



Fiscal Year (FY) 2017 Internal Audit Annual Report

Purpose of the Internal Audit Annual Report: To provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the internal audit annual report assists oversight agencies in their planning and coordination efforts.

Table of Content

- I. Compliance with Texas Government Code, Section 2102.015.....3**
- II. Internal Audit Plan for Fiscal Year 2017.....4**
- III. Consulting Services and Non-audit Services Completed.....7**
- IV. External Quality Assurance Review.....8**
- V. Internal Audit Plan for Fiscal Year 2018.....9**
- VI. External Audit Services Procured in Fiscal Year 2017.....12**
- VII. Reporting Suspected Fraud and Abuse.....12**

Exhibit A: External Quality Assurance Review

Exhibit B: Summary of Issues and Current Status

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Report, and Other Audit Information on Internet Website

Texas Government Code, Section 2102.015 requires that state agencies, including institutions of higher education, post on their website:

- the agency's approved internal audit plan, as provided by Texas Government Code Section 2102.008
- the agency's annual report, as required by Texas Government Code Section 2102.009

Texas Government Code, Section 2102.015, also requires entities to update the posting described above to include the following information on the website:

- a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report
- a summary of the action taken by the agency to address the concerns, if any, that are raised by the audit plan or annual report

A state agency is not required to post information contained in the agency's internal audit plan or annual report if the information meets an exception from public disclosure under Texas Government Code Chapter 552.

The UT Health Northeast Internal Audit Department complies with these requirements by posting fiscal year audit plans and annual internal audit reports on the institution's external website in the "Reports to the State" section. Detailed summaries of weaknesses and deficiencies raised by the audit plan or annual report, along with the summary of actions taken to address the concerns, are included within the annual internal audit reports.

Reference Exhibit B: UT Health Northeast Office of Internal Audit, FY 2017 Audits – Summary of Issues and Current Status

II. Internal Audit Plan for Fiscal Year 2017

Engagement	Project Number	FY 2017		Actual Hours Q1-Q4	Status
		Original Budget	Adj. Budget		
Risk Based Audits					
MSRDP Faculty Practice Plan Audit	17-01	300	-	-	Cancelled
Patient Revenue Audit	17-02	425	425	244	In Progress
Sponsored Programs Audit	17-03	375	375	554	Completed - Report Issued: 7/5/2017
PeopleSoft Financial Management System Audit	17-04	400	10	10	Cancelled
Carryforward Audits	17-05	150	375	375	3 Audits Completed - 3 Reports Issued: Patient Revenue Audit of Cash Collection Rates and Patterns 9/20/2016; COI Audit 11/18/2016; TAC 202 Review 3/16/2017
Risk Based Audits Subtotal		1,650	1,185	1,183	
Required Audits (Externally and Internally)					
Financial Statement Audit Assistance (provide assistance to external auditor)	17-06	100	1	1	Hours Reallocated
Executive's Travel and Entertainment Expense Audit	17-08	150	260	260	Completed - Report Issued: 1/4/2017
CPRIT Grant External Audit (assistance to management)	17-09	25	5	5	Completed - Report Issued by Deloitte
Family Medicine Residency Program Grant Audit FYE 8/31/2016	17-10	80	82	82	Completed - Report Issued: 1/30/2017
UTS 142.1 Assurance Work	17-11	16	17	17	Completed - Results Reported to UT System
Supply Inventory Recounts	17-12	16	16	4	Completed
Required Audits Subtotal		387	381	369	
Consulting Projects					
Patient Revenue Cycle Advisory Team Participation	17-13	300	258	230	Completed
PeopleSoft Upgrades Implementation - Advisory Role	17-14	100	9	8	Completed
Transition to Quality and Cost-Based Payment Models - Advisory Role	17-15	80	-	-	Hours Reallocated
Electronic Medical Record Advisory Team Participation	17-16	250	-	-	Hours Reallocated
Reserve Applied & Budgeted - Ad Hoc Requests		160	160	160	Completed
Reserve Applied - State Contracting Assessment		43	43	43	Completed
Consulting Subtotal		933	470	441	

Engagement	Project Number	FY 2017		Actual	Status
		Original Budget	Adj. Budget	Hours Q1-Q4	
Investigations					
Investigations - Assistance	17-17	180	-	-	Hours Reallocated
Investigations Subtotal		180	-	-	
Follow-Up					
Follow-up procedures conducted to verify the implementations status of past recommendations made	CATS Report	175	134	110	Completed
Follow-Up Subtotal		175	134	110	
General Reserve					
Reserve for TBD Engagements	TBD	151	-	-	Reserve Reduced/Applied
General Reserve Subtotal		151	-	-	
Development - Operations					
Annual Risk Assessment and Audit Plan Development		175	175	175	Completed
Internal Audit Committee preparation and participation		200	200	331	Completed
Institutional Committees and Workgroups - Advisory Role		75	42	36	Completed
Quality Initiatives		100	100	85	Completed
UT System & SAO Reports and Requests		50	50	64	Completed
Automated Tools Skills Development and Maintenance		56	136	131	Completed
Training Provided by Internal Audit		40	33	33	Completed
Project Management Collaboration and Oversight		20	20	17	Completed
Development - Operations Subtotal		716	756	872	
Development - Initiatives and Education					
System Audit Office Initiatives Participation		50	43	40	Completed
Individual Continuing Professional Education (CPE) Training, including related travel		160	160	176	Completed
Development - Initiatives and Education Subtotal		210	203	216	
Total Budgeted Hours		4,402	3,129	3,191	

Due to staffing changes during FY 2017, the original budgeted hours were adjusted twice to appropriately reflect available hours. The adjusted budgeted hours were approved by the Internal Audit Committee.

Rider 8, page III-41 of the General Appropriation Act (85th Legislature).

Rider 8, page III-41, the General Appropriations Act (85th Legislature, Conference Committee Report), requires that higher education institutions conduct an internal audit of benefits proportional by fund, using a methodology prescribed by the State Auditor's Office. The rider requires that the audit examine fiscal years 2015 through 2017, and be completed no later than August 31, 2018.

The UT Health Northeast Internal Audit Department will conduct an audit of benefits proportionality by fund for fiscal years 2015 through 2017, using the methodology prescribed by the State Auditor's Office, as a project under the risk based reserve for the FY 2018 audit plan (see page 10).

Texas Education Code, Section 51.9337

Senate Bill 20 (84th Legislative Session) made several modifications and additions to Texas Government Code (TGC) and Texas Education Code (TEC) related to purchasing and contracting. Effective September 1, 2015, TEC §51.9337 requires that, "*The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor.*"

The UT Health Northeast Internal Audit Department conducted this required assessment for FY 2017, and found the following:

Based on review of current institutional policy and the UT System Board of Regents' *Rules and Regulations*, UT Health Northeast has generally adopted all of the rules and policies required by TEC §51.9337. Review and revision of Institutional and System policy is an ongoing process. These rules and policies will continue to be assessed annually to ensure continued compliance with TEC 51.9337.

III. Consulting Services and Non-Audit Services Completed

Report Date	Report Title	High-Level Objective	Results
No Formal Report Ongoing	Patient Revenue Cycle Advisory Team Participation	To improve the institution's operating margin, by prioritizing investments in revenue enhancement initiatives that have the most impact (time to value).	Procedures to improve institution's operating margin have been implemented. Monitoring of revenue performance is in process.
No Formal Report	PeopleSoft Upgrades Implementation - Advisory Role	To assist management and monitor project progress associated with the PeopleSoft Financials upgrade scheduled for implementation in FY 2017.	Internal Audit participated in an advisory role as the project was being implemented.
No Formal Report	Reserve Applied & Budgeted - Ad Hoc Requests	To fulfill ad hoc advisory or analysis requests by institutional and UTS customers.	Improvement of entity's operations, risk management, control and governance processes.
No Formal Report	Reserve Applied - State Contracting Assessment	To assess the institution's policies and determine whether the institution has adopted the required policies to comply with Texas Education Code, Section 51.9337.	The institution is in compliance with TEC 51.9337 and all required policies and procedures are in place.

IV. External Quality Assurance Review (Peer Review)

UT System engaged PriceWaterhouseCoopers LLP to conduct external quality assessments of the audit activities at all UT System institutions and System Administration. The quality assessment for UT Health Northeast (also known as UT Health Science Center at Tyler) was completed and a report was issued on February 28, 2014. The overall objective of the assessment was to evaluate whether the UT Health Science Center at Tyler Office of Internal Audit conforms with the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*, GAGAS, relevant requirements of the Texas Internal Auditing Act, and to perform an assessment of the internal auditing function compared to leading practices. The UT Health Science Center at Tyler Office of Internal Audit received an overall rating of "generally conforms" with IIA *Standards*. "Generally Conforms" means the Internal Audit activity has practices that are in accordance with the IIA *Standards*, although opportunities for enhancement may exist. "Generally Conforms" is the highest ranking possible.

Reference Exhibit A: External Quality Assessment Review Executive Summary

*It is noted that Baker Tilly Virchow Krause, LLP (Baker Tilly) recently conducted an external quality assessment of the UT Health Northeast Internal Audit Office. This external quality assessment, performed in 2017, was a self-assessment with independent validation; however, this review is still in the final reporting stages.

V. Internal Audit Plan for Fiscal Year 2018

The FY 2018 annual audit plan was primarily developed based upon the results of the institution-wide risk assessment completed late in FY 2017, which focused on UT Health Northeast’s critical strategic and operational objectives and risks related to these. To identify audits and projects for the plan, Internal Audit considered the level of risk for strategic and operational objectives and monitoring of the risk performed internally and externally. In addition, audits and projects externally required or requested by UT System or the Board of Regents were also included in the plan.

The audit plan was divided into the following categories:

- Risk Based Audits;
- Required Audits (Externally and Internally);
- Risk Based Consulting Projects;
- Investigations;
- Follow-up;
- Risk Based Reserve;
- Development – Operations; and
- Development – Initiatives and Education.

Audits and projects were included in the plan based upon the level of risks and the audit resources available, but allocations were made to ensure an adequate level of coverage within each of the categories. Although the plan was developed to cover as many of the high risks as possible, there were some risks related to strategic or operational objectives which were ranked as “high” that were identified in the risk assessment process in which a project was not scheduled. Many of these “high” risk objectives for which a project was not scheduled were deemed to be mitigated by the secondary line of defense such as Compliance, Risk Management, functional teams, or committees. Specific “high” risks not covered by the plan were communicated to senior leaders and the Internal Audit Committee. High risks not covered by the FY 2018 annual audit plan include the following subject areas:

High-risk Strategic or Operational Areas Not Covered in the FY 2018 Audit Plan	
Compliance Program	Campus Police
Recruitment	Patient Safety
Contracting Oversight	Budgeting/Decision Support
Pre-award & Award Acceptance	Biosafety
Research Compliance	Partnerships

The FY 2018 annual audit plan was approved by the UT Health Northeast Internal Audit Committee on July 14, 2017 and by the UT System Board of Regents’ Audit, Compliance and Risk Management Committee and full board at the August 24-25, 2017 meeting.

Risk Assessment Process

As a basis for the FY 2018 annual audit plan, a risk assessment was completed to identify and evaluate risks relative to UT Health Northeast’s critical strategic and operational objectives. This risk assessment methodology was developed under the leadership of The University of Texas System Audit Office and implemented System-wide. The process is designed to capture and evaluate critical strategic and operational risks for the organization utilizing a top-down approach.

The risk assessment approach consisted of the following procedures:

- Identified and considered UT System-wide risks;
- Reviewed important institutional financial and operational documents, and industry data to become aware of recent institutional performance and challenges in the industry in which the institution operates;
- Identified the institution’s important strategic and operational priorities and defined objectives at-risk relative to these priorities;
- Collaborated with certain top organizational and operational leaders to evaluate and update strategic priorities and objectives and to score risks; and
- Conducted cross-functional risk assessments involving the areas of Information Security, Compliance, Legal and Security.

The risk assessment approach used is structured around the Three Lines of Defense model that is endorsed by the Institute of Internal Auditors. This model provides a structured approach for various departments or areas within an organization to be responsible for managing the organization’s risks. In summary, management is primarily responsible for risk. Risk assessing and risk managing functions such as Compliance, Information Security, Risk Management, Police, and Legal make up the secondary line of defense. Finally, Internal Audit is responsible for independently and objectively providing advice on how to strengthen risk management in the first and second lines of defense and to mitigate risk.

Fiscal Year 2018 Audit Plan

Engagements	Project Number	Original Budget	Percent of Total
Risk Based Audits			
Stark Law Physician Contract Review	18-1	500	
Employee Licensure Audit (Non-Physician Employees)	18-2	375	
Controlled Substance Contracts Audit	18-3	375	
Carryforward Audits	18-4	100	
Risk Based Audits Subtotal		1,350	35.4%
Required Audits (External and/or Internal)			
Family Medicine Residency Program Grant Audit FYE 8/31/2017	18-5	90	
CPRIT Grant External Audit (assistance to management)	18-6	25	
UTS 142.1 Assurance Work	18-7	23	
State Institution of Higher Education Contracting Assessment	18-8	40	
Required Audits Subtotal		178	4.7%

Engagements	Project Number	Original Budget	Percent of Total
Risk Based Consulting			
IT Advisory Project	18-9	350	
Patient Revenue Cycle Advisory Team Participation	18-10	150	
Electronic Medical Record Advisory Team Participation	18-11	100	
Institutional Committees and Workgroups - Advisory Role	18-12	100	
Training Provided by Internal Audit		50	
Consulting Subtotal		750	19.7%
Investigations			
Investigations - Assistance	18-13	50	
Investigations Subtotal		50	1.3%
Follow-Up			
Follow-up procedures conducted to verify the implementation status of past recommendations made	CATS/ TM Reports	175	
Follow-Up Subtotal		175	4.6%
Risk Based Reserve			
Reserve for TBD Engagements	TBD	300	
General Reserve Subtotal		300	7.9%
Development - Operations			
Annual Risk Assessment and Audit Plan Development		200	
Internal Audit Committee preparation and participation		200	
Quality Initiatives		150	
UT System & SAO Reports and Requests		50	
Automated Tools Skills Development and Maintenance		150	
Project Management Collaboration and Oversight		50	
Development - Operations Subtotal		800	21.0%
Development - Initiatives and Education			
System Audit Office Initiatives Participation		50	
Individual Continuing Professional Education (CPE) Training, including travel		160	
Development - Initiatives and Education Subtotal		210	5.5%
Total Budgeted Hours		3,813	100.0%

Rider 8, page III-41 of the General Appropriation Act (85th Legislature).

Rider 8, page III-41, the General Appropriations Act (85th Legislature, Conference Committee Report), requires that higher education institutions conduct an internal audit of benefits proportional by fund, using a methodology prescribed by the State Auditor's Office. The rider requires that the audit examine fiscal years 2015 through 2017, and be completed no later than August 31, 2018.

As indicated previously in section II, the Internal Audit Department at UT Health Northeast will conduct an audit of benefits proportionality by fund for fiscal years 2015 through 2017, using the methodology prescribed by the State Auditor's Office, as a project under the risk based reserve for the FY 2018 annual audit plan.

Texas Education Code, Section 51.9337

Senate Bill 20 (84th Legislative Session) made several modifications and additions to Texas Government Code (TGC) and Texas Education Code (TEC) related to purchasing and contracting. Effective September 1, 2015, TEC §51.9337 requires that, "*The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor.*"

The UT Health Northeast Internal Audit Department has included this required assessment as an audit on the FY 2018 annual audit plan.

VI. External Audit Services Procured in Fiscal Year 2017

The UT Health Northeast Internal Audit Department did not engage in, or require any, external audit services for FY 2017.

VII. Reporting Suspected Fraud and Abuse

UT Health Northeast has taken the following actions to implement the requirements of:

- Section 7.09, page IX-39, the General Appropriations Act (84th Legislature, Conference Committee Report): The institution's website includes the State Auditor's Office fraud hotline information and a link to the State Auditor's website for fraud reporting. The information is linked from the institution's home page via a link entitled, "Reporting Fraud, Waste, and Abuse". The institution has also included information on how to report suspected fraud involving state funds to the State Auditor's Office in its Compliance and Ethics Hotline Reporting (PolicyStat ID #2132218) in the Institutional Handbook of Operating Procedures (IHOP).
- Texas Government Code Section 321.022, Coordination of Investigations: UT System has implemented UTS Policy 118, Section 24, which outlines the reporting requirements of Texas Government Code § 321.022. This policy is applicable to all UT System institutions, including UT Health Northeast. The policy states that if funds received from the state are lost, misappropriated, misused, or other unlawful conduct has occurred in relation to the entity, the Chief Administrative Officer shall report the reason and basis for the alleged fraud to the State Auditor as required by Texas Government Code § 321.022. The UT Health Northeast President is knowledgeable about the policy requirements and his reporting responsibilities to the State Auditor.

Exhibit A – External Quality Assessment Review Executive Summary



EXHIBIT A - EXTERNAL QUALITY ASSESSMENT REVIEW EXECUTIVE SUMMARY

February 28, 2014

Ms. Kris Kavasch
Executive Director of Internal Audit
The University of Texas Health Science Center at Tyler
11937 U.S. Highway 271
Tyler, TX 75708-3154

We have completed an External Quality Assessment (“EQA”) of The University of Texas Health Science Center at Tyler (“UTHSC Tyler”) Office of Internal Audit (“IA”). The EQA included an assessment of the level of conformance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing (“the IIA Standards”), the Generally Accepted Government Auditing Standards (“GAGAS”) as well as the relevant requirements of the Texas Internal Auditing Act (“TIAA”). Listed below are our observations:

- IIA Standards – Based on our work, overall IA generally conforms. We did identify process enhancement opportunities.
- GAGAS – Our assessment of GAGAS was limited, based on IA’s disclosure that no internal audits were performed during our assessment period under GAGAS. Based on our work, we did not identify conformance observations. We did identify process enhancement opportunities.
- TIAA requirements – Other than the observations related to IIA Standards and GAGAS, no other observations were identified during our work.

Our Services were performed and this report was developed in accordance with our contract dated February 18, 2014 and are subject to the terms and conditions included therein. Our Services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (“AICPA”). Accordingly, we are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us. Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through February 28, 2014, when field work was substantially completed. Accordingly, changes in circumstances after this date could affect the findings outlined in this report. This information has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with The University of Texas System Administration. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than The University of Texas System Administration and UTHSC Tyler.

We would like to offer a sincere thank you to you and your staff, and the Internal Audit Committee and management of UTHSC Tyler, for the time and attention they provided during this assessment. We appreciate the opportunity to serve The University of Texas System Administration on this important engagement.

Very truly yours,


PricewaterhouseCoopers, LLP

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Information contained herein is for the sole benefit and use of PwC’s Client

**Exhibit B - UT Health Northeast Office of Internal Audit
FY 2017 Audits – Summary of Issues and Current Status**

Texas Government Code, Section 2102.015 requires state agencies and institutions of higher education to post to the institution’s website:

- A “detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report.”
- A “summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.”

Report No.	Report Date	Name of Report	High-level Audit Objective(s)	Observations/Findings and Recommendations	Current Status/Actions¹
15-07	9/20/2016	Patient Revenue Audit of Cash Collection Rates and Patterns	To review the data and mechanisms available to model and assess predictability of collectible clinical revenue relative to actual cash collection (the net collection rate) at both the institutional level and by service line.	Data and mechanisms were reviewed for modeling and assessing the predictability of collectible clinical revenue relative to actual cash collections (the net collection rate) at both the institutional level and by service line and provided the results to senior leaders and the Patient Revenue Cycle Advisory Committee for consideration of additional investments in people, processes and technology.	Incomplete – Ongoing
16-07	11/18/2016	Conflicts of Interest Audit	To assess the effectiveness of UT Health Northeast's program for identifying, monitoring, and managing conflicts of interest, conflicts of commitment and outside activities.	An assessment was made of UT Health Northeast’s program for identifying and monitoring conflicts of interest, conflicts of commitment and outside activities. Recommendations were made for improving processes and controls over disclosure, training, monitoring and reporting of results.	Incomplete – Ongoing

**Exhibit B - UT Health Northeast Office of Internal Audit
FY 2017 Audits – Summary of Issues and Current Status**

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- A “summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.”

Report No.	Report Date	Name of Report	High-level Audit Objective(s)	Observations/Findings and Recommendations	Current Status/Actions¹
16-15	3/16/2017	Review for Compliance with Texas Administration Code (TAC) § 202 Security Control Standards	To determine compliance with information security control standards promulgated by the Texas Department of Information Resources in the Security Control Standards Catalog as required by TAC 202 rule § 202.76 (c).	The institution generally complies with TAC § 202.76 (c), state and federal guidelines, and UT System and UTHNE policies and produces relative to Information Technology security. However, recommendations were made for improving processes and documentation standards in the area of Access Controls and Configuration Management.	Incomplete – Ongoing
17-03	7/05/2017	Sponsored Programs Audit (Grants & contracts Financial Management Audit)	To perform an assessment of the key activities and processes utilized in the financial management of grants and contracts.	The Office of Sponsored Program’s management and staff are knowledgeable about federal, state and program specific requirements for the various sponsor funding received by UT Health Northeast and has substantially implemented processes and controls to provide reasonable assurance that each sponsor’s requirements are met, as required. While reviewing processes, controls, and documentation we identified some opportunities for improvement as detailed within the specific processes discussed below.	Incomplete – Ongoing

Exhibit B - UT Health Northeast Office of Internal Audit FY 2017 Audits – Summary of Issues and Current Status

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- A “summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.”

Report No.	Report Date	Name of Report	High-level Audit Objective(s)	Observations/Findings and Recommendations	Current Status/Actions ¹
17-08	1/4/2017	Executive’s Travel and Entertainment Expense Audit	To determine whether travel and entertainment expenses paid by the institution on behalf of executive leaders are appropriate and in compliance with applicable laws, UT System, and UT Health Northeast policies and procedures.	Travel and entertainment expenses paid by the institution on behalf of these executive leaders during the fiscal year 2016 were appropriate and substantially in compliance with applicable laws and UT System policies and procedures. Recommendations were made for improving process and controls to enforce policy requirements and documentations standards.	Fully Implemented
17-10	1/30/2017	Family Medicine Residency Program Audit FYE 8/31/2016	To determine if FY 2016 Texas Higher Education Coordinating Board funds awarded to the UT Health Northeast Family Medicine Residency Program under the State Grant Agreement have been appropriately expended as required by program guidelines.	FY 2016 Texas Higher Education Coordinating Board funds awarded to the UT Health Northeast Family Medicine Residency Program under the State Grant Agreement were appropriately spent in accordance with applicable guidelines.	N/A

¹ Definitions of implementation status are as follows:

- I. Fully Implemented: Successful development and use of a process, system, or policy to implement a prior recommendation.

Exhibit B - UT Health Northeast Office of Internal Audit FY 2017 Audits – Summary of Issues and Current Status

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- A “summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.”

- II. **Substantially Implemented:** Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.
- III. **Incomplete/Ongoing:** Ongoing development of a process, system, or policy to address a prior recommendation.
- IV. **Not Implemented:** Lack of a formal process, system, or policy to address a prior recommendation.