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FOR  
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW  
COMMITTEE**

**Committee Meeting:** 5/14/2014

**Board Meeting:** 5/15/2014  
Austin, Texas

*Brenda Pejovich, Chairman  
Wallace L. Hall, Jr.  
R. Steven Hicks  
Jeffery D. Hildebrand  
Robert L. Stillwell*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>CONVENE</b> ( <i>Conference Room, Ashbel Smith Hall, 9th Floor</i> )	9:30 a.m. <i>Chairman Pejovich</i>		
<b>RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551</b>			
<b>Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - Texas Government Code Section 551.074</b>			
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			
<b>RECONVENE IN OPEN SESSION</b> ( <i>Board Room, Ashbel Smith Hall, 9th Floor</i> )			
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration</b>	10:00 a.m. <b>Action</b>	<b>Action</b>	<b>76</b>
2. <b>U. T. System: Approval of non-audit services to be performed by U. T. System’s external audit firm, Deloitte &amp; Touche LLP, for the Institute for Transformational Learning (for the U. T. Rio Grande Valley student lifecycle management system), the Office of Health Affairs (for the Cancer Prevention &amp; Research Institute of Texas grant audits), and the Office of Academic Affairs (for the U. T. Rio Grande Valley institutional design models)</b>	10:02 a.m. <b>Action</b> <i>Regent Pejovich</i>	Not on Agenda	<b>77</b>
3. <b>U. T. System: Consideration and approval of Institutional Audit Committee Chair nominations</b>	10:10 a.m. <b>Action</b> <i>Mr. Peppers</i>	Not on Agenda	<b>78</b>
4. <b>U. T. System: Report on the State Auditor’s Office Statewide Single Audit for FY 2013</b>	10:20 a.m. <b>Report/Discussion</b> <i>Mr. Peppers</i>	Not on Agenda	<b>80</b>
<b>ADJOURN</b>	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**

RECOMMENDATION

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

2. **U. T. System: Approval of non-audit services to be performed by U. T. System's external audit firm, Deloitte & Touche LLP, for the Institute for Transformational Learning (for the U. T. Rio Grande Valley student lifecycle management system), the Office of Health Affairs (for the Cancer Prevention & Research Institute of Texas grant audits), and the Office of Academic Affairs (for the U. T. Rio Grande Valley institutional design models)**

#### RECOMMENDATION

It is recommended that approval be given by the Audit, Compliance, and Management Review Committee (ACMRC) for U. T. System's external audit firm, Deloitte & Touche LLP, to perform non-audit services for

- a. the U. T. System Institute for Transformational Learning (for the U. T. Rio Grande Valley student lifecycle management system);
- b. the Office of Health Affairs [for the Cancer Prevention and Research Institute of Texas (CPRIT) grant audits]; and
- c. the Office of Academic Affairs (for the U. T. Rio Grande Valley institutional design models).

#### BACKGROUND INFORMATION

Regents' Rule 20402, Section 2.1 states, "The U. T. System and the institutions may not engage the external audit firm to perform non-audit services unless the proposed engagement is reviewed and approved by the ACMRC." Section 2.2 states that the ACMRC Chairman may delegate authority to grant the approval to any ACMRC member, after which the decision made shall be presented to the full ACMRC at the next Committee meeting.

The current external audit firm engaged by the U. T. System Board of Regents to provide audit services is Deloitte & Touche LLP.

The source of funding for these projects will be state funds (for Institute of Transformational Learning) and the Available University Fund (for Office of Health Affairs and Office of Academic Affairs).

The Texas State Auditor is required to approve the use of an external auditor under *Texas Government Code* Section 321.020. The required approvals will be obtained prior to the execution of the contract with Deloitte & Touche LLP.

### 3. U. T. System: Consideration and approval of Institutional Audit Committee Chair nominations

#### RECOMMENDATION

The U. T. System institutional presidents recommend, for consideration and approval by the Audit, Compliance, and Management Review Committee (ACMRC), the following candidates to serve as Chair of the institutional audit committees. The nominations have been reviewed by the U. T. System Chief Audit Executive, the Chancellor, and the ACMRC Chairman.

#### **The University of Texas System Systemwide Internal Audit Institutional Audit Committee Chair Nominations**

<b>Institution</b>	<b>Institutional Audit Committee Chair Nominee</b>
U. T. Arlington	Mr. Randal Rose, President of the Arlington market for J.P. Morgan Chase
U. T. Austin	Mr. Will O'Hara, former Executive Vice President of Morgan Stanley Dean Witter & Co.
U. T. Brownsville	Mr. Greg McCumber, Managing Partner of Burton, McCumber & Cortez, LLP
U. T. Dallas	Ms. Lisa Choate, Co-Founder and Partner of Ultimate Health Resources, LLC
U. T. El Paso	Mr. David Lindau, Past President of Lauterbach Financial Advisors
U. T. Pan American	Mr. Kenneth Everhard, Partner of Everhard & Company, CPAs
U. T. Permian Basin	Mr. Richard Carlton, Executive Vice President of SouthWest Bank
U. T. San Antonio	Mr. Ruben Escobedo, Retired Senior Partner of Ruben Escobedo & Co., CPA
U. T. Tyler	Mr. Jeff Austin, Vice Chairman of the Board of Austin Bank Texas, N.A.
U. T. Southwestern Medical Center	Mr. Robert Estrada, Chairman of the Board of Estrada Hinojosa & Company, Inc.
U. T. Medical Branch	Ms. Ann Masel, Shareholder in DRDA, PLLC
U. T. HSC – Houston	Mr. Howard Schramm, Senior Vice President of Amegy Bank of Texas
U. T. HSC – San Antonio	Mr. Pat Frost, President of Frost Bank
U. T. M. D. Anderson Cancer Center	Mr. Michael Frazier, Chairman, President and CEO of Simmons & Company International ( <i>Current Chair through 8/31/2014</i> ) Mr. Thomas Glanville, Founder and Managing Partner of Eschelon Energy Partners ( <i>Chair Elect starting 9/1/2014</i> )
U. T. HSC – Tyler	Mr. Kenneth George, City President of Capital One Bank
U. T. System Administration	Mr. William Cromwell, CPA, former President of Capitol Chevrolet

### BACKGROUND INFORMATION

As part of the Systemwide internal audit initiative to strengthen institutional audit committee independence and capability, the practice for the audit committee to be chaired by an external member, which already existed at several institutions, has been universally adopted by all institutions. In December 2013, the institutional presidents were instructed to submit their nominations for external member chairs of their institutional audit committees, which included a profile of the candidates' qualifications and accomplishments. These nomination forms were provided to the ACMRC members prior to the meeting.

4. **U. T. System: Report on the State Auditor's Office Statewide Single Audit for FY 2013**

REPORT

Chief Audit Executive Peppers will report on the State Auditor's Office State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2013. A summary of the audit reports is set forth on the following pages. Supplementary details of the audit results were provided to the Audit, Compliance, and Management Review Committee members prior to the meeting.

**The University of Texas System  
State Auditor's Office FY 2013 Statewide Single Audit  
Summary of Results**

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**State of Texas Federal Portion of the Statewide Single Audit Report for Fiscal Year 2013**

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) 2013, the Texas State Auditor's Office (SAO) audited *student financial assistance* at U. T. Arlington, U. T. Austin, and U. T. San Antonio and audited *research and development programs* at U. T. Austin, U. T. El Paso, U. T. Southwestern Medical Center, U. T. Health Science Center - San Antonio, and U. T. 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/Non-compliance or Material Weakness/Material Non-compliance (see related definitions below), the last of which indicates the most serious reportable issue.

- *Deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis.
- *Significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
- *Material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

***Report on Compliance with Federal Requirements for the Student Financial Assistance Cluster of Federal Programs for Fiscal Year 2013***

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 2013. This report was issued on February 25, 2014.

The audit resulted in four findings at U. T. Arlington, two findings at U. T. Austin, and four findings at U. T. San Antonio, with a total questioned cost of \$0. Seven of the findings were categorized as significant deficiencies. One finding, identified at U. T. Arlington, was considered a material weakness/non-compliance. This finding related to processes surrounding the return of Title IV funds, including inaccurate calculation and untimely submission of amounts returned; inadequate controls over the determination of payment period/period of enrollment; lack of policies for administrative and special account access and documentation of periodic user access reviews; and inconsistent maintenance of appropriate access controls over user accounts to ensure proper segregation of duties. Management at each of the three institutions has responded appropriately to the related recommendations, and several have taken steps towards implementation.

In addition, corrective actions were taken for 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 2013 audit report.

***Report Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for Fiscal Year 2013***

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 2013. This report was issued on February 25, 2014.

The audit resulted in two findings at U. T. Austin, four findings at U. T. El Paso, three findings at U. T. Southwestern Medical Center, two findings at U. T. Health Science Center - San Antonio, and three findings at U. T. M. D. Anderson Cancer Center, with a total questioned cost of \$44,553. Of the 14 findings, 10 were categorized as significant deficiencies and 4 as material weakness/non-compliance. The material weakness/non-compliance findings related to: Allowable Costs at U. T. El Paso (questioned cost \$30,669) – inadequate documentation to support payroll distributions, incorrect indirect cost rate, and inadequate user access controls over the effort reporting application; Period of Availability of Federal Funds at U. T. Southwestern Medical Center (questioned cost \$13,884) – insufficient review process to ensure costs are incurred within the period of availability and charged to the appropriate award with the proper indirect costs and inadequate process to ensure obligations are liquidated within the required time period; and Cash Management and Reporting at U. T. M. D. Anderson Cancer Center (questioned cost \$0) – inadequate controls to ensure drawdowns are based only on expended amounts, insufficient documentation to support drawdowns, non-submission of required reporting, and inaccurate/incomplete reports. Management at each of the five institutions has responded appropriately to the related recommendations, and several have taken steps towards implementation.

In addition, corrective actions were taken for 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 2013 audit report.

**State of Texas Financial Portion of the Statewide Single Audit Report for Fiscal Year 2013**

The SAO did not conduct audit procedures on the U. T. 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, 2013, as they relied on the external audit of the U. T. System FY 2013 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 2013 Schedules of Expenditures of Federal Awards (SEFAs) to U. T. Arlington, U. T. Austin, U. T. El Paso, U. T. Pan American, U. T. San Antonio, and U. T. Southwestern Medical Center. The SEFAs were also reviewed at U. T. Medical Branch and U. T. M. D. Anderson Cancer Center; however, no findings were identified. This report was issued on February 28, 2014.

The findings from the SAO's previous financial portion of the Statewide Single Audit, related to the SEFA, were reissued as new findings in the FY 2013 audit report

**Report on State of Texas Compliance with Federal Requirements for Selected Major Programs at U. T. Medical Branch - Galveston for Fiscal Year 2013**

U. T. Medical Branch spent \$33.1 million in funds from the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program in FY 2013. U. T. Medical Branch had one finding (Significant Deficiency and Non-Compliance / Questioned Cost: \$0) related to equipment and real property management. The SAO found that U. T. Medical Branch improperly transferred an asset valued at more than \$5,000 that it purchased with Disaster Grants funds to an outside entity and did not notify the awarding agency. U. T. Medical Branch management has responded appropriately to the related recommendation. In addition, the SAO performed follow-up on the one finding from the previous audit report and found it had been implemented. This report was issued on February 25, 2014.