

Meeting No. 866

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

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December 3, 1992

Austin, Texas

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 OF
 THE UNIVERSITY OF TEXAS SYSTEM
 DECEMBER 3, 1992
 AUSTIN, TEXAS

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MEETING NO. 866

THURSDAY, DECEMBER 3, 1992.--The members of the Board of Regents of The University of Texas System convened in regular session at 10:00 a.m. on Thursday, December 3, 1992, in the Regents' Meeting Room on the ninth floor of Ashbel Smith Hall in Austin, Texas, with the following in attendance:

ATTENDANCE.--

<u>Present</u>	<u>Absent</u>
Chairman Beecherl, presiding	
Vice-Chairman Ramirez	
Vice-Chairman Cruikshank	
Regent Barshop	
Regent Holmes	
Regent Loeffler	
Regent Moncrief	
Regent Rapoport	
Regent Temple	

Executive Secretary Dilly

Chancellor Cunningham
Executive Vice Chancellor Burck
Executive Vice Chancellor Duncan
Executive Vice Chancellor Mullins

Chairman Beecherl announced a quorum present and called the meeting to order.

U. T. BOARD OF REGENTS: APPROVAL OF MINUTES OF REGULAR MEETING HELD ON OCTOBER 9, 1992, AND SPECIAL MEETING HELD ON NOVEMBER 4-6, 1992.--Upon motion of Regent Barshop, seconded by Vice-Chairman Cruikshank, the Minutes of the regular meeting of the Board of Regents of The University of Texas System held on October 9, 1992, in Richardson, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XL, Pages 1 - 514.

Upon motion of Regent Moncrief, seconded by Vice-Chairman Cruikshank, the Minutes of the special meeting of the Board of Regents of The University of Texas System held on November 4-6, 1992, in Grapevine, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XL, Pages 515 - 518.

SPECIAL ITEMS

1. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendments to Chapter I, Section 8, Subsection 8.5, Subdivision 8.52 (Communications by and to the Board).--Chairman Beecherl called on Vice Chancellor and General Counsel Farabee to comment on the proposed amendments to the Regents' Rules and Regulations, Part One, Chapter I, Section 8 relating to the requirements for those who wish to appear before the Board.

Vice Chancellor Farabee reported that several months ago Regent Holmes requested The University of Texas System Administration to study state agencies and systems of higher education both in the State of Texas and nationally to determine their practice related to public comment periods. Mr. Farabee noted that he undertook that review and found that city councils and school boards frequently have public comment periods and that some state agencies, such as the Texas Department of Human Services and Texas Department of Health, have set aside time for public comments in their meetings. He pointed out that the Texas Department of Human Services limited these presentations to 3 - 5 minutes depending on the number of persons and time available and the Texas Department of Health limit was 5 - 10 minutes.

Mr. Farabee stated that he contacted several major university systems in the State of Texas (Texas A&M University, University of Houston, Texas State University, Lamar University, University of North Texas, and Texas Tech) as well as several of the larger state university systems in the United States (University of California, University of Wisconsin, University of North Carolina, and State University of New York) and was informed that none of those systems had public comment times specifically set aside at their Board meetings. He emphasized that Texas Southern University has a comment period of fifteen minutes at the end of each of its Board meetings but limited it to members of the university family, i.e., students and faculty.

It was pointed out by Mr. Farabee that the proposed amendments before the Board are intended to clarify the procedures for public presentations or comments upon matters on the agenda for consideration by the Board and make the request procedures more flexible by allowing requests to speak to be made six days before the meeting rather than ten days in advance as currently required. In addition, he noted that the proposed amendments require the potential speaker to identify the subject of his/her remarks, which must be directly related to a matter on the Board's agenda, recite the well established authority of the Board to regulate the time, place and manner of speech, and authorize potential sanctions for speakers violating the time, place or manner regulations.

Mr. Farabee emphasized that the proposed amendments do not, in any way, diminish the authority of the Chairman to grant permission for speakers to appear before the Board without adhering to the requirements or the ability of other members of the Board to request through the Chairman that an individual be permitted to appear before the Board.

In accordance therewith, the Board amended the Regents' Rules and Regulations, Part One, Chapter I, Section 8, Subsection 8.5, Subdivision 8.52 regarding communications by and to the Board to read as set forth below:

8.5 Communications by and to the Board.

8.52 Except upon invitation of the Board, the Chairman of the Board, the Chancellor, or the appropriate Executive Vice Chancellor, no person shall appear before the Board or any committee thereof unless that person files with the Executive Secretary to the Board a written request explaining the purpose of such appearance at least six days before the date of such appearance and unless the Chairman of the Board, or a majority of the whole Board, shall approve the request. It is understood, however, that the chief administrative officer, or his or her delegate, and/or the president of the students' association, or his or her delegate, may appear without prior notice or request before the Board or any committee whenever the matter under consideration directly affects the component institution represented by such person. Persons requesting to appear must identify the subject of their remarks, which must be directly related to a matter on the Agenda for consideration by the Board. Whenever time and other circumstances permit, the person making the request shall first consult with the chief administrative officer, or his or her delegate, of such institution regarding the purpose of the appearance prior to the meeting of the Board or committee. Insofar as possible, any person who appears before the Board shall provide a written statement of the substance of such person's presentation to the Board, and such written statement shall be delivered to the Executive Secretary to the Board in sufficient time for copies to be distributed to the Regents prior to the meeting. Any person appearing before the Board or a committee shall be subject to restrictions on time, place and manner as may be prescribed by the Chairman or a majority of the Board or by the Chairman or a majority of a committee. The Chairman or a majority of the Board may prescribe sanctions against any person exceeding established time, place or manner limits; disrupting a meeting of the Board or a committee of the Board; or violating any provision of the Regents' Rules and Regulations. Sanctions may include the refusal to allow such person to speak again to the Board or committees of the Board for up to one year.

2. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Approval of Amendments to Chapter II, Section 4 (Executive Vice Chancellor for Academic Affairs) and Section 13 (Chief Administrative Officers of Component Institutions).--Approval was given to amend the Regents' Rules and Regulations, Part One, Chapter II, Section 4 regarding the Executive Vice Chancellor for Academic Affairs and Section 13 regarding chief administrative officers of component institutions as follows:

a. Subsection 4.2 of Section 4 was amended to read as set forth below:

4.2 Duties and Responsibilities.

The Executive Vice Chancellor for Academic Affairs shall have as a prime responsibility the maintenance of high academic quality in the general academic components of the System. Through the chief administrative officers of the component institutions, he or she shall have responsibility for the budgets, academic planning and programs, facilities planning and construction, and personnel (both academic and nonacademic) of those components. In consultation with the Chancellor, the Executive Vice Chancellor for Academic Affairs shall prepare recommendations and supporting information on such matters for consideration by the appropriate standing committees of the Board and the Board of Regents. The Board through its policies, procedures, and Rules and Regulations maintains its governance responsibilities and acknowledges the importance of maintaining accreditation for the general components and academic programs, as appropriate. Because of the complexity and diversity of the System, the Executive Vice Chancellor for Academic Affairs is delegated the responsibility for ensuring the governance requirements for accreditation not specifically covered elsewhere in these policies, procedures, and Rules and Regulations are met. The Executive Vice Chancellor for Academic Affairs will report the accreditation status to the Board on a periodic basis.

b. Subsection 13.31(12) of Section 13 was amended to read as follows:

13.31(12) Develop and implement plans and policies to ensure that the institution remains in compliance with any accreditation requirements appropriate to the component or its programs, including, for the health components and those academic components with student health services, the accreditation of hospitals, clinics and patient-care facilities.

These amendments to the Regents' Rules and Regulations are to clearly detail the responsibility delegated to the Executive Vice Chancellor for Academic Affairs and to the chief administrative officers for ensuring appropriate accreditation requirements are met.

RECESS FOR COMMITTEE MEETINGS AND COMMITTEE REPORTS TO THE BOARD.--At 10:10 a.m., the Board recessed for the meetings of the Standing Committees and Chairman Beecherl announced that at the conclusion of each committee meeting the Board would reconvene to approve the report and recommendations of that committee.

The meetings of the Standing Committees were conducted in open session and the reports and recommendations thereof are set forth on the following pages.

REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

REPORT OF EXECUTIVE COMMITTEE (Pages 6 - 7).--In compliance with Section 7.14 of Chapter I of Part One of the Regents' Rules and Regulations, Chairman Beecherl reported to the Board for ratification and approval all actions taken by the Executive Committee since the last meeting. Unless otherwise indicated, the recommendations of the Executive Committee were in all things approved as set forth below:

1. U. T. Medical Branch - Galveston - Medical Research Building - Phase II - Completion of Shell Floors Five, Six, and Seven and Addition of Four Floors (Project No. 601-765): Award of Construction Contract to Centex Bateson Construction Company, Inc., Dallas, Texas (Exec. Com. Letter 93-1).--The Board, upon recommendation of the Executive Committee, awarded a construction contract for Completion of Shell Floors Five, Six, and Seven and Addition of Four Floors - Medical Research Building - Phase II at The University of Texas Medical Branch at Galveston to the lowest responsible bidder, Centex Bateson Construction Company, Inc., Dallas, Texas, for the Base Bid including Trench Safety Systems and Additive Alternate Bid Nos. 1, 2, 3, 4, and 5 in the amount of \$28,120,000.

The authorized total project cost is composed of the following elements:

Construction Cost	\$28,120,000
Fees and Administrative Expenses	2,497,000
Furniture and Equipment	843,000
Future Work and Miscellaneous Expenses	1,180,000
Project Contingency	<u>960,000</u>
Total Project Cost	\$33,600,000

Total project funding is \$4,125,000 from Permanent University Fund Bond Proceeds, \$20,000,000 in gifts from The Sealy & Smith Foundation for the John Sealy Hospital, and \$9,475,000 in Unappropriated Balances for \$33,600,000 (excluding scientific equipment). This project is included in the June 1991 Capital Improvement Plan and the FY 1993 Capital Budget approved by the U. T. Board of Regents.

This project was approved by the Texas Higher Education Coordinating Board in January 1992.

2. U. T. Medical Branch - Galveston - Installation of Chilled Water Lines (Project No. 601-786): Award of Construction Contract to Gregory-Edwards, Inc., Houston, Texas (Exec. Com. Letter 93-2).--Upon recommendation of the Executive Committee, the Board awarded a construction contract for Installation of Chilled Water Lines at The University of Texas Medical Branch at Galveston to the lowest responsible bidder, Gregory-Edwards, Inc., Houston, Texas, for the Base Bid in the amount of \$694,880.

The authorized total project cost is composed of the following elements:

Construction Cost	\$ 694,880
Fees and Administrative Expenses	75,840
Future Work and Miscellaneous Expenses	38,000
Project Contingency	<u>191,280</u>
Total Project Cost	\$1,000,000

Total project funding is \$1,000,000 from U. T. Medical Branch - Galveston Unexpended Plant Funds. This project, which was approved by the Texas Higher Education Coordinating Board in June 1992, was included in the June 1991 Capital Improvement Plan and the FY 1992 Capital Budget as amended by the U. T. Board of Regents in December 1991.

3. U. T. M.D. Anderson Cancer Center - Holcombe Boulevard Linear Park Plaza - Master Plan and Phase I (Project No. 703-788) - Holcombe Boulevard Linear Park Plaza - Phase I: Award of Construction Contract to D. L. Meacham Construction Company, Inc., Houston, Texas (Exec. Com. Letter 93-2).--The Executive Committee recommended and the Board awarded a construction contract for the Holcombe Boulevard Linear Park Plaza - Phase I at The University of Texas M.D. Anderson Cancer Center to the lowest responsible bidder, D. L. Meacham Construction Company, Inc., Houston, Texas, for the Base Bid in the amount of \$407,777.

The authorized total project cost is composed of the following elements:

Construction Cost	\$407,777
Fees and Administrative Expenses	90,700
Miscellaneous Expenses	20,000
Project Contingency	<u>6,523</u>
Total Project Cost	\$525,000

Phase I project funding is \$75,000 from the U. T. M.D. Anderson Cancer Center's Educational and General Capital Reserves and \$450,000 from gifts and grants for a total project cost of \$525,000. This project is included in the June 1991 Capital Improvement Plan and the FY 1993 Capital Budget at a total project cost of \$2,100,000 for all phases as amended by the U. T. Board of Regents in December 1991.

This project was approved by the Texas Higher Education Coordinating Board in April 1992.

REPORT AND RECOMMENDATIONS OF THE BUSINESS AFFAIRS AND AUDIT COMMITTEE (Pages 8 - 75).--Committee Chairman Loeffler reported that the Business Affairs and Audit Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Business Affairs and Audit Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. System: Approval of Chancellor's Docket No. 67 (Catalog Change).--Upon recommendation of the Business Affairs and Audit Committee, the Board approved Chancellor's Docket No. 67 in the form distributed by the Executive Secretary. It is attached following Page 147 in the official copies of the Minutes and is made a part of the record of this meeting.

It was expressly authorized that any contracts or other documents or instruments approved therein had been or shall be executed by the appropriate officials of the respective institution involved.

It was ordered that any item included in the Docket that normally is published in the institutional catalog be reflected in the next appropriate catalog published by the respective institution.

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VIII, Section 6 (Professional Services).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 6 (Professional Services) to read as set forth below:

Sec. 6. Professional Services.--Each component institution is authorized to make use of architects, engineers, and other professional services up to a maximum cost of \$50,000 for projects previously approved for implementation in accordance with Section 4 or Subsection 5.2 above, on recommendation of the chief administrative officer and the chief business officer. Authorization for such services not previously approved for implementation in accordance with Section 4 or Subsection 5.2 above will require the approval of the Executive Vice Chancellor for Academic Affairs or Health Affairs, as appropriate, and the Executive Vice Chancellor for Business Affairs.

Committee Chairman Loeffler noted that he had visited informally with Chairman Beecherl and members of the Board about the selection of architects and engineers for construction projects within The University of Texas System and reported that the Business Affairs and Audit Committee will be working with appropriate individuals in the U. T. System Administration and component institutions to review the System's use of outside professional service contracts (law firms, accounting firms, architects, engineers, etc.) to have more insight into who the

Board is hiring, what the costs are, etc. Mr. Loeffler indicated that the Business Affairs and Audit Committee would be moving forward with this review after the first of the year.

3. U. T. Board of Regents: Authorization for the Reduction of the \$150 Million Amended and Restated Credit Agreement Related to The University of Texas System Permanent University Fund Variable Rate Notes, Series A, Dated December 7, 1989 and Amended October 11, 1991, with Morgan Guaranty Trust Company of New York, New York, and Authorization for the Executive Vice Chancellor for Business Affairs to Complete the Transactions.--The Board, upon recommendation of the Business Affairs and Audit Committee:
 - a. Authorized the reduction of the \$150 million Amended and Restated Credit Agreement related to The University of Texas System Permanent University Fund Variable Rate Notes, Series A, dated December 7, 1989 and amended October 11, 1991, with Morgan Guaranty Trust Company of New York, New York, to zero
 - b. Authorized the Executive Vice Chancellor for Business Affairs of the U. T. System to take any and all steps necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions.

On October 11, 1991, the U. T. Board of Regents authorized the reduction of the Amended and Restated Credit Agreement ("Credit Agreement") related to the U. T. System Permanent University Fund Variable Rate Notes, Series A, dated December 7, 1989, with Morgan Guaranty Trust Company of New York, New York, to an amount of \$150 million. The Credit Agreement provides a backstop liquidity facility for the Permanent University Fund Variable Rate Notes, Series A, at a cost of .08% or .125% depending on the amount of Notes outstanding. Currently, there are no such Notes outstanding, and no further Notes are expected to be issued during the current fiscal year. A new variable rate debt is projected for Fiscal Year 1994. Prior to issuance, arrangements will be negotiated so that sufficient liquidity is available. Both self-liquidity and a renewed credit agreement will be considered. Early in 1993, the arrangement will be discussed with the rating agencies to ensure that the rating of the Notes will be maintained with the use of either arrangement.

4. U. T. Board of Regents: Approval to Restructure the Permanent University Fund Refunding Bonds, Series 1992A Escrow Account; Appointment of Vinson & Elkins, Austin, Texas, as Bond Counsel, and Ernst & Young, Tucson, Arizona, as Escrow Verification Agent; and Authorization for the Executive Vice Chancellor for Business Affairs to Complete All Transactions.--At the request of Committee Chairman Loeffler, Executive Vice Chancellor for Business Affairs Burck reviewed the recommendations related to the proposed restructuring of the Permanent University Fund Refunding Bonds, Series 1992A Escrow Account.

Based on this presentation, the Board:

- a. Authorized the restructure of the Permanent University Fund Refunding Bonds, Series 1992A Escrow Account as provided under the Escrow Agreement to provide a more efficient escrow
- b. Appointed Vinson & Elkins, Austin, Texas, as Bond Counsel
- c. Appointed Ernst & Young, Tucson, Arizona, as Escrow Verification Agent
- d. Authorized the Executive Vice Chancellor for Business Affairs of The University of Texas System to take any and all steps necessary to carry out the intent of the U. T. Board of Regents to complete the transactions.

The Series 1992A bonds were issued June 25, 1992, to retire the Series 1985 bonds maturing after July 1, 1995. At the time of issuance, a transferred proceeds penalty of \$4,283,419.49 was computed. Since it was contemplated that new interpretations of regulations affecting the computation of transferred proceeds penalties may occur in the future, the escrow was established by purchasing a security that would mature every six months. New interpretations have now been adopted, and the escrow can be restructured to capture savings of at least \$500,000. J. P. Morgan Securities, Inc., New York, New York, and First Southwest Company, Dallas, Texas, will both facilitate the restructuring.

The savings will be deposited in the Interest and Sinking Fund for the Series 1992A bonds and will be used to pay the July 1, 1993 principal and interest payment, hence reducing the amount to be withdrawn from the Available University Fund.

5. U. T. Board of Regents: Authorization to Restructure the Revenue Financing System Refunding Bonds, Series 1991A Escrow Account; Appointment of McCall, Parkhurst & Horton, Dallas, Texas, as Bond Counsel, and Ernst & Young, Tucson, Arizona, as Escrow Verification Agent; and Authorization for the Executive Vice Chancellor for Business Affairs to Complete All Transactions.--Following a brief overview of the proposed restructuring of the Revenue Financing System Refunding Bonds, Series 1991A Escrow Account by Executive Vice Chancellor for Business Affairs Burck, the Business Affairs and Audit Committee recommended and the Board:
 - a. Authorized the restructure of the Revenue Financing System Refunding Bonds, Series 1991A Escrow Account as provided under the Escrow Agreement to provide a more efficient escrow
 - b. Appointed McCall, Parkhurst & Horton, Dallas, Texas, as Bond Counsel
 - c. Appointed Ernst & Young, Tucson, Arizona, as Escrow Verification Agent

- d. Authorized the Executive Vice Chancellor for Business Affairs of The University of Texas System to take any and all steps necessary to carry out the intent of the U. T. Board of Regents to complete the transactions.

The Series 1991A bonds were issued March 19, 1991, to retire the Series 1986 refunding bonds. At the time of issuance, a transferred proceeds penalty of \$721,878.32 was computed. New interpretations of the regulations affecting the computation of transferred proceeds penalty have now been adopted, and the escrow can be restructured to capture savings of at least \$200,000. Goldman, Sachs & Co., New York, New York, will facilitate the restructuring.

The savings will be deposited in the Interest and Sinking Fund for the Series 1991A bonds and will be used to pay the February 15, 1993 interest payment.

6. U. T. System: Approval of Amendments to the Sick Leave Pool Policy.--To further clarify The University of Texas System Sick Leave Pool Policy adopted by the U. T. Board of Regents in February 1990, the Board amended the Policy to read as set forth below:

SICK LEAVE POOL POLICY

1. PURPOSE. Each component institution of the U. T. System and U. T. System Administration shall establish a sick leave pool to provide a source of additional sick leave for those employees who have exhausted accrued annual leave and sick leave because of a catastrophic illness or injury.
2. DEFINITIONS. As used in this Policy:
 - 2.1 "Catastrophic illness or injury" means a severe condition or combination of conditions affecting the mental or physical health of an employee or the employee's immediate family that requires the services of a licensed physician for a prolonged period of time and that requires the employee to exhaust accrued leave and to lose compensation from the State.
 - 2.2 "Employee" means a regular employee of a component institution of the U. T. System or the U. T. System Administration as defined in Article V of the General Appropriations Act.
 - 2.3 "Immediate family" means those persons living in the same household with the employee who are either related to the employee by kinship, adoption, or marriage or are certified by the Texas Department of Human Services as foster children of the employee or, if not living in the same household, are totally dependent upon the employee for personal care or services on a continuing basis.
 - 2.4 "Licensed physician" means a person who is licensed to practice medicine.

- 2.5 "Pool administrator" means the person appointed to administer the sick leave pool.
- 2.6 "Sick leave pool" or "pool" means the accumulated sick leave donated by employees for utilization in accordance with this Policy.
3. POOL ADMINISTRATOR. This Policy shall be administered at each component institution by a pool administrator designated by the chief administrative officer and at the U. T. System Administration by a pool administrator designated by the Chancellor of the U. T. System.
- 3.1 The pool administrator shall adopt forms and regulations appropriate for the administration of this Policy.
- 3.2 The decision of the pool administrator regarding contributions to and withdrawals from the pool shall be final.
4. SICK LEAVE POOL. The sick leave pool at each component institution and the U. T. System Administration shall consist of the sick leave voluntarily contributed to the pool by employees.
- 4.1 An employee who desires to contribute sick leave to the pool must submit an application to the pool administrator.
- 4.2 Contributions to the pool must be in units of eight (8) hours and no more than three (3) units may be contributed by an employee during each fiscal year.
- 4.3 Upon approval of an application, the pool administrator shall credit the sick leave pool with the sick leave contributed by an employee and shall direct the personnel department to deduct a corresponding amount from that employee's accrued sick leave.
- 4.4 Sick leave contributed to the pool may not be designated for the use of a particular person.
- 4.5 Although contributions are voluntary, employees who leave state employment should be encouraged to contribute to the pool.
5. WITHDRAWAL OF SICK LEAVE FROM THE POOL. Applications to withdraw sick leave from the pool must be submitted on the form prescribed by the pool administrator. An application must be filed with the pool administrator and must be accompanied by a statement from the licensed physician who treated the illness or injury that resulted in the exhaustion of the accrued annual leave and sick leave of the employee making the application. The pool administrator will consider applications in the order in which they are received and will approve or deny an application within ten (10) working days after receipt.
- 5.1 An employee is eligible to withdraw sick leave from the pool if the pool administrator finds that the employee has exhausted all accrued annual leave and sick leave because of a catastrophic illness or injury or because of a previous donation of sick leave to the pool.

- 5.2 In determining the amount of sick leave to be assigned to an eligible employee from the pool, the pool administrator shall take into consideration the information contained in the employee's application, the number of applications then pending, and the amount of sick leave available in the pool. In no event shall the sick leave allocated to an eligible employee from the pool exceed ninety (90) days or one-third (1/3) of the pool, whichever is less. Upon approval of an employee's application, the pool administrator shall notify the personnel office of the amount of sick leave to be assigned to the employee.
- 5.3 The employee may use sick leave assigned from the pool in the same manner as sick leave accrued pursuant to Article V of the General Appropriations Act and shall be treated in the same manner and shall be entitled to accrue the same benefits as an employee who uses such accrued sick leave.
- 5.4 The estate of a deceased employee shall not be entitled to payment for unused sick leave assigned from the pool.

7. U. T. System: Approval of a System-wide Internal Audit Plan for Fiscal Year 1992-93.--The Texas Internal Auditing Act, Article 6252-5d of Vernon's Texas Civil Statutes, passed by the 71st Legislature requires in Section 4 (1) that an annual audit plan, which identifies the individual audits to be conducted during the year, be prepared using risk assessment techniques. In addition, the Act specifies in Section 6 (2) that the internal auditor shall "develop an annual audit plan which shall be approved by the governing board of the agency or its designee or by the administrator of an agency without a governing board."

In accordance therewith and upon recommendation of the Business Affairs and Audit Committee, the Board approved The University of Texas System Internal Audit Plan for the Fiscal Year 1992-93 as set forth on Pages 14 - 63.

The development of the plan was based on a System-wide risk assessment, and the implementation of the plan will be coordinated with the institutional internal auditors to ensure coverage without duplication of effort.

THE UNIVERSITY OF TEXAS

SYSTEM AUDIT OFFICE

SYSTEM-WIDE

INTERNAL AUDIT PLAN

for

FISCAL YEAR 1992-93

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OVERVIEW

OVERVIEW

The Texas Internal Auditing Act, Article **6252-5d**, Vernon's Texas Civil Statutes, passed by the Seventy-first Legislature established guidelines for a program of internal auditing. The intent was to assist agency administrators by furnishing independent analyses, appraisals, and recommendations concerning agency operations. The act also mandated that the internal audit program conform to the Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors (**IIA**).

IIA standards require that internal auditors develop an audit plan based on assignment of risk. Our office has conducted the risk assessment on all the areas considered auditable. Each area was rated on the following risk factors:

- Materiality
- Complexity
- Result of Last Audit
- Public Disclosure
- Management **Interest**

The audit plan is a "system-wide" plan which was formulated in conjunction with a review of the risk assessments and audit plans of the **fifteen** component institutions of the system. After consultation with institutional internal auditors, a system-wide audit universe was developed which **identified** auditable areas within the System. Each audit area was assigned a risk level based on the aforementioned risk factors with input from top-level and mid-level management at System Administration and top-level management at each component institution.

After carefully assessing the risk of each area included in the audit universe, five areas have been chosen for audit by the System Audit **Office** on a system-wide basis for the 1993 audit year. These areas were selected following review of risk assessments and audit plans submitted by component institutions:

- Construction in Progress
- Electronic Data Processing
- Institutional Investing
- Grants **&** Contracts
- Hazardous Waste Management

Additional areas will be covered by both the System Audit **Office** and by the Institutional Internal Auditors. These additional audits will be conducted in areas which are either required audits, including MSRDP at all health components, or are audits which are deemed at risk at the individual institutions. Attachment A to the system-wide plan is a summary of the approved audit plans issued by the component institutional auditors.

The Standards for the Professional Practice. of Internal Auditing address the scope of work as follows:

The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

Internal auditors should:

- Review the **reliability and integrity** of **financial** and operating information and the means used to identify, measure, classify, and report such information.
- Review the systems established to ensure **compliance with** those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and determine whether the organization is in compliance.
- Review the means of **safeguarding** assets and, as appropriate, verify the existence of such assets.
- Appraise the economy and **efficiency** with **which** resources are **employed**.
- Review **operations** or **programs** to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

The audit plan generally follows the lines of responsibilities of the Audit Manager positions created in the **FY 1989-90** budget: System Administration, Academic Components and Health Components.

Combined available audit hours are summarized as follows:

Total hours available	37080 hrs.
Administrative time*	5892
Management reports and Projects	4680
Prior Year Audits (1992 Audits Carried Forward)	<u>5120</u>
Total hours available for audit	<u>21388 hrs.</u>
Hours allocated to selected audits:	
System Administration	5347 hrs.
Academic components	8153
Health components	7358
Hours available for future special requests	<u>530</u>
Total hours available for audit	<u>21388 hrs.</u>

* Includes vacation, sick leave, Internal Audit Council, and continuing education.

The estimated time to perform the audits by area **follows:**

· Institutional Funds	2964 hrs.
· Grants and Contracts	3969
· Construction in Progress	3852
· EDP • General Controls	1549
· Hazardous Materials	1766
· Follow-up on Prior Year Audits	1078
· Intercollegiate Athletics	476
· Self-Insurance Plans	802
· Investments	1069
· Third Party Royalty Audits	1069
· Workers' Compensation Insurance	802
· Internal Audit Work at UTPB	401
· Internal Audit Work at UTB	401
· Assist Arthur Andersen/Acctg. Applications	120
· Peer Reviews	<u>540</u>
Total time to perform audits	<u>20858 hrs.</u>

LEGISLATIVE REPORTING

LEGISLATIVE REPORTING

Under the Texas Internal Auditing Act, the internal auditor is required to submit before November 1 of each year an annual report to the Governor, the Legislative Budget Board, the Sunset Commission, the State Auditor, the agency's governing board, and the agency's administrator. This report should contain the following:

- A copy of the annual audit plan,
- A list of audits completed,
- An explanation of any deviation from the approved annual audit plan,
- A narrative description of the most **significant findings** and recommendations for each **audit**,
- A narrative description of the management actions taken in response to the audit **findings** and recommendations,
- A table listing the auditors' audit recommendations and the five-year impact for each audit recommendation,
- A table of **the audit** recommendations from the previous fiscal year's report and an explanation of the status of each recommendation, and
- A statement of the last date on which an external peer review of the agency's internal **audit** program was conducted.

Additionally, the Act requires that internal audit conduct economy and efficiency audits and program results audits. As a result, approximately 29% of the audit time will be devoted to economy and efficiency and program goals auditing in **FY 1993** (see Attachment B for a listing of audit areas covered).

The following component institutions are required to have an external peer review during the current fiscal year:

The University of Texas at Arlington
The University of Texas • Pan American
The University of Texas at Tyler
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center at San Antonio
The University of Texas M.D. Anderson Cancer Center
The University of Texas Health Center at Tyler

The System Audit Office will conduct a peer review at The University of Texas Medical Branch at Galveston during the current fiscal year.

BUDGET AND STAFFING

BUDGET AND STAFFING

The proposed budget for the System Audit Office. for **FY** 1993 totals **\$** 897,000, of which **\$** 678,000 is allocated to audits of component institutions and **\$** 219,000 is allocated to audits of System Administration. The System Audit Office budget contains positions for a Director, 4 Audit Managers, 17 Staff Auditors, 1 EDP Auditor, and 1 Senior Secretary.

Current staffing includes a **Director**, 2 Audit Managers, 2 Audit Supervisors, 12 Staff Auditors and 1 EDP Auditor. The EDP Auditor **will** assist on audits of component institutions and audits of System Administration.

Degrees and certifications held by the staff includes 5 auditors with advanced degrees and 7 auditors with CPA certification. In **addition**, 3 auditors have passed all parts of the CPA examination and 1 auditor has passed all parts of the **CIA** examination. These auditors are currently working to meet the various experience and education requirements for full certification. Career development for the staff is a strategic goal of the System Audit Office, and additional professional **certification** and education are strongly encouraged and promoted.

SYSTEM ADMINISTRATION

SYSTEM ADMINISTRATION AUDIT PLAN

The Audit Manager assigned to System Administration is primarily responsible for **all** functional areas within System Administration. A detailed summary indicating the number of hours budgeted for each audit area is shown in Attachment B. The primary areas of emphasis are Asset Management and Business Affairs. Audit areas for System Administration for FY 1993 are listed below.

SELECTED AUDITS

Workers' Compensation Insurance

The scope of this audit includes **reliability and integrity** of data; **compliance** with policies, plans, and procedures; and **safeguarding of assets**. The audit **will** include tests to **verify** the proper receipt from component institutions, monitoring of payments to claimants, and reporting of results.

Construction in Progress

The scope of this audit includes **reliability and integrity** of data; **compliance** with policies, plans, and procedures; **safeguarding of assets; economy and efficiency of resources; and program results**. This audit will include a review of the bidding and change order processes, progress payments to contractors, payment of vendor invoices, general project supervision, and on-site inspections of a selected number of construction projects.

Medical and Dental Self-Insurance Plan

The scope of this audit includes **reliability and integrity** of data, **compliance** with policies, plans, and procedures; and **safeguarding of assets**. This audit will include a follow-up of the previous recommendations regarding periodic review of the plan and the reserve requirement for unpaid claims. Additionally, the audit **will** include tests of payments to participants and providers and premiums remitted by the component institutions.

Investments

The scope of this audit includes **reliability and integrity** of data; **compliance** with policies, plans, procedures, laws, and regulations; **safeguarding of assets**. The review will include the testing of transactions, controls, policies and procedures relating to the Common Trust Fund.

West Texas Lands • **Oil &** Gas Royalty

The scope of this audit includes **compliance** with policies, plans, procedures, and lease provisions; and **safeguarding of wets**. A random sample of oil leases will be tested for accuracy of stock inventory, and operators will be selected to **verify** accuracy of royalties received and compliance with lease provisions.

Follow-up Prior Year **Findings**

There will be follow-up audits conducted for **significant** findings **from** the prior year's audit reports. The follow-up **will** measure the level of **compliance** with recommendations and management's responses.

**ACADEMIC AND HEALTH
COMPONENT INSTITUTIONS**

ACADEMIC AND **HEALTH** COMPONENT INSTITUTIONS AUDIT PLAN

The System Audit Office performs annual audits of selected activities at component institutions, which are coordinated with the institutional internal auditors to accomplish the System-wide audit plan. Attachment A is a detailed summary indicating the audit areas, the number of auditors and number of hours budgeted for each component institution.

SELECTED AUDITS

Institutional Funds

The audit of institutional funds **will** include **compliance with policies** and procedures, **safeguarding of assets, economy** and **efficiency**, and **program results**. The audit will focus on the cash management function at each component institution.

Grants and Contracts

The scope of this audit includes **compliance** with policies, plans and procedures and **reliability and integrity** of information, economy **and efficiency, and program results**. The audit will include a review of expenditures to ascertain the level of contract/grant compliance and determine whether **the** institution has **a** program in place to both attract as many grants as possible and **maintain** and monitor the awards it has received.

Electronic Data Processing

The scope of this audit includes **compliance** with policies, plans, and procedures: and **safeguarding of** assets. We **will** identify the types of computer systems located on each institution. Additionally, we **will** identify and test general controls relating to selected computer systems.

Hazardous Materials Management

The audit of hazardous waste management will include **compliance** with policies and procedures, economy and **efficiency, and program results**. We **will** identify whether institutions have a good functioning program of hazardous waste management in place. After discussions with an expert in the field of hazardous **waste** management, we will prepare an audit program which focuses on the aspects of a good program of hazardous waste management. For the current audit year, we will focus our efforts on the medical related institutions.

Costructiona in Progress

The scope of this audit includes **reliability and integrity** of data; **compliance** with policies, plans, and procedures; **safeguarding of assets; economy** and **efficiency of resources**; and **accomplishment of program goals**. This audit wig include a review of both renovation and new construction projects monitored by the component institution.

Follow-up **Prior Year** Findings

Follow-up audits will be conducted for significant findings from the prior year's audit reports.

REQUIRED AUDITS AND MANAGEMENT BEQUESTS

Intercollegiate Athletics

This is a required area. The NCAA requires an **annual financial** audit of intercollegiate athletics in order for the program to compete in the NCAA athletics. The University of Texas at Austin contracts with a CPA firm to meet the requirement. The following component institutions have requested the System Audit Office perform this audit annually:

- . U.T. Arlington
- . U.T. El Paso
- . U.T. Pan American
- . U.T. San Antonio

Provide Internal Audit Support to UT Brownsville and UT Permian Basin

To most efficiently provide auditing services, the System Audit Office **will** provide internal audit support to UT Brownsville and UT Permian Basin. The areas considered to be high risk to these component institutions have been included in their audit plans included in Attachment A.

COORDINATION WITH
STATE AUDITOR'S OFFICE

COORDINATION **WITH**
STATE **AUDITOR'S** OFFICE:

The Texas State Auditor's Office performs the audit of The University of Texas System as part of the State-wide audit. Our office will assist the State Auditor's Office in the planning and fieldwork phases whenever possible during their audits conducted during the 1993 fiscal year. The University of Texas System and the System Audit **Office will** benefit from participation with the State Auditors through building better **relationships**, improving communications, and gaining technical knowledge.

**CONTINUING
PROFESSIONAL
EDUCATION**

CONTINUING PROFESSIONAL EDUCATION

Our goal is to meet the requirements of Standard 270 from the Standards for the Professional Practice of Internal Auditing, which states:

“Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies; attendance at conferences, seminars, **college** courses, and in-house training programs; and participation in research projects.”

The Texas State Board of Public Accountancy and the Institute of Internal Auditors, Inc. (**IIA**) require 40 hours of continuing professional education **annually** to maintain certification. The American Institute of Certified Public Accountants (**AICPA**) requires **40** hours of CPE for continued membership. Generally Accepted Governmental Auditing Standards require **all** auditors performing governmental audits to obtain **40** hours of CPE annually.

The training needs of each auditor are **assessed** annually and training objectives are established relevant to their assigned duties. Auditors **will** be provided the opportunity to attend training courses related to assessed needs within the constraints of the departmental budget.

The System Audit Office will attempt to provide the recommended training for auditors through in-house training or training through the following sources:

- ♦ □ × ℓ □ □ ○ ℓ ♦
State Auditor’s **Office** training seminars
Interagency Auditor Training Program (Graduate School, USDA)
- . Industry
Association of College and University Auditors
Texas Association of College and University Auditors
Institute of **Internal** Auditors
National Association of College and University Business Officers
- Other Sources
Specialized training in fields such as Oil and Gas, Investments, Fraud, etc.
from private groups such as Professional Development Institute.

ATTACHMENT A

COMPONENT **AUDIT** PLANS
FISCAL YEAR 1992-1993

ACADEMIC **INSTITUTIONS**

THE **UNIVERSITY** OF TEXAS AT ARLINGTON

Payroll and Fringe Benefits

Inventories

- Central Stores Sales
- Capital Equipment
- Bookstore Sales
- Other Small Sales

Cash • Change/Purchase Funds

- Bookstore
- Bursar
- University Center
- Mail Service
- Other **Small** Funds

State & **Local** Compliance

- Cash Receipting: Departmental
- Control over Cash
- Demand Account Reconciliation
- Purchasing: Decentralized
- Expenditures
- Financial Aid
- Travel & Advances

EDP • Application Reviews

- New System Development
- Conversion: Budget System
- Business Office Accounts/Payable
- Telephone Registration
- **USAS** Interface Controls
- IDT System Bits **N'** Bytes

THE UNIVERSITY OF TEXAS AT ARLINGTON (Continued)

Economy • Air Travel

- EDP Generated Reports
- **FAX Use**
- Telephone **L/D**
- Utilities

Federal Compliance • Cost Sharing

- Cost Sharing
- Direct Cost **&** Purchasing
- Student Financial Aid
- Indirect Cost
- **Payroll**, Benefits **&** PARS
- Travel

Internal Control Environment

- Internal Control Systems
- Follow-Up: **Findings**

Departmental • Academic Computing

- Continuing Education
- Police • Receipting
- **Registrar** Records
- Telecommunications
- Grant: State **Local** Private

Other Areas • Management Request/Auditor **Judgement**

Assist State/System Auditors

Training, Holidays, **Vac.**, Sick, Admin.

THE UNIVERSITY OF TEXAS AT AUSTIN

Office of Accounting
All EDP Projects
Cash
Various as Required (Special Projects)
Spot Check Audits
Applied Research Lab • Federal
Performance • Physical Plant
Other Projects • Training
Follow-Up on Prior Audits
Other Time Requirements • Adm., Sick, Vacation, etc.

THE UNIVERSITY OF TEXAS AT BROWNSVILLE

Audits will be conducted by the **U.T.** System Audit Office.
(See Attachment B)

THE UNIVERSITY OF TEXAS AT DALLAS

Special Requests
Texas Public State Grant Program
Monitoring Grant Subrecipients
Follow-Up Audits
Discretionary Funds
Cash Counts/Petty Cash Funds
Inventories
Academic Computing
Administrative Computing
Cash Receipts/Bursar
Accounts Payable/Disbursements
Library
Auxiliary Enterprises: Bookstore
Lena Cagier Trust
Sales and Services Income
Physical Plant • Utilities
Loan Funds
Service Departments: Print Shop & Transportation
Excellence Funds
Agency Funds
Continuing Education
Accounting: Financial Reporting

THE UNIVERSITY OF TEXAS AT DALLAS (**continued**)

Adm. Dept.: Internal Audit • Quality Review
Academic Dept.: Arts & Humanities
Research Centers
Other: Disposal of Surplus Prop., Bid Openings, Dep. Bag Ver

THE UNIVERSITY OF TEXAS AT EL PASO

Materials Management
Minority & Women Business Enterprise (MWBE)
Purchasing
Central Receiving

Office of Research

- Contract Compliance
- Financial Reporting
- Others as Requested

Computer Center

- General Controls Audit
- PC Hardware & Software Inventory
- Assessment of Risk from Possible **Software** Copyright Violations

Follow-up to **1992** U.T. System Audit

- *PROMISE System
- Reconciliation of Payroll Liability Accounts
- Others as Requested

General Accounting Services

- Cash Management
- Others as Requested

Budget and Financial Services

- Temporary Investments

Continuing Education

- Revenue Recognition
- Internal Controls

Performance Audits
Assisting Outside Auditors

THE UNIVERSITY OF TEXAS AT EL PASO (continued)

Admissions

- Internal Controls
- Policies & Procedures

Business Information Systems (**BIS**)

- Access (Security) Controls
- Customer Satisfaction
- Account Integrity

Auxiliary Services

- Purchasing
- Results of Operations
- Cash Handling

Business Contracts

- Compliance, Documentation
- Evaluation
- Others

Staff Training & Development (Internal)

Staff Training & Development (External)

THE UNIVERSITY OF TEXAS-PAN AMERICAN

Inventories

Follow-Up

Cash Counts

Cash Receipts

EDP • Application Review **HRS**

EDP • Physical Security

Accounts Payable

Athletics

School of Business

Prop II Funds

President Expenses (Requested)

English Language Institute

EDP • Access Controls

Produced Semester Credit Hours

Space Standards (Requested)

Print Shop

Physical Plant • Utility Plant

Consultant Contracts

Peer Review Preparation

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