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FOR  
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW  
COMMITTEE**

**Committee Meeting: 2/8/2006  
Board Meeting: 2/9/2006  
Austin, Texas**

*Robert A. Estrada, Chairman  
Rita C. Clements  
Judith L. Craven, M.D.  
Cyndi Taylor Krier  
Robert B. Rowling*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>A. CONVENE</b>	9:00 a.m. <i>Chairman Estrada</i>		
1. <b>U. T. System Board of Regents: Report on the results of the audit of The University of Texas Investment Management Company's (UTIMCO) voluntary implementation of the Sarbanes-Oxley Act of 2002</b>	9:00 a.m. <b>Report</b> <i>Mr. Ricky Richter, Ernst &amp; Young, LLP</i>	Not on Agenda	<b>9</b>
2. <b>U. T. System: Approval to renew the contract with Ernst &amp; Young, LLP, as the external auditor for 2006 audit of funds managed by The University of Texas Investment Management Company (UTIMCO) and to negotiate for additional audit services related to UTIMCO</b>	9:05 a.m. <b>Action</b> <i>Mr. Chaffin Mr. Wallace</i>	<b>Action</b> <i>Regent Estrada</i>	<b>9</b>
3. <b>U. T. System Board of Regents: Review of Audit, Compliance, and Management Review Committee Charter and Responsibilities Checklist and result of the Committee's self-assessment</b>	9:10 a.m. <b>Discussion</b> <i>Mr. Chaffin</i>	Not on Agenda	<b>10</b>
4. <b>U. T. System: Report on System-wide Internal Audit Activity (Red, Orange, Yellow, Green Report)</b>	9:15 a.m. <b>Report</b> <i>Mr. Chaffin Ms. Barrett</i>	Not on Agenda	<b>11</b>
5. <b>U. T. System: Report on System-wide Institutional Compliance Activities</b>	9:20 a.m. <b>Report</b> <i>Mr. Chaffin Mr. Givens Ms. Knight</i>	Not on Agenda	<b>15</b>
<b>B. ADJOURN AND CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE</b>	9:30 a.m. <i>Chairman Estrada and Chairman Rowling</i>		
<b>U. T. System: Report on the Fiscal Year 2005 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte &amp; Touche LLP</b>	<b>Report</b> <i>Mr. Rodney Lenfant, Deloitte &amp; Touche Mr. Wallace Mr. Chaffin</i>	Not on Agenda	<b>16</b>
<b>C. ADJOURN</b>	10:25 a.m.		

1. **U. T. System Board of Regents: Report on results of the audit of The University of Texas Investment Management Company's (UTIMCO) voluntary implementation of the Sarbanes-Oxley Act of 2002**

REPORT

Mr. Ricky Richter, Ernst & Young, LLP, will report on the results of the audit of The University of Texas Investment Management Company's (UTIMCO) voluntary implementation of the Sarbanes-Oxley Act of 2002.

The reports are set forth on Pages 23 - 32 of the Supplemental Materials (Volume 2) of the Agenda Book.

BACKGROUND INFORMATION

On February 9, 2005, the Board authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, to audit UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

2. **U. T. System: Approval to renew the contract with Ernst & Young, LLP, as the external auditor for 2006 audit of funds managed by The University of Texas Investment Management Company (UTIMCO) and to negotiate for additional audit services related to UTIMCO**

RECOMMENDATION

Committee Chairman Estrada recommends approval to renew the auditing services contract with Ernst & Young, LLP, to perform audits for the fiscal year ending August 31, 2006, for funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

- a. Permanent University Fund (PUF)
- b. The University of Texas System General Endowment Fund (GEF)
- c. Permanent Health Fund (PHF)
- d. The University of Texas System Long Term Fund (LTF)
- e. The University of Texas Intermediate Term Fund (ITF)

Approval is also requested for U. T. staff to negotiate an amendment to the contract renewal 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 ITF rests with the U. T. System 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 was distributed by U. T. System staff in April 2003. Four proposals were received. After a review of the proposals and firm interviews by Regent Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, at the July 7, 2003 Board of Regents' meeting. The contract was for one year with a right to renew in one-year increments for four years. The contract was renewed by the Board of Regents on February 4, 2004, and February 10, 2005. The fiscal year ending August 31, 2006, is the third year this contract has been up for renewal.

### **3. U. T. System Board of Regents: Review of Audit, Compliance, and Management Review Committee Charter and Responsibilities Checklist and results of the Committee's self-assessment**

## PURPOSE

On a periodic basis, the Audit, Compliance, and Management Review Committee reviews its Charter and Responsibilities Checklist to ensure any changes in regulatory requirements, authoritative guidance, and evolving oversight practices are reflected. The Chief Audit Executive has no substantive changes to the Charter or Checklist at this time; minor editorial changes are presented in congressional style on Pages 33 - 37 of the Supplemental Materials (Volume 2) of the Agenda Book.

Mr. Chaffin will then present the results of the recent Committee self-assessment.

## BACKGROUND INFORMATION

On November 12, 2003, the Committee approved the Action Plan to implement the "Spirit" of Sarbanes-Oxley Act of 2002. Included in the Action Plan was the establishment of a Committee Charter and Responsibilities Checklist. The Committee Charter specifies that the Committee's responsibilities in carrying out its oversight role will be delineated in the Checklist. The Checklist is updated regularly to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. The Charter was approved on November 13, 2003 and the Checklist was last updated on November 5, 2004.

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

REPORT

Mr. Charles Chaffin, Chief Audit Executive, and Ms. Amy Barrett, Assistant Director for Audit, will report on System-wide audit activity for the first quarter of Fiscal Year 2006, including the status of significant audit recommendations.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 12 - 13. The report shows that satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports that have been issued by the System-wide audit program follows on Page 14.

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

THE UNIVERSITY OF TEXAS SYSTEM  
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 Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
2004-02	UT Austin	Compliance Inspection: Account Reconciliation and Segregation of Duties		1		0	11/30/2005	Completed	C
2004-03	UT Austin	Information Security Management		2		1	6/30/2006	Satisfactory	C, O
2004-12	UTA	TAC 202 Information Security Compliance		1		1	2/28/2006	Satisfactory	C
2004-03	UTB	Contracts and Grants		1		1	3/31/2006	Satisfactory	C, O
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office		1		1	1/31/2006	Satisfactory	C, O
2004-10	UTB	Physical Plant		3		3	4/30/2006	Satisfactory	C, O
2003-12	UTD	Lab and Biological Safety		1		1	2/28/2006	Satisfactory	C, O
2004-01	UTEP	Information Technology - General Controls Review		1		1	1/31/2006	Satisfactory	O
2004-07	UTEP	Facility Services		1		0	12/31/2005	Completed	O
2005-05	UTEP	Office of the Registrar		3		2	3/31/2006	Satisfactory	O
2005-08	UTEP	Texas Success Initiative		2		1	5/31/2006	Satisfactory	C, O
2005-10	UTEP	Human Subject Research				0	10/25/2005	Completed	C, O
2003-09	UTHC-T	Medical Services, Research, and Development Plan AFR		1		1	8/31/2007	Unsatisfactory	F, O
2004-04	UTHC-T	Capital Assets FYE 8/31/03		1		0	9/30/2005	Removed	C, O
2004-04	UTHC-T	Discretionary Funds		1		1	12/31/2005	Satisfactory	F, O
2004-09	UTHC-T	Cash and Cash Equivalents		1		0	10/31/2005	Completed	C, O
2005-04	UTHC-T	TAC 202 Compliance		1		1	9/1/2007	Satisfactory	C
2005-11	UTHC-T	IT Security Audit of Meditech and LSS Patient Information Systems				1	10/31/2006	Satisfactory	C
2005-11	UTHC-T	Hospital and Physician Billing Audit of Patient Registration Processes				1	4/1/2006	Satisfactory	F, O
2000-04	UTHSC-H	Medical Services, Research, and Development Plan Summary of Operations Review		1		0	10/1/2005	Completed	C
2004-02	UTHSC-SA	Medical Services, Research, and Development Plan Front-End Billing		2		3	2/28/2006	Satisfactory	O
2003-05	UTMB Galveston	Delivery of Operating Room Services		2		2	3/31/2006	Satisfactory	O
2003-08	UTMB Galveston	Pharmacy Costs of Goods Sold Review		1		1	1/31/2006	Satisfactory	O
2004-02	UTMB Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		2		2	1/31/2006	Satisfactory	F, O
2004-07	UTMB Galveston	Office of Sponsored Programs (OSP) & Contracts and Grants (C & G)		6		6	9/30/2007	Satisfactory	F, C, O
2004-09	UTMB Galveston	Agreed Upon Procedures on Financial Statement Fund Balance		4		4	8/31/2006	Satisfactory	F, O
2004-09	UTMB Galveston	Endowment Compliance Program of the Office of University Advancement ("OUA")		1		1	9/30/2005	Satisfactory	C, O
2005-03	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule (Institutional)		1		1	12/31/2005	Satisfactory	C, O
2005-06	UTMB Galveston	Audit of Department of Neurosciences and Cell Biology Control Self-Assessment		1		1	2/28/2006	Satisfactory	C
2005-07	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule (Correctional Managed Care)		3		3	6/30/2006	Satisfactory	C, O
2005-08	UTMB Galveston	Audit of IRB Human Subjects Protection		2		2	1/1/2006	Satisfactory	C, O
2001-08	UTMDACC	Lotus Notes Environment		2		1	2/28/2006	Satisfactory	O
2001-10	UTMDACC	Disaster Recovery/Business Continuity Planning		1		0	2/28/2006	Completed	O
2004-01	UTMDACC	2003 Mainframe Disaster Recovery Test		1		0	12/31/2005	Completed	O
2004-01	UTMDACC	PeopleSoft Payroll		1		1	2/28/2007	Satisfactory	O
2005-08	UTPA	Contracts		1		1	12/31/2005	Satisfactory	O
2005-09	UTPA	College of Education				1	3/31/2006	Satisfactory	O

THE UNIVERSITY OF TEXAS SYSTEM  
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 Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
2004-03	UTSA	Information Technology Organization and Planning Controls		2		2	5/31/2006	Satisfactory	F, O
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		1	9/1/2006	Satisfactory	C
2004-11	UTSA	Scholarship Management		1		1	3/31/2006	Satisfactory	O
2004-12	UTSA	Texas Administrative Code 202		2		1	2/1/2006	Satisfactory	O
2005-11	UTSA	Animal Research Audit				1	1/15/2006	Satisfactory	O
2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		0	10/31/2005	Completed	C, O
2003-09	UTSYS ADM	System Available Balances		1		0	10/31/2005	Completed	F
2005-04	UTT	East Texas Rural Fiscal and Physical Outreach Program Grant		1		1	3/1/2006	Satisfactory	C
Totals				63		54			

**STATE AUDITOR'S OFFICE AUDITS**

2004-06	UT Austin	Protection of Research Data at Higher Education Institutions		1		0	10/1/2005	Completed	O
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions		3		1	12/31/2006	Satisfactory	O
2002-09	UTB	A Financial Review		1		1	8/31/2006	Satisfactory	F
2004-10	UTHSC-H	Cash Controls		3		0	1/1/2006	Completed	F
2004-06	UTHSC-SA	Protection of Research Data at Higher Education Institutions		2		2	8/31/2006	Satisfactory	O
2002-11	UTMB Galveston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		1		1	12/31/2005	Satisfactory	C
2002-05	UTMDACC	Statewide Single Audit report for Year Ended August 31, 2001		1		1	9/1/2006	Satisfactory	C
2002-11	UTMDACC	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		2		1	6/30/2006	Satisfactory	C
2005-02	UTMDACC	Federal Portion of the Statewide Single Audit		2		1	2/28/2006	Satisfactory	C
2004-02	UTSA	Financial Review		3		3	2/28/2006	Satisfactory	F
2004-06	UTSYS ADM	Protection of Research Data at Higher Education Institutions		1		1	3/31/2006	Satisfactory	O
Totals				20		12			

**Color Legend:**

- Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention. Corrective action will be taken subsequent to the quarter in which the finding was reported.
- Significant progress toward resolution was made during the quarter in which the significant finding was first reported.
- A red or orange audit becomes a yellow when significant progress continues beyond the quarter in which the significant finding was first reported.
- All issues have been appropriately resolved, including any issues resolved during the quarter in which they were first reported.

**Note:**

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

**\* OTHER U. T. SYSTEM AUDITS COMPLETED - 9/2005 through 11/2005**

Month Received by System	Institution	Audit
2005-9	UT Arlington	Key Control Audit
2005-9	UT Arlington	Time and Effort Reporting Principles Review
2005-9	UT Arlington	Contracting Audit
2005-9	UT Arlington	Texas Administrative Code 202 Information Security Compliance Audit Follow-up
2005-9	UT Arlington	ProCard Follow-up Audit
2005-9	UT Dallas	Review of Time and Effort Reporting Principles
2005-9	UT Dallas	Change in Management Review of the Office of the Vice President for Business Affairs
2005-9	UT Pan American	Contracts Audit
2005-9	UT Pan American	NCAA Compliance - Team Travel Audit
2005-9	UT Pan American	Information Technology Vulnerability Assessment Follow-up
2005-9	UT Pan American	Time & Effort Reporting Audit
2005-9	UT Pan American	College of Education Audit
2005-9	UT San Antonio	Texas Administrative Code 202 - Security Program Compliance Review
2005-9	UT San Antonio	Security Review of Newly Acquired Systems: Streamlined Applicant Referral System
2005-9	UT San Antonio	Time and Effort Reporting Principles Review
2005-9	UT System Admin	Review of The University of Texas at Dallas Financial Condition
2005-9	UT System Admin	West Texas Operations Oil and Gas Company Audit
2005-9	UTHSC San Antonio	Research - Time and Effort Reporting Review
2005-10	UT Dallas	Business Expense Reimbursements
2005-10	UT San Antonio	Change in Management - Departmental Reviews
2005-10	UT San Antonio	Student Housing
2005-10	UT Southwestern	Deloitte & Touche External Audit
2005-10	UT Southwestern	Ambulatory Cash Receipts Review
2005-10	UT Southwestern	Federal Reporting of Charges
2005-10	UT Southwestern	Office of Post-Award Administration
2005-10	UT System Admin	Office of Facilities Planning and Construction Change in Management Audit
2005-10	UTHSC San Antonio	Practice Plan Financial Review
2005-10	UTHSC San Antonio	General Control Review Follow-up
2005-10	UTHSC San Antonio	Pediatric Dentistry Financial Review
2005-11	UT Brownsville	Audit of the Office of the Dean for the School of Business
2005-11	UT Brownsville	2005 Audit of Performance Measures
2005-11	UT Brownsville	Audit of the Office of the Registrar
2005-11	UT Brownsville	Time and Effort Reporting
2005-11	UT Dallas	Protection of Social Security Numbers
2005-11	UT Southwestern	Compliance Consulting
2005-11	UT Southwestern	Physician Licensing
2005-11	UT Southwestern	IDX Dictionary Maintenance
2005-11	UT Southwestern	Hospital Cash Receipting
2005-11	UT Southwestern	Medical Services, Research, and Development Plan Credentialing
2005-11	UT Southwestern	Medical Services, Research, and Development Plan Credit Balances
2005-11	UT System Admin	Audit of Information Technology Policies at UT System Institutions
2005-11	UT Tyler	Review of Time and Effort Reporting Principles
2005-11	UTHC Tyler	HIPAA Privacy Audit - 2005
2005-11	UTHC Tyler	IT Security Audit of the Meditech and LSS Patient Information Systems
2005-11	UTHC Tyler	Hospital and Physician Billing Audit of Patient Registration Processes
2005-11	UTHSC Houston	Report on the Implementation of Time and Effort Reporting Principles
2005-11	UTHSC Houston	Report on UTLink Application Security
2005-11	UTHSC Houston	Report on the Department of Psychiatry and Behavioral Sciences
2005-11	UTHSC Houston	Report on Medical School Billing Compliance Department of Dermatology
2005-11	UTHSC Houston	Report on Medical School Billing Compliance Department of Psychiatry and Behavioral Sciences
2005-11	UTHSC Houston	Scripts Security
2005-11	UTHSC Houston	Follow-up on Open Recommendations
2005-11	UTMB Galveston	Pathology Laboratory Information Systems

**5. U. T. System: Report on System-wide Institutional Compliance Activities**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Mr. David Givens, System-wide Compliance Supervisor, will brief the Audit, Compliance, and Management Review Committee on the first quarter report of the System-wide Compliance Program, set forth on Pages 38 - 41 of the Supplemental Materials (Volume 2) of the Agenda Book. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis. The last activity report was sent on January 27, 2006.

Mr. Chaffin will then provide an update on the peer review activities at the institutions. Ms. Gayle Knight, Assistant Vice President for Institutional Compliance at U. T. Health Science Center - San Antonio, will present the results of their recent institutional peer review and the activities of the Institutional Compliance Advisory Committee.



**U. T. System: Report on the Fiscal Year 2005 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP**

**REPORT**

Mr. Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer, will discuss the Annual Financial Report preparation and compilation process, including certifications and representations made by the institutions. Mr. Wallace's PowerPoint presentation is set forth on Pages 42 - 49 of the Supplemental Materials (Volume 2) of the Agenda Book.

Mr. Rodney Lenfant, Deloitte & Touche LLP, will report on the results of the audit of the U. T. System Financial Statements for Fiscal Year 2005. Mr. Lenfant's PowerPoint presentation is set forth on Pages 50 - 59 of the Supplemental Materials (Volume 2) of the Agenda Book.

Additionally, Mr. Charles Chaffin, Chief Audit Executive, and Ms. Amy Barrett, Assistant Director, will report on the work performed at U. T. Arlington, U. T. Brownsville, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Permian Basin, U. T. San Antonio, U. T. Tyler, and U. T. Health Center - Tyler for Deloitte & Touche in support of the U. T. System Financial Statement Audit. The PowerPoint presentation is set forth on Pages 60 - 64 of the Supplemental Materials (Volume 2) of the Agenda Book. Reports on these institutions were sent on January 27, 2006.

The 2005 U. T. System Annual Financial Report as set forth on Pages 65 - 132 of the Supplemental Materials (Volume 2) of the Agenda Book, includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2005. The U. T. System Management Letter including management's response was sent on January 27, 2006.

**BACKGROUND INFORMATION**

The Annual Financial Report is required to be filed with the State Comptroller of Public Accounts annually on November 20 and is prepared in compliance with *Texas Government Code* Section 2101.011 and in accordance with the requirements established by the State Comptroller of Public Accounts.

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "Spirit" of the Sarbanes-Oxley Act as a good faith effort toward

manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and firm interviews by Chairman Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP, at the July 16, 2004 Board of Regents' meeting. The contract, which terminates on April 1, 2006, provides U. T. System the option to renew for two additional one-year terms.