference participants

- ◆ Dinner on Tuesday, October 22 for all who registered for the main conference
- ◆ Snacks on all three days.

Conference materials will not be reproduced, but will be available on the conference website after the conference.

Hotel Information

We have not made arrangements with any specific hotel for the conference and please be aware that there are no hotels within walking distance of the conference center. The following hotels are conveniently located:

Days Inn University 3105 IH-35 N Austin, TX 512-478-1631 \$69	\$127
Doubletree Club Hotel 1617 IH-35 N Austin, TX 512-479-4000 http://clubhotel.citysearch.com/ \$109	Hawthorn Suites 935 La Posada Austin, TX 512-459-3335 \$99-119
Doubletree Guest Suites 303 West 15 th Street Austin, TX 512-478-7000 http://doubletreeuniversity.citysearch.com/ \$169	Hilton Hotel 2310 IH-35 N Austin, TX 512-341-8200 \$89
Doubletree Austin 6505 IH-35 N Austin, TX 512-454-3737 \$139	Holiday Inn Express 7622 IH-35 N Austin, TX 512-467-1701 \$79
Drury Inn 919 East Koenig Lane Austin, TX 512-454-1144 \$75	Sheraton – Four Points 7800 IH-35 N Austin, TX 512-836-8520 \$80 Single \$90 Double Complimentary Full Hot Breakfast Complimentary Airport Shuttle Free Parking
Habitat Suites 500 E. Highland Mall Blvd. Austin, TX 512-467-6000	

The rates listed are the "standard" rates for a room, but most have special rates available. We've tried to include a pretty large range in terms of costs and amenities. For additional selections, go to http://www.austin.citysearch.com/section/hotels_visitors. Hotels and bed & breakfasts are listed by neighborhood. The neighborhoods we suggest are East, Hyde Park, University of Texas, and Downtown.

Airport Transportation Information

The Thompson Conference Center and all convenient hotels are approximately ten (10) miles from the Austin-Bergstrom International Airport. The Austin SuperShuttle provides transportation to the Central Austin area for approximately \$11 per person. Taxi service costs approximately \$25 each way. Numerous rental car companies are available at the airport.

Contact Persons

Chrissy Haas 512-499-4553
David Crawford 512-499-4767

Continuing Education Credit:

Continuing Education Credit will be given for the three separate sections of the conference in the following amounts:

Pre-Conference Workshop 3 Hours

Main Conference 7 Hours

Post- Conference Workshop 5 Hours

Forms will be available in the registration packets to claim continuing education credits.