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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 5/8/2013

Board Meeting: 5/9/2013
Austin, Texas

Brenda Pejovich, Chairman
Paul L. Foster, Vice Chairman
Alex M. Cranberg
Wallace L. Hall, Jr.

	Committee Meeting	Board Meeting	Page
A. CONVENE <i>(Conference Room, Ashbel Smith Hall, 9th Floor)</i>	9:00 a.m. <i>Chairman Pejovich</i>		
B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - Texas Government Code Section 551.074 U. T. System: Discussion with the Chief Audit Executive concerning personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of individual System Administration and institutional officers or employees involved in internal audit functions	<i>Mr. Peppers</i>		
C. RECONVENE IN OPEN SESSION <i>(Board Room, Ashbel Smith Hall, 9th Floor)</i>			
1. U. T. System Board of Regents: Review of Consent Agenda items, if any, referred for Committee consideration	9:15 a.m. Action	Action	41
2. U. T. System Board of Regents: Deloitte Report on the Strategic Assessment of the U. T. System Internal Audit Services	9:16 a.m. Report/Action <i>Ms. Kathie Schwerdtfeger, Deloitte</i> <i>Chairman Pejovich</i> <i>Mr. Peppers</i>	Not on Agenda	42
3. U. T. System Board of Regents: Authorization to enter into contract(s) with external provider(s) selected through the request for proposals process to provide external quality assessments of the internal audit functions and allocation of funds	9:31 a.m. Action <i>Mr. Peppers</i>	Action	53
4. U. T. System: Update on the status of the Systemwide internal audit of development activities and a report on the State Auditor's Office Statewide Single Audit for FY 2012 and related discussions	9:35 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	55

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5. U. T. System: Report on enhancements to U. T. Systemwide Research Compliance Program	9:55 a.m. Report/Discussion <i>Dr. Hurn</i> <i>Mr. Plutko</i> <i>Dr. Byerly</i>	Not on Agenda	58
6. U. T. System: Presentation on the U. T. Systemwide Endowment Compliance Program	10:10 a.m. Report/Discussion <i>Dr. Safady</i>	Not on Agenda	72
7. U. T. System: Discussion and appropriate action regarding review of institutional compliance with the Texas Public Information Act	10:25 a.m. Action <i>Chairman Pejovich</i>	Action	95
D. ADJOURN	10:30 a.m.		

1. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration**

The proposed Consent Agenda is at the back of the book.

2. **U. T. System Board of Regents: Deloitte Report on the Strategic Assessment of the U. T. System Internal Audit Services**

REPORT

Ms. Kathie Schwerdtfeger, Deloitte; Committee Chairman Pejovich; and Chief Audit Executive Peppers will present the results of the Strategic Assessment of The University of Texas System Internal Audit Services performed by Deloitte. The executive summary of the report and transmittal letter from Regent Pejovich and Chancellor Cigarroa are included on the following pages. The full report was provided to the Regents prior to the meeting.




The University of Texas System
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March 19, 2013

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas
of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler

To: Presidents, The University of Texas System
Institutional Chief Audit Executives, The University of Texas System

From: Regent Brenda Pejovich, Chairman, Audit, Compliance, and
Management Review (ACMR) Committee
Francisco G. Cigarroa, M.D., Chancellor


Francisco G. Cigarroa

The past year has provided unique opportunities for assessment of and recommitment to the important function of internal auditing within The University of Texas System. The Board of Regents and executive leadership at System value and depend upon the role fulfilled by our internal auditors. We know that is true at the institutional level as well. For those reasons, we believe it was worthwhile to expend the time and effort necessary to ensure we are on the best possible course to develop and maintain a program that will most effectively serve our broad governance framework.

In that effort, two resources have been of tremendous assistance. First, Mr. Michael Peppers was enlisted from one of our fine institutions to provide interim leadership for our System wide activity. As you know, we elected to make that an official appointment in January. Second, an experienced team of internal audit leaders from Deloitte & Touche LLP (Deloitte) was engaged to perform a "strategic assessment of internal audit services across The University of Texas System." This comprehensive review reached each of our institutions. Thank you for your cooperation and the candid, insightful comments you provided to the Deloitte team.

We now have the results of that assessment and share them with you for continued thoughtful consideration. Chairman Powell and the Board have accepted the observations and have charged both of us, the ACMR Committee, and Mr. Peppers to work with each of you to develop action plans that will effectively and appropriately address these observations. As you review the attached report, you will find 17 recommendations, many of which have multiple parts. As the report itself observes, some will take months and years to implement. It suggests we rank and prioritize. Having had the benefit of first review, we would like to take this opportunity to share our preliminary thoughts on the four observations we believe are of the highest priority. They are highlighted on the summary exhibit which follows.

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Memorandum to Presidents & Institutional Chief Auditors

March 19, 2013

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Recommendations 1 and 2 – Governance Structure

The ACMR Committee believes strongly that our audit committees (at the Board, System, and institutional levels) must be highly functional and effective and we welcome the concept of engagement between the committees at all levels. Perhaps the single most clearly-acceptable recommendation is that all committees should be chaired by one of its external members. This is already occurring successfully at four of the U. T. System institutions and Deloitte heard from several of the other presidents that it would be a desirable change. The ACMR Committee will establish guidelines surrounding the expected structure and make-up of the committees, including its role in vetting individuals who will be chairs. The ACMR Committee is also committed to assisting institutions which have historically had challenges recruiting external members.

Recommendation 5 – Internal Audit Organizational Structure

The observations and recommendations on the topic of organizational reporting of our chief audit executives (CAEs) are insightful and thought-provoking. Their ultimate resolution is not, however, as clear cut as the ones just discussed. As you will read, Deloitte provides options and alternatives. We do agree that the engagement and reporting line between System and institutional CAEs must be strengthened, but we do not believe that this should be at the expense of reducing the relationship of a CAE with his or her president. That direct line will be preserved. Mr. Peppers has spent 22 years as an institution-level chief auditor and he values and respects the “internal” in internal auditing. He will work with you and with us to engage further dialogue and insights for consideration as we determine the most appropriate course of action.

In addition to position reporting lines, this recommendation also addresses the broader organizational structure of internal audit enterprise. We agree that the tremendous diversity of our institutions and the size of U. T. System warrant a change that will provide more specialized assistance. Consideration of the models presented has led us to a conceptual plan in which our internal audit functions will be organized in what Deloitte calls an “institutionally focused structure.” This alignment follows the same plan as our Academic Affairs and Health Affairs structure throughout other System governance activities and we have asked Mr. Peppers to consider structuring his System Audit Office in a similar fashion. As also described in that model, we believe there is merit in considering similar specialization for the ACMR Committee. Separate meetings for the two specialized areas would provide greater opportunities for enhancing exposure between the Board and institutional levels as discussed in Recommendations 1 and 2, above. *Please note: as graphically presented on page 28 of the report, the Deloitte model includes depictions about positional reporting and titles which would not necessarily be adopted in total, as previously addressed.*

Memorandum to Presidents & Institutional Chief Auditors

March 19, 2013

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Recommendation 12 – Quality

The last recommendation relates to the development of a continual System wide quality assurance and improvement program. The ACMR Committee has charged the System Chief Audit Executive with the responsibility of ensuring the effectiveness and efficiency of our entire internal audit program. As Deloitte observes, that position does not currently have direct insight to the institutional programs at such a level that would allow him to give such assurance. We have asked Mr. Peppers to institute an on-going program of quality assessment and monitoring that will complement the triennial external quality assessment activities (about which Deloitte also makes recommendations for improvement). Together, these quality assurance and improvement activities will ensure compliance with the professional standards in these areas.

As you review the full Deloitte report, you will see that some of the remaining 12 recommendations are System wide and others have more of a focus for the U. T. System Audit Office. We value and appreciate all their observations but, as previously mentioned, it would not be possible or advisable to begin them all at once. We have asked Mr. Peppers to work on our behalf to immediately begin the process of further prioritization and action plan development. Your individual and collective wisdom will certainly be solicited, as appropriate. Thank you, in advance.

BP/FGC/jbp

Attachments (2)

cc: Chairman Wm. Eugene Powell
Members, U. T. System Board of Regents
J. Michael Peppers, U. T. System Chief Audit Executive

Summary of Deloitte Recommendations

Governance Structure

1. ACMRC should establish expectations for institutional audit committees – regular interaction between ACMRC and the institutional audit committees should occur
2. Institutional audit committees should have more external members and be chaired by one of the external members – management should participate but not be voting members
3. ACMRC should expand use of private work sessions for more robust dialogue
4. ACMRC should consider the value of having System management implement a comprehensive Enterprise Risk Management program

Internal Audit Organizational Structure

5. Reporting relationship between System CAE and institutional CAEs should be revised to assist the System CAE in executing his authority – consider a direct (rather than indirect reporting line) while maintaining a form of reporting to institutional presidents
Consider restructuring the System-wide internal audit structure – centralization, regionalization, or academic/health are options
6. Enhance communications from System Audit Office to institutional audit offices and expand use of leadership meetings and training
7. Improve process to identify and handle audits that are highly-sensitive (presidents) and highly-specialized (IT, fraud)
8. Role of System "audit liaisons" should be readdressed and the experience level of these positions and staff, in general, should be raised
9. Form "improvement" task force with representation from all institutions to address key topics and create or update System-wide policies
10. Consider a formal rotational program between System and institutional internal audit offices

Quality

11. Establish a common cycle for the triennial external quality assessment – possibly one assessment instead of 16 individual ones
12. Establish a continual internal quality review program at the System level that assesses quality System-wide
13. Evaluate/revise policies and training to ensure consistent audit sampling, risk assessments, and evidence-gathering

Reporting

14. Evaluate/revise policies and training to ensure consistent treatment of whether issues are included in reports – develop guidance for considering issues not reported
15. Develop guidance on determining significance of findings to facilitate appropriate reporting to the ACMRC

Risk Assessment

16. Utilize more current and robust risk assessment methodologies – ensure ability to identify System-wide risks.
Obtain approvals for work plans before the beginning of the fiscal year
17. Develop formal System-wide approaches to both fraud and IT risk assessments

Strategic Assessment of The University of Texas System Internal Audit Services

February 19, 2013



This document is intended solely for the information and internal use of The University of Texas System and its Board of Regents, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this document.



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To the Board of Regents of The University of Texas System:

Deloitte & Touche LLP (Deloitte & Touche) is pleased to present the results of our Strategic Assessment of Internal Audit Services across The University of Texas System ("UTS" or the "System"). Our services were performed from August 2012 through October 2012, in accordance with the terms of our engagement letter dated July 23, 2012, as amended, and in accordance with the *Standards for Consulting Services* issued by the American Institute of Certified Public Accountants.

The scope of our work included analyzing select findings, conclusions, and recommendations in the report by Paul Hastings LLP, titled *Special Investigative Report Regarding Allegations of Impropriety by Dr. C. Kern Wildenthal Relating to Travel and Entertainment Expenses Paid For By University of Texas Southwestern Medical Center*, that addressed the performance of certain internal audit activities within the System. Issues identified in that report related to internal audit practices that may have contributed to the reported failures in the areas of independence and objectivity, quality of the audits, and reporting of risks to appropriate officials. Accordingly, the activities performed by Deloitte & Touche were focused on the areas of Internal Audit Governance, Organizational Structure, Quality Monitoring, Audit Committee, Risk Assessment Methodologies, and Reporting. The results of this assessment identified several opportunities to further enhance the overall quality, value and effectiveness of Internal Audit across the System in fulfilling its mission.

Included in the report is an executive summary of the project scope, objectives, and overall observations as well as a detailed report with individual observations and recommendations for each issue identified.

This report is intended solely for the information and use of The University of Texas System Board of Regents and its management and should not be used for any other purpose.

Yours Truly,

Deloitte & Touche LLP

By: 

Kathie Schwerdtfeger, Partner

Executive Summary

We have completed a Strategic Assessment of the Internal Audit Services across The University of Texas System (“UTS” or the “System”). Deloitte & Touche conducted the Strategic Assessment for the purpose of analyzing the findings, conclusions, and recommendations in the report by Paul Hastings LLP, titled *Special Investigative Report Regarding Allegations of Impropriety by Dr. C. Kern Wildenthal Relating to Travel and Entertainment Expenses Paid For By University of Texas Southwestern Medical Center* (the “Paul Hastings Report”), that addressed the performance of certain internal audit activities within the System.

Scope of Services:

Issues identified in the Paul Hastings Report regarding internal audit activities related to internal audit practices that may have contributed to the reported failures in the areas of independence and objectivity, quality of the audits, and reporting of risks to appropriate officials.

Accordingly, the key objectives of this Strategic Assessment were to:

- Assess the governance structure of internal audit with respect to the Board of Regents, the UT System Internal Audit Committee, and the Audit Committees at the institutional level.
- Assess the organizational structure of the reporting relationships between the Chief Audit Executives at each institution and the Chief Audit Executive for the UT System.
- Assess how the quality of the internal audit function for the UT System is monitored and assessed by the Chief Audit Executive for the UT System.
- Assess the methodology of the internal audit risk assessment process for the UT System to determine if significant risks are being identified and prioritized for review.
- Assess the reporting to the Audit, Compliance, and Management Review Committee (“ACMRC”) and for the Audit Committees at the institutional level.
- Assess the UT System Audit Office’s work papers and ensuing reports.

Executive Summary (Continued)

Procedures Performed:

Our procedures focused on analyzing internal audit charters, audit committee minutes, reports, risk assessment methodologies, audit planning processes, System-wide internal audit policies and procedures which include those on quality monitoring of internal audit services across the system, and analyzing a sample of working papers from the University of Texas System Audit Office. Interviews were conducted with members of the Board of Regents and the Board of Regents Office, members of System's senior management team, institutional presidents and select external members of their audit committees, the Interim Chief Audit Executive of System Audit Office and select members of his internal audit staff, the chief audit executives of the institutions, and the external financial audit partner. Additionally, we conducted an independent survey of internal audit staff across the System.

Summary of Results:

As identified in the charts that follow, Internal Audit Services across the System possess a number of strengths as well as opportunities to further enhance the overall quality, value, and effectiveness of Internal Audit across the System.

Effectively, The University of Texas System has 16 independent and separate internal audit functions across the System which includes one system-wide internal audit function and 15 institutional internal audit functions. Enhancing quality, value, and effectiveness across this large system of internal audit cannot be achieved overnight or singularly by the System Internal Audit Office. For some recommendations, a measured, sequential approach to enhancement will be necessary and possibly take months or a year or more to implement. Other recommendations are truly "quick hits" that can add value immediately. Overall, an investment of resources and commitment from the Board of Regents, the System, and its institutions will be required to achieve this transformation. If implemented correctly, the enhancements included within this report will facilitate the achievement of many of the leading practices endorsed by the Institute of Internal Auditors (IIA), improve the allocation and effectiveness of resources, increase coverage of high risk areas, improve overall independence, enhance consistency of internal audit practices, and increase the overall value, quality, and effectiveness of internal auditing throughout the System.

Next Steps:

In addition to actions taken to-date, the System should review the recommendations and rank and prioritize each recommendation as to their benefit and cost of implementation. Also, because some items may have specific value to key future events, implementation should be scheduled and funded so as to align implementation results with those events.

Executive Summary (Continued)

Summary of Identified Strengths	
Governance	<ul style="list-style-type: none"> • System-wide and Institutional Audit Committees • System-wide and Institutional Internal Audit Charters
Organizational Structure	<ul style="list-style-type: none"> • Focused Internal Audit Activity at System and Within Each Institution, Which Contains 16 Chief Audit Executives and 123 Internal Auditors • Over \$10.9 Million of Internal Audit Budget Authority Across the System • Approximately 142,500 Planned Audit Hours Across the System
Quality	<ul style="list-style-type: none"> • Some Established System-wide Internal Audit Policies and Guidelines • Some Oversight of Institutional Audit Functions by System Audit Office • External Quality Reviews Conducted Every Three Years • Industry Recognized Internal Audit Leaders in Some Institutions
Reporting	<ul style="list-style-type: none"> • Some Policies and Guidance on Reporting • Communications Between the System and Institutions on Reportable Issues
Risk Assessment	<ul style="list-style-type: none"> • General System-wide Risk Assessment Methodology and Guidance

Executive Summary (Continued)

Summary of Opportunities for Enhancement	
Governance	<ul style="list-style-type: none"> • Alignment of ACMRC and Institutional Audit Committees • Institutional Audit Committee Composition • Effectiveness of ACMRC Meetings with Respect to Internal Audit Activities • Enterprise Risk Management
Organizational Structure	<ul style="list-style-type: none"> • Oversight Authority and Structure • Communications Between the System and Institutions • Sensitive or Specialized Projects • Experience Level of System Audit Liaisons and Staff • Standardization of Basic Policies and Procedures • Institutional Rotations
Quality	<ul style="list-style-type: none"> • Consistency of External Quality Assessment Reviews • Establishment of a System-wide Internal Quality Assurance and Improvement Program • Audit Work Paper Documentation Consistency
Reporting	<ul style="list-style-type: none"> • Report Completeness • Significant Issue Definition
Risk Assessment	<ul style="list-style-type: none"> • Risk Assessment Methodology • Fraud and IT Specific Risk Assessments

3. **U. T. System Board of Regents: Authorization to enter into contract(s) with external provider(s) selected through the request for proposals process to provide external quality assessments of internal audit functions and allocation of funds**

RECOMMENDATION

With the concurrence of the Chancellor, the U. T. System Chief Audit Executive (CAE) recommends to the Audit, Compliance, and Management Review (ACMR) Committee that the CAE, working with the Chancellor, the Chairman of the ACMR Committee, and appropriate U. T. System staff, be authorized

- a. to solicit proposals for the performance of independent, external quality assessments of the internal audit function at U. T. System and at each of the U. T. System institutions;
- b. to select an external provider or providers to conduct the assessments; and
- c. to take all steps necessary to complete the assessment process.

It is further recommended that the Chancellor be authorized to approve the allocation of funding in a reasonable amount, as he determines necessary for the assessment process, from the Available University Fund.

BACKGROUND INFORMATION

The internal audit profession is guided by The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Within the *Standards*, there is a requirement for all internal audit functions to have external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

For State agencies within the State of Texas, the *Texas Government Code*, Chapter 2102 - *Texas Internal Auditing Act (Act)* establishes guidelines for State agencies' internal audit functions. The *Act* requires all state agencies to adhere to the U.S. Government Accountability Office *Government Auditing Standards*, which require an external peer review at least once every three years by reviewers independent of the audit organization.

The recent report by Deloitte titled *Strategic Assessment of The University of Texas System Internal Audit Services*, as set forth in Agenda Item 2 on Page 42, offered an observation regarding external quality assessment reviews, stating, "...performance cycles are not synchronized and the scope and quality is likely to vary from institution to institution. Furthermore, a peer review approach is typically used and those are normally focused on conformity to the IIA *Standards* and not on strategic value added areas that may be covered in a more extensive independent Quality Assessment Review (QAR). As such, the Board of Regents and the System CAE cannot effectively analyze Systemwide internal audit quality at any given time in a holistic manner."

Deloitte's recommendation to address this observation is "The Board of Regents and the System Audit Office should implement a common QAR cycle, so all institutions perform their QARs in the same year. The System CAE should summarize and report on overall internal audit quality within the System to the Board of Regents in the year of the QAR. This will allow the System CAE a unified appraisal of how internal audit has been operating holistically along with allowing for identification of common themes across the System.

Additionally, consideration should be given to implementing a single Systemwide QAR to reduce the costs from conducting 16 individual QARs, enhance consistency of the QARs across the System, and provide a more efficient process for reporting on overall audit quality at the Board level."

4. **U. T. System: Update on the status of the Systemwide internal audit of development activities and a report on the State Auditor's Office Statewide Single Audit for FY 2012 and related discussions**

REPORT

Chief Audit Executive Peppers will discuss the following audits:

- Update on the status of the Systemwide internal audit of development activities, including The University of Texas at Austin for which the report has been issued. The report was provided to the Regents prior to the meeting. Reports on the other institutions, which are in progress, will be provided to the Committee as they are issued.
- Report on the State Auditor's Office State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2012. A summary of the audit reports are set forth on Pages 56 - 57. Supplementary details of the audit results were provided to the Regents prior to the meeting.

The University of Texas System
State Auditor's Office FY 2012 Statewide Single Audit
Summary of Results

State of Texas Federal Portion of the Statewide Single Audit Report for Fiscal Year 2012

As a condition of receiving federal funding, the U.S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least \$500,000 in federal awards in a fiscal year to obtain annual Single Audits. In order to supplement the audit procedures performed by KPMG for the annual Single Audit of federal expenditures for the State of Texas for fiscal year (FY) 2012, the Texas State Auditor's Office (SAO) audited *student financial aid* at UT Arlington, UT Austin, UT Dallas, UT El Paso, and UT San Antonio and audited *research and development programs* at UT Austin, UT San Antonio, UT Medical Branch - Galveston, UT Health Science Center - Houston, and UT M. D. Anderson Cancer Center. The SAO performs this audit every year, and institutions are chosen on a rotational basis with the size of their programs factored into the selection process. Procedures included assessing compliance with regulatory requirements and assessing internal controls over federal funds. The SAO classifies findings identified in their samples as a significant deficiency/noncompliance or material weakness/material noncompliance, the latter of which indicates a more serious reportable issue.

The SAO classifies findings in the categories as defined below of control deficiency, significant deficiency, and material weakness, the latter of which indicates a more serious reportable issue.

- *Control Deficiency*: the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.
- *Significant Deficiency*: deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- *Material Weakness*: deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Compliance with Federal Requirements for the Student Financial Assistance Cluster of Federal Programs for Fiscal Year 2012

The Student Financial Assistance Cluster audits test compliance with federal requirements in up to 14 areas, such as eligibility and reporting. Overall, the State of Texas complied in all material respects with the federal requirements for the Student Financial Assistance Cluster of federal programs in FY 2012. This report was issued on February 25, 2013.

The audit resulted in four findings at UT Arlington, two findings at UT Austin, one finding at UT Dallas, one finding at UT El Paso, and no findings at UT San Antonio. Seven of the findings were categorized as significant deficiencies. One finding, identified at UT Arlington, was considered a material weakness with a questioned cost of \$5,312. This finding related to processes surrounding the return of Title IV funds, including inaccurate calculation and inadequate review of amounts returned; inadequate controls over the determination of payment period/period of enrollment and identification of unofficial withdrawals; and inadequate notification to students of required returns and reporting to the US Department of Education of grant overpayments. Management at each of the four institutions has responded appropriately to the related recommendations, and several have already taken steps towards implementation.

In addition, corrective actions were taken for several findings from the SAO's previous Student Financial Assistance Cluster audits, and management provided updated corrective action plans for the remaining open recommendations. Some of the recommendations were reissued as new findings in the FY 2012 audit report.

Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for Fiscal Year 2012

The Research and Development Cluster audits test compliance with federal requirements in up to 14 areas, such as allowable costs, procurement, reporting, and monitoring of non-state entities to which the State passes federal funds. Overall, the State of Texas complied in all material respects with the federal requirements for the Research and Development Cluster of federal programs in FY 2012. This report was issued on February 25, 2013.

The audit resulted in three findings at UT Austin, two findings at UT San Antonio, three findings at UT Medical Branch - Galveston, three findings at UT Health Science Center - Houston, and six findings at UT M. D. Anderson Cancer Center. All 17 of the findings were categorized as significant deficiencies. Management at each of the five institutions has responded appropriately to the related recommendations, and several have already taken steps towards implementation.

In addition, corrective actions were taken for several findings from the SAO's previous Research and Development Cluster audits, and management provided updated corrective action plans for the remaining open recommendations. Some of the recommendations were reissued as new findings in the FY 2012 audit report.

State of Texas Financial Portion of the Statewide Single Audit Report for Fiscal Year 2012

The SAO did not conduct audit procedures on the UT System institutions' financial statements as part of the audit of the State of Texas *Comprehensive Annual Financial Report* for the fiscal year ended August 31, 2012, as they relied on the external audit of the UT System FY 2012 financial statements, which was performed by Deloitte.

However, as part of the State of Texas financial portion of the statewide Single Audit report, the SAO made recommendations related to the completeness, accuracy, and review of the FY 2012 Schedules of Expenditures of Federal Awards (SEFAs) to UT Arlington, UT Austin, UT El Paso, UT Pan American, and UT Southwestern. The SEFAs were also reviewed at UT San Antonio and UT Health Science Center - Houston; however, no findings were identified. This report was issued on February 28, 2013.

In addition, corrective actions were taken for several findings from the SAO's previous financial portion of the Statewide Single Audit, and management provided updated corrective action plans for the remaining open recommendations. The recommendations that were reissued as new findings in the FY 2012 audit report related to the SEFA.

5. **U. T. System: Report on enhancements to U. T. Systemwide Research Compliance Program**

REPORT

Dr. Patricia Hurn, Vice Chancellor for Research and Innovation; Mr. Lawrence Plutko, Systemwide Compliance Officer; and Dr. Wesley Byerly, Assistant Systemwide Compliance Officer - Research, will report on enhancements to research compliance efforts at U. T. System institutions using the PowerPoint presentation set forth on the following pages.

Report on Enhancements to U. T. Systemwide Research Compliance Program

Dr. Patricia D. Hurn, Vice Chancellor for Research and Innovation
Mr. Lawrence A. Plutko, Systemwide Compliance Officer
Dr. Wesley G. Byerly, Assistant Systemwide Compliance Officer

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2013



THE UNIVERSITY of TEXAS SYSTEM

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Research Regulation and Compliance is Key for U. T. Research-intensive Campuses

- Increasing institutional cost to assure research compliance
- Federal Demonstration Partnership (FDP) estimates that federally funded researchers average 42% time in administrative and compliance activities



Research Regulation and Compliance is Key for U. T. Research-intensive Campuses (cont.)

- U. T. System Initiatives
 - Systemwide research compliance officer
 - Opening campus discussion of novel approaches
 - Center for Regulation of Science 2013
 - Streamlining through shared expertise
 - Develop tools and advanced expertise
 - Study and forecast changes in national/state research regulatory requirements



Research Regulatory Risk Areas

- Financial
- Human Subject
- Animal
- Occupational Health and Safety
- Security and Confidentiality
- Individual Conduct

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THE UNIVERSITY of TEXAS SYSTEM

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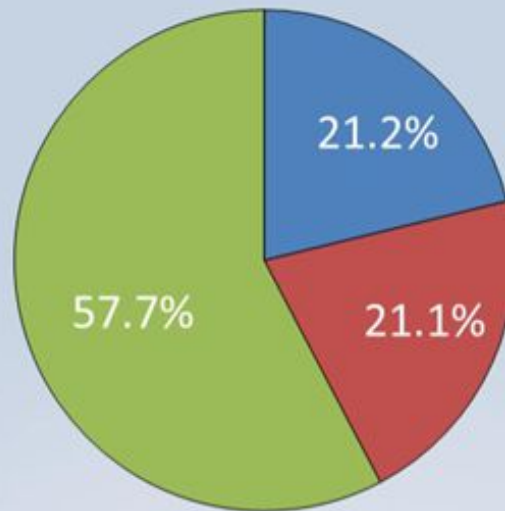
Federal Research Regulation Scope

- Over 67 regulations affecting the conduct and/or management of research
- Over 37 federal departments, agencies and/or components with regulations affecting the conduct and/or management of research
- 55 federal regulatory changes since 1991 directly affecting the conduct and management of research under federal grants and contracts



Federal Demonstration Partnership Survey

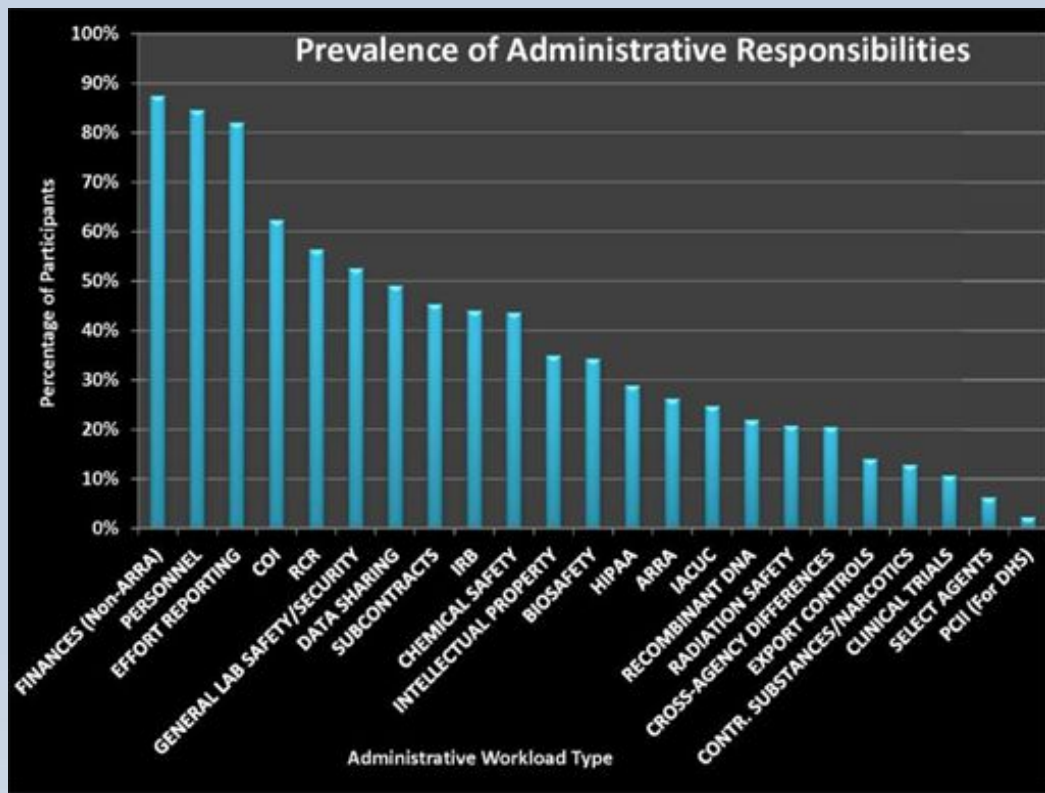
On average, what percentage of a principal investigator's time on federally funded projects is spent on administrative responsibilities rather than active research?



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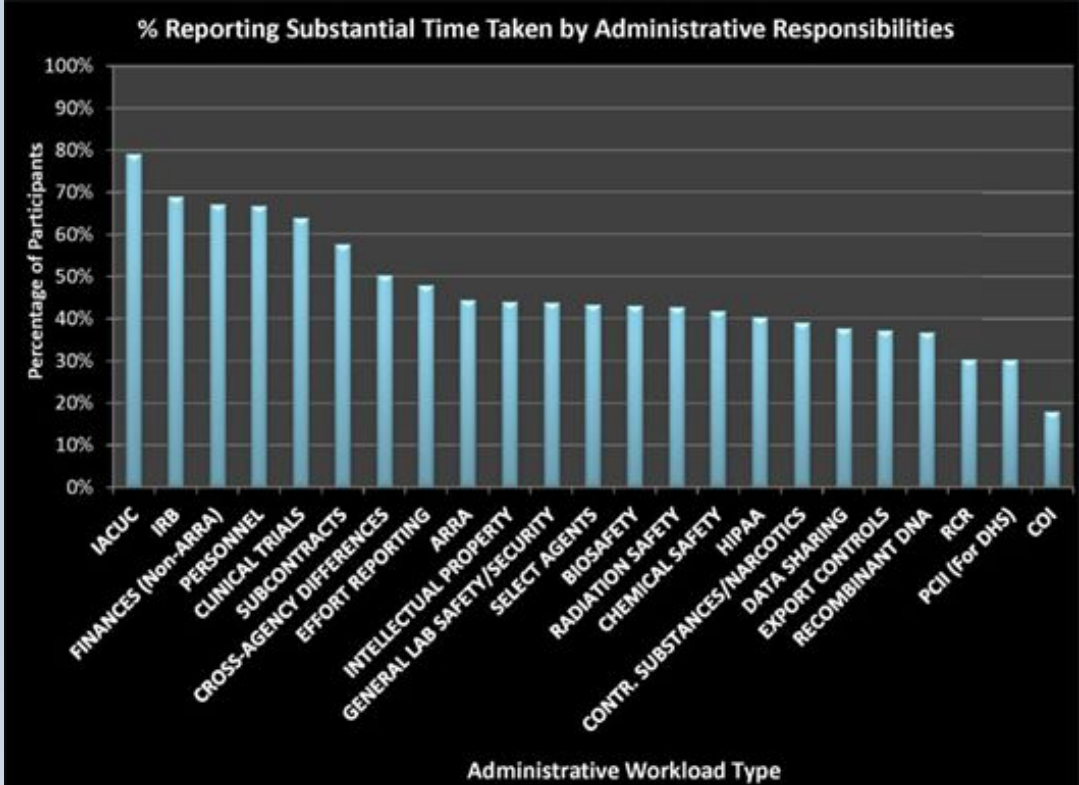


Federal Demonstration Partnership Survey (cont.)



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Federal Demonstration Partnership Survey (cont.)



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Regulatory Burden Impact

- Alienation of scientists and attempts to avoid compliance
- Difficulty in recruiting new scientists to the institution
- Scientists' avoidance of the use of certain models in research because of the increased costs of compliance
- Subsequent missed funding opportunities and failure to pursue potentially important research because of compliance concerns/burdens/costs
- Diversion of available money to compliance efforts



Regulatory Risk Watch Areas

- Allowable costs
- Effort reporting
- Conflict of interest
- Sponsor-Investigator Investigational New Drug (IND) and Investigational Device Exemption (IDE) Applications
- Data security and confidentiality
- Select agents
- Clinical trial billing



Regulatory Risk Developing Areas

- Export Controls
- Agency Inspections
 - Office for Human Research Protections (OHRP)
 - Food and Drug Administration (FDA)
 - United States Department of Agriculture (USDA)
- Funding source specific requirements
- Implementation of the new Guide for the Care and Use of Laboratory Animals
- Stem Cell



Research Compliance Council

- Chartered by the U. T. System Executive Compliance Committee to manage and mitigate research compliance risks across the U. T. System
- Vice presidents for research have appointed representatives from each of the institutions
- Will collaborate on a two-year research compliance work plan with key deliverables



Research Compliance Council (cont.)

- Develop research compliance training and education modules to meet federal grant requirements
- Establish best practices solutions to emerging research compliance issues
- Ensure uniformity and consistency in common areas (export controls, conflicts of interest, effort reporting)



6. **U. T. System: Presentation on the U. T. Systemwide Endowment Compliance Program**

REPORT

Vice Chancellor Safady will report on the U. T. Systemwide Endowment Compliance Program for the fiscal year ended August 31, 2012, using a PowerPoint presentation set forth on the following pages.

Endowment Compliance Program FY 2012

Dr. Randa Safady, Vice Chancellor for External Relations

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2013



THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

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Program Mission

- Strengthens stewardship
- Promotes compliance with laws, policies, and endowment agreements
- Increases effectiveness of available resources
- Improves reporting to donors and U. T. System leadership



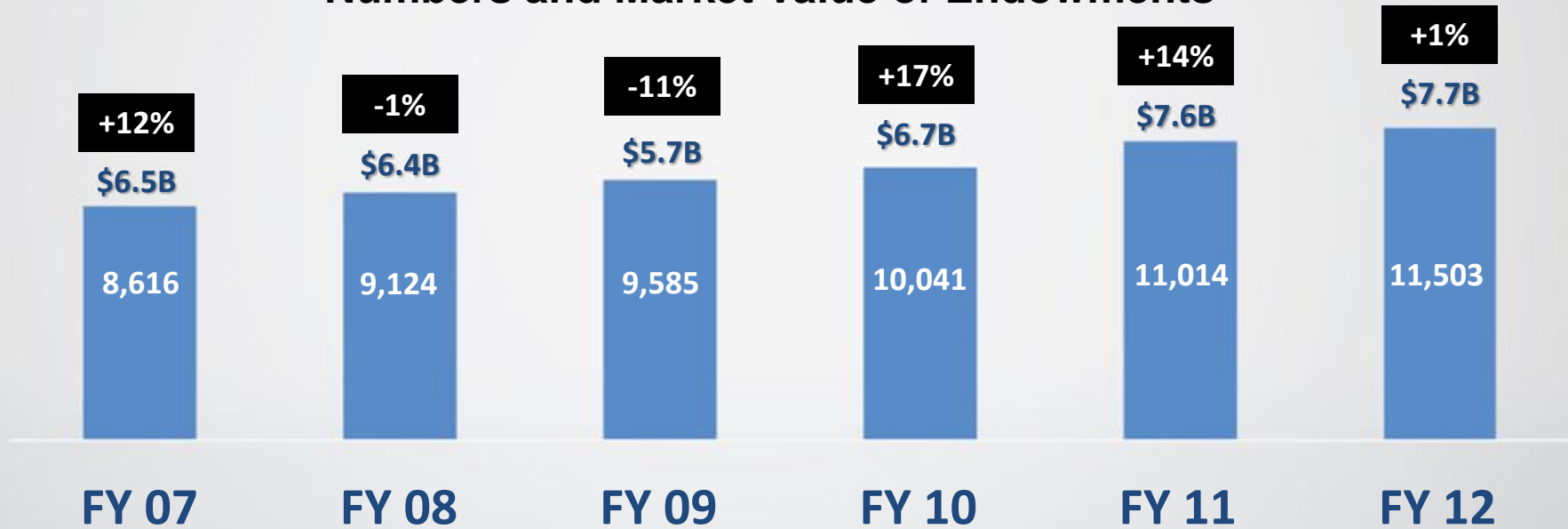
Growth in Program Scope and Reporting

- Program began in 2001: 6,392 endowments = \$3.2 billion
- In FY03: Annual reporting began with progress summaries
- In FY04: Review of a small sampling of endowments began
- In FY07: Reporting evolved to include detailed financial data, review of more endowments, an analytical report back to the U. T. System institutions, and a management response from the Presidents
- In FY12: 11,503 endowments = \$7.7 billion



Growth in Endowments

Numbers and Market Value of Endowments



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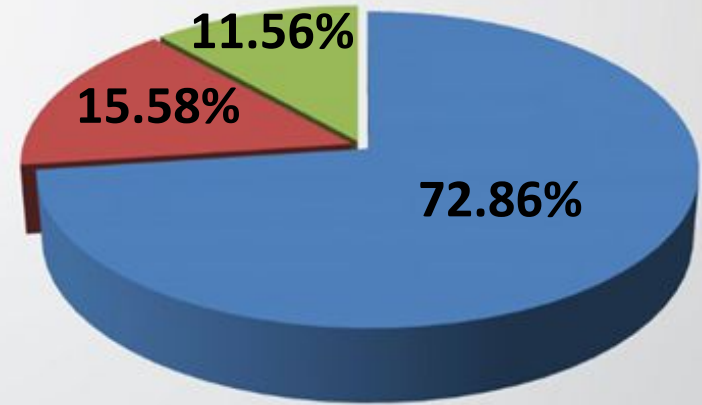
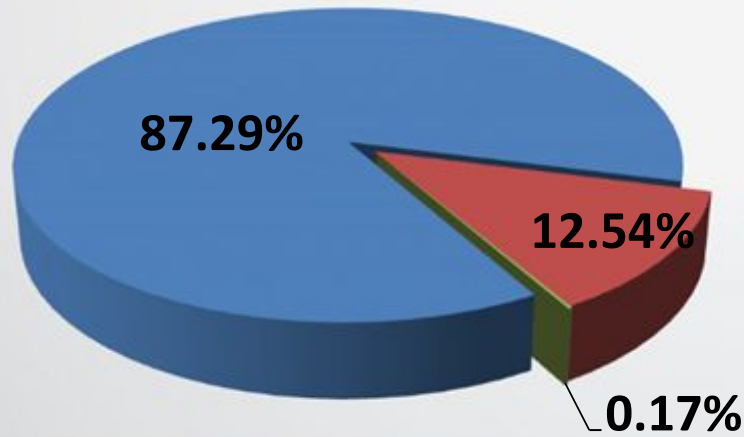
Where Endowments Are Held

Total Number of Endowments: 11,503

Total Endowment Market Value: \$7.7B

■ Board:	10,041
■ U. T. Affiliate:	1,442
■ Others:	20

■ Board:	\$5.61B
■ U. T. Affiliate:	\$1.20B
■ Others:	\$890.2M



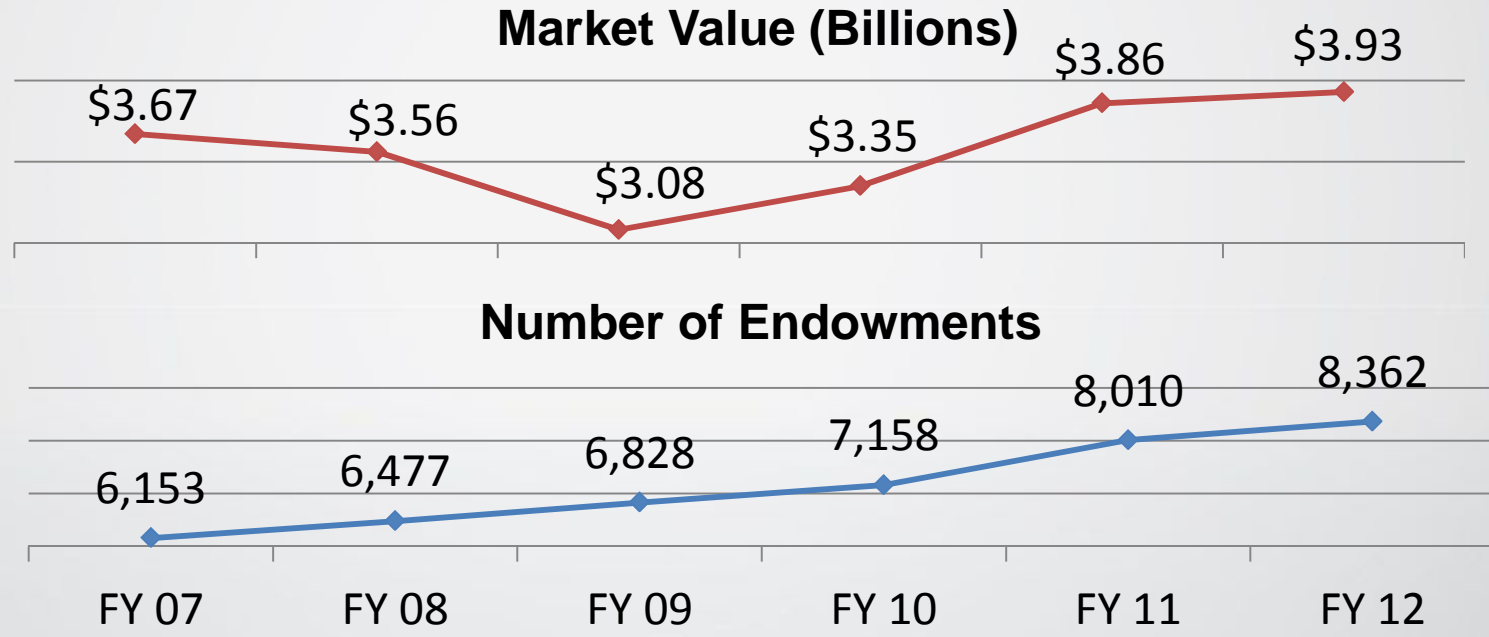
Endowments August 31, 2012: Academic Institutions

Institutions	Number of New Endowments	Total Endowments	% Increase Over 2011	Total Market Value	% Market Value +/- Over 2011
U. T. Arlington	56	553	11%	\$89,318,622	11%
U. T. Austin	222	5,818	4%	\$3,140,033,758	1%
U. T. Brownsville	4	115	4%	\$8,676,012	1%
U. T. Dallas	19	271	8%	\$279,094,170	4%
U. T. El Paso	16	616	3%	\$149,199,743	3%
U. T. Pan American	8	290	3%	\$62,348,749	4%
U. T. Permian Basin	4	111	4%	\$38,814,140	55% *
U. T. San Antonio	14	348	4%	\$89,521,183	9%
U. T. Tyler	9	240	4%	\$71,193,944	1%

* U. T. Permian Basin market value increase is due to addition of one \$14M endowment.



Endowments: Academic Institutions FY07 – FY12



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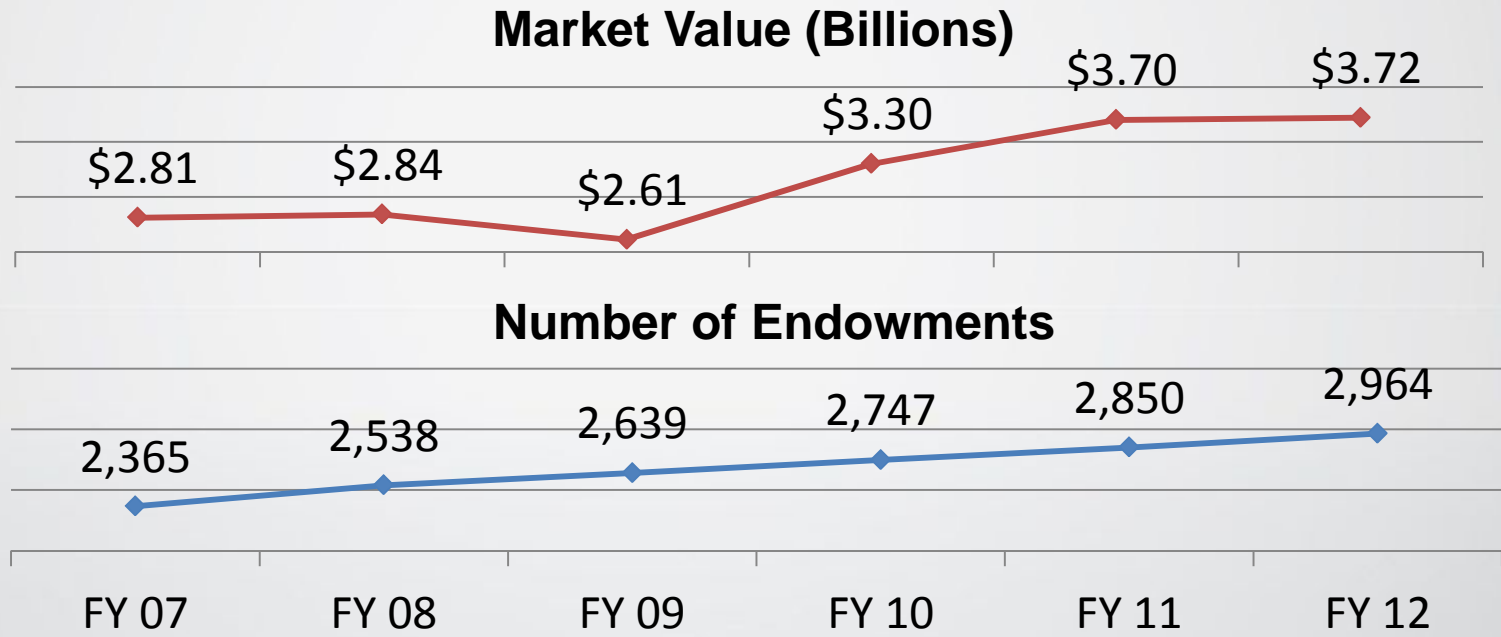
Endowments August 31, 2012: Health Institutions and Others

Institutions	Number of New Endowments	Total Endowments	% Increase Over 2011	Total Market Value	% Market Value +/- Over 2011
U. T. Southwestern	16	879	2%	\$1,153,843,091	1%
UTMB	36	733	5%	\$1,268,858,409	-1% *
UTHSC–Houston	22	456	5%	\$173,844,644	6%
UTHSC–San Antonio	15	386	4%	\$174,824,211	3%
M. D. Anderson	25	470	6%	\$937,786,248	0%
UTHSC–Tyler	0	40	0%	\$10,636,060	-2%
U. T. System Administration	22	168	15%	\$36,550,487	1%
Multi-Institution	1	9	13%	\$17,699,743	4%

* In FY12, one externally-held fund benefiting UTMB had \$8.5M drop in market value.



Endowments: Health Institutions FY07 – FY12



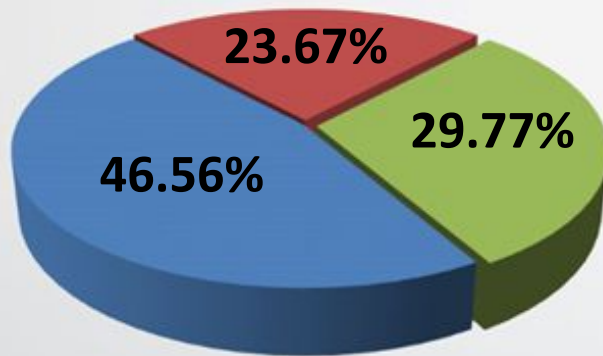
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Board-held Endowments: August 31, 2012

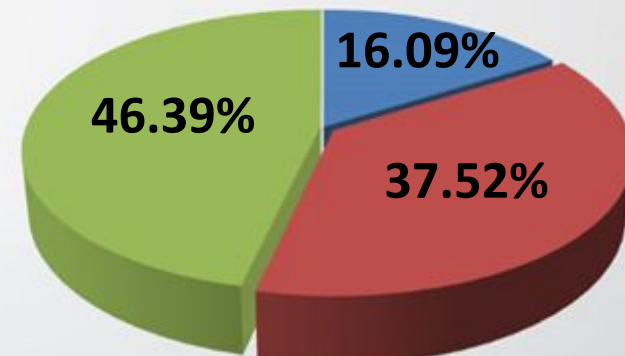
Total Number of Endowments: 10,041

■ Student Support:	4,675
■ Academic Positions:	2,377
■ Program Support:	2,989



Total Endowment Market Value: \$5.61B

■ Student Support:	\$903.26M
■ Academic Positions:	\$2.11B
■ Program Support:	\$2.60B



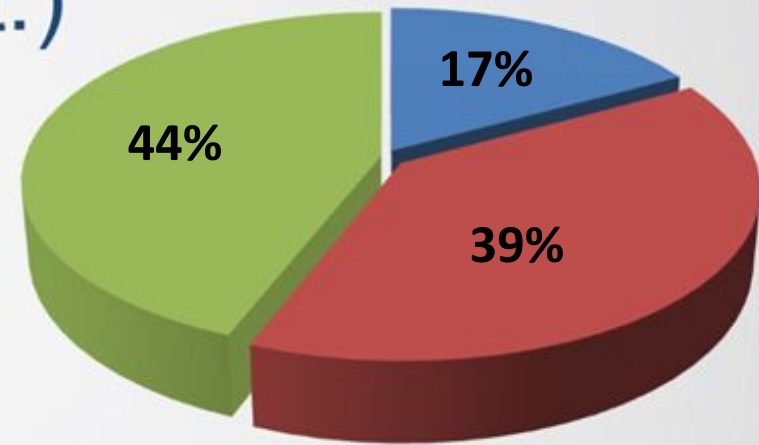
- In FY12, the number of Board-held endowments increased by 467 (5%) and the market value increased by \$78.6M (1.42%) over FY11.



Board-held Endowments: August 31, 2012 (cont.)

Distributions from Endowments

Endowment Purpose	Distributions	Percentage of Total
Student Support	\$44,247,027	17%
Academic Positions	\$98,739,310	39%
Program Support	\$112,063,079	44%
Total	\$255,049,415	100%



- Student Support: \$44.2M
- Academic Positions: \$98.7M
- Program Support: \$112.1M

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Elements of the Program



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Improving Accountability

- All endowments are reviewed at least every three years
- Risks monitored and measured:
 - Inappropriate expenditures
 - No expenditures
 - Excessive accumulations
 - Unfilled endowed academic positions

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Summary of Findings for FY12

- Highest percentage (60%) of endowments reviewed
- Percentage of endowments in compliance remained high
- Overall level of accumulations in endowment operating accounts (1.28 years) fell within the acceptable level of ≤ 2 years worth of annual distributions
- Overall operating fund balances in student support endowments (0.77 years) remained below one year's worth of annual distributions

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Summary of Findings for FY12 (cont.)

- For academic position endowments, ratio of overall operating fund balances to annual distributions hit a low of 1.45 years worth distributions
- Percentage of unfilled academic positions continues to improve
- 8,404 of 8,518 (99%) known donors received annual endowment reports
- One U. T. System institution identified higher levels of unjustified excessive accumulations and no expenditures, but this institution used a stricter assessment

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Risk 1: Inappropriate Expenditures

Percentage of Reviewed Endowments In Compliance



- In FY12, 4 expenditures totaling \$9,203 remained uncorrected as of the Endowment Compliance Report due date (12/15/12); all have since been corrected.



Risk 2: No Expenditures

Percentage of Reviewed Endowments In Compliance



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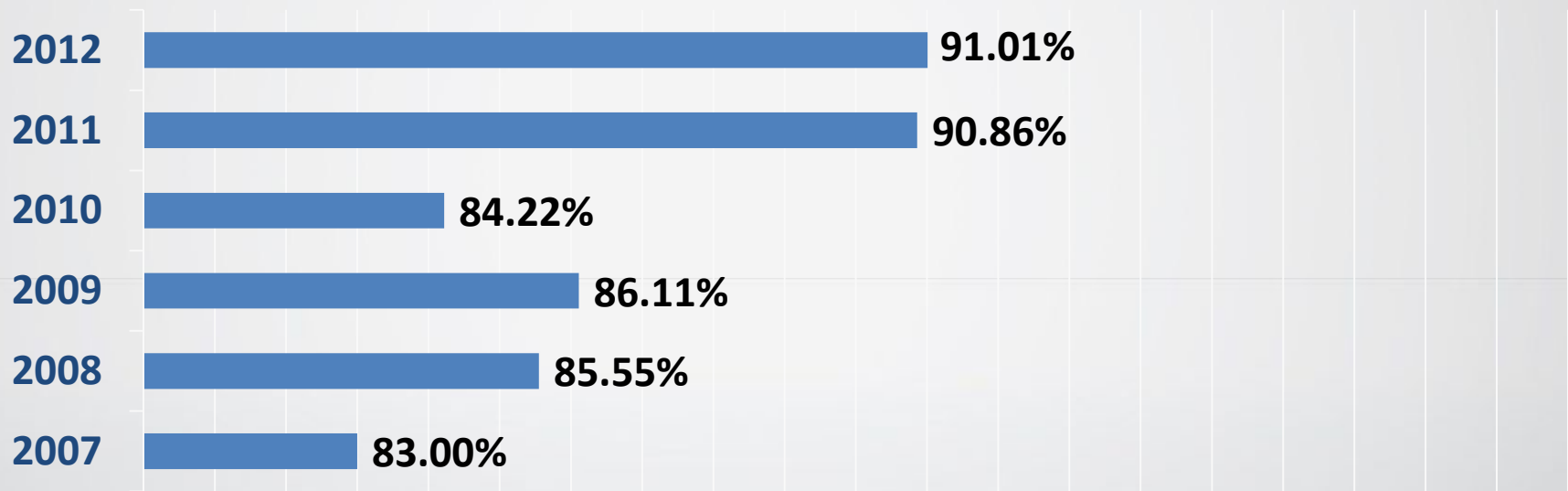
Risk 3: Excessive Accumulations

Percentage of Reviewed Endowments In Compliance



Risk 4: Unfilled Academic Positions

Percentage of Academic Positions In Compliance



- Beginning in FY11, only endowments unfilled for 12 months or longer are counted as unfilled.



Addressing Findings

- Recommendations for improvement are submitted to each President
- In response, the President provides an action plan to correct each problem
- U. T. System conducts a mid-year review of the action plan and results are given to the President to facilitate mid-year corrections, if necessary



Funding for the Program

- Each U. T. System institution may receive an annual fee of 0.08% to 0.20% of the market value of its endowments
- For a fee greater than 0.08%, the U. T. System institution must submit an audited fee assessment, updated at least every two years
- For FY12:
 - 3 U. T. System institutions requested 0.08%
 - 12 U. T. System institutions and System Administration requested 0.20%
 - 1 U. T. System institution does not take the fee



Observations and Moving Forward

- Reviewed greater percentage of endowments which helped identify areas to improve Program
- Continued to address challenges associated with filling endowed academic positions
- In consultation with Vice Presidents for development at U. T. System institutions, exploring minimum endowment levels for possible increases
- Must increase delivery of endowment reports to 100% of donors
- CASE District IV Award received in 2013 for Program's success in annual endowment donor reporting



7. **U. T. System: Discussion and appropriate action regarding review of institutional compliance with the Texas Public Information Act**

RECOMMENDATION

Audit, Compliance, and Management Review Committee Chairman Pejovich recommends that the Committee initiate a Systemwide review of institutional compliance with provisions of the Texas Public Information Act, to be conducted at the direction of Chancellor Cigarroa.