



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

Committee Meeting: 5/11/2005

Austin, Texas

Board Meeting: 5/12/2005

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 | 9:30 a.m. <i>Chairman Estrada</i> | | |
| 1. U. T. System: Report on Research Time and Effort Initiative | 9:35 a.m. Report <i>Dr. Shine Dr. Sullivan</i> | Not on Agenda | 12 |
| 2. U. T. System: Report on the Legislative Budget Board Management and Performance Review of The University of Texas at Austin | 9:40 a.m. Report <i>Mr. Chaffin</i> | Not on Agenda | 12 |
| 3. U. T. System: Report on the Environmental Health and Safety Compliance Program | 9:45 a.m. Report <i>Mr. Pousson Mr. Chaffin</i> | Not on Agenda | 13 |
| 4. U. T. System: Report on audit peer reviews | 9:50 a.m. Report <i>Mr. Chaffin Mr. Peppers</i> | Not on Agenda | 14 |
| 5. U. T. System: Report on System-wide audit activity | 9:55 a.m. Report <i>Mr. Chaffin</i> | Not on Agenda | 14 |
| 6. U. T. System: Report on status of System-wide Institutional Compliance Program including Compliance Program Peer Reviews | 10:00 a.m. Report <i>Mr. Chaffin</i> | Not on Agenda | 15 |
| B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 | 10:05 a.m. | | |
| Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074 | <i>Mr. J. Richard Dawson, Ms. Narita Holmes, Mr. J. Michael Peppers, Ms. Diane Thomas</i> | | |
| U. T. System: Evaluation and duties of System and institution employees involved in audit and compliance functions | | | |
| C. RECONVENE TO CONSIDER ANY ACTION FROM EXECUTIVE SESSION AND ADJOURN | 10:30 a.m. | | |

1. **U. T. System: Report on Research Time and Effort Initiative**

REPORT

The Office of the Inspector General of the Department of Health and Human Services regularly conducts compliance audits of higher education institutions, some of which have emphasized time and effort reporting on federal grants provided by the National Institutes of Health. In several recent cases involving non-U. T. institutions, universities have reached settlement agreements and repaid millions of dollars to the federal government.

Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs, and Dr. Teresa Sullivan, Executive Vice Chancellor for Academic Affairs, will report on U. T. System's activities in response to federal time and effort compliance issues. Time and Effort Reporting Principles were developed to increase the consistency in institutional time and effort reporting policies and consistency within the core elements of the time and effort reporting compliance programs. The Time and Effort Reporting Principles were developed in consultation with both the health and academic institutions.

2. **U. T. System: Report on the Legislative Budget Board Management and Performance Review of The University of Texas at Austin**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on the results of the Legislative Budget Board (LBB) Management and Performance Review of The University of Texas at Austin. The LBB contracted with Pappas Consulting Group, Inc., to conduct the review. The objective of the review was to develop findings, commendations, and recommendations to improve education by:

- developing strategies to streamline and improve the efficiency and effectiveness of budget and academic operations;
- identifying methods to establish and/or maximize the use of off-campus delivery of academic instruction;
- identifying opportunities to reduce costs and maximize available resources; and
- highlighting exemplary programs that can be replicated.

The executive summary of the report, prepared by the LBB, is set forth on Pages 12.1 – 12.4.

***EXECUTIVE SUMMARY
UNIVERSITY OF TEXAS AT AUSTIN
MANAGEMENT AND PERFORMANCE REVIEW***

In January 2004, the Legislative Budget Board (LBB) Higher Education Performance Review Team conducted a management and performance review of the University of Texas at Austin. The LBB contracted with Pappas Consulting Group, Inc. (Pappas) to conduct the review. In July 2004, Pappas began their review to develop findings, commendations, and recommendations with the goal of improving education by:

- developing strategies to streamline and improve the efficiency and effectiveness of budget and academic operations;
- identifying methods to establish and/or maximize the use of off-campus delivery of academic instruction (e.g., Web-based);
- identifying opportunities to reduce costs and maximize available resources; and
- highlighting exemplary programs that can be replicated.

To achieve these objectives, the review team examined the following areas of the university's organization and management using suggested audit protocols: Instruction and Academic Support, Human Resources, Financial and Asset Management, Instructional Technology, Governmental Relations, and Plant Operation and Maintenance.

The management and performance review of the University of Texas at Austin (UT Austin) noted twenty-six significant accomplishments and made thirty-four recommendations for improvement. The following is a summary of the significant findings of the review.

SIGNIFICANT ACCOMPLISHMENTS

- UT Austin is one of the nation's premier public research universities, consistently ranking in the top twenty nationally and having many nationally ranked departments and colleges (Chapter 1).
- In 2001, UT Austin expended nearly \$300 million on research overall and nearly \$200 million on federal research, ranking it 20th and 14th in these respective areas among public research universities in 2001, the last year for which peer data was available. (By 2003, research expenditures at UT Austin increased to \$380 million.) These rankings are significant accomplishments, especially when considering that UT Austin does not have a medical school or an agricultural school. (Chapter 1).
- In a recent National Survey of Student Engagement (NSSE), UT Austin students

reported significantly higher satisfaction with the quality of their education and their overall experience than students at peer institutions (and national averages) (Chapter 1).

- UT Austin has low administrative costs compared to its peers (Chapter 3).
- The Texas Advanced Computing Center is one of the world's leading academic super computer centers (Chapter 4).
- UT Austin provides information technology services to constituencies of the University of Texas System, state of Texas, and the nation. A number of these "good citizenship" extended services result in aggregately reduced costs and/or enhanced access or services to the external constituencies served (Chapter 4).
- UT Austin's supply side energy conservation measures have limited the increase of natural gas consumption to approximately 4.5 percent while building space has increased nearly 15.5 percent (Chapter 6).

SIGNIFICANT FINDINGS

- According to the Texas Higher Education Coordinating Board's new costing model, UT Austin has significantly higher expenditures per full-time-student-equivalent (FTSE) than any other Texas university resulting from consistently higher expenditures per academic discipline. However, in out-of-state peer comparisons, UT Austin has one of the lowest costs per FTSE (Chapter 1).
- The core academic curriculum has not been revised since 1981 (Chapter 1).
- UT Austin graduates just over a third of its students in four years (36.4 percent) and less than three quarters after six years (70.5 percent for the 1997 cohort). It ranks relatively low on these measures compared to its peers (who range from 27.7 percent to 69.4 percent for four-year graduation rates and from 54.4 percent to 86.3 percent for six-year graduation rates) (Chapter 1).
- UT Austin has nearly twice as many students categorized as seniors than freshman. The university also has a number of practices and policies that inhibit on-time graduation. Many of these have been identified in the report of the Task Force on Enrollment Strategy, but the implementation timeline lacks urgency (Chapter 1).
- The student credit hour production by the bottom 20% of disciplines is very low. Forty-eight of the ninety-five disciplines produce fewer than 10% of the student credit hours (Chapter 2).
- The fees charged to students in addition to tuition are complex and labor intensive to manage (Chapter 3).
- The UT Austin campus has been experiencing declining debt service coverage. This decline may ultimately affect its capacity to meet future demand for capital construction projects (Chapter 3).

- UT Austin uses a highly decentralized model for technology acquisition, development, and support (Chapter 4).
- In the event of a major technology outage, the university would find it difficult to recover its business, academic, and research operations (Chapter 4).
- Capital projects recommended to the Capital Improvement Plan contain a budget amount for design and construction of the project, but future operation and maintenance costs are not identified (Chapter 6).
- Over half of the university's buildings have reached an age requiring maximum investment in capital renewal (Chapter 6).

SIGNIFICANT RECOMMENDATIONS

Recommendation 1–1: Conduct, through an external consultant, an examination of the cost per student and cost per discipline data presented by the Texas Higher Education Coordinating Board, including, if possible, a comparison with national peers. Where costs cannot be adequately justified, measures should be taken to reduce those costs (especially in the low SCH-producing disciplines). It should also examine the peer data to determine what costs are included (for example, instructional costs for medical schools).

Recommendation 1–3: Revise its core curriculum to reflect more current and future needs. It should also ensure that the core curriculum supports its relationship to efficient progress towards graduation.

Recommendation 1–7: Make a priority of significantly increasing both its four- and six-year graduation rates. To accomplish this, it should accelerate some of the recommendations of the Enrollment Strategy Task Force and examine the “best practices” of peers with the highest graduation rates.

Recommendation 2–4: Narrow the variation in its faculty-student ratios across disciplines.

Recommendation 3–1: Determine whether the multiple mandatory and campus-imposed student fees are necessary.

Recommendation 4–5: Give priority to completing the ITS disaster recovery plan, ensure a full functional testing of the plan, and institute mechanisms for annual testing and plan content updates.

Recommendation 6–2: Identify the long-term operating budget of major construction projects forwarded for inclusion to the Capital Improvement Plan, including the costs of future maintenance, operations, and capital renewal.

Recommendation 6–3: Design and implement a method to measure the weekly room usage of departmentally controlled classrooms, including non-organized courses.

Recommendation 6–8: Perform a periodic review (every 3–5 years) of all external properties to determine feasibility for development.

FISCAL IMPACT

| | 2006 | 2007 | 2008 | 2009 | 2010 | Total 5-year (costs) or savings |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------------------------|
| Recommendation 1-1 | \$2,160,000 | \$2,160,000 | \$2,650,000 | \$2,650,000 | \$3,130,000 | \$12,750,000 |
| Recommendation. 1-4: | (\$50,000) | (\$50,000) | (\$50,000) | (\$50,000) | (\$50,000) | (\$250,000) |
| Recommendation. 4-1: | \$308,000 | \$308,000 | \$308,000 | \$308,000 | \$308,000 | \$1,540,000 |
| Recommendation. 4-3: | \$800,000 | \$800,000 | \$800,000 | \$800,000 | \$800,000 | \$4,000,000 |
| Recommendation. 6-5: | \$100,000 | \$700,000 | \$1,050,000 | \$1,400,000 | \$1,750,000 | \$5,000,000 |
| Total Savings (Costs) | \$3,318,000 | \$3,918,000 | \$4,758,000 | \$5,108,000 | \$5,938,000 | \$23,040,000 |

2004-05 FINANCIAL DATA

| 2004-2005 Appropriated Funds | | | |
|------------------------------|---------------------------------|---------------|---------------|
| | | FY 2004 | FY 2005 |
| A. | Goal: Instruction/Operations | \$301,849,209 | \$304,664,252 |
| B. | Goal: Infrastructure Support | \$62,572,990 | \$63,169,082 |
| C. | Goal: Special Item Support | \$13,164,391 | \$13,164,391 |
| | Totals | \$377,586,590 | \$380,997,725 |

- The Educational and General (E&G) Funds budgeted for academic year 2004-2005 totaled \$558,364,845 (state tax dollars, net tuition, lab fees, overhead on sponsored projects, interest on the sponsored projects funds, and Available University Fund). The E&G budget constituted 36% of all University revenue sources.
- Other sources of revenue include Sponsored Research (primarily federal) at 20% of revenues, Designated Funds (self-supporting educationally related enterprises and operations) at 23.4%, Auxiliary Enterprises (self-supporting such as residence halls, intercollegiate athletics, Texas Union, bus service) at 11.4%, gifts and grants at 9%, and Unexpended Plant Funds (noncapitalized repair and renovation funds) at less than 1%.

3. **U. T. System: Report on the Environmental Health and Safety Compliance Program**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Mr. Paul Pousson, Associate Director for Risk Management, will provide a PowerPoint presentation on the Environmental Health and Safety Compliance Program as set forth on Pages 13.1 – 13.5.



THE UNIVERSITY OF TEXAS SYSTEM

Status of Environmental Health and Safety

May 11, 2005

*Paul D. Pousson
Office of Risk Management*



Objective

- **Discuss the high risks associated with Environmental Health and Safety (EH&S)**
- **Describe the history and structure of U.T. System's function**
- **Provide an overview of EH&S rules & policies, as well as risk reduction & monitoring activities**
- **Discuss future EH&S initiatives**

2



EH&S Risks

- **Fire**
- **Chemical**
- **Biological**
- **Radiation**
- **Environmental**

3



Environmental Health and Safety Advisory Committee

- **Established in 1990**
- **EH&S Directors (members)**
- **Representatives from U.T. System (ex officio)**
- **Enhance communication and collaboration**
- **Share best practices**
- **Recommend regulatory compliance strategies**
- **Four Advisory Groups**

4



EH&S Staff by Institution

| Institution | # of Technical EHS Staff | Square Footage | Ratio: Staff to Millions of Sq. Ft. |
|------------------------------|--------------------------|-------------------|-------------------------------------|
| UT Arlington | 12 | 4,660,142 | 3.0 |
| UT Austin | 31 | 17,681,179 | 2.0 |
| UT Brownsville | 3 | 1,633,917 | 2.4 |
| UT Dallas | 5 | 2,030,663 | 3.0 |
| UT El Paso | 6 | 3,505,833 | 2.3 |
| UT Pan American | 5 | 1,985,274 | 3.0 |
| UT Permian Basin | 1 | 728,651 | 2.7 |
| UT San Antonio | 9 | 2,675,745 | 3.7 |
| UT Tyler | 1 | 807,828 | 1.2 |
| UT Southwestern | 27 | 7,051,326 | 4.1 |
| UT Medical Branch | 29 | 6,161,953 | 5.0 |
| UT HSC-Houston | 24 | 3,159,879 | 8.5 |
| UT HSC-San Antonio | 18 | 2,681,500 | 7.8 |
| UT M. D. Anderson | 72 | 5,948,842 | 12.8 |
| UT HC-Tyler | 2 | 656,026 | 6.1 |
| TOTAL (as of 9/30/04) | 245 | 61,368,758 | 4.0 |

5



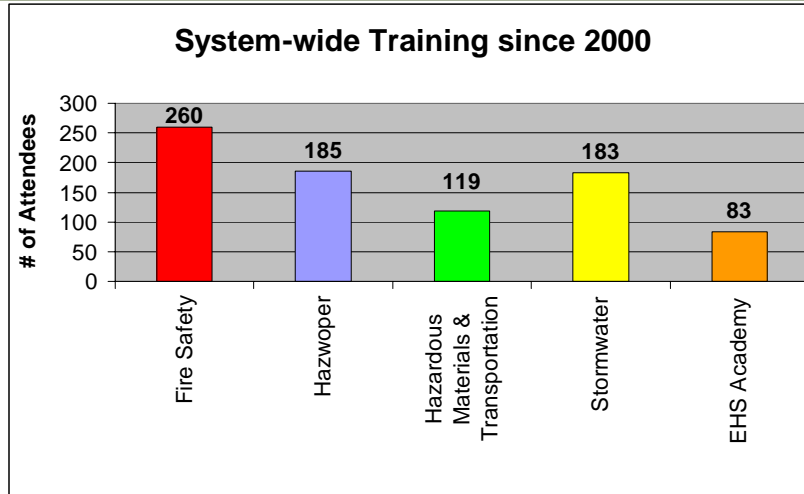
Risk Reduction & Monitoring

- Peer Reviews
- Due Diligence Inspections of Waste Disposal Facilities
- Risk & Exposure Assessment of University facilities, laboratories, etc.
- EH&S Committees
- Collaboration with Facilities Planning and Construction, General Counsel & Real Estate
- EH&S Training Academy
- Miscellaneous Training

6



EH&S Training FY 2000 - 2004



7



Risk Reduction & Monitoring Activities (continued)

- **System-wide Contracts**
 - *Hazardous Waste Disposal*
 - *Medical Waste Disposal*
 - *Radioactive Material Disposal*
 - *Spill Control & Emergency Response*
 - *Disaster Restoration & Recovery*
- **Annual Cost Savings = \$500,000**

8



Future Initiatives

- **Additional System-wide EH&S contracts**
- **Additional grants**
- **Enhance existing programs, policies and procedures**

4. U. T. System: Report on audit peer reviews

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will provide an update on external audit peer review activities at the institutions.

Mr. J. Michael Peppers, Executive Director of Audit, U. T. M. D. Anderson Cancer Center will present the results of the recent U. T. M. D. Anderson Cancer Center External Audit Peer Review report.

5. U. T. System: Report on System-wide audit activity

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on System-wide audit activity including progress toward audit plan completion and the status of outstanding significant recommendations for the second quarter of Fiscal Year 2005.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 14.1 – 14.4. Additionally, a list of other audit reports issued by the System-wide audit program and the State Auditor's Office follows on Page 14.5.

There are two types of audit findings/recommendations: 1) reportable and 2) 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. institutional 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 quarterly a detailed summary of new significant recommendations.

THE UNIVERSITY OF TEXAS SYSTEM
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 Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O") |
| 1998-07 | UTHSC-H | Federal Contracts & Grants Review | | 1 | | 1 | 3/31/2005 | Satisfactory | C |
| 2000-04 | UTHSC-H | Medical Services, Research and Development Plan Summary of Operations Review | | 1 | | 1 | 8/31/2005 | Satisfactory | C |
| 2001-08 | UTMDACC | Lotus Notes Environment | | 2 | | 2 | 11/15/2005 | Satisfactory | O |
| 2001-10 | UTMDACC | Disaster Recovery/Business Continuity Planning | | 1 | | 1 | 7/31/2005 | Satisfactory | O |
| 2001-11 | UTT | Information Technology General Security Review | | 1 | | 1 | 3/1/2005 | Satisfactory | O |
| 2002-04 | UTB | General Controls Audit of Information Technology | | 1 | | 1 | 4/30/2005 | Satisfactory | O |
| 2002-05 | UTA | Network Support Audit | | 1 | | 0 | 4/30/2005 | Completed | O |
| 2002-05 | UTSYS ADM | Office of Information Resources Follow-up | | 1 | | 0 | 1/31/2005 | Completed | O |
| 2002-07 | UTHSC-H | Healthcare Billing Compliance Review | | 1 | | 1 | 4/30/2005 | Satisfactory | F, C |
| 2002-08 | UTHSC-SA | Institutional Compliance Program | | 2 | | 2 | 10/31/2005 | Satisfactory | C |
| 2002-08 | UTSYS ADM | Travel and Entertainment Expenditures | | 1 | | 1 | 3/31/2005 | Satisfactory | O, C |
| 2002-10 | UTSYS ADM | UTHC-Tyler Clinical Trials | | 1 | | 0 | 2/1/2005 | Completed | O, F |
| 2002-11 | UTMDACC | Temporary Personnel | | 1 | | 1 | 6/30/2005 | Satisfactory | O |
| 2003-03 | UTPA | General Controls | | 3 | | 0 | 2/28/2005 | Completed | O |
| 2003-05 | UTMB Galveston | Delivery of Operating Room Services | | 2 | | 2 | 3/31/2006 | Satisfactory | O |
| 2003-06 | UT Austin | University Data Center | | 1 | | 1 | 3/15/2005 | Satisfactory | O |
| 2003-06 | UTA | Internal Audit Office Peer Review | | 1 | | 1 | 6/30/2005 | Satisfactory | C, O |
| 2003-06 | UTD | General Controls | | 1 | | 1 | 3/31/2005 | Satisfactory | C, O |
| 2003-08 | UTMB Galveston | Pharmacy Costs of Goods Sold Review | | 1 | | 1 | 9/30/2005 | Satisfactory | O, F |
| 2003-08 | UTMB Galveston | School of Medicine Office of Student Affairs | | 1 | | 1 | 3/31/2005 | Satisfactory | C, O |
| 2003-09 | UTHC-T | Medical Services, Research and Development Plan AFR | | 1 | | 1 | 8/31/2005 | Satisfactory | O, F |
| 2003-09 | UTHSC-H | Quality Assessment of the Office of Auditing and Advisory Services | | 4 | | 1 | 5/19/2005 | Satisfactory | C, O |
| 2003-09 | UTSYS ADM | System Available Balances | | 1 | | 1 | 3/31/2005 | Satisfactory | F |
| 2003-11 | UTMDACC | Pharmacy Charge Capture | | 1 | | 1 | 5/1/2005 | Satisfactory | O |

14.1

THE UNIVERSITY OF TEXAS SYSTEM
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 Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O") |
| 2003-11 | UTSA | Research Development | | 1 | | 0 | 2/28/2005 | Completed | O |
| 2003-12 | UTD | Lab and Biological Safety | | 1 | | 1 | 5/31/2005 | Satisfactory | C, O |
| 2004-01 | UTEP | Information Technology - General Controls Review | | 1 | | 1 | 8/31/2005 | Satisfactory | O |
| 2004-01 | UTMDACC | PeopleSoft Payroll | | 1 | | 1 | 8/31/2005 | Satisfactory | O |
| 2004-01 | UTMDACC | 2003 Mainframe Disaster Recovery Test | | 1 | | 1 | 12/31/2005 | Satisfactory | O |
| 2004-01 | UTSA | Lab Safety | | 1 | | 0 | 1/1/2005 | Completed | C, O |
| 2004-02 | UT Austin | Compliance Inspection: Account Reconciliation and Segregation of Duties | | 1 | | 1 | 4/30/2005 | Satisfactory | C |
| 2004-02 | UTHC-T | Inventories Audit FY 2003 | | 1 | | 0 | 1/31/2005 | Completed | F, O |
| 2004-02 | UTHSC-SA | MSRDP Front-End Billing | | 3 | | 3 | 8/31/2005 | Satisfactory | O |
| 2004-02 | UTMB Galveston | Compliance Inspection: Account Reconciliation and Segregation of Duties | | 2 | | 2 | 3/31/2005 | Satisfactory | F, O |
| 2004-03 | UT Austin | Information Security Management | | 2 | | 2 | 8/31/2005 | Satisfactory | C, O |
| 2004-03 | UTB | Contracts and Grants | | 1 | | 1 | 3/31/2005 | Satisfactory | C, O |
| 2004-03 | UTPA | Accounts Receivable and Allowance for Bad Debts | | 2 | | 2 | 8/31/2005 | Satisfactory | C |
| 2004-03 | UTSA | Information Technology Organization and Planning Controls | | 2 | | 2 | 4/30/2005 | Satisfactory | F, O |
| 2004-04 | UTHC-T | Capital Assets FYE 8/31/03 | | 2 | | 2 | 8/31/2005 | Unsatisfactory (1) Satisfactory (1) | C, O |
| 2004-04 | UTHC-T | Discretionary Funds | | 2 | | 2 | 8/31/2005 | Satisfactory | F, O |
| 2004-05 | UTA | Office of Research - Grants/Contracts | | 1 | | 1 | 8/31/2005 | Satisfactory | C |
| 2004-06 | UTB | Financial and Applications Controls Audit of the Financial Aid Office | | 1 | | 1 | 5/31/2005 | Satisfactory | C, O |
| 2004-06 | UTHSC-SA | Cash and Investments | | 1 | | 0 | 1/31/2005 | Completed | O |
| 2004-06 | UTHC-T | Surgical Services | | 1 | | 1 | 5/31/2005 | Satisfactory | F, C, O |
| 2004-07 | UTEP | Facility Services | | 1 | | 1 | 3/31/2006 | Satisfactory | O |

14.2

THE UNIVERSITY OF TEXAS SYSTEM
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 Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O") |
| 2004-07 | UTMB Galveston | Basic and Clinical Research Management (BACRM) & Contracts and Grants (C & G) | | 6 | | 6 | 8/31/2005 | Satisfactory | F, C, O |
| 2004-08 | UT Austin | Texas Box Office/Paciolan Ticketing System | | 1 | | 1 | 6/30/2005 | Satisfactory | O |
| 2004-09 | UTPB | Lab Safety | | 5 | | 4 | 8/31/2005 | Satisfactory | C |
| 2004-09 | UTSA | Research Compliance - Time and Effort Reporting | | 1 | | 1 | 8/31/2005 | Satisfactory | C |
| 2004-09 | UTSA | Year End Financial Review for FY 2003 | | 3 | | 2 | 5/31/2005 | Satisfactory | F |
| 2004-09 | UTMB Galveston | Agreed Upon Procedures on Financial Statement Fund Balance | | 4 | | 4 | 8/31/2005 | Satisfactory | F, O |
| 2004-09 | UTMB Galveston | Endowment Compliance Program of the Office of University Advancement ("OUA") | | 3 | | 3 | 5/31/2005 | Satisfactory | C, O |
| 2004-09 | UTHC-T | Cash and Cash Equivalents | | 1 | | 1 | 4/30/2005 | Satisfactory | C, O |
| 2004-09 | UTHC-T | Other Receivables | | 1 | | 0 | 2/28/2005 | Completed | C, O |
| 2004-10 | UTB | Physical Plant | | 3 | | 3 | 6/30/2005 | Satisfactory | C, O |
| 2004-11 | UTSA | Scholarship Management | | | | 1 | 8/31/2005 | Satisfactory | O |
| 2004-12 | UTSA | Texas Administrative Code 202 | | | | 4 | 3/15/2005 | Satisfactory | O |
| 2005-01 | UTPA | NCAA Compliance Camps & Clinics | | | | 1 | 3/31/2005 | Satisfactory | C |
| 2005-02 | UT Austin | Credit Card Processing | | | | 1 | 3/31/2005 | Satisfactory | O |
| 2005-02 | UTEP | Sub-recipient Grants | | | | 2 | 5/1/2005 | Satisfactory | O |
| Totals | | | | 89 | | 82 | | | |

STATE AUDITOR'S OFFICE AUDITS

| | | | | | | | | | |
|---------|---------|--|--|---|--|---|-----------|--------------|-----|
| 2002-05 | UTMDACC | Statewide Single Audit report for Year Ended August 31, 2001 | | 1 | | 1 | 6/1/2005 | Satisfactory | n/a |
| 2002-09 | UTB | A Financial Review | | 1 | | 1 | 5/31/2005 | Satisfactory | n/a |

THE UNIVERSITY OF TEXAS SYSTEM
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 Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O") |
| 2002-11 | UTMB | Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions | | 1 | | 1 | 4/20/2005 | Satisfactory | n/a |
| 2002-11 | UTMDACC | Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions | | 3 | | 3 | 8/31/2005 | Satisfactory | n/a |
| 2004-02 | UTSA | Financial Review | | 3 | | 3 | 9/30/2005 | Satisfactory | n/a |
| 2004-06 | UT Austin | Protection of Research Data at Higher Education Institutions | | 3 | | 3 | 12/31/2005 | Satisfactory | n/a |
| 2004-06 | UT Southwestern | Protection of Research Data at Higher Education Institutions | | 3 | | 3 | 12/31/2005 | Satisfactory | n/a |
| 2004-06 | UTHSC-SA | Protection of Research Data at Higher Education Institutions | | 3 | | 3 | 8/31/2005 | Satisfactory | n/a |
| 2004-06 | UTSYS ADM | Protection of Research Data at Higher Education Institutions | | 3 | | 2 | 5/31/2005 | Satisfactory | n/a |
| 2004-10 | UTHSC-H | Cash Controls | | 9 | | 8 | 8/31/2005 | Satisfactory | n/a |
| 2004-12 | UTHSC-H | Compliance with Requirements Related to Historically Underutilized Businesses and Purchases from people with Disabilities | | | | 0 | 2/28/2005 | Completed | n/a |
| Totals | | | | 30 | | 28 | | | |

14.4

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. 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 - 12/2004 through 2/2005**

| Month Received by System | Institution | Audit |
|--------------------------|-------------------|--|
| 2004-12 | UT Dallas | Research Compliance |
| 2004-12 | UT Dallas | Quality Assessment Review of the Internal Audit Department at UT Austin |
| 2004-12 | UT Southwestern | Financial Internal Controls Testing |
| 2004-12 | UT Southwestern | National Pediatric Infectious Disease Foundation FY 2004 Financial Review |
| 2004-12 | UT Southwestern | Performance Measures |
| 2004-12 | UT Southwestern | Sarbanes-Oxley Act |
| 2004-12 | UTMB - Galveston | Joint Admission Medical Program ("JAMP") |
| 2004-12 | UTMB - Galveston | Pathology Decentralized Information Technology Operations |
| 2004-12 | UTHSC Houston | Follow-up |
| 2004-12 | UTHSC Houston | Internal Medicine BuyCard Control Assessment |
| 2004-12 | UTHSC Houston | Internal Medicine Clinic Batch Deposits |
| 2004-12 | UTHSC Houston | Joint Admission Medical Program ("JAMP") |
| 2004-12 | UTHSC Houston | Texas Administrative Code ("TAC") 202 Gap Analysis |
| 2004-12 | UTHSC Houston | Quality Assessment Recommendations and Responses |
| 2004-12 | UTHSC San Antonio | Family Practice Residency Program AFR Audit |
| 2004-12 | UTHSC San Antonio | Joint Admission Medical Program ("JAMP") |
| 2004-12 | UTHC Tyler | Family Practice Residency Program AFR Audit |
| 2004-12 | UT System Admin | Compliance Review and Change in Management of the Historically Underutilized Business Program |
| 2004-12 | UT System Admin | Joint Admission Medical Program ("JAMP") |
| 2004-12 | UT System Admin | UTIMCO Management Fees, Custody Fees, Securities Lending, and Entertainment Expense Audit |
| 2005-01 | UT Austin | Departmental Audits |
| 2005-01 | UT Dallas | Sexual Harassment Compliance Audit |
| 2005-01 | UT Pan American | Physical Security |
| 2005-01 | UT Pan American | Space Utilization |
| 2005-01 | UT Southwestern | Contract Administration and Expenditures |
| 2005-01 | UT Southwestern | Medical Service, Research, and Development Plan ("MSRDP) and the Faculty Service Plan ("FSP") Financial Review |
| 2005-01 | UT Southwestern | Neurology |
| 2005-01 | UT Southwestern | Psychiatry |
| 2005-01 | UTMB - Galveston | Family Practice Residency Program AFR Audit |
| 2005-01 | MDACC | Accounts Payable - AIX Operating System |
| 2005-01 | MDACC | Accounts Payable - Oracle |
| 2005-01 | MDACC | CARE System and ClinicStation Access |
| 2005-01 | MDACC | Information Security - Procard Review |
| 2005-01 | MDACC | Information Security Review per BPM 53-02-96 |
| 2005-01 | MDACC | Monroe Application |
| 2005-01 | UTHC Tyler | Northeast Texas Consortium ("NETnet") for FYs 2002, 2003 and 2004 |
| 2005-01 | UTHC Tyler | Patient Financial Services |
| 2005-01 | UT System Admin | Contract Administration |
| 2005-02 | UT Dallas | Emergency Operation Plan |
| 2005-02 | UT Dallas | Performance Measures |
| 2005-02 | UT El Paso | Sub Recipient Grants |
| 2005-02 | UT El Paso | Time and Effort |
| 2005-02 | UTHSC Houston | Advanced Research Program/Advanced Technology Program Grants |
| 2005-02 | UTHSC Houston | Family Practice Residency Program AFR Audit |
| 2005-02 | UTHSC San Antonio | Facilities Management - Renovations |
| 2005-02 | UTHC Tyler | Office of the Vice President and Chief Operating Officer |
| 2005-02 | UT System Admin | UTSA Intercollegiate Athletics Agreed Upon Procedures FY 2004 |

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 12/2004 through 2/2005**

| Report Issuance Date | Institution | Audit |
|----------------------|---------------|---|
| 2004-12 | UTHSC Houston | Compliance with Requirements Related to Historically Underutilized Businesses and Purchases from People with Disabilities |

6. **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 report on the status of the System-wide Compliance Program. A report of the 2nd quarter activities is set forth on Pages 15.1 – 15.2. Activity reports are presented to the Audit, Compliance, and Management Review Committee on a quarterly basis.

Mr. Chaffin will then brief the Committee on the status of the Compliance Program Peer Review process. A schedule of institutional peer reviews is set forth on Page 15.3.

**The University of Texas System
Institutional Compliance Program
2nd Quarter Report Summary, FY2005**

Program Executive Summary

The purpose of the Institutional Compliance Program is to ensure that the U. T. System, the 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, 15 of 17 institutional Compliance Committees met. Additionally, the following significant organizational changes have occurred this quarter: a new Director of Institutional Compliance was appointed at UT Arlington, at UT Dallas a vacancy occurred in the Compliance Coordinator position, at UTMB Galveston a new Associate Director of Compliance and Chief Privacy Officer was appointed, at UT Health Science Center at Houston vacancies occurred in the General Compliance Program Manager and billing compliance positions, and UTIMCO added a position to assist with compliance functions.

Summary of Quarterly Activity

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

Risk Assessments (high risk areas assessed) – employment discrimination, sexual harassment, IT use and password protection standards, SSN publication and privacy issues, account reconciliations, criminal background checks, faculty credentialing, external audits, internal audits, implementation of relevant Sarbanes-Oxley provisions, and comprehensive risk management plans, physician and non-physician licensing, billing compliance, data security and Medicare/Medicaid Enrollment.

Endowments (Endowment compliance) – timely submission and creation of investment income has been evaluated and reports created to encourage Spring awards of non-awarded endowed scholarships and monitoring to ensure compliance with endowment agreements.

Grants and Contracts - Monitoring of time and effort reporting, non-performance and allowable expenditures, HUB contracting requirements and exploration of possible electronic processing of contracts.

Environmental Health & Safety (inspection of waste management) – chemical waste management, safety and occupant loads, radioactive liquid waste disposal, storm water management, and lab inspections were monitored. Additionally equipment/asset monitoring and asbestos removal was monitored.

Student Affairs (compliance with federal standards) - ADA accommodation compliance, FERPA privacy procedures, athletic eligibility monitoring, SSN Remediation and Financial Aid Fund eligibility and processing were monitored.

Human Resources – monitoring of compliance with requirements for timely completion of new employee forms and records.

**The University of Texas System
Institutional Compliance Program
2nd Quarter Report Summary, FY2005**

Information Resources/Security (in clinical billing situations) - monitoring and improving access to data available in the recently implemented clinical billing system.

Research - administration of contracts, grants and cooperative agreements, time and effort reporting and sub-recipient monitoring improvements. Establishing review levels for maximum commitment of effort to assure researchers do not have unattainable effort commitments (including a review of the physician and researchers at risk) and monitoring research conflicts of interest.

Assurance activities included: Endowment creation-timeliness and compliance with risk assessment recommendations and guidelines; Environmental Health and Safety waste management; security assessments; hazardous material shipments; compliance monitoring and tracking of program incomes; evaluation of the administration of student loans; new employee compliance with employee forms and records; follow up inspections of high-risk activities involved with A12.02 Public Information Act; inspections of Callier medical documentation and limitation of liability for claims, automated Statements of Financial Interest. Quality Assurance Reviews were initiated in FY 2005 to validate management certifications, audits/reviews/risk-monitoring activities performed to ensure compliance with applicable laws, rules and guidelines. Additionally, Compliance Program Peer reviews were completed for three of the institutions during the quarter.

Training activities included: New employee training, general compliance training: equal opportunity training and sexual harassment training, specialized training, HIPAA privacy training, social security number training (per BPM-66), ethics training, corporate compliance and investment training, DEFINE training, Environmental Health and Safety training on lab or laser safety, fire safety, housekeeping safety, account reconciliation training, grant training, Federal Income Tax Classification issue training, information security training, inventory training, coder training, international affairs training, et.al.

Action Plan Activities

Many of the items identified in the Action Plans are in progress at this time. These include, but are not limited to the following: ongoing assessment of monitoring programs for high-risk areas through the compliance committee structure, compliance with SSN protections, creation of an Executive Compliance Committee at System Administration, electronic training of various types (employment training, general compliance training, Macromedia Breeze training), orientation of new employees, inspection of high-risk areas to obtain certification letters, expand program support, review risk assessment tools for compliance, utilize peer review recommendations for improvement, conduct annual compliance briefings for all departments in some institutions to establish a perception that the compliance program is a campus-wide program and not simply a Business Affairs program, implementation of a compliance issue tracking program to ensure timely resolution of compliance questions, complete HR staffing needs, improve the risk assessment mechanism, resolution of compliance/fraud/ethics hotline inquiries, staff issued reminders of compliance assurance reports, website updates, ongoing compliance education and management responsibility training.

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

April 1, 2005

| | On-Site Assessment Dates | Institution | Status |
|----|---|----------------------------------|---------------|
| 1 | Dec. 8-9 | UT Dallas | Completed |
| 2 | Feb. 9-11 | UT Pan American | Completed |
| 3 | Apr. 6-8 | UTHSC Houston | Completed |
| 4 | May 5-7 | UT El Paso | Completed |
| 5 | May 17-19 | UT Tyler | Completed |
| 6 | May 24-26 | UTHC Tyler | Completed |
| 7 | Jun. 28-30 | UT San Antonio | Completed |
| 8 | Jul. 19-21 | UT System Administration | Completed |
| 9 | Jan. 18-20, 2005 | UT Southwestern | Report phase |
| 10 | Jan. 31 – Feb. 2, 2005 | UT Brownsville | Report phase |
| 11 | March 22-24 | UTHSC San Antonio | Report phase |
| | | | |
| 12 | March/April 2005 | UT MD Anderson (external review) | In progress |
| 13 | June 13-15, 2005 | UT Arlington | Scheduled |
| 14 | July 2005 | UT Austin | Pending |
| 15 | Summer 2005 | UT Permian Basin | Pending |
| 16 | Summer 2005 | UTMB Galveston | Pending |
| 17 | Fall 2005 | System-wide Compliance Program | Pending |
| 18 | TBA | UTIMCO | Pending |