



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

Committee Meeting: 11/4/2015

Board Meeting: 11/5/2015
Austin, Texas

Jeffery D. Hildebrand, Chairman
Ernest Aliseda
David J. Beck
R. Steven Hicks
Brenda Pejovich

	Committee Meeting	Board Meeting	Page
Convene	<i>10:00 a.m.</i> <i>Chairman Hildebrand</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>10:00 a.m.</i> Discussion	Action	16
2. U. T. System: Report on the external assessment of the U. T. Systemwide Compliance Program	<i>10:02 a.m.</i> Report/Discussion <i>Mr. Dendy</i> <i>Ms. Lisa Murtha,</i> <i>FTI Consulting</i>	Not on Agenda	17
3. U. T. System: Annual Report on the Information Security Compliance Program	<i>10:22 a.m.</i> Report/Discussion <i>Mr. Edward Mattison</i>	Not on Agenda	28
4. U. T. System: Report on the Systemwide internal audit activities, including the FY 2015 Annual Report	<i>10:45 a.m.</i> Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	40
Adjourn	<i>11:00 a.m.</i>		

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

RECOMMENDATION

The proposed Consent Agenda is located at the back of the book. The Consent Agenda item assigned to this Committee is on [Page 299](#).

2. **U. T. System: Report on the external assessment of the U. T. Systemwide Compliance Program**

REPORT

Systemwide Compliance Officer *ad interim* Dendy and Lisa Murtha, FTI Consulting (FTI), will report on the external assessment of the U. T. Systemwide and U. T. System Administration Compliance Programs, including observations and recommendations. A PowerPoint presentation is set forth on the following pages, which outlines a summary of the FTI report.

BACKGROUND INFORMATION

For the past 18 months, the Systemwide Compliance Program has operated under the leadership of two interim chief compliance officers. During this time, two Systemwide Compliance Program staff members have left U. T. System, and these positions have not been filled. Those positions include the Healthcare Compliance Officer (vacant since February 2014) and the Research Compliance Officer (vacant since December 2014).

The Systemwide Executive Compliance Committee charged Mr. Dendy to complete an independent external assessment of the U. T. Systemwide Compliance Program and U. T. System Administration Compliance Program. A team to select the external assessor was convened. FTI was selected and began its fieldwork in June 2015. FTI was charged with evaluating the current scope and effectiveness of the U. T. Systemwide and U. T. System Administration Compliance Programs.

Systemwide Compliance Assessment

Phillip Dendy, Executive Director, Risk Management and Systemwide Compliance Officer *ad interim*
Lisa Murtha, Senior Managing Director, Clinical Research and Healthcare Compliance, FTI Consulting

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
November 2015



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Key Staff Vacancies

- Since February 2014, key staff vacancies in Systemwide Compliance Office
 - Two interim Systemwide Compliance Officers - February to December 2014 and January 2015 to present
 - Assistant Systemwide Compliance Officer for Healthcare - Vacant since February 2014
 - Assistant Systemwide Compliance Officer for Research - Served as interim, resigned in December 2014



External Assessment Selection Committee

- Executive Compliance Committee directed external assessment
- Selection Committee included:
 - Phillip Dendy, Executive Director, Risk Management and Systemwide Compliance Officer *ad interim*
 - Paul Liebman, Chief Compliance Officer, U. T. Austin
 - Allyson Kinzel, Chief Compliance Officer, U. T. M. D. Anderson Cancer Center
 - J. Michael Peppers, Chief Audit Executive, U. T. System
 - Jason King, Asst. General Counsel and Deputy Ethics Advisor, U. T. System



Selection of External Assessor

- February 2015 - Three proposals received and reviewed
- March 2015 - All three presented to selection committee
- April 2015 - FTI Consulting was determined to be best value
- May 2015 - Contracting completed and review of documents
- June to August 2015 - Fieldwork completed
- September 2015 - FTI Consulting reviewed draft report with Chancellor McRaven and Deputy Chancellor Daniel



Work Performed by FTI Consulting

- Reviewed all historical information
- Interviewed 19 U. T. System Administration officials
- Interviewed 27 institutional compliance professionals
- Conducted research of compliance programs at peer institutions



Observations

- The current operations of the U. T. Systemwide Compliance Program are not consistent with the fundamental elements of an effective compliance program
- The U. T. Systemwide Compliance Program is not currently staffed or operated in a manner consistent with the size and complexity of U. T. System or the current compliance charter
- There is no cohesive U. T. System Administration Compliance Program



Recommendations

- The U. T. Systemwide Compliance Program should be restructured and enhance its governance structure
- The U. T. System should consider hiring staff with expertise in academic, health care, research compliance, and privacy
- The U. T. System Administration Compliance Program should be operationally incorporated into the U. T. Systemwide program
- The U. T. System Compliance Charter should be updated



Recommendations (cont.)

The U. T. Systemwide Compliance Program should develop an action plan for an effective compliance program, including:

- Oversight - Staffing and Executive Compliance Committee
- Standards and procedures - Charter, policies, and standards of conduct
- Due diligence - Conflicts of interest and background checks
- Training and communication - Board, executive officers, and staff
- Risk assessments, auditing, monitoring, and investigations
- Incentives and disciplinary measures, including enforcement
- Response to noncompliance - Response and reporting
- Additional observations - Conflicts of interest, privacy, and shared services



Recommendations (cont.)

The U. T. Systemwide Compliance Program should be restructured and re-staffed

- Chief Compliance Officer
 - Assistant Chief and System Administration Compliance Officer
 - Assistant Chief Compliance Officer - Academic *
 - Assistant Chief Compliance Officer - Healthcare
 - Assistant Chief Compliance Officer - Research
 - Privacy Officer *
 - Investigator *

* Denotes new position



What the U. T. Systemwide Compliance Office Will Accomplish

- Provide a compliance resource and support to the institutions in the area of academics, health care, and research
- Provide an appropriate level of oversight while eliminating duplicative services and unnecessary bureaucracy
- Facilitate a collaborative environment for effective communication and interaction between institutions
- Explore and implement shared services, training, and contracts
- Reboot the U. T. System Administration Compliance Program



3. **U. T. System: Annual Report on the Information Security Compliance Program**

REPORT

Chief Information Security Officer Mattison will report on Information Security Compliance Enhancements across the U. T. System. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

Following a November 10, 2011 report to the Board by Deloitte & Touche LLP on its comprehensive information security compliance effectiveness review of the U. T. System, the Board approved the allocation of \$34,872,000 of Available University Funds to invest in information security compliance enhancements across the U. T. System and to secure the U. T. Research Cyberinfrastructure.

The Office of Systemwide Compliance administers the investment of these funds through a centrally managed program and is to submit annual reports on progress to the Chancellor and to the Board. This is the fourth Annual Report.

Annual Report on Information Security Compliance Program

Mr. Edward Mattison, U. T. System Chief Information Security Officer

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Audit, Compliance, and Management Review Committee
November 2015



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Agenda

- Trends Impacting Information Security in 2015
- Information Security Assurance Initiative (ISAI) Update
- Chief Information Security Officer (CISO) Vision Statement
- Initial CISO Observations (first 90 days)
- Information Security Initiatives (next 12 to 24 months)
- Questions?

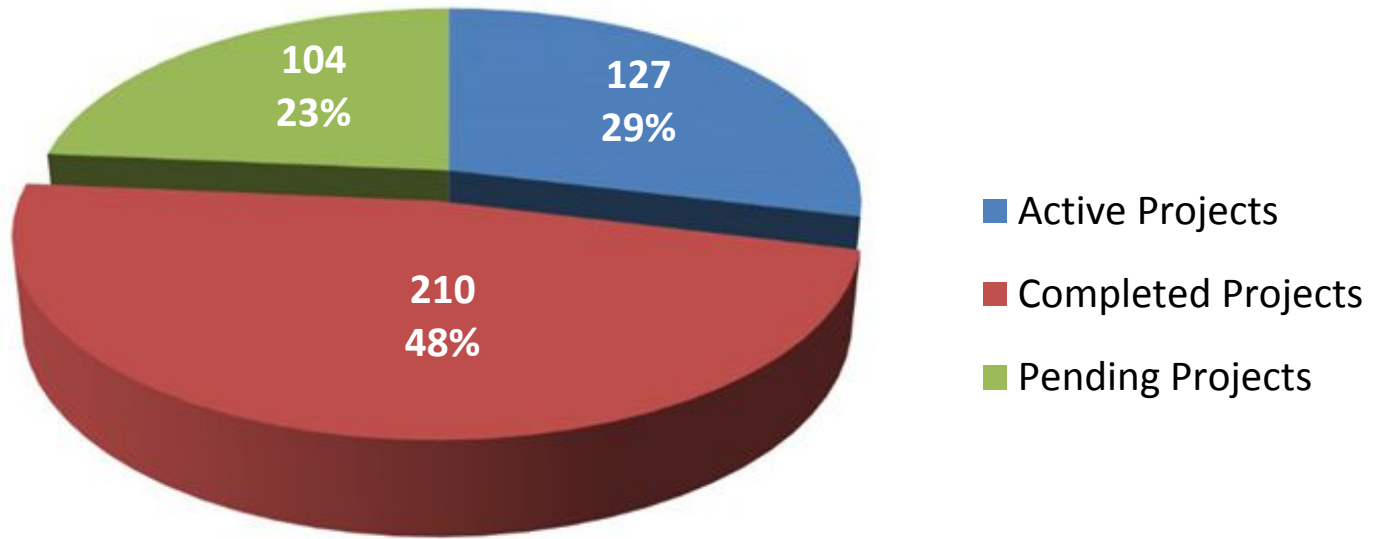


Trends Impacting Information Security in 2015

1. Cybercrime and hacktivism still on the rise
2. Threats from outsourcing to third-party vendors
3. Increase in privacy regulations is shifting more responsibility to institutions
4. Bring-Your-Own-Device causing increased risks to the enterprise
5. Lack of engagement with the workforce resulting in people becoming the largest risk to information security



ISAI Update – Current Project Status

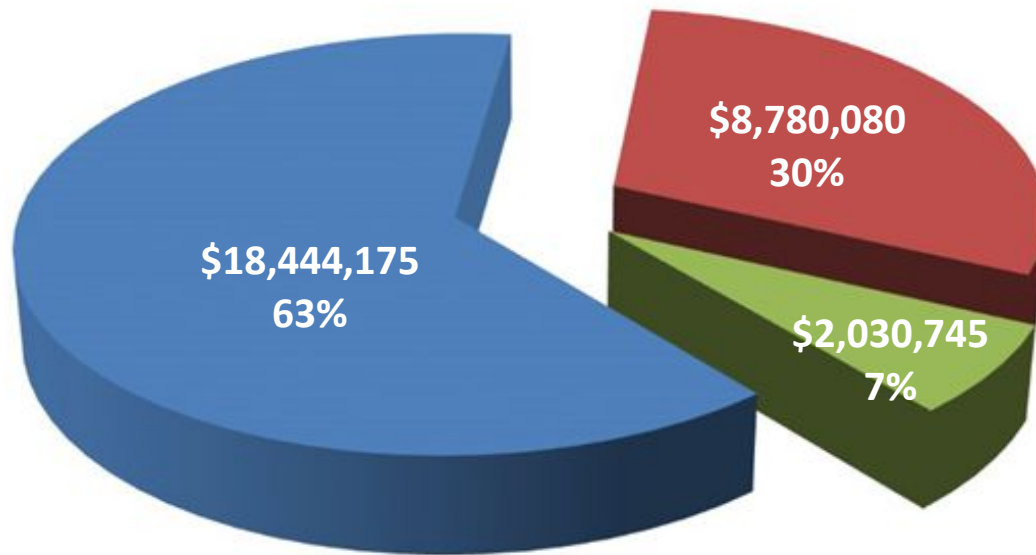


Total Identified Projects: 441

32



ISAI Update – Funding Status



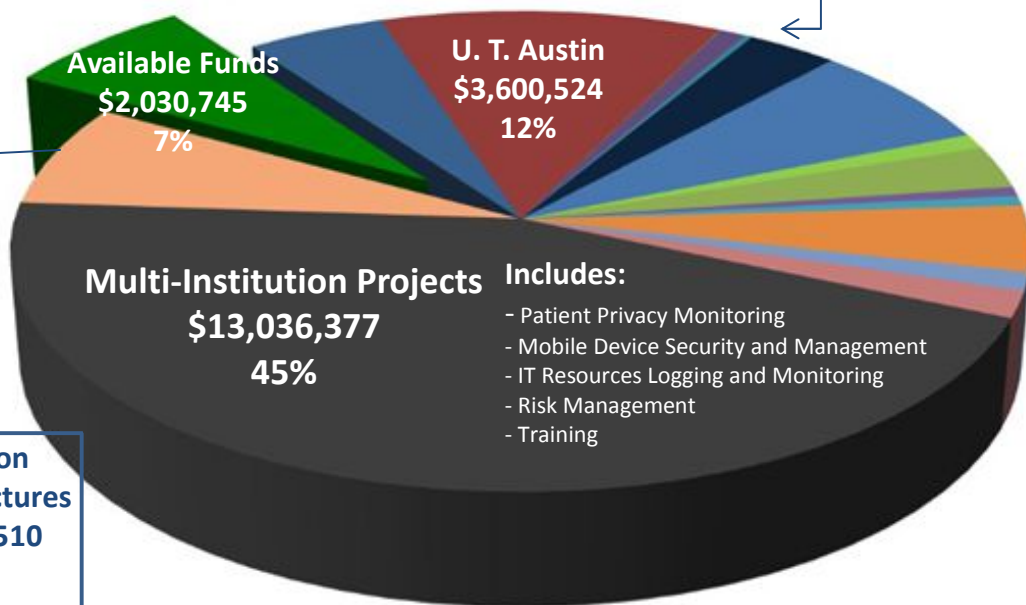
ISAI Budget: \$29.3 M

- Funds Expended to Date for Completed and Active Projects
- Funds Currently Encumbered for Completed and Active Projects
- Funds Available for Pending Projects

33



ISAI Update – Funding by Institution

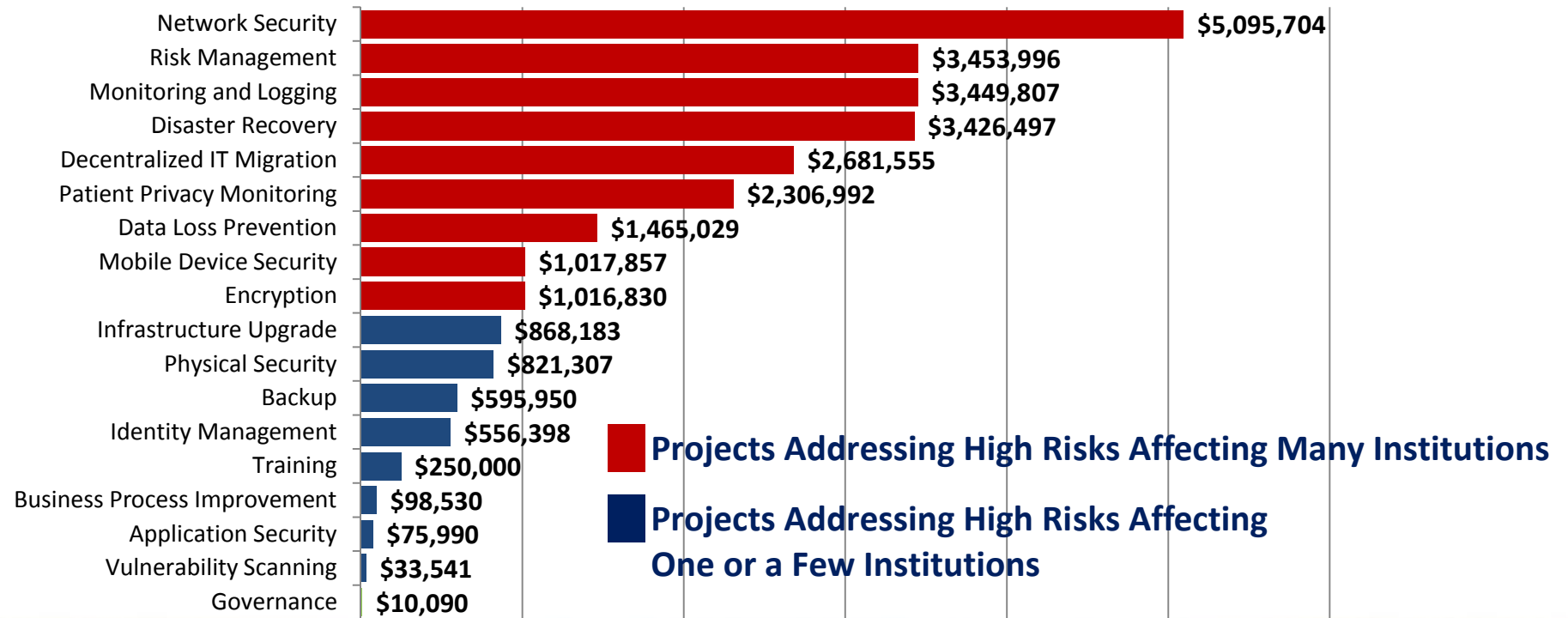


U. T. Arlington	\$1,446,170	5%
U. T. Austin	\$3,600,524	12%
U. T. Dallas	\$11,535	0%
U. T. El Paso	\$277,763	1%
U. T. Permian Basin	\$80,373	0%
U. T. Rio Grande Valley	\$956,928	3%
U. T. San Antonio	\$2,078,027	7%
U. T. Tyler	\$294,183	1%
U. T. Southwestern Medical Center	\$842,608	3%
U. T. Medical Branch - Galveston	\$185,592	1%
U. T. Health Science Center - Houston	\$193,450	1%
U. T. Health Science Center - San Antonio	\$1,298,766	4%
U. T. M. D. Anderson Cancer Center	\$360,000	1%
U. T. Health Science Center - Tyler	\$521,450	2%
U. T. System Administration	\$5,000	0%
Multi-Institution Projects	\$13,036,377	45%
UTIMCO	\$0	0%
Common Infrastructures	\$2,035,510	7%
ISAI Funds Balance	\$2,030,745	7%



ISAI Update – Funding by Risk Area

35



ISAI Update – Lessons Learned

- Centralized purchases can result in cost savings, but not always in Systemwide adoption
- Not all information security gaps can be resolved with a tool (software and/or hardware), some require staff with special skills to implement and many require new operations funding
- The positive impact of an investment in tools and technology is directly proportional to the level of trained staff available
- The ongoing maintenance cost of tools and applications funded by ISAI can be a heavy financial burden for small and mid-sized institutions

36



Chief Information Security Officer (CISO) Vision Statement

The U. T. System Office of Information Security exists to accomplish the following three tasks. All CISO actions should support one of these tasks:

- **Enable the business** of U. T. System (the business of education, research, and health care)
- **Protect the business** of U. T. System (the critical information resources, systems, and infrastructure)
- **Promote a positive information security culture** (positive awareness, attitude, and behavior of all employees)



Initial CISO Observations (first 90 days)

- As of November 2015, I have personally visited 8 of 14 institutions
- A substantial investment has been made to increase availability to information security tools. This investment has addressed many of the top security risk areas identified in the Deloitte review (2011)
- Need to have continuing discussions with institutions regarding appropriate staffing levels and budgets to provide the baseline information security functions
- Centralization of some security functions (Security-as-a-Service) could greatly benefit smaller institutions



Information Security Initiatives (next 12 to 24 months)

- Two-Factor Authentication implementation
- National Institute of Standards and Technology Cybersecurity Framework implementation
- The University of Texas System Cybersecurity Dashboard rollout
- Splunk-as-a-Service for log monitoring, correlation, and analysis
- Archer Risk Assessment and Risk Management program
- Mobile Device Management implementation
- Structured Training and Certification program for information security and information technology personnel



4. **U. T. System: Report on the Systemwide internal audit activities, including the FY 2015 Annual Report**

REPORT

Chief Audit Executive Peppers will present the FY 2015 Systemwide Annual Report of internal audit activities, including Priority Findings, using a PowerPoint presentation set forth on the following pages. The annual audit plan status was provided to the Audit, Compliance, and Management Review Committee members prior to the meeting.

BACKGROUND INFORMATION

A Priority Finding is defined as "an issue identified by an audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a U. T. System institution or the U. T. System as a whole." A Priority Findings Matrix is used by the chief audit executives to aid in the determination of a Priority Finding. The matrix provides three categories of standard factors to consider, each alone with the potential to result in a Priority Finding. They are: Qualitative Risk Factors (evaluates the probability and consequences across seven high risks), Operational Control Risk Factors (evaluates operational vulnerability to risks by considering the existence of management oversight and effective alignment of operations), and Quantitative Risk Factors (evaluates the level of financial exposure or lost revenue).

FY 2015 Systemwide Internal Audit Annual Report

Mr. J. Michael Peppers, U. T. System Chief Audit Executive

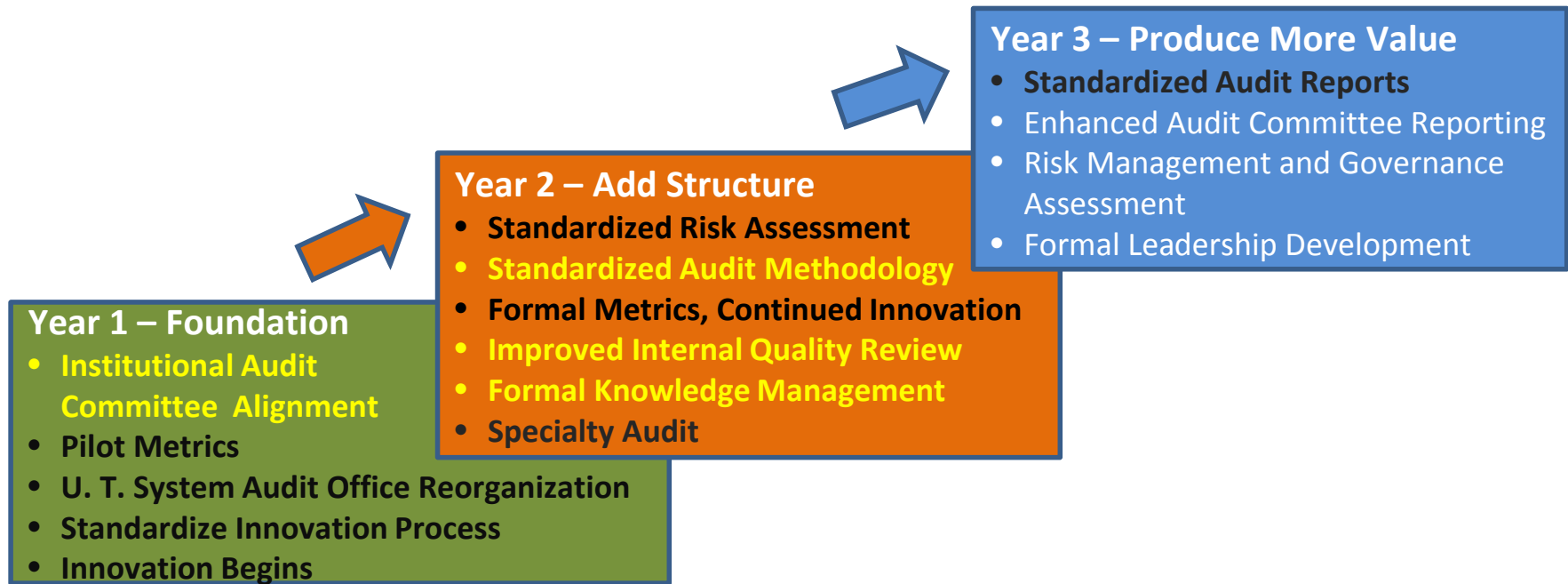
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Audit, Compliance, and Management Review Committee
November 2015



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Vision and Strategy for Internal Audit – 2014-16



Adding Value through Consistent Innovation



Systemwide Internal Audit Strategy – FY 2016

Governance

- 1. Strengthen audit governance and expand its capabilities and institutional communication

Systemwide Audit Operations/Specialty Audit

- 2. Stabilize and leverage risk assessment innovation
- 3. Implement comprehensive audit management enabling technology

- 4. Strengthen leading practice and standards use with quality program implementation
- 5. Expand resources and capabilities of auditors; facilitate knowledge/resource management development

U. T. Systemwide Audit Oversight

- 6. Develop and deploy common audit reporting and related processes
- 7. Develop U. T. System audit teams' capabilities and leadership

43



Governance

- All internal audit committees are chaired by an external member.
- The role and participation of the external members has increased over the last few years.
- Each internal audit committee has three to five external members that rotate.
- The 2nd annual orientation and education session was held with audit committee external chairs and chief audit executives in October 2015.



Annual Audit Plan Budget to Actual - FY 2015

Area	Actual	Budgeted	Percent
	Hours	Hours	
Financial	18,661	18,353	102%
Operational	35,127	33,742	104%
Compliance	20,628	18,464	112%
Information Technology	21,143	25,349	83%
Follow-up	6,549	5,194	126%
Projects	27,364	24,367	112%
Reserve	14,070	16,440	86%
Total	143,542	141,909	101%

45



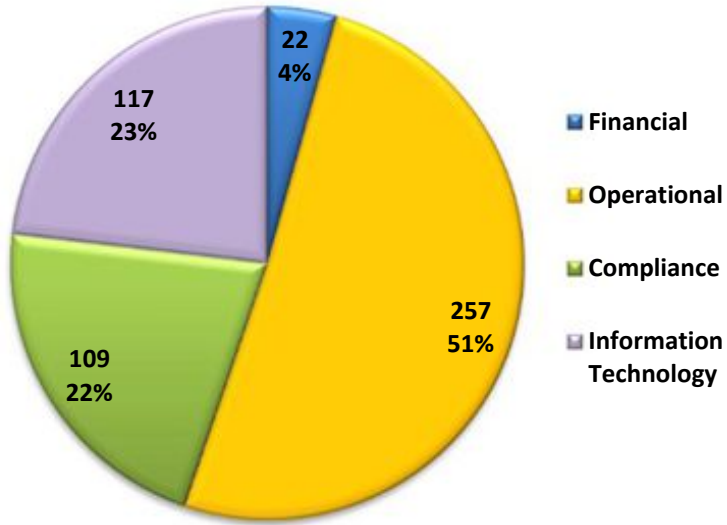
Systemwide Internal Audit Reports and Recommendations

- During FY 2015, 216 audit reports were issued, resulting in 505 recommendations.
- Of the 505 recommendations, 21 (4.2%) were made to address a Priority Finding.
- The average client survey score for these audits was 4.53 out of a range of 1 (Strongly Dissatisfied) to 5 (Strongly Satisfied).
- During FY 2015, audit reports were made available online.

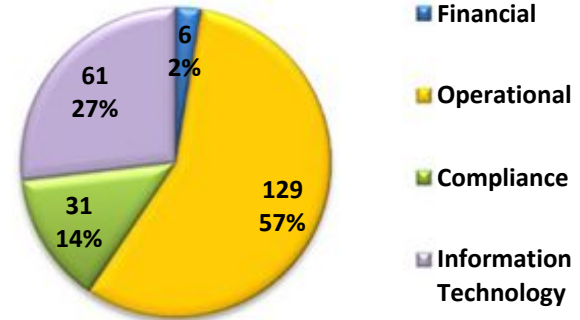


Internal Audit Recommendations - FY 2015

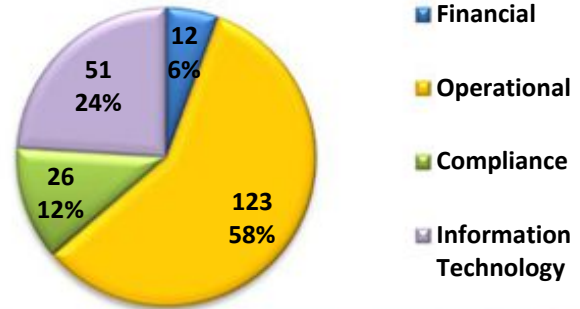
Audit Recommendations – Systemwide (505), including U. T. System Administration (66)



Audit Recommendations – Academic (227)



Audit Recommendations – Health (212)



47



Priority Findings Summary

INSTITUTION	General				TOTAL		Risk Factors			
	FINANCE	INFORMATION TECHNOLOGY	LEGAL	RESEARCH	TOTAL	PAST DUE	REPUTATION	INFORMATION SECURITY	COMPLIANCE	MANAGEMENT OVERSIGHT
U. T. Arlington	1	2	0	0	3	0	X	X	X	X
U. T. Austin	2	5	0	0	7	0	X	X	X	
U. T. Brownsville	0	0	0	0	0	0				
U. T. Dallas	0	1	0	0	1	0		X		
U. T. El Paso	0	1	0	1	2	0		X	X	
U. T. Pan American	0	0	0	0	0	0				
U. T. Permian Basin	0	0	0	0	0	0				
U. T. San Antonio	0	0	0	0	0	0				
U. T. Tyler	0	0	0	0	0	0				
U. T. Southwestern Medical Center	0	0	0	0	0	0				
U. T. Medical Branch - Galveston	0	0	1	0	1	0			X	X
U. T. Health Science Center - Houston	0	0	0	0	0	0				
U. T. Health Science Center - San Antonio	0	0	0	0	0	0				
U. T. M. D. Anderson Cancer Center	0	6	0	1	7	0		X	X	
U. T. Health Science Center - Tyler	0	0	0	0	0	0				
U. T. System Administration	0	0	0	0	0	0				
TOTALS	3	15	1	2	21	0				



Priority Findings – Changes Since Last Report

	<u>Reported</u> <u>Aug 2015</u>	<u>Implemented</u>	<u>New</u>	<u>Reported</u> <u>Nov 2015</u>
IT related Priority Findings	18	(6)	3	15
Non-IT related Priority Findings	<u>5</u>	<u>(0)</u>	<u>1</u>	<u>6</u>
Total Priority Findings	23	(6)	4*	21
Past due Priority Findings	0			0

*New Priority Findings – Three IT related findings (risk factor – information security) and one Research related finding (risk factor – compliance) at U. T. M. D. Anderson Cancer Center



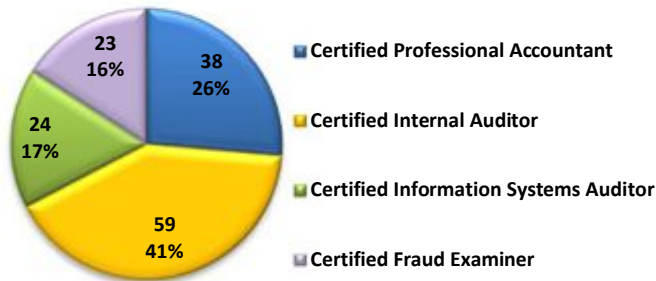
Internal Audit Staffing Resources

- Systemwide internal audit has 142 budgeted FTEs:
 - 124 (87%) filled positions
 - 18 (13%) vacant positions
- The 142 budgeted FTEs are composed of:
 - 53 professional management employees (7 vacancies)
 - 75 professional staff employees (9 vacancies)
 - 14 administrative staff employees (2 vacancies)



Internal Audit Staffing Resources (cont.)

- 82 of the 112 current professional employees hold 144 professional certifications
 - Certified Professional Accountant
 - Certified Internal Auditor
 - Certified Information Systems Auditor
 - Certified Fraud Examiner
- 42 of the 112 current professional employees have advanced degrees
- Average number of years of relevant and U. T. experience is 15 and 8 years, respectively
- Professional employees participated in an average of 50 hours of continuing professional education during the fiscal year



51



Professional Contributions by Internal Audit Staff

- Held several board and other leadership positions on professional organizations and advisory boards at the local, national, and global levels (including the Institute of Internal Auditors, Association of College and University Auditors, Association of Healthcare Internal Auditors, Association of Certified Fraud Examiners, Information Systems Audit and Control Association, and others)
- Presented at various conferences to provide continued professional education trainings
- Served as part-time adjunct and guest lecturers, and made presentations to auditing classes
- Received multiple professional awards



Student Opportunities in Internal Audit

- Have a formally established Internal Audit Education Partnership program at U. T. Dallas (also supported by U. T. Southwestern Medical Center) that provides various internship and student project opportunities
- Sponsored student projects for auditing courses at U. T. Austin and U. T. Health Science Center - San Antonio
- Employed part-time student interns at U. T. Arlington and U. T. Austin

