



**TABLE OF CONTENTS
FOR
AUDIT, COMPLIANCE, AND MANAGEMENT
REVIEW COMMITTEE**

Committee Meeting: 2/3/2004

Board Meeting: 2/4/2004
U. T. Brownsville

Robert A. Estrada, Chairman
Rita C. Clements
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier

	Committee Meeting	Board Meeting	Page
A. CONVENE	<i>10:30 a.m. Chairman Estrada</i>		
B. RECESS TO EXECUTIVE SESSION			
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – <u>Texas Government Code</u> Section 551.071	<i>Mr. Godfrey</i>	Not on Agenda	9
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – <u>Texas Government Code</u> Section 551.074	<i>Mr. Chaffin</i>	Not on Agenda	9
U. T. System: Evaluation and duties of System and component employees involved in audit and compliance functions			
C. RECONVENE IN OPEN SESSION			
1. U. T. System: Approval to hire External Auditor for 2004 UTIMCO Funds Audit	<i>10:35 a.m. Action Mr. Chaffin</i>	Action <i>Mr. Chaffin</i>	9
2. U. T. System: Report on the 2003 Annual Financial Report and the State Auditor's Office Financial Statement Audits of six components	<i>10:40 a.m. Report Mr. Wallace Mr. Kelton Green, State Auditor's Office</i>	Not on Agenda	10

	Committee Meeting	Board Meeting	Page
3. U. T. System: Report on Status of Sarbanes-Oxley Initiative	<i>10:50 a.m.</i> Report <i>Mr. Wallace</i> <i>Mr. Chaffin</i>	Not on Agenda	11
4. U. T. System: Report on System-wide Audit Activity (Red, Yellow, Green Report)	<i>11:00 a.m.</i> Report <i>Mr. Chaffin</i>	Not on Agenda	11
5. U. T. System: Report on Status of System-wide Institutional Compliance Program including Compliance Program Peer Reviews	<i>11:10 a.m.</i> Report <i>Mr. Chaffin</i>	Not on Agenda	12
6. U. T. System: Report on System Audit Office Strategic Plan	<i>11:15 a.m.</i> Report <i>Mr. Chaffin</i> <i>Ms. Neidhart</i>	Not on Agenda	13
7. U. T. System: Report on Utilization of Audit Committee Planner (Checklist)	<i>11:20 a.m.</i> Report <i>Ms. Neidhart</i>	Not on Agenda	14

Adjourn

A. CONVENE

B. RECESS TO EXECUTIVE SESSION

1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Texas Government Code Section 551.071
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Texas Government Code Section 551.074

U. T. System: Evaluation and duties of System and component employees involved in audit and compliance functions

C. RECONVENE IN OPEN SESSION

1. **U. T. System: Approval to hire External Auditor for 2004 UTIMCO Funds Audit**

RECOMMENDATION

The Audit, Compliance, and Management Review Committee will discuss and make a recommendation regarding approval to renew the auditing services contract with Ernst & Young, LLP, to perform audits for the Fiscal Year ending August 31, 2004, for funds managed by The University of Texas Investment Management Company (UTIMCO), as listed below:

1. Permanent University Fund (PUF)
2. The University of Texas System General Endowment Fund (GEF)
3. Permanent Health Fund (PHF)
4. The University of Texas System Long Term Fund (LTF)
5. The University of Texas Short Intermediate Term Fund (SITF)

In addition, approval is requested from the Board for U. T. staff to negotiate with Ernst & Young, LLP, to provide additional audit services related to UTIMCO, including UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

BACKGROUND INFORMATION

Fiduciary responsibility for the PUF, GEF, PHF, LTF, and SITF rests with the U. T. Board of Regents. Section 66.08 of the Texas Education Code requires that U. T. System have an annual financial audit performed of the PUF.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in April 2003. Four proposals were received. After a review of the proposals and firm interviews by Committee Chairman Estrada and U. T. System staff, the Board of Regents, at the July 7, 2003 Board of Regents meeting, authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP. The contract was for one year with a right to renew in one-year increments for four years. The Fiscal Year ending August 31, 2004, is the first year this contract has been up for renewal.

2. U. T. System: Report on the 2003 Annual Financial Report and the State Auditor's Office Financial Statement Audits of six components

REPORT

The State Auditor's Office is conducting a statewide financial audit on the state's Comprehensive Annual Financial Report (CAFR) for the year ended August 31, 2003. The State Auditor's Office is required to express an opinion on major funds in addition to the overall opinion on the state's CAFR. One of those major funds is an enterprise fund that reflects the operations and balances of all Texas public universities.

Mr. Randy Wallace, Assistant Vice Chancellor - Controller and Chief Budget Officer, will discuss the overall process of the Annual Financial Report preparation and compilation, including certifications and representations made by the U. T. component institutions.

Mr. Kelton Green, Managing Senior Auditor, State Auditor's Office, will provide an update on the statewide financial audit the State Auditor's Office conducted for the year ended August 31, 2003. The update will highlight and discuss any issues noted at the U. T. components that were part of that audit.

The State Auditor selected the following institutions for work to be performed in this financial audit: The University of Texas System Administration, The University of Texas at Arlington, The University of Texas at Austin, The University of Texas M. D. Anderson Cancer Center, The University of Texas Southwestern Medical Center at Dallas, The University of Texas Medical Branch at Galveston, and The University of Texas Health Science Center at Houston.

3. **U. T. System: Report on Status of Sarbanes-Oxley Initiative**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Mr. Randy Wallace, Assistant Vice Chancellor - Controller and Chief Budget Officer, will update the Audit, Compliance, and Management Review Committee on the status of the Action Plan to Implement the "Spirit" of the Sarbanes-Oxley Act of 2002. The Action Plan was approved by the Committee on November 12, 2003.

4. **U. T. System: Report on System-wide Audit Activity (Red, Yellow, Green Report)**

REPORT

The first quarter activity report on the status of outstanding significant recommendations for the Report on System-wide Audit Activity (Red, Yellow, Green Report) is set out on Pages 11.1 - 11.3. Additionally, a list of other audit reports that have been issued by the System-wide audit program, the State Auditor's Office, and the Comptroller of Public Accounts follows on Pages 11.4 - 11.5.

There are two types of audit findings/recommendations: reportable and significant. A "reportable" audit finding/recommendation should be included in an audit report if it is material to the operation, financial reporting, or legal compliance of the audited activity, and the corrective action has not been fully implemented. "Significant" audit findings/recommendations are reportable audit findings/recommendations that are deemed significant at the institutional level by each U. T. component internal audit committee or designee.

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

Status of Outstanding Significant Recommendations

	Report Date	Institution	Audit	4th Quarter		1st Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance
				Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Component's Fin. Stmt. ("F"), Compliance ("C"), and/or Operations ("O")
1	1998-07	UTHSC - Houston	Federal Contracts & Grants Review		1		1	2/28/2004	Satisfactory	C
2	1999-02	UTPB	Compliance Program		1		0	10/31/2003	Completed	C
3	2000-04	UTHSC - Houston	Medical Services Research & Development Plan Summary of Operations Review		1		1	11/30/2003	Satisfactory	C
4	2000-04	UTSYS ADM	Trust Minerals		1		0	12/31/2003	Completed	C
5	2000-05	UTHC - Tyler	Information Technology Audit of Physical Security - Safeguarding & Storage of System Media		1		1	12/31/2003	Satisfactory	O
6	2000-09	UTAUS	Federal Funds Principal Investigators		4		4	12/31/03	Satisfactory	C
7	2001-04	UTPA	Internet Security		1		1	1/31/2004	Satisfactory	O
8	2001-08	UTMDACC - Houston	Lotus Notes Environment		3		3	3/31/2004	Satisfactory	O
9	2001-10	UTHSC - San Antonio	Information Security		1		1	9/1/2004	Satisfactory	C, O
10	2001-10	UTMDACC - Houston	Disaster Recovery/Business Continuity Planning		1		1	6/30/2004	Satisfactory	O
11	2001-11	UTEP	Department of Chemistry		1		0	1/1/2004	Completed	C
12	2001-11	UTEP	Model Institutions for Excellence		1		0	10/31/2003	Completed	C
13	2001-11	UTTY	Information Technology General Security Review		2		2	9/1/2004	Satisfactory	O
14	2001-11	UTHSC - Houston	Report on University Care Plus (UCP)/Physician Business Services (PBS) Payment Process & A/R Credit Balance Review		1		0	11/30/2003	Completed	C
15	2002-02	UTHSC - Houston	Environmental & Physical Safety Compliance Program Review		1		1	2/28/2004	Satisfactory	C
16	2002-04	UTB	General Controls Audit of Information Technology		1		1	3/31/2004	Satisfactory	O
17	2002-05	UTARL	Network Support Audit		2		2	1/30/2004	Satisfactory	O
18	2002-05	UTSYS ADM	Office of Information Resources Follow-up		1		1	1/1/2004	Satisfactory	O
19	2002-07	UTHSC - Houston	Healthcare Billing Compliance Review		1		1	11/30/2003	Satisfactory	F, C
20	2002-08	UTHSC - San Antonio	Institutional Compliance Program		2		2	6/30/2004	Satisfactory	C

11.1

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	4th Quarter		1st Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance	
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Component's Fin. Stmt. ("F"), Compliance ("C"), and/or Operations ("O")	
21	2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		1	1/9/2004	Satisfactory	O, C
22	2002-09	UTAUS	Travel		2		2	5/1/2004	Satisfactory	O, C
23	2002-09	UTSA	Change in Management Departmental Reviews		1		1	12/31/2000	Satisfactory	O
24	2002-10	UTAUS	Unit Heads		1		1	5/1/2004	Satisfactory	O, C
25	2002-10	UTB	Workforce Training and Continuing Education Audit		1		1	2/1/2004	Satisfactory	F,O
26	2002-10	UTTY	ABEST Performance Measures		1		0	12/15/2003	Completed	C
27	2002-10	UTSYS ADM	UTHC - Tyler Clinical Trials		1		1	1/1/2005	Satisfactory	O, F
28	2002-11	UTPB	POISE Application Audit		1		0	10/31/2003	Completed	O
29	2003-02	UTSYS ADM	Employee Group Insurance - Benefits and Eligibility Systems		1		1	1/31/2004	Satisfactory	O
30	2003-03	UTEP	Miner Village		2		0	2/3/2003	Completed	C, O, F
31	2003-03	UTPA	General Controls		11		6	3/31/2004	Satisfactory	O
32	2003-03	UTMB - Galveston	Correctional Managed Care Information Systems Operations		2		0	11/30/2003	Completed	O
33	2003-03	UTHSC - San Antonio	PeopleSoft Payroll		5		0	7/31/2003	Completed	O
34	2003-05	UTMB - Galveston	Delivery of Operating Room Services				2	12/31/2003	-	O
35	2003-05	UTMB - Galveston	Pulmonary Care Services				3	1/31/2004	-	O
36	2003-05	UTMB - Galveston	School of Nursing Change of Management				3	11/31/03	-	C
37	2003-05	UTHSC - Houston	Harris County Psychiatric Center Vulnerability Assessment				6	11/30/2003	-	C, O
38	2003-06	UTARL	Internal Audit Office Peer Review		3		1	5/31/2004	Satisfactory	C,O
39	2003-06	UTAUS	University Data Center		2		1	1/31/2004	Satisfactory	O
	2003-06	UTD	General Controls		3		2	12/31/2003	Satisfactory	C,O
40	2003-07	UTD	Printing Division		1		0	4/30/2004	Completed	C, O
41	2003-07	UTSA	Student Financial Aid		1		0	10/31/2003	Completed	F & C
42	2003-08	UTPA	Center for International Programs		4		2	1/31/2004	Satisfactory	F, C
43	2003-08	UTMB - Galveston	Pharmacy Costs of Goods Sold Review				2	2/28/2004	-	O, F

11.2

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	4th Quarter		1st Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Component's Fin. Stmt. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
44	2003-08	UTMB - Galveston				5	12/31/2003	-	C, O
45	2003-08	UTSYS ADM		1		1	1/9/2004	Satisfactory	O
46	2003-08	UTSYS ADM		1		1	2/1/2004	Satisfactory	F
47	2003-09	UTB				2	12/31/2003	-	O
48	2003-09	UTB				2	10/1/2003	-	O
49	2003-09	UTB				3	5/31/2004	-	O
50	2003-09	UTSA				1	1/31/2004	-	C
51	2003-09	UTHC - Tyler				3	3/31/2004	-	O, F
52	2003-09	UTHC - Tyler				6	6/30/2004	-	O
53	2003-10	UTD				2	5/31/2004	-	F, C, O
54	2003-11	UTAUS				1			F
Totals				74		86			

STATE AUDITOR'S OFFICE AUDITS

1	2002-05	UTMDACC - Houston		1		1	12/31/2003	Satisfactory	n/a
2	2002-09	UTB		1		1	4/30/2004	Satisfactory	n/a
3	2003-02	UTAUS		7		7	12/31/2003	Satisfactory	n/a
4	2003-04	UTSA		1		1	12/31/2003	Satisfactory	n/a
5	2003-08	System		1		1	10/31/2004	Satisfactory	n/a
Totals				11		11			

n/a - State Auditor's Office recommendations are significant by definition.

Color Legend:

- Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention.
- A red audit becomes a yellow when significant progress has been made.
- All issues have been appropriately resolved.

Note: **Completed** - The component Internal Audit Director deems the significant issues have been appropriately addressed and resolved.
Satisfactory - The component Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.
Unsatisfactory - The component Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

Information Received from Internal Audit Directors and Chief Business Officers
 Consolidated by: System Audit Office
 December 2003

11.3

* OTHER U. T. SYSTEM AUDITS COMPLETED - 9/2003 through 11/2003

Month Received by System	Institution	Audit
2003 - 09	HC Tyler	Meditech HIS Implementation Quality Assurance Status Report
2003 - 09	HC Tyler	Lab Safety Audit FY 2003
2003 - 09	HSC Houston	Advanced Research Program/Advanced Technology Program
2003 - 09	HSC Houston	Report on OB/Gyn Residency Program for FY 2002
2003 - 09	MD Anderson	IT Vulnerability Report - Phase 2 Action Plan
2003 - 09	UT Arlington	Equipment Audit
2003 - 09	UT Austin	12th Class Day Reporting: Formula Funding
2003 - 09	UT Austin	Pharmacy's Year End Inventory Count
2003 - 09	UT El Paso	Follow up: Scholarships Office
2003 - 09	UT El Paso	Advanced Research Program/Advanced Technology Program
2003 - 09	UT El Paso	Contract Performance Monitoring Over \$100,000
2003 - 09	UT El Paso	Library
2003 - 09	UT El Paso	Environmental Health and Safety Lab Safety
2003 - 09	UT El Paso	Follow-Up: Ticket Center
2003 - 09	UT El Paso	Follow-Up: Professional and Continuing Education
2003 - 09	UT El Paso	Follow-Up: Student Publications
2003 - 09	UT Pan American	Center for International Programs
2003 - 09	UT San Antonio	Athletics NCAA Compliance Internal Audit Report
2003 - 09	UT Southwestern	Pharmaceutical Supplies Security Measures
2003 - 09	UT Southwestern	Pathology LIS and IDX Interfaces
2003 - 09	UT Southwestern	Billing Compliance
2003 - 09	UT Southwestern	Medical Oncology Clinic Review
2003 - 09	UT System	Backup and Recovery of Electronic Data FY 2003
2003 - 09	UT System	System Available Balances Audit Report FY 2003
2003 - 09	UTMB	IT Vulnerability Report - Phase 2 Action Plan
2003 - 10	HC Tyler	Medical Services, Research & Development Plan AFR FYE 8/31/2002
2003 - 10	HC Tyler	Institutional Review Board (IRB) Audit FY 2003
2003 - 10	HC Tyler	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	HC Tyler	General Information Technology Controls FY 2003
2003 - 10	HSC Houston	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	HSC San Antonio	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	HSC San Antonio	RAHC Funding Audit
2003 - 10	MD Anderson	Physicians Referral Service
2003 - 10	MD Anderson	Cash Shortage Procedures
2003 - 10	MD Anderson	Kronos Timer Records
2003 - 10	MD Anderson	Patient Payment Inquiry
2003 - 10	MD Anderson	International Refund
2003 - 10	UT Arlington	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UT Austin	Center for International Business Education & Research
2003 - 10	UT Austin	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UT Austin	Management Science & Information Systems
2003 - 10	UT Austin	Center for African/African-American Studies
2003 - 10	UT Austin	School of Architecture
2003 - 10	UT Austin	Electrical Engineering Research Lab & TSPRC
2003 - 10	UT Austin	Department of Curriculum & Instruction
2003 - 10	UT Austin	Section of Molecular Genetics, Microbiology, & Immunology
2003 - 10	UT Austin	University Business Services
2003 - 10	UT Brownsville	2003 Audit of Institutional Advancement/Development Office
2003 - 10	UT Brownsville	2003 Office of Student Activities Audit
2003 - 10	UT Brownsville	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UT Brownsville	2003 Audit of Environmental Health & Safety-Laboratory Safety
2003 - 10	UT Dallas	SIS+Application Review
2003 - 10	UT Dallas	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UT Dallas	Internal Quality Assurance Review
2003 - 10	UT El Paso	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UT San Antonio	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UT Southwestern	IT Vulnerability Report - Inventory Phase 2
2003 - 10	UT Southwestern	Breast Imaging Center Review
2003 - 10	UT Southwestern	Health Information Management
2003 - 10	UT System	OGC Claims and Bankruptcy Section

Month Received by System	Institution	Audit
2003 - 10	UT System	UTSA NCAA FYE 8/30/02
2003 - 10	UT System	IT Vulnerability Report - Action Plan Phase 2
2003 - 10	UTMB	School of Medicine Office of Student Affairs Change of Management
2003 - 10	UTMB	Server Reviews
2003 - 10	UTMB	Pharmacy Cost of Goods Sold Review
2003 - 11	HSC Houston	Harris County Psychiatric Center's Allegra System
2003 - 11	HSC San Antonio	Obstetrics and Gynecology Audit
2003 - 11	HSC San Antonio	Restorative Dentistry Audit
2003 - 11	HSC San Antonio	Laboratory Safety Audit
2003 - 11	MD Anderson	Change Management
2003 - 11	MD Anderson	Tax Compliance
2003 - 11	MD Anderson	Operations & Nursing Practice Inpatient Charge Capture
2003 - 11	MD Anderson	Environmental Health and Safety-Laboratory Safety
2003 - 11	MD Anderson	Temporary Personnel
2003 - 11	MD Anderson	Departmental Reviews
2003 - 11	MD Anderson	Nursing Payroll Vouchers
2003 - 11	UT Arlington	Collections Process Audit
2003 - 11	UT Austin	Harry Ransom Humanities Research Center
2003 - 11	UT Austin	Hogg Foundation for Mental Health
2003 - 11	UT El Paso	Follow-Up: Accounts Payable
2003 - 11	UT El Paso	Follow-Up: Student FICA Exemption
2003 - 11	UT El Paso	Payroll Department
2003 - 11	UT Pan American	Environmental Health and Safety-Laboratory Safety
2003 - 11	UT Pan American	Personnel Services Office
2003 - 11	UT Pan American	NCAA Compliance - Eligibility
2003 - 11	UT San Antonio	Institutional Compliance Program Review
2003 - 11	UT San Antonio	Research Development
2003 - 11	UT Southwestern	Fire Protection & Radiation Safety Compliance
2003 - 11	UT Southwestern	Health Insurance Portability & Accountability Act Planning & Organization
2003 - 11	UT Southwestern	UT Southwestern Health Systems Business Processes
2003 - 11	UT Southwestern	UT Southwestern Health Systems Information Technology Process
2003 - 11	UT Southwestern	Expenditure Testing
2003 - 11	UT System	UTPB IT Vulnerability Report - Action Plan Phase 2
2003 - 11	UT System	UT Austin Hogg Foundation for the Mental Health Audit FY 2003
2003 - 11	UT System	OIR Follow-Up Audit 4th Quarter FY 2003
2003 - 11	UT System	UT Dallas Internal Audit Quality Assessment Review October 2003
2003 - 11	UT System	UTIMCO Investments in WorldCom
2003 - 11	UT System	Vice Chancellor for Administration Change in Management Departmental

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 9/2003 through 11/2003 - NO RECOMMENDATIONS**

Report Issuance Date	Audit

*** COMPTROLLER OF PUBLIC ACCOUNTS AUDITS COMPLETED - 9/2003 through 11/2003**

Report Issuance Date	Institution	Audit

5. **U. T. System: Report on Status of System-wide Institutional Compliance Program including Compliance Program Peer Reviews**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will update the Audit, Compliance, and Management Review Committee on the quarterly report of the System-wide Institutional Compliance Program, found on Pages 12.1 - 12.2. Activity reports are presented to the Committee on a quarterly basis.

Mr. Chaffin will also brief the Committee on the Compliance Program Peer Review process.

The University of Texas System

Institutional Compliance Program 1st Quarter Report Summary Fiscal Year 2004

Program Executive Summary

The purpose of the Institutional Compliance Program is to ensure that the U. T. System, its 15 institutions and UTIMCO are in compliance with all applicable laws, policies, and regulations of the numerous bodies responsible for oversight of higher education institutions. This is achieved through institutional compliance risk assessments, awareness education, and ongoing monitoring. The System-wide Compliance Officer, Mr. Charles Chaffin, is responsible for apprising the Chancellor and Board of Regents of the institutional compliance functions and activities. Each institution has appointed a compliance officer and established an appropriate reporting mechanism for program activities, using Compliance Committees that meet on average quarterly. During the 1st quarter, 16 of 17 institutional Compliance Committees met. Additionally, no significant organizational changes occurred during the 1st quarter.

Summary of Quarter Activity

The following monitoring activities were conducted by many of the institutions during the quarter:

Clinical Billing (medical billing that is not appropriately documented and coded) – Quality assurance reviews of clinical providers' documentation and development of documentation guidance and tools.

Endowments (adherence to terms of endowment agreement) – Reviews of policies and procedures; development of expenditure policies; regular review of endowment accounts and expenditures; and review of revenue and expenditure statistics.

Environmental Health & Safety (proper use and handling of dangerous materials, lab safety, and fire safety) - Continual oversight through identification and investigation of safety issues; recommendations for solutions; promotion of safety awareness and monitoring of resolution follow-up; and periodic inspections of labs and buildings.

Human Resources (adherence to all applicable and required rules, regulations and laws including equal opportunity/affirmative action, leave administration, and fair hiring practices) – Reviews of policies and procedures; verification of employment information at time of employment; review of vacation/sick leave usage reports; and ongoing training to enhance compliance.

Information Resources/Security (systems integrity/continuity/availability, security regulations, and external access) – Reviews of policies and procedures; performance of detailed vulnerability analysis; periodic penetration testing; testing of backup and disaster recovery procedures; and periodic monitoring of network activities.

Research (research not conducted in accordance with approved protocol or federal regulations) – Review of all human subject research, consents and forms by the Institutional Review Board; periodic inspection of animal laboratories and reviews of animal research protocols; review of policies and procedures on a periodic basis; and review of conflict of interest forms and management plans.

Assurance activities including inspections, audits and peer reviews, were conducted by several institutions and addressed the following areas: employment discrimination, use and protection of state resources, endowment compliance, conflict of interest and ethics, account reconciliation/procard use, and HIPAA.

Training activities were conducted in the areas of environmental health & safety, HIPAA, endowments, general compliance areas and research.

Action Plan Activities

Each institution developed an Action Plan and included the following activities within the focus for FY 2004: enhancement of General Compliance Training and specialized training in high-risk areas; enhancement of compliance awareness and available materials; updating of the compliance risk assessment to include new risks; revision of the Standards of Conduct Guide or Compliance Manual; and enhancement of the confidential reporting line tracking system.

Many of the items identified in the Action Plans are in progress at this time.

6. U. T. System: Report on System Audit Office Strategic Plan

REPORT

The U. T. System Audit Office has developed a Strategic Plan, which is intended to articulate the broad framework, direction, and priorities of the department and to support the mission of The University of Texas System. The Strategic Plan is on Pages 13.1 - 13.2.

The Strategic Plan will be the basis for formulating the goals and objectives for the U. T. System Audit Office. The strategies and underlying action steps for achieving the goals are communicated in the Plan.

Further development of the Plan includes structuring the actions in measurable performance goals and monitoring and reporting on department performance.

The internal audit departments at the component institutions are currently in the process of developing their own strategic plans.

**The University of Texas System Administration
System Audit Office
Strategic Planning Process**

The strategic plan of The University of Texas System Audit Office is intended to articulate the broad framework, direction, and priorities of the department and to support the mission of The University of Texas System. The University of Texas System mission has the following major points:

- Leads and fosters communication on higher education issues
- Achieves efficiencies and economies of scale through direct services to, or collaboration among, institutions
- Targets opportunities for new and collaborative work
- Enhances the academic and health-care strategic planning of the institutions
- Assures accountability, compliance, and quality processes
- Offers consulting and problem-solving services
- Performs essential support functions

In developing the Strategic Plan, the System Audit Office focused on aligning its primary initiatives with the U. T. System Mission Statement. Strategies and action item for each initiative were then developed. The System Audit Office Mission Statement is as follows:

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.

The Strategic Plan is an evolving document, requiring continual monitoring and revision as conditions warrant. The ongoing support of the Regents, management, and other constituents in maximizing the System Audit Office's effectiveness is an essential part of developing the initiatives, objectives, and strategies. The Strategic Plan will be the department's primary tool for setting goals and measuring performance.

The University of Texas System Audit Office Strategic Plan includes the following primary initiatives and a description of their respective objectives:

I. Adequate and Sustained 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 professional services.

II. Anticipate and Respond to Risk

Objective: To anticipate new or unrecognized risks in all environments affecting The University of Texas System and to implement strategies for minimizing those risks.

III. Effective Communication and Reporting

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

**The University of Texas System Administration
System Audit Office
Strategic Planning Process**

IV. Collaboration and Partnerships

Objective: To foster an environment that facilitates open communication and to develop relationships between the System Audit Office and other organizational units in order to enhance education and the accomplishment of goals and objectives.

V. Compliance with Standards and Requirements

Objective: To ensure the System Audit Office activities are conducted in accordance with relevant professional standards and other internal and external requirements.

VI. 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.

VII. Oversight Activities for Component Institutions

Objective: To provide oversight, guidance, and support for audit and compliance activities at component institutions, and to facilitate coordination of resources and economies of scale in accomplishing the goals and objectives of U. T. System.

Strategies for each initiative and action steps for achieving those strategies have been developed. A responsible party will then be assigned to each action item. The action steps will be structured as measurable performance goals. These performance measures will be further developed and refined to facilitate monitoring and periodic reporting on the department's progress.

7. **U. T. System: Report on Utilization of Audit Committee Planner (Checklist)**

REPORT

Ms. Sandra Neidhart, Assistant Director of Audits, U. T. System Audit Office, will present an Audit Committee Planner (Checklist), which can be used as a tool by the Audit, Compliance, and Management Review Committee, to assist in the committee's oversight role. The planner, on Pages 14.1 - 14.8, will be used to maintain and coordinate regular, ongoing activities.

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. General & Administrative:													
.01	Meet four times per year or more frequently as circumstances require. (2)	Q		X			X			X			X
.02	Prepare agenda in consultation between the Committee chairman (with input from the Committee members), U. T. System executive management, the Chief Audit Executive, and the System-wide Compliance Officer. (3)	Q	X			X			X			X	
.03	Approve minutes of previous meeting.	Q		X			X			X			X
2. ACMR Committee:													
.01	Verify that membership is familiar with the ACMR Committee's Charter, goals, and objectives. (4)	AN											
.02	Review the independence of each Committee member based on applicable independence laws and regulations. (5)	AN											
.03	Review and update the Audit, Compliance, and Management Review Committee Responsibilities Checklist. (25)	A								X			
.04	Approve audit committee planner for upcoming year.	A								X			
.05	Provide orientation for new members.	AN											
.06	Conduct or authorize investigations to be conducted into any matters within the Committee's scope of responsibilities. (7)	AN											

14.1

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
.07 The Committee shall provide an open avenue of communication between the State Auditor, internal auditors, any public accounting firm employed, executive management, and the Board. The Committee chairperson shall report Committee actions to the Board with such recommendations as the Committee may deem appropriate. (8)	AN												
3. Audit:													
.01 The Committee shall review and approve the appointment or change in the Chief Audit Executive. (6)	AN												
.02 Conduct a performance review and evaluation of the Chief Audit Executive. The Committee may delegate responsibility for the performance review to the Chancellor, in which case the Chancellor would provide a recommendation and supporting documentation to the Committee as a basis for their evaluation. (20)	A							X					
.03 Review internal audit charter; approve any changes.	A		X										
.04 Review and approve the annual audit plan, including the allocation of audit hours. (18)	A											X	
.05 Consider and review with executive management and the Chief Audit Executive any changes required in the planned scope of the audit plan. (19)	AN												
.06 Review the status of actual work performed relative to the approved annual plan.	A											X	
.07 Review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame. SB 1694 (78 th Legislature) Section 3	A								X				

14.2

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
.08 Review with executive management, the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm the coordination of efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of resources. (11)	A								X				
.09 Review the effectiveness of the internal audit function including compliance with The Institute of Internal Auditor' <u>Standards for the Professional Practice of Internal Auditing</u> .	At least every 3 years for each institution												
.10 For the purpose of preparing or issuing an audit report or related work, the Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any employed public accounting firm (including the resolution of disagreements between management and the auditor regarding financial reporting). This does not preclude an individual component institution from hiring a public accounting firm to perform work at the component level. (9)	A & AN								X				
.11 Review the external Auditors' proposed audit scope and approach (for audits and consulting projects), including coordination of audit effort with internal audit.	A & AN								X				
.12 Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.	A					X							

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
.13 Regarding the U. T. System's financial statements, the Committee shall review with executive management and/or the Chief Audit Executive: a. U. T. System's annual financial statements and related footnotes; b. Any audit and assurance work performed on components of the annual financial statements; c. Any significant changes to the financial statements requested by the State Auditor, internal audit, or any independent public accountants; d. Any serious difficulties or disputes with management encountered during assurance work on components of the financial statements; e. Other matters related to the conduct of assurance services that are to be communicated to the Committee under generally accepted government auditing standards. (14)	A		X										
.14 Verify that the U. T. System Chief Financial Officer has met the requirement of certifying the annual financial statements for the U. T. System as a whole, and that each component Chief Financial Officer certified the annual financial statements for their respective component institution. (15)	A		X										
.15 Review and discuss legal and regulatory matters that may have a material impact on the financial statements, internal auditing, and/or compliance activities. (16)	AN												

14.4

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
.16 Review and discuss with executive management and the Chief Audit Executive, U. T. System's critical accounting policies, including any significant changes to Generally Accepted Accounting Procedures (GAAP) or alternative accounting treatments discussed with management, Regents' <u>Rules and Regulations</u> , and/or operating policies or standards. (17)	A		X										
.17 Consider and review with executive management and the Chief Audit Executive any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information. (19)	AN												
.18 Consider and review with executive management, the Chief Audit Executive and outside auditors, significant findings and recommendations of the State Auditor, independent auditors, and internal audit together with management's responses thereto. (Red, Yellow, Green Report) (13) & (19) [Note: All outside auditor findings are included in the Red, Yellow, Green Report.]	Q		X			X			X			X	
.19 The Chief Audit Executive shall report on the status and integrity of U. T. System's engagements with public accounting firms. (10)	A					X							
.20 Ensure procedures are established for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters; and the confidential anonymous submission by employees of concerns regarding questionable auditing matters. (21)	A					X							
4. Compliance:													

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
.01 Review and approve the annual compliance plan completed by the Compliance Officer and/or Compliance Office. Comp AP	A											X	
.02 Monitor the U. T. System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including significant institutional risks identified during the year and mitigating actions taken. Comp AP & (22a)	A											X	
.03 Monitor the U. T. System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including significant findings during the year and management's responses thereto. Comp AP & (22b)	A											X	
.04 Monitor the U. T. System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including any difficulties encountered in the course of inspections or assurance activities, including any restrictions on the scope of work or access to required information. Comp AP & (22c)	A					X							
.05 Monitor the U. T. System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including any changes required in planned scope of the compliance action plan. Comp AP & (22d)	A					X							

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
.06 Ensure procedures are established for the receipt, retention, and treatment of complaints received regarding compliance issues and the confidential anonymous submission by employees of concerns regarding ethically or legally questionable matters. Comp AP & (23)	A					X							
5. Other:													
.01 Meet with the Chief Audit Executive, the System-wide Compliance Officer, executive management, and/or any employed external auditors in executive session to discuss any matters that the Committee or the before named believe should be discussed privately with the Committee, to the extent permitted by applicable law. (24)	AN												
.02 Inquire of and discuss with executive management, the Chief Audit Executive, and the System-wide Compliance Officer any instances of fraud, errors, and illegal acts.	AN												
.03 Inquire of executive management, the Chief Audit Executive, the System-wide Compliance Officer, and any employed public accounting firm about significant risks or exposures and assess the steps management has taken to minimize such risk to U. T. System. (12)	A		X										
.04 Consider and review with the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm: a. The adequacy of U. T. System's internal controls including computerized information system controls and security and b. The adequacy and efficiency of senior-level management with respect to fiscal operations and compliance functions at all component institutions. (13)	A		X										

Audit, Compliance, and Management Review Committee Audit Committee Planner

Item	Frequency	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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Legend:

M – Monthly
Q - Quarterly
A – Annually

AN – As Needed

Frequency indicates a minimum requirement. If issues arise that require attention they should be addressed regardless of the frequency or time period indicated.

X – indicates the month in which the activity occurs

(#'s)

The numbers noted in parenthesis at the bottom right of the item description refer to the number of the item in the Responsibilities Checklist for the Audit, Compliance, and Management Review Committee (ACMR Checklist).

Comp AP – Components are required to report this to the System-wide Compliance Officer per the Action Plan to Enhance Institutional Compliance – Updated 2003

14.8