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FOR
AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE

Committee Meeting: 11/18/2026

Board Meeting: 11/19/2026
Austin, Texas

Nolan Perez, Chairman
Christina Melton Crain
Jodie Lee Jiles
Janiece Longoria
Kelcy L. Warren
Rad Weaver

	Committee Meeting	Board Meeting	Page
Convene	*1:00 p.m.* *Chairman Perez*		
1. **U.T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration**	**Discussion**	**Action**	**79**
2. **U.T. System: Report and discussion on the Systemwide internal audit activities, including Fiscal Year 2026 Annual Report**	**Report/Discussion** *Mr. Peppers*	Not on Agenda	**80**
3. **U.T. System: Report and discussion on the Systemwide Compliance Program**	**Report/Discussion** *Ms. Kathy Carlson*	Not on Agenda	**97**
Adjourn	*1:30 p.m.*		

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

RECOMMENDATION

The Board will be asked to approve the Consent Agenda beginning on Page 186.

2. U.T. System: Report and discussion on the Systemwide internal audit activities, including Fiscal Year 2026 Annual Report

Chief Audit Executive Peppers will present the FY 2026 Systemwide Annual Report of internal audit activities, using a PowerPoint presentation set forth on the following pages. He will also provide an update on the status of the external financial audit. Additional details on the Systemwide observations by subject area and significance, the annual audit plan's budget to actual hours status, as well as the planned scope and timing of the external financial audit were provided to the Audit, Compliance, and Risk Management Committee members prior to the meeting.

BACKGROUND INFORMATION

Internal audit across the U.T. System uses a consistent classification process to evaluate audit results to identify Priority, High, Medium, or Low level reportable observations. A Priority Observation is defined as "an issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of a U.T. institution or the U.T. System as a whole." All reportable observations are rated based on an assessment of applicable risk factors and the probability of a negative outcome occurring if the risk is not adequately mitigated. The standard risk factors considered are: Qualitative (evaluates the probability and consequences across seven areas), Operational Control (evaluates operational vulnerability to risks by considering the existence of management oversight and effective alignment of operations), and Quantitative (evaluates the level of financial exposure or lost revenue).

FY 2026 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
November 2026



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Annual Audit Plan



Actual Hours Spent

170K



Internal Auditors

104

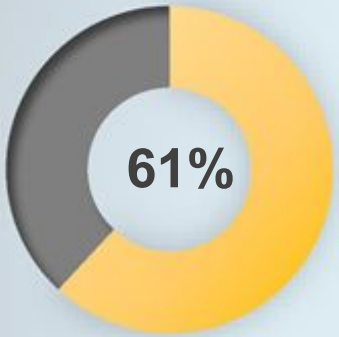


Audit Plan Completion

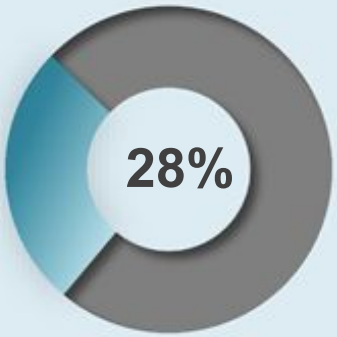
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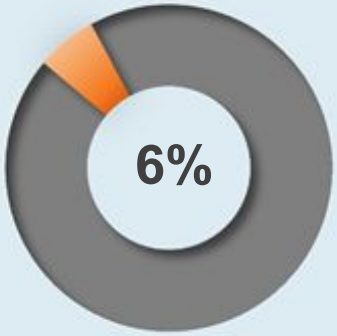
Engagement Categories



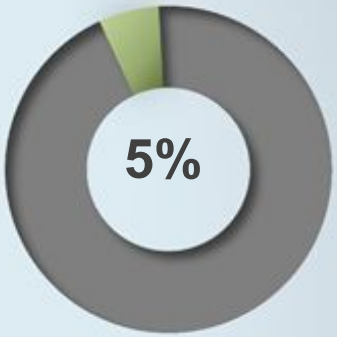
Assurance



Advisory



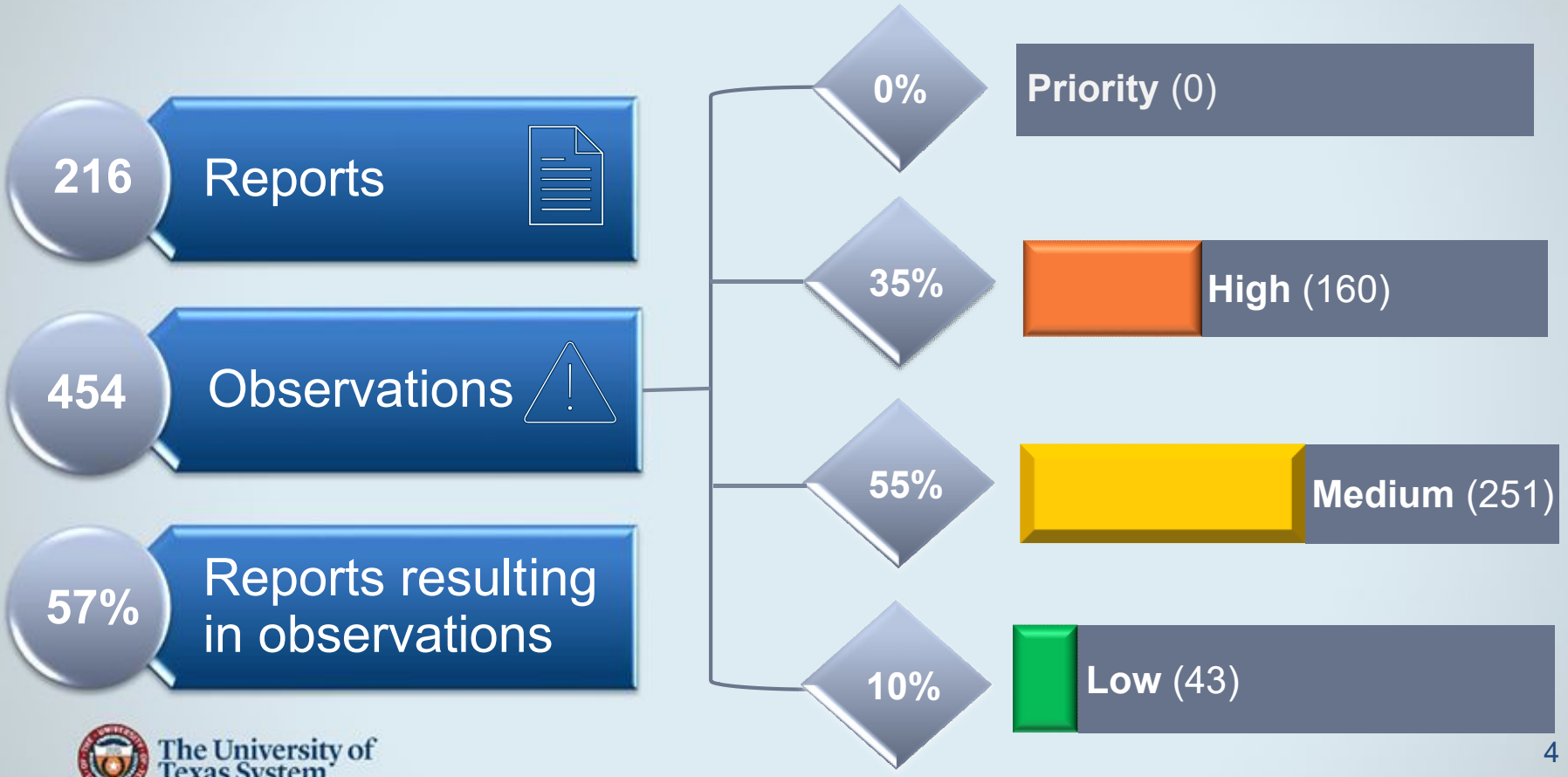
Required



Investigations

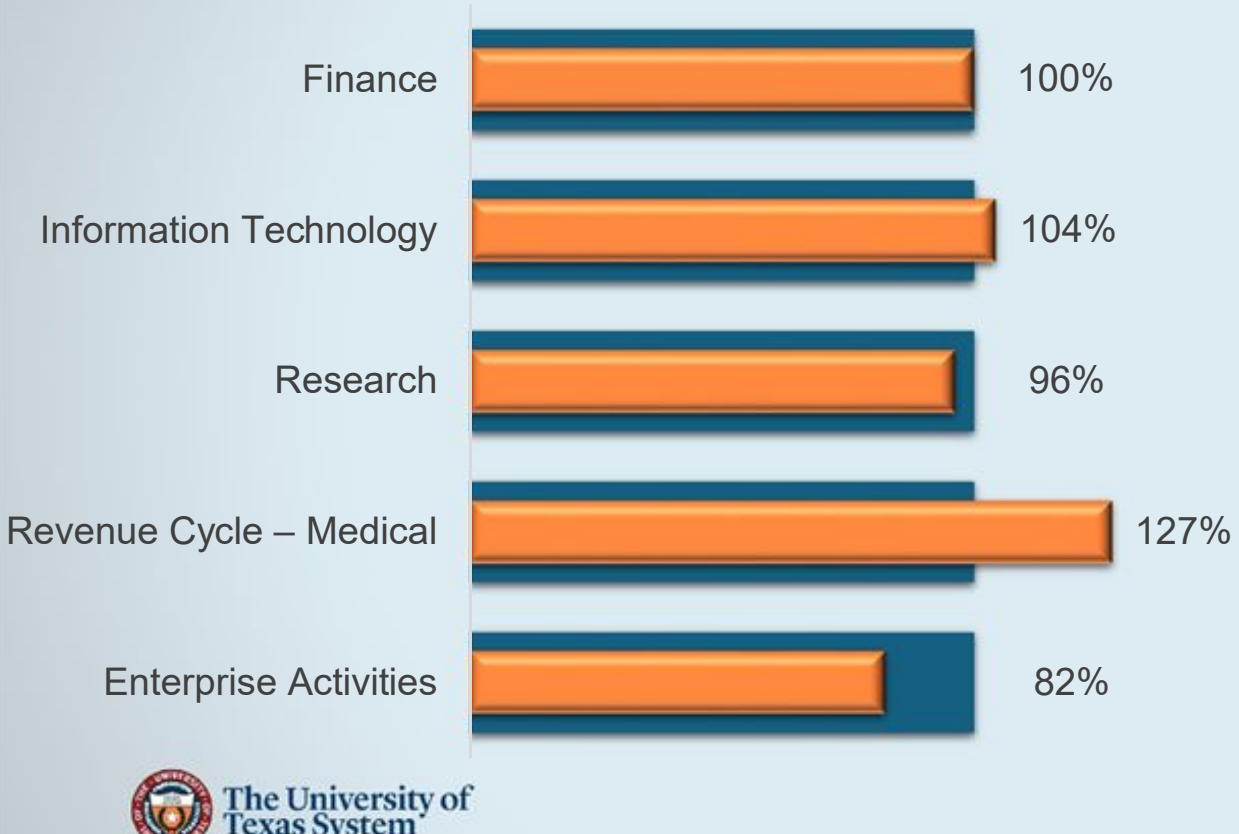
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Audit Reports and Observations



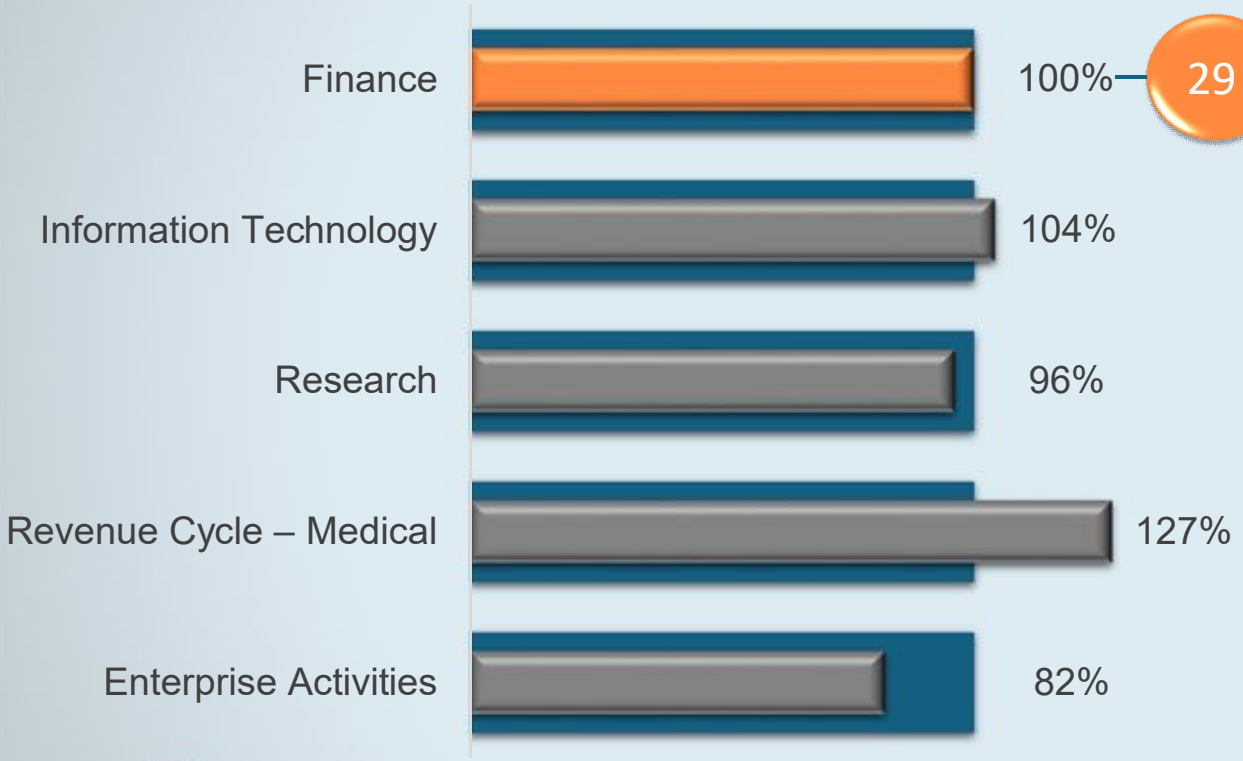
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Actual to Budgeted Hours: Top Five Taxonomies



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Actual to Budgeted Hours: Finance



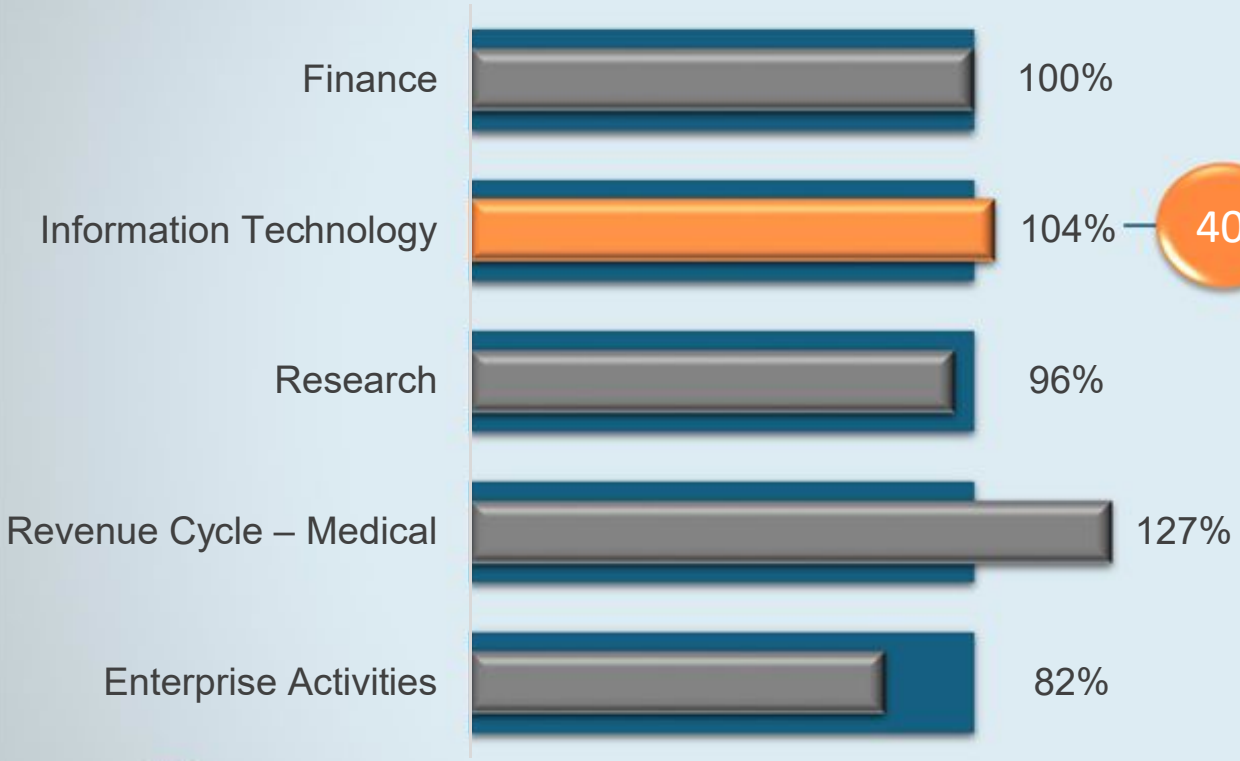
29

High-level Observations

- Grants
- Fixed Asset & Capital Management
- Payroll
- Purchasing & Supply Chain
- Cash Management & Investments

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Actual to Budgeted Hours: Information Technology



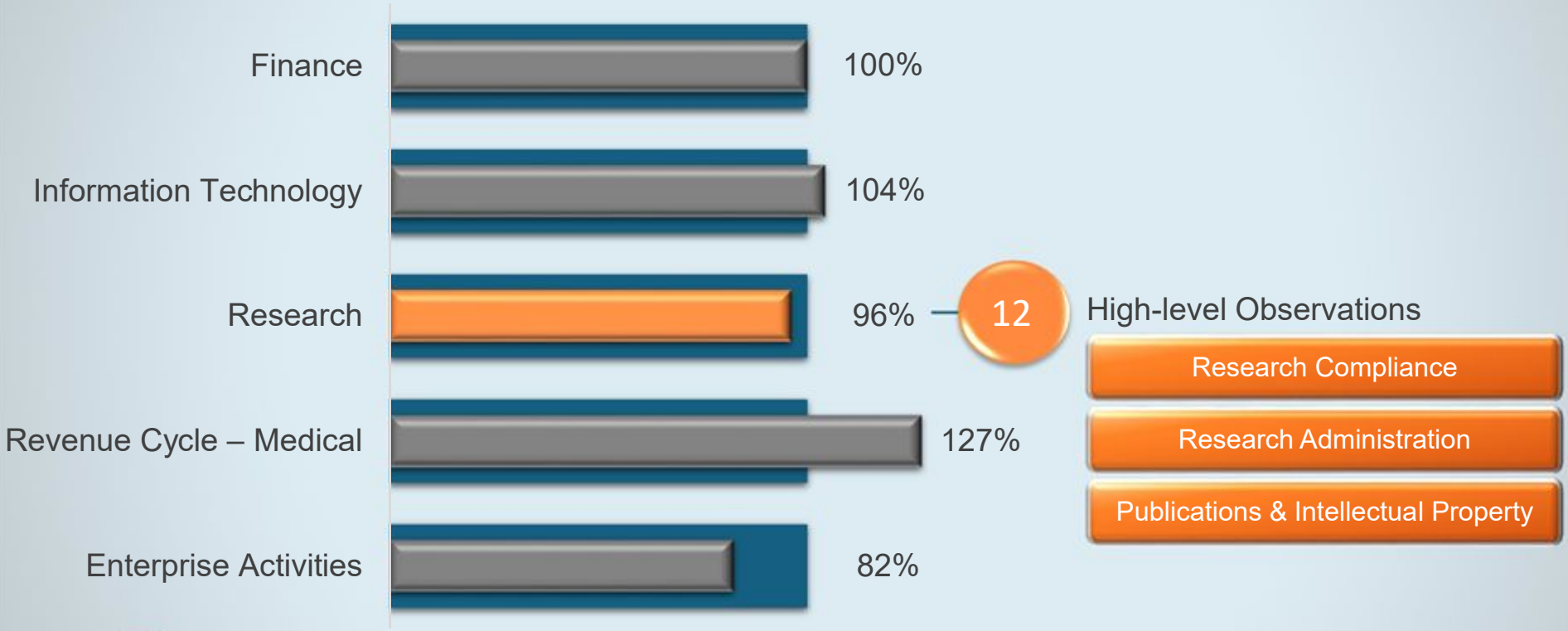
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High-level Observations

- Identity & Access Management
- Network Administration
- Third Party Security & Risk Management
- IT/IS Governance & Strategic Planning
- Cyber Vulnerability Management & Incident Response

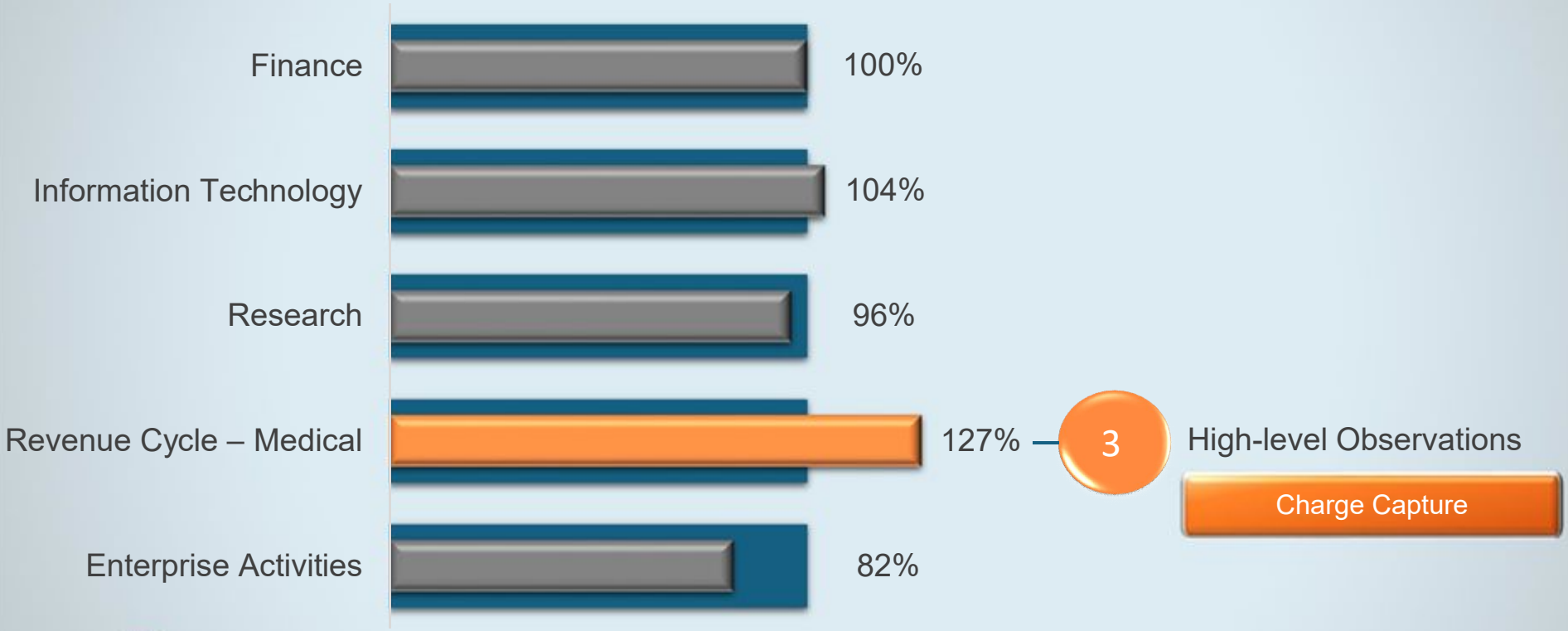
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Actual to Budgeted Hours: Research



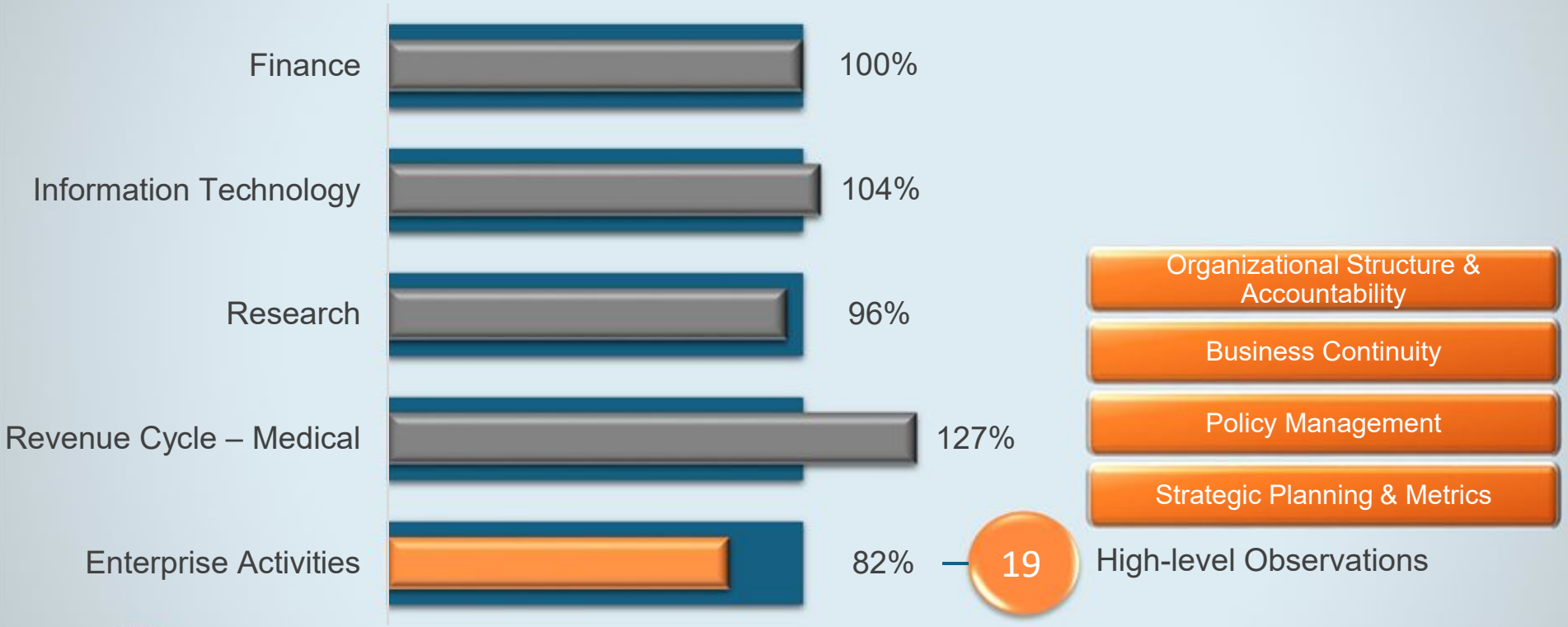
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Actual to Budgeted Hours: Revenue Cycle – Medical



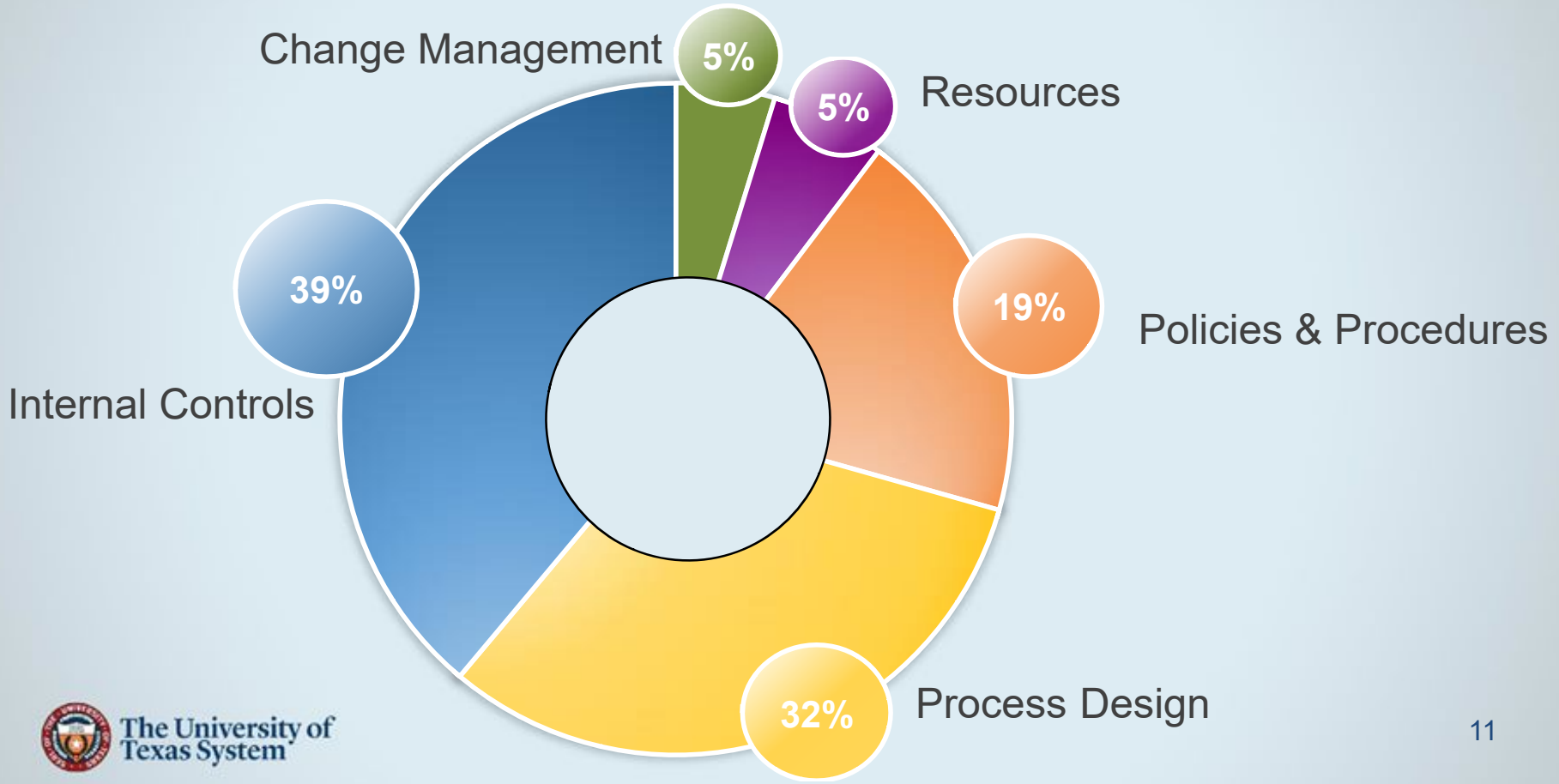
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Actual to Budgeted Hours: Enterprise Activities



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Top Five Root Causes of High-level Observations



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Systemwide Internal Audit Strategic Plan Objectives



Assurance and Advice on Governance, Risk Management, and Controls



Continuous Improvement of Competencies and Capabilities



Reputation of Excellence and Innovation

Performance metrics were developed to measure achievement of objectives.

Assurance and Advice



- 99% Coverage of Critical/High-Risks
- 61% Completion of Engagements Covering Critical/High-Risks
- 97% Audit Plan Completion of Hours
- 4.7 Client Survey Score
- 57% Client Survey Response Rate
- 43% Implementation Rate* of Action Plans for Priority/High Observations

*By original implementation date

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Continuous Improvement



93%
Completion of Required Training Hours

83%
Professional Certification Rate

Completed
Staff Resource Alignment

Excellence and Innovation



Extensive

Internal Audit Contributions

- Local
- National
- Global

Professional organizations

- Board service
- Leadership positions
- Conference presentations

Knowledge sharing

- Student interns
- Guest/part-time lecturers
- Institutional training
- Systemwide training

Extensive

Technology Implementation

- AI
- Data Analytics
- Automation

Risk Assessment & Audit Plan

- Research
- Risk identification
- Meeting summarization

Engagements

- Testing
- Analysis
- Report drafting
- Visualization & reporting
- Continuous monitoring

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Excellence and Innovation (cont.)



12 of 14 Complete

Internal Quality Assessment

13 of 14 Generally Conforms

External Quality Assessment

3. U.T. System: Report and discussion on the Systemwide Compliance Program

Chief Compliance and Ethics Officer, Kathy Carlson will report on the current state of the Systemwide Compliance Program, including recent changes to the program's structure and functions and FY 2027 priorities using the PowerPoint presentation set forth on the following pages.

Systemwide Compliance Program Update

Kathy Carlson, J.D., LL.M., Chief Compliance and Ethics Officer

U.T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
November 2026



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Onboarding Overview

- Listening and learning tours with all institutions and four campus visits
- Reviewed governance documents, policies, training, and current Systemwide Compliance Program functions
- Program assessed across the seven elements of an effective compliance program



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Key Takeaways

- Strengths
  - Collective subject matter expertise and knowledge across U.T. System
  - Subject matter experts within the Systemwide Compliance Office
- Opportunities
  - Update governance and align programs with emerging needs
  - Enhance communication, Systemwide resources, and collaboration across U.T. System
  - Harness collective subject matter expertise to address high-risk and complex compliance and regulatory challenges

FY 2026 Accomplishments

- Updated the Systemwide Compliance Program Charter
  - Clarified governance, roles, and responsibilities
  - Delineated the seven elements
- Expanded Institutional Compliance Advisory Councils (ICAC) and networks
- Enhanced communications to institutions on various compliance topics (memos and guidance documents)
- Centralized privacy, data governance, AI risk, and records and information management programs
- Reclassified three positions and hired new team members

FY 2027 Priorities

- Update Compliance policies and the Standards of Conduct Guide
- Revise the hotline and compliance investigation program
- Launch ICAC specialty groups (Research and Conflicts of Interest)
- Explore technology and resources to optimize compliance work, including the case management system, policy administration, conflicts of interest disclosures, and risk assessments
- Collect benchmark data for institution compliance programs and support program effectiveness reviews

