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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 5/12/2004

Austin, Texas

Board Meeting: 5/13/2004

Austin, Texas

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>1:00 p.m. Chairman Estrada</i>		
B. RECESS TO EXECUTIVE SESSION	<i>1:00 p.m.</i>		17
1. U. T. Board of Regents: Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – <u>Texas Government Code Section 551.071</u>	<i>Mr. Godfrey</i>	Not on Agenda	
2. U. T. Board of Regents: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – <u>Texas Government Code Section 551.074</u>		Not on Agenda	
a. U. T. System: Evaluation and duties of System and component employees involved in audit and compliance functions			
b. U. T. M. D. Anderson Cancer Center: Discussion of individual personnel issues	Report <i>Mr. Dan Fontaine Ms. Carrie Lyons Dr. Shine</i>		
C. RECONVENE IN OPEN SESSION			
1. U. T. System: Report on Status of Sarbanes-Oxley initiative and revised Sarbanes-Oxley Action Plan	<i>1:10 p.m.</i> Report <i>Mr. Wallace Mr. Chaffin</i>	Not on Agenda	17
2. U. T. System: Report on Management Audit of University Lands - West Texas Operations	<i>1:17 p.m.</i> Report <i>Mr. Chaffin Ms. Hagara Mr. Hartmann</i>	Not on Agenda	17

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3. U. T. System: Report on status of segregation of duties and Account Reconciliation Compliance	1:25 p.m. Report <i>Ms. Neidhart</i>	Not on Agenda	18
4. U. T. System: Report on System-wide Audit Activity (Red, Yellow, Green Report)	1:30 p.m. Report <i>Mr. Chaffin</i>	Not on Agenda	20
5. U. T. System: Report on Peer Reviews	1:38 p.m. Report <i>Mr. Chaffin</i> <i>Mr. Mike Peppers</i> <i>Mr. Mike Chrissinger</i>	Not on Agenda	21
6. U. T. System: Report on status of policies and procedures for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters	1:45 p.m. Report <i>Ms. Fisher</i>	Not on Agenda	21
7. U. T. System: Report on status of System-wide Institutional Compliance Program including Compliance Program Peer Reviews	1:50 p.m. Report <i>Mr. Chaffin</i> <i>Ms. Jody Nelsen</i>	Not on Agenda	25
8. U. T. System: Report on the 3rd Effective Compliance Systems in Higher Education Conference	1:55 p.m. Report <i>Ms. Fisher</i>	Not on Agenda	29
Adjourn	2:00 p.m.		

- A. CONVENE
- B. RECESS TO EXECUTIVE SESSION
- C. RECONVENE IN OPEN SESSION

1. **U. T. System: Report on Status of Sarbanes-Oxley initiative and revised Sarbanes-Oxley Action Plan**

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 initiative and the Action Plan to Implement the "Spirit" of the Sarbanes-Oxley Act of 2002, including the hiring of an independent audit firm to perform a financial statement audit of the U. T. System. The Action Plan was approved by the Audit, Compliance, and Management Review Committee on November 12, 2003.

2. **U. T. System: Report on Management Audit of University Lands - West Texas Operations**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer; Ms. Kimberly Hagara, Assistant Director of System-wide Compliance; and Mr. Steve Hartmann, Executive Director of West Texas Operations, will report on the results of the Management Audit of University Lands - West Texas Operations.

University Lands - West Texas Operations (ULWTO), a division of the Office of Business Affairs of The University of Texas System, is responsible for managing the University Lands. This includes management in the areas of the Oil, Gas, and Mineral Interests, Surface Interests, and Accounting for University Lands revenue. Additionally, ULWTO manages the Trust Mineral interests for endowments benefiting U. T. System institutions. ULWTO has 44 budgeted employees located in Midland and Austin with an operating budget of \$3.2 million for Fiscal Year 2004.

The objectives of the management review were to

- determine whether ULWTO is actively maximizing income from both the surface and minerals;
- determine whether the staffing level is appropriate;
- determine whether best practices have been applied; and
- determine whether the \$4.7 million investment with the Bureau of Economic Geology (BEG) for Reservoir Characterization Studies has yielded an acceptable return on investment.

The management audit report was issued on March 29, 2004 and was sent to members of the Board on April 2.

3. **U. T. System: Report on status of segregation of duties and Account Reconciliation Compliance**

REPORT

Ms. Sandra Neidhart, Assistant Director of Audits, U. T. System Audit Office, will report on the results of inspections of segregation of duties and account reconciliation compliance activities at each institution. A summary of the inspections is located on Page 19.

**COMPONENT INSPECTION REPORTS
EVALUATION OF STATUS OF IMPLEMENTATION
FEBRUARY 9, 2004**

Background

In June 1999, the Executive Vice Chancellor for Business Affairs of The University of Texas System requested that all institutions implement a monitoring plan for the high-risk area related to financial reconciliations and segregation of duties to ensure that funds were properly accounted for and to reduce the risk of fraud.

In February 2004, as a follow-up to the departmental fraud at the University of North Texas, the System Audit Office requested that the component internal audit departments conduct an inspection of the institutional compliance procedures related to financial reconciliations and segregation of duties at the departmental level. The U. T. System experienced a similar fraud in 1993 which led to the requirement for Internal Control Training, departmental risk assessments, and departmental audits. With the commencement of the Compliance Program in 1998, this issue was designated as System-wide high-risk area.

An inspection is less than an audit and is designed to determine what management says is in place at a particular time. Following the Compliance Program requirements for a high-risk area, the February inspections focused on the following areas: responsible party, risk assessment, training, monitoring, and audits of the high-risk area.

Red, Yellow, Green Designation Guidelines

Based on the reports from the components, the status of the implementation of the required elements of this high-risk compliance area were graded as follows:

Green - There is positive assurance that the program has been implemented, and it is ready to be audited. The report might have minor recommendations to improve the process.

Yellow - Most of the elements are in place, and there is evidence that the institution has taken this area seriously, but has not kept current and needs to improve. The institution has a management responsibilities handbook (MRH), has training, has done some monitoring, but the MRH may not be current, training not recently conducted, or monitoring not current.

Red - Significant parts of the program are not in place. Examples would be that the institution has no MRH or has not updated it in many years, there is no training or no records of training being kept, and/or no monitoring except through internal audits of departments.

Results

Preliminary, draft reports have been provided and a summary of the evaluations are listed below. Final reports, with recommendations and management responses, will be issued for each component and System Administration.

Component	Grade
The University of Texas at Austin	
The University of Texas Medical Branch at Galveston	
The University of Texas M. D. Anderson Cancer Center	
The University of Texas at Brownsville	
The University of Texas-Pan American	
The University of Texas at San Antonio	
The University of Texas Health Science Center at Houston	
The University of Texas Health Science Center at San Antonio	
The University of Texas Health Center at Tyler	
The University of Texas at Arlington	
The University of Texas at Dallas	
The University of Texas at El Paso	
The University of Texas of the Permian Basin	
The University of Texas at Tyler	
The University of Texas Southwestern Medical Center at Dallas	
The University of Texas System Administration	

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

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on System-wide audit activity (Red, Yellow, Green Report) for the second quarter, including progress toward audit plan completion.

The second quarter activity report on the Status of Outstanding Significant Recommendations is located on Pages 20.1 to 20.4. 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 20.5 to 20.6.

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	1st Quarter		2nd 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. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")	
1	1998-07	UTHSC - Houston	Federal Contracts & Grants Review		1		1	5/31/2004	Satisfactory	C
2	2000-04	UTHSC - Houston	Medical Service Research & Development Plan Summary of Operations Review		1		1	8/31/2004	Satisfactory	C
3	2000-09	UTAUS	Federal Funds Principal Investigators		4		0	12/31/2003	Completed	C
4	2001-04	UTPA	Internet Security		1		1	5/31/2004	Satisfactory	O
5	2001-08	UTMDACC - Houston	Lotus Notes Environment		3		3	4/1/2005	Satisfactory	O
6	2001-10	UTHSC - San Antonio	Information Security		1		1	9/1/2004	Satisfactory	C, O
7	2001-10	UTMDACC - Houston	Disaster Recovery/Business Continuity Planning		1		1	6/30/2004	Satisfactory	O
8	2001-11	UTTY	Information Technology General Security Review		2		2	9/1/2004	Unsatisfactory	O
9	2002-02	UTHSC - Houston	Environmental & Physical Safety Compliance Program Review		1		1	5/31/2004	Satisfactory	C
10	2002-04	UTB	General Controls Audit of Information Technology		1		1	3/31/2004	Satisfactory	O
11	2002-05	UTARL	Network Support Audit		2		2	8/31/2004	Satisfactory	O
12	2002-05	UTSYS ADM	Office of Information Resources Follow-up		1		1	5/1/2004	Satisfactory	O
13	2002-07	UTHSC - Houston	Healthcare Billing Compliance Review		1		1	5/31/2004	Satisfactory	F, C
14	2002-08	UTHSC - San Antonio	Institutional Compliance Program		2		2	6/30/2004	Satisfactory	C
15	2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		1	8/31/2004	Satisfactory	O, C
16	2002-09	UTAUS	Travel		2		1	5/31/2004	Satisfactory	O, C
17	2002-09	UTSA	Change in Management Departmental Reviews		1		0	12/31/2003	Completed	O
18	2002-10	UTAUS	Unit Heads		1		1	5/1/2004	Satisfactory	O, C
19	2002-10	UTB	Workforce Training and Continuing Education Audit		1		0	2/1/2004	Completed	F,O
20	2002-10	UTSYS ADM	UTHC - Tyler Clinical Trials		1		1	1/1/2005	Satisfactory	O, F
21	2002-11	UTMDACC - Houston	Audit of Temporary Personnel				1	6/1/2004	-	O
22	2003-02	UTMDACC - Houston	Audit of Change Management				1	9/1/2004	-	O
23	2003-02	UTSYS ADM	Employee Group Insurance - Benefits and Eligibility Systems		1		1	6/1/2004	Satisfactory	O

20.1

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	1st Quarter		2nd 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. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")	
24	2003-03	UTPA	General Controls		6		5	5/31/2004	Satisfactory	O
25	2003-05	UTMB - Galveston	Delivery of Operating Room Services		2		2	11/30/2004	Satisfactory	O
26	2003-05	UTMB - Galveston	Pulmonary Care Services		3		0	1/31/2004	Completed	O
27	2003-05	UTMB - Galveston	School of Nursing Change of Management		3		0	11/31/03	Completed	C
28	2003-05	UTHSC - Houston	Harris County Psychiatric Center Vulnerability Assessment		6		0	5/31/2004	Completed	C, O
29	2003-06	UTARL	Internal Audit Office Peer Review		1		1	5/31/2004	Satisfactory	C,O
30	2003-06	UTAUS	University Data Center		1		1	5/31/2004	Satisfactory	O
31	2003-06	UTD	General Controls		2		2	5/31/2004	Satisfactory	C,O
32	2003-07	UTMDACC - Houston	Audit of Payroll Operations				1	12/1/2004	-	O
33	2003-08	UTPA	Center for International Programs		2		1	5/31/2004	Satisfactory	F, C
34	2003-08	UTMB - Galveston	Pharmacy Costs of Goods Sold Review		2		1	6/30/2004	Satisfactory	O, F
35	2003-08	UTMB - Galveston	School of Medicine Office of Student Affairs		5		2	8/31/2004	Satisfactory	C, O
36	2003-08	UTSYS ADM	Office of Information Resources Backup and Recovery		1		0	1/9/2004	Completed	O
37	2003-08	UTSYS ADM	System Available Balances		2		1	7/1/2004	Satisfactory	F
38	2003-09	UTB	Institutional Advancement/Development Office		2		0	12/31/2003	Completed	O
39	2003-09	UTB	Student Activities		2		0	10/1/2003	Completed	O
40	2003-09	UTB	Lab Safety		3		3	8/31/2004	Satisfactory	O
41	2003-09	UTSA	Athletics NCAA Compliance		1		0	1/31/2004	Completed	C
42	2003-09	UTHSC - Houston	Quality Assessment of The Office of Auditing and Advisory Services				8	-	-	C, O
43	2003-09	UTHC - Tyler	Medical Services, Research and Development Plan AFR		3		2	6/1/2004	Satisfactory	O, F
44	2003-09	UTHC - Tyler	General Information Technology Controls		6		6	7/15/2004	Satisfactory	O
45	2003-10	UTD	Internal Audit Office Peer Review		2		1	9/1/2004	N/A - cannot determine until budget process completed	F, C, O
46	2003-10	UTMB - Galveston	Hospital Patient Financial Services Credit Balances Review				1	3/1/2004	-	C, O
47	2003-11	UTAUS	Harry Ransom Humanities Res Ctr		1		1	8/31/2004	Satisfactory	F
48	2003-11	UTSA	Research Development				1	3/31/2004	-	O

20.2

Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	1st Quarter		2nd 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. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")	
49	2003-11	UTMB - Galveston					1	3/1/2004	-	C, O
50	2003-12	UTARL					2	1/5/2004	-	C
51	2003-12	UTD					1	5/31/2004	-	C, O
52	2003-12	UTPB					1	8/31/2004	-	F
53	2004-01	UTSA					3	3/1/2004	-	C, O
54	2004-01	UTMDACC - Houston					1	8/31/2005	-	O
55	2004-01	UTMDACC - Houston					1	12/1/2004	-	O
56	2004-02	UTAUS					3	8/31/2004	-	C
57	2004-02	UTMB - Galveston					4	7/31/2004	-	F, O
58	2004-02	UTMDACC - Houston					2	9/1/2004	-	F, C
59	2004-02	UTHC - Tyler					2	7/1/2004	-	F, O
60	2004-03	UTB					1	12/1/2004	-	C, O
61	2004-03	UTB					1	7/1/2004	-	O
62	2004-03	UTD					1	12/31/2004	-	C, O
Totals					86		89			

20.3

Status of Outstanding Significant Recommendations


Report Date	Institution	Audit	1st Quarter		2nd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			

STATE AUDITOR'S OFFICE AUDITS


1	2002-05	UTMDACC - Houston	Statewide Single Audit report for Year Ended August 31, 2001		1		1	8/31/2004	Satisfactory	n/a
2	2002-09	UTB	A Financial Review		1		1	4/30/2004	Satisfactory	n/a
3	2002-11	UTMB - Galveston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions				3	4/20/2005	-	n/a
4	2002-11	UTHSC - Houston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions				3	6/30/2003	-	n/a
5	2002-11	UTMDACC - Houston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions				3	4/20/2005	-	n/a
6	2003-02	UTAUS	Statewide Audit FYE 8/31/02		7		4	12/31/2004	Satisfactory	n/a
7	2003-04	UTEP	Statewide Audit FYE 8/31/02				1	4/30/2004	-	n/a
8	2003-04	UTSA	Statewide Audit FYE 8/31/02		1		1	4/30/2004	Satisfactory	n/a
9	2003-08	System	Compliance with the Contract Workforce Requirements in the General Appropriations Act		1		0	10/31/2004	Completed	n/a
10	2004-02	UTSA	Financial Review				4	12/31/2004	-	n/a
Totals					11		21			

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.

*** OTHER U. T. SYSTEM AUDITS COMPLETED - 12/2003 through 2/2004**

Month Received by System	Institution	Audit
2003 - 12	UT Austin	Applied Research Laboratories
2003 - 12	UT Austin	Bureau of Business Research (BBR)
2003 - 12	UT Austin	Center for Women's Studies
2003 - 12	UT Austin	Department of Finance
2003 - 12	UT Austin	Division of Instructional Innovation and Assessment
2003 - 12	UT Austin	Extension Instructions & Materials Center
2003 - 12	UT Austin	Germanic Studies
2003 - 12	UT Austin	Information Technology Services
2003 - 12	UT Austin	Institute for Fusion Studies
2003 - 12	UT Austin	Marshall Center for Human Resources
2003 - 12	UT Austin	MCC Building Administration
2003 - 12	UT Austin	Office of University Relations
2003 - 12	UT Austin	Plant Resource Center
2003 - 12	UT Austin	Population Research Center
2003 - 12	UT Austin	Spanish and Portuguese
2003 - 12	UT Austin	Technology, Literacy and Culture Program
2003 - 12	UT Austin	The Department of Government
2003 - 12	UT Dallas	Annual Financial Report
2003 - 12	UT Dallas	Office of the Dean of the Erik Jonsson School of Engineering & Computer Science
2003 - 12	UT Dallas	Sponsored Program Revenues
2003 - 12	UT Dallas	Texas Education Agency (TEA)-Memorandum of Understanding
2003 - 12	UT El Paso	Follow-Up: Model Institutions for Excellence
2003 - 12	UT Permian Basin	Advanced Technology Program Grant
2003 - 12	HSC San Antonio	Family Practice Residency Program Audit Report
2003 - 12	HSC San Antonio	General Controls Review Audit
2004 - 01	UT Arlington	Annual Financial Report Review
2004 - 01	UT Arlington	Departmental Audit-Office of Finance and Administration
2004 - 01	UT Arlington	Departmental Audit-Office of the Provost
2004 - 01	UT Arlington	Outsourced Operations-Food Service Audit
2004 - 01	UT Arlington	Review of Assessment Services
2004 - 01	UT Austin	Biological Sciences
2004 - 01	UT Austin	Center for Agile Technologies (CAT)
2004 - 01	UT Austin	Center for Nano & Molecular Science & Technology
2004 - 01	UT Austin	Civil Engineering
2004 - 01	UT Austin	Department of Advertising
2004 - 01	UT Austin	Department of Computer Sciences
2004 - 01	UT Austin	Department of Electrical and Computer Engineering
2004 - 01	UT Austin	Department of Philosophy
2004 - 01	UT Austin	Division of Rhetoric and Composition
2004 - 01	UT Austin	Petroleum and Geosystems Engineering
2004 - 01	UT Austin	Slavic Languages and Literature
2004 - 01	UT Austin	Texas Archeological Research Lab
2004 - 01	UT Austin	University Research Alliance
2004 - 01	UT Dallas	Follow-Up of Prior Audit Recommendations
2004 - 01	UT El Paso	Accounts Receivable
2004 - 01	UT El Paso	Follow-Up: Information Technology
2004 - 01	UT El Paso	Information Technology Department
2004 - 01	UT San Antonio	Payroll Compliance Program
2004 - 01	UT Southwestern	Institutional Animal Care and Use Committee Review
2004 - 01	UT Southwestern	Internal Quality Assessment Review
2004 - 01	HC Tyler	Family Practice Residency Program AFR Audit FYE 8/31/03
2004 - 01	HC Tyler	Graduate Medical Education Program AFR Audit FYE 8/31/03

Month Received by System	Institution	Audit
2004 - 02	UT Dallas	Segregation of Duties and Account Reconciliations
2004 - 02	UT San Antonio	Endowment Compliance Program
2004 - 02	UT Tyler	Automated Budget System of Texas (ABEST)
2004 - 02	UT Tyler	Carl D. Perkins Vocational & Technical Act Grant FYE 8/31/03
2004 - 02	UT Tyler	Compliance Inspection: Account Reconciliations & Segregation of Duties
2004 - 02	UT Tyler	Environmental Health & Safety Dept Lab Safety Audit FYE 8/31/03
2004 - 02	UT Tyler	IT Vulnerability Report - Action Plan Phase 2
2004 - 02	UT Tyler	IT Vulnerability Report - Phase 2
2004 - 02	UT Tyler	Review of the Annual Financial Report FYE 8/31/03
2004 - 02	HSC San Antonio	Inspection of Reconciliation Monitoring Procedures
2004 - 02	MD Anderson	ARP/ATP Compliance
2004 - 02	MD Anderson	External Financial Audit
2004 - 02	MD Anderson	Follow-Up Review - Round #1
2004 - 02	MD Anderson	General Lab Software Project
2004 - 02	MD Anderson	IT Vulnerability Report - Action Plan Phase 2
2004 - 02	HC Tyler	Inventories Audit FY 2003
2004 - 02	HC Tyler	Office of Pre-Award Services Department Audit FY 2004
2004 - 02	HC Tyler	Office of the President
2004 - 02	UT System	External Relations Change in Management Audit Report FY 2003
2004 - 02	UT System	Office of Health Affairs Change in Management Audit Report
2004 - 02	UT System	System Administration Endowment Compliance Audit Report FY 2004
2004 - 02	UT System	UTIMCO General Controls Audit
2004 - 02	UT System	Vice Chancellor for Admin Change in Management Dept Audit Report

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 12/2003 through 2/2004 - NO RECOMMENDATIONS**

Report Issuance Date	Institution	Audit
		No reports completed in this category for this time period.

*** COMPTROLLER OF PUBLIC ACCOUNTS AUDITS COMPLETED - 12/2003 through 2/2004**

Report Issuance Date	Institution	Audit
		No reports completed in this category for this time period.

5. **U. T. System: Report on Audit Peer Reviews**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will update the Audit, Compliance, and Management Review Committee on Audit Peer Review activities at U. T. System Administration and at each component.

Audit Peer Review reports will be presented by Mr. Mike Peppers, Director of Audit Services at U. T. Medical Branch - Galveston, and Mr. Mike Chrissinger, Director of Internal Audits at U. T. Pan American.

6. **U. T. System: Report on status of policies and procedures for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters**

REPORT

Ms. Kristi Fisher, System-wide Compliance Supervisor, will report on U. T. System policies and procedures for handling "hotline" reports of suspected non-compliance or wrongdoing. The procedures are described on Pages 22 - 24.

SYSTEM-WIDE COMPLIANCE HOTLINE

POLICIES AND PROCEDURES

Background

In November 2003, the Audit, Compliance, and Management Review Committee of the U. T. System Board of Regents approved an Action Plan to Implement the Spirit of the Sarbanes-Oxley Act of 2002 (Action Plan). The Action Plan requires the establishment of a mechanism (at System Administration and each component institution) for the confidential reporting of concerns or issues involving financial statement preparation and auditing. Additionally, the Action Plan calls for establishing a policy that insures non-retaliation against those who report wrongdoing.

Each University of Texas System (“U. T. System”) component institution has implemented a compliance hotline that provides a confidential mechanism for employees to report instances of suspected non-compliance: (1) outside the normal chain of command; and (2) in a manner that preserves anonymity and assures non-retaliation. Employees should use the institution’s hotline when they are not satisfied with their supervisors' response to a compliance issue, or if they fear retaliation by their supervisors. Employees are encouraged to address compliance concerns through the institution’s normal administrative channels. In the event that the suspected non-compliance is clearly significant or widespread, generally applies to the U. T. System in its entirety, or the caller is uncomfortable reporting the matter to his/her own institution, an additional reporting mechanism may be required.

Objectives

The objective of the System-wide Compliance Hotline (“hotline”) is to provide a confidential reporting mechanism that can address broad, sensitive, or significant non-compliance reports. The System-wide compliance hotline also provides a mechanism for reporting suspected non-compliance directly to the Audit, Compliance, and Management Review Committee of the Board of Regents (“ACMRC”).

The objectives of this document are to:

- Establish a compliance hotline at the system-wide level, including call triage, investigation, and reporting procedures;
- Establish procedures for disseminating component-specific reports received via the system-wide hotline to the appropriate affected component institution(s); and
- Establish a mechanism for reporting suspected non-compliance to the ACMRC.

The procedures within this policy are intended to serve as internal guidelines for administrators to effectively address allegations of wrongdoing.

Supervision

The System-wide Compliance Office and the System Audit Office will jointly supervise the system-wide compliance hotline. The hotline service will be outsourced to an independent third-party provider, The Network, through a standing agreement that includes all U. T. System component entities. Personnel who are trained and employed by The Network will receive the hotline calls. All system-wide compliance hotline calls received by The Network will be logged and reported to the following individuals (System Triage Team) for investigation and response:

- (a) System-wide Compliance Officer / Director of Audits
- (b) Vice Chancellor for Administration
- (c) Vice Chancellor and General Counsel
- (d) Vice Chancellor for Business Affairs

Investigation

Procedures for responding to hotline calls will vary based on the nature of the report and the affected entities. The Network will notify the System Triage Team within 24 hours of receiving a hotline call. After recording the call, the System-wide Compliance Officer will discuss the reported issue with the System Triage Team to determine the appropriate disposition of the issue.

As a general rule, calls regarding suspected non-compliance at a specific component institution will be disseminated to that institution's triage team for investigation and resolution. Although component institutions will be notified of System-wide hotline calls relating to their institution, the System Triage Team may elect to handle the investigation of extraordinary situations through alternate channels. If the compliance issue involves alleged fraud, the investigation will proceed in accordance with the U. T. System fraud policy (Business Procedure Memorandum No. 50). If the call involves a complaint or other management issue, rather than a compliance issue, the complaint will be forwarded to the institutional president for resolution.

The System-wide Compliance Officer is responsible for tracking the disposition of all system-wide hotline calls received. Individuals charged with the investigation and resolution of hotline compliance issues will be responsible for keeping the System-wide Compliance Officer informed of the status of their investigation.

Resolution

All hotline compliance issues shall be resolved as quickly as possible. If the caller identifies himself/herself, the System-wide Compliance Officer (or designee) shall make a follow-up call to the individual within five (5) business days to inform him/her that the compliance issue is being investigated. If the issue has been resolved, that fact shall be communicated to the caller. Confidential information obtained during an investigation shall not be disclosed to the caller.

Reporting

All system-wide hotline calls received will be recorded and tracked by the System-wide Compliance Officer (or designee) and reviewed on a monthly basis. Calls regarding significant compliance issues, particularly those involving financial misstatements or questionable accounting or audit matters, will be reported to the Executive Compliance Committee and the ACMRC on at least a quarterly basis. All records relating to reports made under the provisions of this policy, including notes and correspondence related to investigations, will be retained in accordance with the U. T. System Administration records retention schedule.

Confidentiality

Individuals who report suspected violations or improper financial or operational activities may choose to remain anonymous. If anonymity is requested, no attempt shall be made to identify the individual. However, facts revealed during the course of an investigation may indicate the identity of the reporting individual and, therefore, the anonymity of that individual cannot always be guaranteed. Information provided by the individual, or obtained in the course of investigation, shall be treated as confidential and privileged to the extent permitted by applicable law, including the Texas Public Information Act.

Non-retaliation

Under no circumstances shall a U. T. System employee, supervisor, or officer penalize an individual who provides a report in good faith. U. T. System policy authorizes and encourages employees to provide confidential information regarding possible illegal activities in the workplace without fear of retaliation.

Complaints

While complaints or grievances should be reported in accordance with institutional grievance procedures, the System-wide Compliance hotline is not a complaint hotline. Calls to the hotline should be made in good faith to report misconduct rather than employee dissatisfaction. Only matters involving compliance with a federal or State law, rule, regulation or a U. T. System policy will be investigated.

False Reports

Reports should be made in good faith and to facilitate investigation and corrective action. Any U. T. System employee who knowingly and intentionally files a false report or uses the mechanisms of this policy to make false allegations, or who knowingly and intentionally makes false statements within the course of an investigation, may be subject to disciplinary action in accordance with established institutional policies and procedures.

7. **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 Compliance Program, located on Pages 26 - 27. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis.

Mr. Chaffin will then brief the Committee on the Compliance Program Peer Review process. Ms. Jody Nelsen, Associate Vice President for Administration and Compliance at U. T. Dallas, will discuss the results of Compliance Program Peer Reviews conducted at U. T. Dallas and U. T. Pan American.

A schedule of component peer reviews is located on Page 28.

The University of Texas System

Institutional Compliance Program 2nd 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 2nd quarter, 16 of 17 institutional Compliance Committees met. Additionally, no significant organizational changes occurred during the 2nd 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.

Fiscal Matters (proper segregation of duties, reconciliations, and inventory counts) – Review of certification by responsible parties that appropriate segregation of duties is maintained and reconciliations completed; completion of an equipment physical inventory and review of the reconciliation of records.

Health Insurance Portability & Accountability Act (adherence to laws and regulations related to confidentiality and security of healthcare data) – Review of policies, procedures and forms; periodic department reviews for appropriate management of patient privacy requests.

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 back-up 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. Additionally, two institutional compliance programs were the subject of peer reviews to assess the status of the program and identify opportunities for improvement.

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.

Several of the items identified in the Action Plans are nearing completion, with the others in progress at this time.

**U. T. System-wide Compliance Program
Peer Review Schedule**

	On-Site Assessment Dates	Institution	Status
1	Dec. 8-9	UT Dallas	Completed
2	Feb. 9-11	UT Pan American	Completed
3	Feb. 24-26	UTHSC San Antonio (*training review)	Completed*
4	Apr. 6-8	UTHSC Houston	Completed
5	May 5-7	UT El Paso	In Progress
6	May 17-19	UT Tyler	Confirmed
7	May 24-26	UTHC Tyler	Confirmed
8	June (mid)	UT San Antonio	Scheduling
9	June	UT System Administration	Scheduling
10	June	UT Southwestern	Tentative
11	June	UT Austin	Tentative
12	July	UT MD Anderson	Tentative
13	July	UTMB Galveston	Tentative
14	July	UT Arlington	Tentative
15	August	UT Permian Basin	Tentative
16	August	UT Brownsville	Tentative
17	August	UTIMCO	Tentative

8. **U. T. System: Report on the 3rd Effective Compliance Systems in Higher Education Conference**

REPORT

Ms. Kristi Fisher, U. T. System-wide Compliance Supervisor, will present an overview and results of the 3rd Effective Compliance Systems in Higher Education Conference. The University of Texas System-wide Compliance Program was the primary sponsor of the event, which was held April 20 - 22, 2004, in Austin.