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Committee Meeting: 11/8/2017

Board Meeting: 11/9/2017
Austin, Texas

Ernest Aliseda, Chairman
David J. Beck
Kevin P. Eltife
Paul L. Foster
R. Steven Hicks
Rad Weaver

	Committee Meeting	Board Meeting	Page
Convene	<i>9:00 a.m.</i> <i>Chairman Aliseda</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>9:00 a.m.</i> Discussion	Action	74
2. U. T. System: Discussion regarding review of the Audit, Compliance, and Risk Management Committee Charter	<i>9:02 a.m.</i> Discussion <i>Mr. Peppers</i> <i>Mr. Dendy</i>	Not on Agenda	75
3. U. T. System: Presentation of Institute of Internal Auditors' Global Chairman's Theme	<i>9:15 a.m.</i> Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	76
4. U. T. System: Report on the Systemwide internal audit activities, including the FY 2017 Annual Report	<i>9:30 a.m.</i> Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	88
5. U. T. System: Report and discussion on Systemwide Compliance Programs	<i>9:45 a.m.</i> Report/Discussion <i>Mr. Dendy</i> <i>Dr. Culpepper</i>	Not on Agenda	103
Adjourn	<i>10:00 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 items assigned to this Committee are [Items 3 - 11](#).

2. **U. T. System: Discussion regarding review of the Audit, Compliance, and Risk Management Committee Charter**

DISCUSSION

Chief Audit Executive Peppers and Chief Compliance and Risk Officer Dendy will seek direction and discuss with committee members the best approach for capturing governing principles and practices for the Audit, Compliance, and Risk Management Committee (ACRMC) activities.

BACKGROUND INFORMATION

In keeping with leading practices, audit committees should have governing documents to outline their purpose, authority, responsibilities, and membership. Over the past few years, the System Administration and institutional audit committees have done this by reviewing and updating their respective charters to meet the unique attributes of their committees and ensure that any changes in regulatory requirements, authoritative guidance, and evolving oversight practices are reflected. The ACRMC Charter was last reviewed and approved with minor changes on August 13, 2008.

3. **U. T. System: Presentation of Institute of Internal Auditors' Global Chairman's Theme**

REPORT

Chief Audit Executive Peppers will apprise the Audit, Compliance, and Risk Management Committee of his activities and representation of the U. T. System in his role as 2017-18 Chairman of the Global Board of Directors of The Institute of Internal Auditors (IIA). The theme Mr. Peppers developed for the year is #PurposeServiceImpact, and he is challenging internal auditors worldwide to take a cue from the social media culture to identify, unify, and connect around the critical concepts of purpose, service, and impact in ways that will be meaningful to their organizations. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

The IIA is the largest organization that represents the interests of the internal auditing profession and provides ethical and professional guidance, continuing education, and certifications to nearly 195,000 members worldwide. The internal audit staff at all U. T. institutions are members of the IIA, and many have served in volunteer leadership roles at the local chapter or regional levels. Chief Audit Executive Peppers is only the second global chairman from higher education in the IIA's 76-year history.



#PurposeServiceImpact

2017-18 IIA Global Chairman's Theme

J. Michael Peppers, CIA, QIAL, CRMA
2017-18 Chairman of The IIA Global Board
U. T. System Chief Audit Executive

U. T. System Board of Regents' Meeting
Audit, Compliance, and Risk Management Committee
November 2017

#Purpose Service Impact

 @jmpeppers

Agenda Book - 78





- #Purpose**
 - Being in the right place
- #Service**
 - Doing the right things (and doing them well)
- #Impact**
 - Achieving transformational results



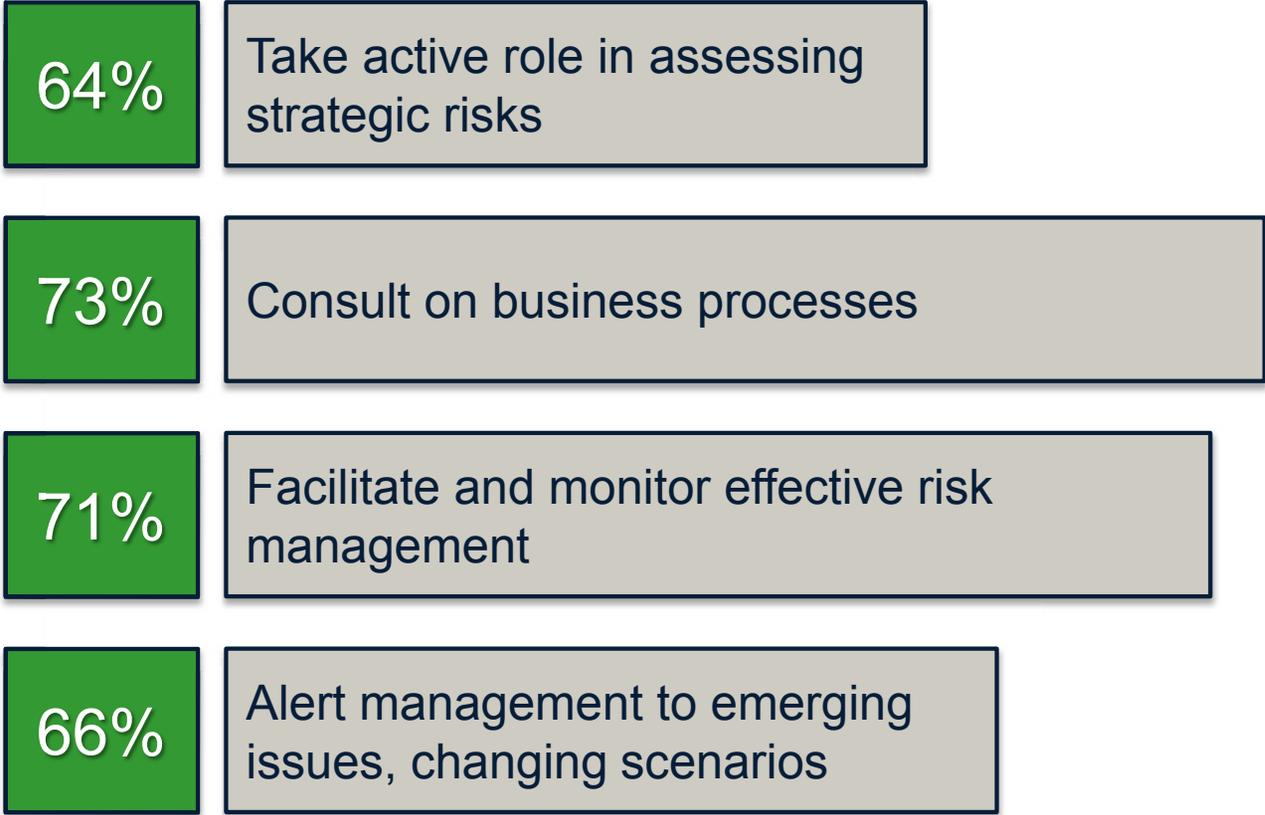


As an internal auditor

“To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight”

*Mission of Internal Auditing,
International Professional Practices Framework*





Source: IAF Common Body of Knowledge (CBOK) Stakeholders Study





- Service is purpose put into action
- What we actually do to help others





Embrace role of educator and change agent

Be brave enough to do the right thing

Develop strong relationships with stakeholders

Continue to develop competencies

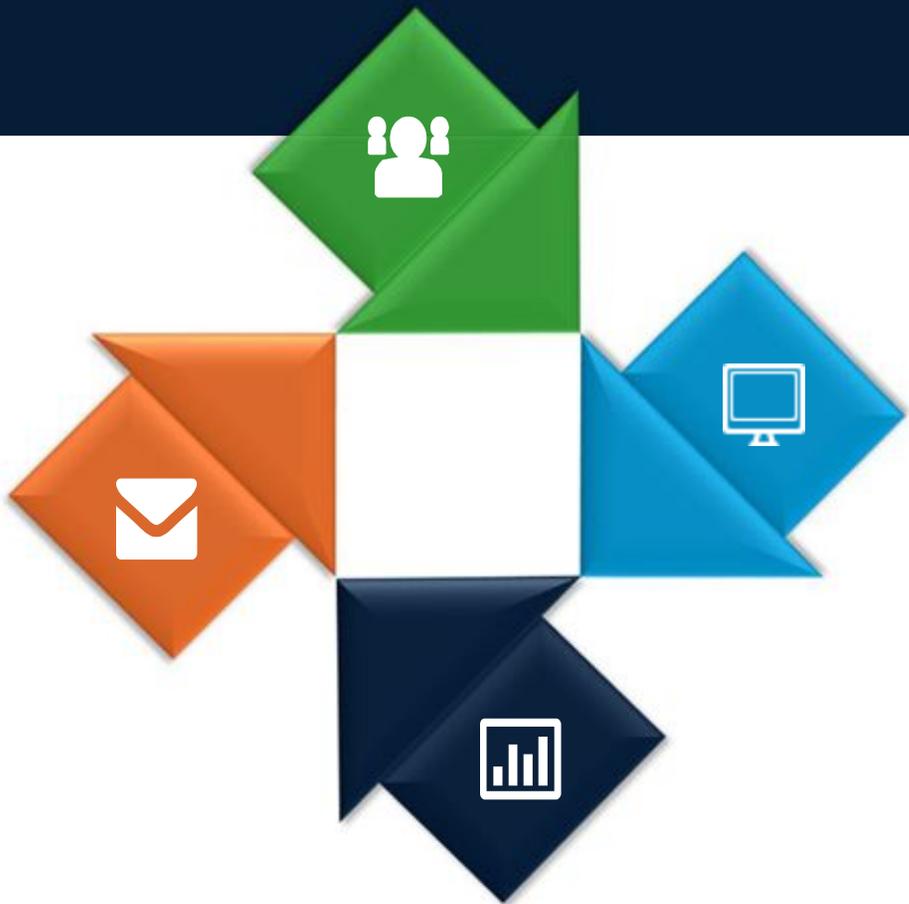
Build interpersonal, or soft, skills



Sources: CBOK, Pulse of Internal Audit, Trusted Advisors







CULTURE



CYBER



DATA



COMMUNICATIONS

Source: *Pulse of Internal Audit*

-  *#Think*
-  *#Identify*
-  *#Unify*
-  *#Connect*



#PurposeServiceImpact



4. **U. T. System: Report on the Systemwide internal audit activities, including the FY 2017 Annual Report**

REPORT

Chief Audit Executive Peppers will present the FY 2017 Systemwide Annual Report of internal audit activities, including the status of Priority Findings, the implementation of the Systemwide audit management software system, and the results of the External Quality Assessments, using a PowerPoint presentation set forth on the following pages. He will also discuss the status of the external financial audit. The annual audit plan status was provided to the Audit, Compliance, and Risk Management 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 2017 Systemwide Internal Audit Annual Report

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

U. T. System Board of Regents' Meeting
Audit, Compliance, and Risk Management Committee
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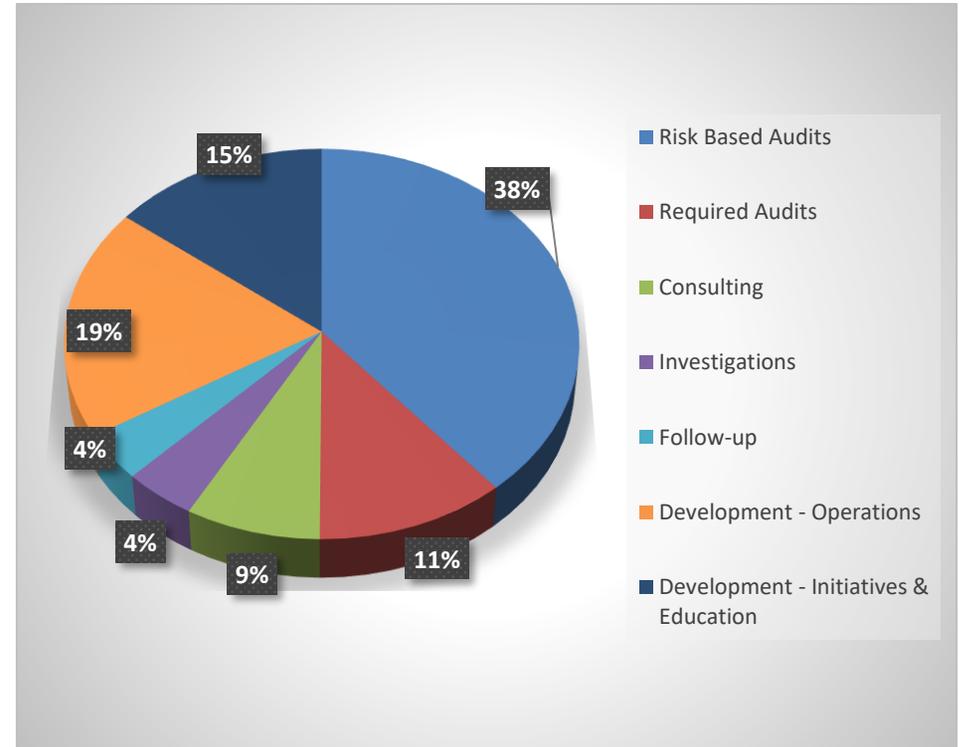


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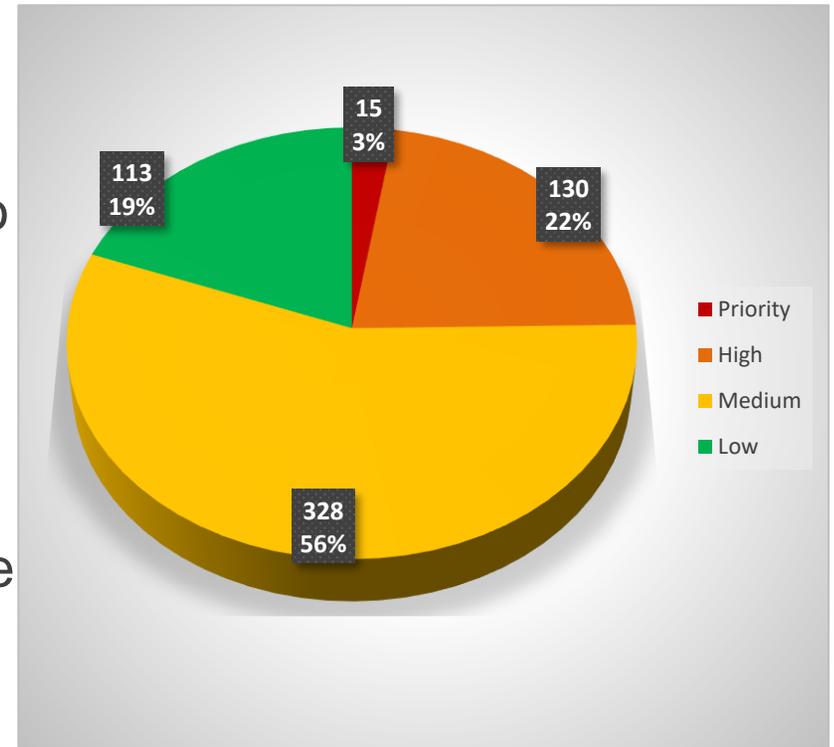
Systemwide Internal Audit Hours

- During Fiscal Year (FY) 2017, approximately 173k hours were incurred to complete the Systemwide Annual Audit Plan.
- Of these hours, 62% was spent on Risk Based, Required, Consulting, and Investigation engagements.



Systemwide Internal Audit Reports and Recommendations

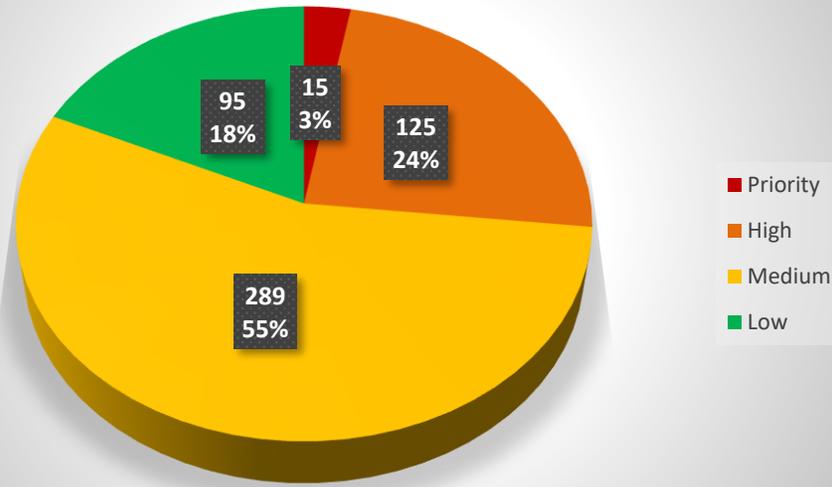
- During FY 2017, 239 audit reports and memos were issued, resulting in 586 recommendations.
- The 586 recommendations were made to address:
 - 15 Priority level findings
 - 130 High level findings
 - 328 Medium level findings
 - 113 Low level findings
- The average client survey score for these audits was 4.47 out of a range of 1 (Strongly Dissatisfied) to 5 (Strongly Satisfied).



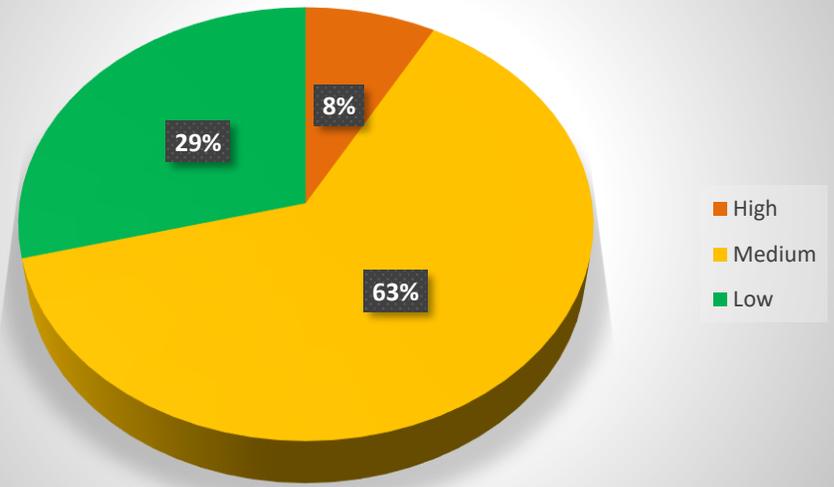
Findings from Risk-Based and Required Audits

Risk-based audits result in greater numbers and higher levels of recommendations.

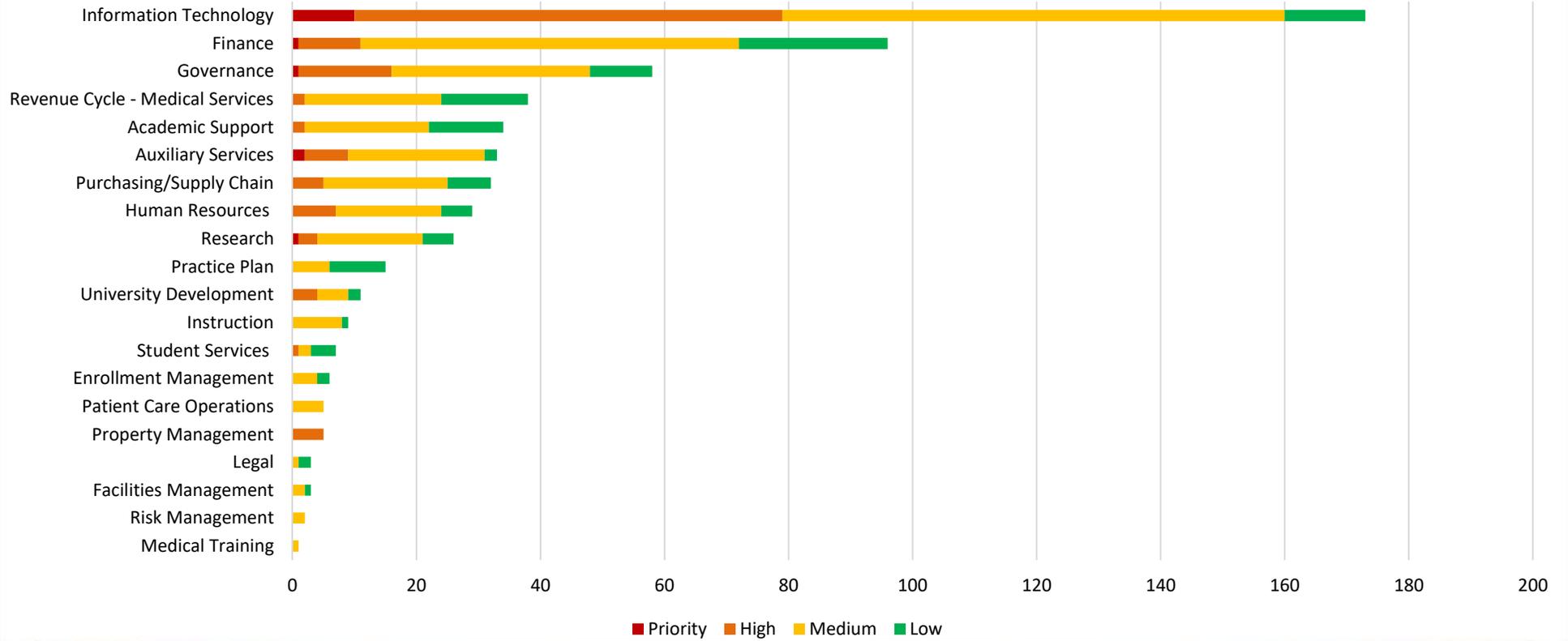
Risk-Based Audits - 524



Required Audits - 62



Findings by Subject Area



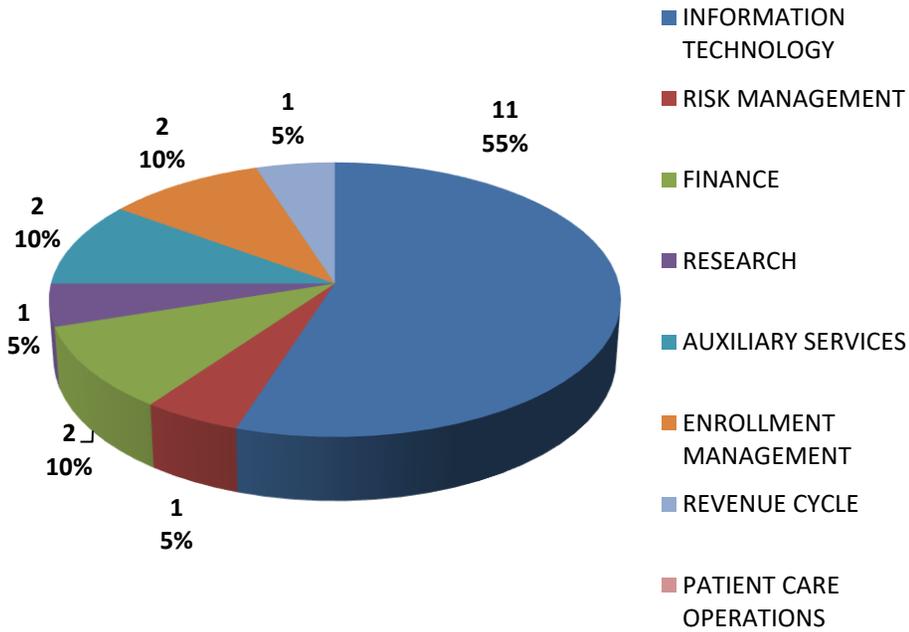
Priority Findings Status – Changes Since Last Report

	Aug 2017	Implemented	New	Nov 2017	Past Due
U. T. Arlington	3	-	-	3	-
U. T. Austin	4	(1)	-	3	-
U. T. Dallas	1	(1)	-	-	-
U. T. El Paso	2	-	-	2	-
U. T. Permian Basin	1	-	-	1	1
U. T. Rio Grande Valley	1	-	-	1	-
U. T. San Antonio	-	-	2	2	-
U. T. Medical Branch	1	(1)	-	-	-
U. T. Health Science Center at San Antonio	1	-	1	2	-
U. T. M. D. Anderson Cancer Center	9	(3)	-	6	-
Totals	23	(6)	3	20	1

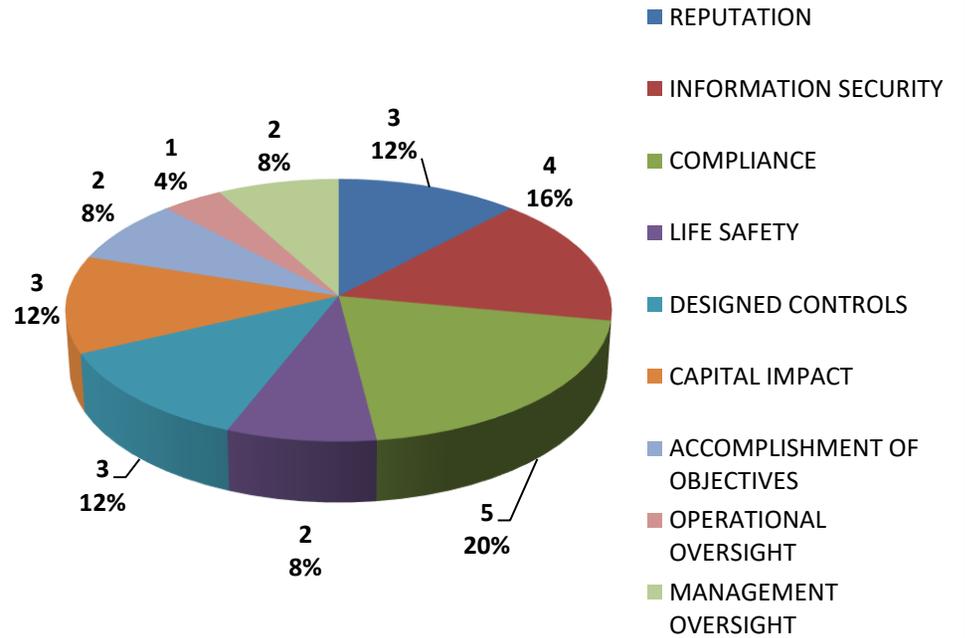


Priority Findings

Operational Area



Risk Factors



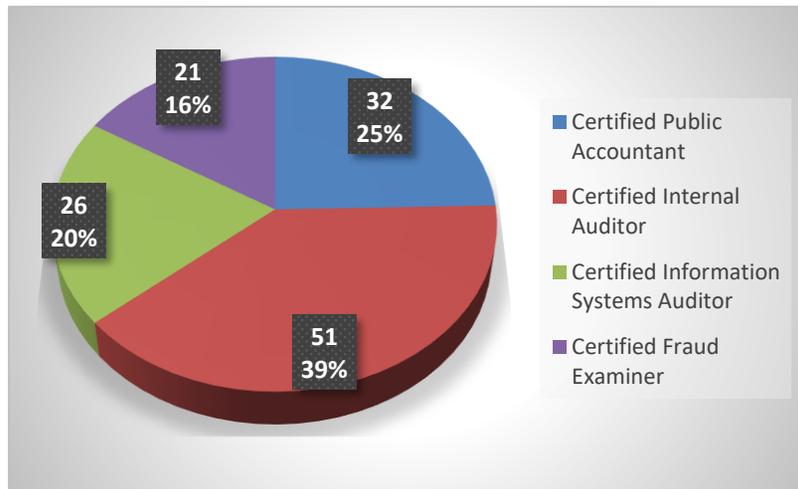
Internal Audit Staffing Resources as of FYE 2017

- Systemwide internal audit has 139 budgeted FTEs:
 - 121 (87%) filled positions
 - 18 (13%) vacant positions
- The 139 budgeted FTEs are composed of:
 - 50 (12%) professional management employees (6 vacancies)
 - 75 (15%) professional staff employees (11 vacancies)
 - 14 (7%) administrative staff employees (1 vacancy)



Internal Audit Staffing Resources as of FYE 2017 (cont.)

- 87 of the 108 current professional employees hold 130 professional certifications



- 40 of the 108 current professional employees have advanced degrees
- Average number of years of relevant and U. T. experience is 16 and 8 years, respectively
- Professional employees participated in an average of 59 hours of continuing professional education during the fiscal year



Systemwide Audit Management Software Implementation

- Comprehensive audit management software (AMS) for electronic work paper and audit documentation
- To assist in the automation of:
 - Audit plan monitoring
 - Issue tracking
 - Specialized reporting for audit committees
 - Knowledge sharing



Systemwide AMS Implementation (cont.)

- Collaborative process with workstreams made up of System Administration and institutional internal audit representatives
- Two year project resulted in a successful go-live
- On time and under budget
- Institutional involvement continues as longer term opportunities are identified and executed



Quality Assessment Review (QAR) of Internal Audit

Type of Review:

- Separate QARs of 14 institutional internal audit functions and the System Audit Office
- Conducted by Baker Tilly and Peer Review Teams with expertise in academic and health institutions

Objectives:

- Verify conformity to the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, Generally Accepted Government Auditing Standards, and the relevant requirements of the Texas Internal Auditing Act
- Identify strengths as well as opportunities for enhancing the internal audit function and processes that affect effectiveness



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
- Presented at various conferences to provide continued professional education trainings
- Served as part-time adjunct and guest lecturers, participated in student mentorship program, and made presentations to auditing classes



Student Opportunities in Internal Audit

Through educational partnerships, internships, and other activities, provided professional auditing experience to students at:

- U. T. Arlington
- U. T. Austin
- U. T. Dallas
- U. T. El Paso
- U. T. Permian Basin
- U. T. San Antonio
- U. T. Tyler
- U. T. Southwestern Medical Center
- U. T. System Administration



5. U. T. System: Report and discussion on Systemwide Compliance Programs

REPORT

Chief Compliance and Risk Officer Dendy and Executive Director and Deputy Compliance Officer Culpepper will report on the current state of the Systemwide Compliance Program, strategic planning, and monitoring of high-risk areas. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

Following the external assessment finalized in 2016, U. T. System Administration took steps to restructure the Office of Systemwide Compliance. The Systemwide Compliance Program has employed recommendations of the external assessment to pursue and achieve program accomplishments and set the course for developing a strategic plan to continuously monitor and survey compliance in high-risk areas.

It is anticipated that the Audit, Compliance, and Risk Management Committee meetings will involve in-depth discussions on the beneficial changes to the program and the continuing steps to bring the program development to a completion.

The Chief Compliance and Risk Officer and the Executive Director and Deputy Compliance Officer will briefly discuss:

- Historical features of the program
- Current accomplishments based upon external recommendations
- The crafting of a strategic plan to:
 - analyze U. T. System Administration compliance effectiveness
 - review institution compliance program effectiveness
 - support U. T. System leadership in compliance responsibility
 - improve current Systemwide Compliance expertise
 - develop regulatory alliances to monitor high-risk areas, emerging issues, and the manner in which these issues are being addressed

Systemwide Compliance Department Update & Strategic Plan

Phillip Dendy, Chief Compliance & Risk Officer
Arthur Culpepper, Deputy Compliance Officer

U. T. System Board of Regents' Meeting
Audit, Compliance, and Risk Management Committee
November 2017



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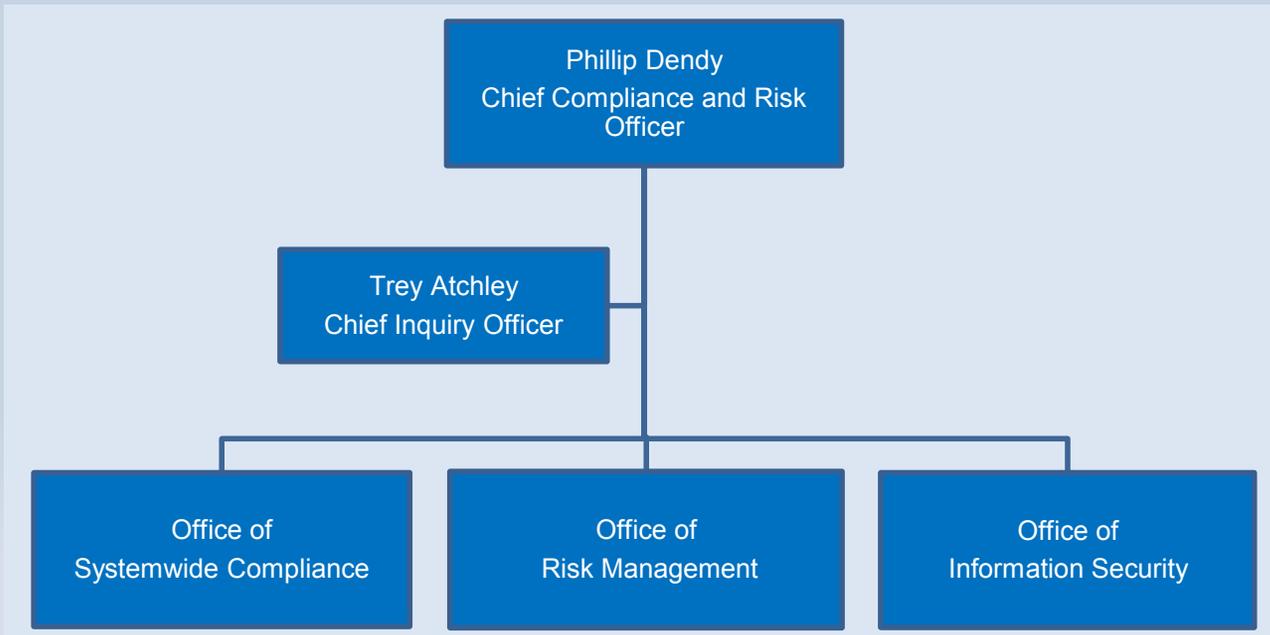
Historical Perspective

Office of Systemwide Compliance - observations by FTI Consulting (FTI)

- Operations of the Systemwide Compliance (SWC) Program found to be inconsistent with the elements of an effective program
- The SWC program inadequately resourced according to size and complexity of the U. T. System
- Lacking integration with the System Administration Compliance Program



Risk Services Structure



Systemwide Compliance



Accomplishments in FY 2017

Completed recommendations from FTI

- Restructured and hired subject matter expert staff
- Merged System Administration Compliance Program with SWC Program
- Updated the U. T. System Compliance Charter
- Reestablished Committee Structure
 - Institutional Compliance Advisory Committee
- Continued site visits to institutions
- Enhanced communication with Institutional Compliance Programs



Institutional Compliance Advisory Committee (ICAC) Subcommittees

- HealthCare
- Medical Billing
- Privacy
- Research
- Title IX/Clery



Systemwide Compliance Strategic Plan Focus

- Support System Administration commitment to compliance
- Assist institutions in promoting and executing compliance
- Support and strengthen U. T. System leadership in compliance advocacy and oversight
- Increase SWC compliance expertise and knowledge
- Establish collaborations with key business partners and industry regulators

