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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 2/10/2016

Board Meeting: 2/11/2016
Galveston, Texas

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

	Committee Meeting	Board Meeting	Page
A. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE	<i>10:30 a.m.</i>		
1. U. T. System: Report on the Fiscal Year 2015 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, and U. T. Medical Branch - Galveston financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)	<i>10:30 a.m.</i> Report/Discussion <i>Mr. Wallace</i> <i>Mr. Peppers</i> <i>Mr. Robert Penschorn,</i> <i>Ms. Tracey Cooley,</i> <i>Mr. Robert Cowley,</i> <i>and Mr. Blake</i> <i>Rodgers, Deloitte & Touche</i>	Not on Agenda	82
B. ADJOURN JOINT MEETING	<i>11:00 a.m.</i>		
C. CONVENE MEETING OF THE AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE IN OPEN SESSION TO CONSIDER AGENDA ITEMS	<i>11:01 a.m.</i> <i>Chairman Hildebrand</i>		
2. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>11:02 a.m.</i> Discussion	Action	83
3. U. T. System: Approval of non-audit services to be performed by U. T. System's external audit firm, Deloitte & Touche LLP, for a U. T. Austin comprehensive business plan project	<i>11:03 a.m.</i> Action <i>Mr. Peppers</i>	Not on Agenda	84
4. U. T. System Board of Regents: Approval to hire auditor to provide financial auditing services for Fiscal Year 2016	<i>11:07 a.m.</i> Action <i>Chairman Hildebrand</i> <i>Mr. Peppers</i>	Action <i>Chairman Hildebrand</i>	85

	Committee Meeting	Board Meeting	Page
5. U. T. System: Discussion on Systemwide audit activities, including a report on the Faculty Academic Workload Audit and the audits of travel and entertainment expenses for chief administrators and executives and an update on the status of Priority Findings and the Annual Audit Plan	11:10 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	86
6. U. T. System Board of Regents: Report on the Risk Finance and Risk Control Programs administered by the Office of Risk Management	11:20 a.m. Report/Discussion <i>Mr. Dendy</i>	Not on Agenda	90
7. U. T. System: Report on U. T. System medical billing compliance activities	11:35 a.m. Report/Discussion <i>Mr. Dieter Lehnortt,</i> <i>U. T. Southwestern</i> <i>Medical Center</i>	Not on Agenda	111
D. ADJOURN	11:45 a.m.		

1. **U. T. System: Report on the Fiscal Year 2015 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, and U. T. Medical Branch - Galveston financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)**

REPORT

See Item 9 beginning on [Page 241](#) of the Finance and Planning Committee.

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

RECOMMENDATION

No Consent Agenda items are assigned for review by this Committee. The Consent Agenda begins on [Page 426](#).

3. **U. T. System: Approval of non-audit services to be performed by U. T. System's external audit firm, Deloitte & Touche LLP, for a U. T. Austin comprehensive business plan project**

RECOMMENDATION

It is recommended that approval be given by the Audit, Compliance, and Management Review Committee (ACMRC) for U. T. System's external audit firm, Deloitte & Touche LLP, to perform non-audit services for U. T. Austin as part of a comprehensive business plan project related to the transformation of health care delivery. Non-appropriated funds will be used for this contract. Additional information on this project was provided to the members of the Board prior to the meeting.

BACKGROUND INFORMATION

Regents' Rule 20402, Section 2.1 states, "The U. T. System and the institutions may not engage the external audit firm to perform non-audit services unless the proposed engagement is reviewed and approved by the ACMRC." Section 2.2 states that the ACMRC Chairman may delegate authority to grant the approval to any ACMRC member, after which the decision made shall be presented to the full ACMRC at the next Committee meeting. Vice Chairman Hildebrand, as ACMRC Chairman, provided delegated approval for this project prior to the meeting.

The current external audit firm engaged by the U. T. System Board of Regents to provide audit services is Deloitte & Touche LLP. Audit services are those provided for the purpose of expressing an opinion on the financial statements of U. T. System or any of the institutions.

4. U. T. System Board of Regents: Approval to hire auditor to provide financial auditing services for Fiscal Year 2016

RECOMMENDATION

Chairman Hildebrand recommends to the Audit, Compliance, and Management Review Committee (ACMRC) that he, as Chairman of the ACMRC and working with the Chancellor and appropriate U. T. System staff and pursuant to the request for qualifications (RFQ), be authorized to select an external firm to provide independent auditing services for the U. T. System based on input from the selection committee and appropriate U. T. System staff.

It is further recommended that the Chancellor be authorized to approve the allocation of funding in a reasonable amount, as he determines necessary, and negotiate and enter into an auditing services contract with the selected firm.

BACKGROUND INFORMATION

On August 12, 2010, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP to perform Fiscal Year 2011 financial statement audits for U. T. System. The original one-year contract was renewed for an additional four years and expires on February 28, 2016.

As requested by the ACMRC, U. T. System plans to issue a Request for Qualifications (RFQ) for independent auditing services in late January 2016.

5. **U. T. System: Discussion on Systemwide audit activities, including a report on the Faculty Academic Workload Audit and the audits of travel and entertainment expenses for chief administrators and executives and an update on the status of Priority Findings and the Annual Audit Plan**

REPORT

Chief Audit Executive Peppers will present the results of the Faculty Academic Workload Audit and the audits of the travel and entertainment expenses for chief administrators and executives. Details on the results of these engagements were provided to the members of the Board prior to the meeting.

Mr. Peppers will also report on the status of Systemwide Priority Findings, using a PowerPoint presentation set forth on the following pages. The FY 2016 Systemwide annual audit plan status as of November 30, 2015, was also provided to the members of the Board 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).

U. T. Systemwide Priority Findings

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

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
February 2016



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Priority Findings Status as of December 31, 2015

INSTITUTION	General			Academic	TOTAL		Risk Factors						
	FINANCE	INFORMATION TECHNOLOGY	RESEARCH	ACADEMIC SUPPORT	PAST DUE	REPUTATION	INFORMATION SECURITY	COMPLIANCE	ACCOMPLISHMENT OF OBJECTIVES	LIFE SAFETY	OPERATIONAL OVERSIGHT	MANAGEMENT OVERSIGHT	
U. T. Arlington	1	2	0	0	3	0	X	X	X	X			X
U. T. Austin	2	4	1	0	7	0	X	X	X		X		
U. T. Dallas	0	1	0	0	1	0		X					
U. T. El Paso	0	1	1	0	2	0		X	X				
U. T. Permian Basin	0	0	0	0	0	0							
U. T. Rio Grande Valley	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	0	0	0	0							
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	1	0	7	0		X	X				
U. T. Health Science Center - Tyler	0	0	0	0	0	0							
U. T. System Administration	0	0	0	1	1	0	X		X	X		X	
TOTALS	3	14	3	1	21	0							



Changes Since Last Report

	<u>Reported Nov 2015</u>	<u>Implemented</u>	<u>New</u>	<u>Reported Feb 2016</u>
IT related Priority Findings	15	(1)		14
Non-IT related Priority Findings	<u>6</u>	<u>(1)</u>	<u>2</u>	<u>7</u>
Total Priority Findings	21	(2)	2*	21
Past due Priority Findings	0	(0)		0

*New Priority Findings – One Research related finding (risk factors – compliance and life safety) at U. T. Austin and one Academic Support related finding (risk factors – reputation, compliance, accomplishment of management’s objectives, and operational oversight/alignment) at U. T. System Administration.



6. U. T. System Board of Regents: Report on the Risk Finance and Risk Control Programs administered by the Office of Risk Management

REPORT

Executive Director Dendy will report on the property and casualty Risk Finance and Risk Control Programs administered or coordinated by the Office of Risk Management, including property conservation, environmental health and safety, and emergency management.

A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

The mission of the Office of Risk Management (ORM) is to provide high quality risk management services, resources, and leadership that create value and support U. T. System's mission of excellence in education, research, healthcare, and public service.

The framework of the U. T. System risk management program consists of assessment, control, finance, communication, and monitoring. The program is governed by executive leadership and direction from the Risk Management Executive Committee.

This report will provide a summary of the self-insured and commercial insurance programs, including the Comprehensive Property Protection Plan, Rolling Owner Controlled Insurance Program, Cyber Liability Plan, Directors and Officers Liability Plan, Workers' Compensation Insurance, Unemployment Compensation Insurance, and International Risk Management Programs. The report will also provide an overview of the Risk Control Programs, including Environmental Health and Safety, Emergency Management, and Property Conservation.

Office of Risk Management Risk Finance and Risk Control Programs

Mr. Phillip Dendy, Executive Director, Risk Management and
Systemwide Compliance Officer *ad interim*

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
February 2016



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Mission

It is the mission of the Office of Risk Management (ORM) to provide high quality risk management services, resources, and leadership that create value and support The University of Texas System's mission of excellence in education, research, healthcare, and public service.



Operational Exposures (FY 2015)

- Employee headcount - 114,605
- Student Enrollment - 217,112
- Total Insured Values (TIV) - \$32 billion
- Gross square feet - 99 million
- Construction values in progress - \$2.8 billion
- Faculty/staff/student international trips - 17,000



Governance

- Risk Management Executive Committee (RMEC)
- Risk Management Advisory Committee (RMAC)
- Environmental Health and Safety Advisory Committee (EHSAC)
- Emergency Management Committee (EMC)



Risk Finance Programs

- Administration of Risk Finance Programs
 - Automobile, Property, and Liability (APL)
 - Comprehensive Property Protection Plan (CPPP)
 - Rolling Owner Controlled Insurance Program (ROCIP)
 - Cyber Liability Program (CLP)
 - Unemployment Compensation Insurance (UCI)
 - Workers' Compensation Insurance (WCI)
- International Risk Management Programs



Risk Control Programs

- Environmental Health and Safety
- Emergency Management
- Property Conservation
- Claims Coordination



Additional Risk Management Services

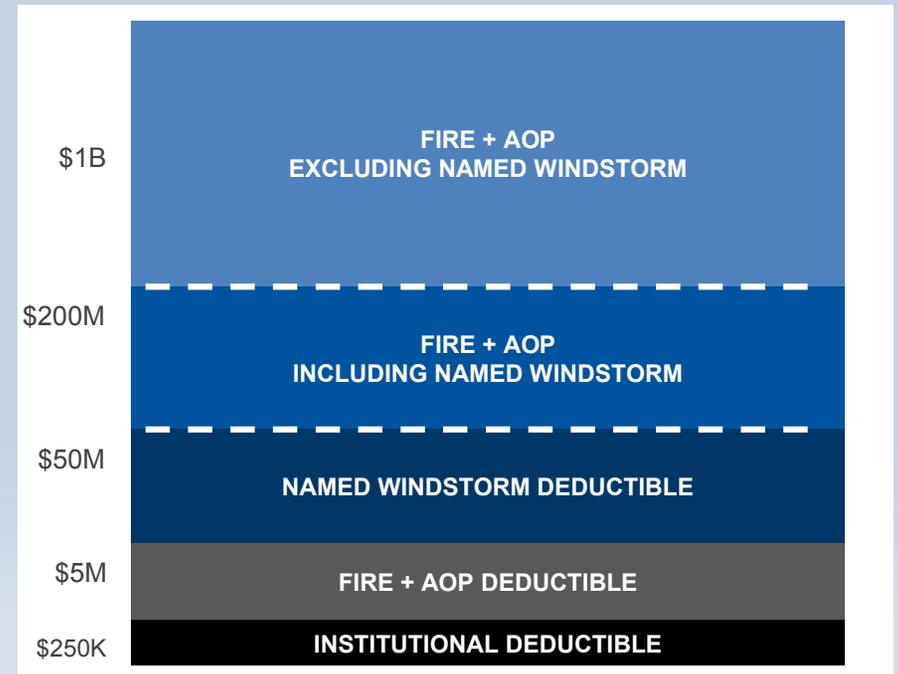
- Exposure assessments
- Traditional insurance procurements
- Contract review
- Accounting and self-insurance fund administration
- Risk Management Information System



Comprehensive Property Protection Plan

- Fire and All Other Perils (AOP)
 - \$1 billion limit
 - \$5 million deductible
- Named Windstorm
 - \$495 million total limits, including Texas Windstorm Insurance Association (TWIA) and National Flood Insurance Program (NFIP)
 - \$50 million or 5% deductible
 - TWIA and NFIP losses erode CPPP deductible

2015 – 2016 CPPP Master Program



Rolling Owner Controlled Insurance Program

ROCIP provides workers' compensation, general liability, and excess liability insurance coverage for designated U. T. System construction projects.

- Lower costs due to bulk purchasing and favorable claims experience
- Consistency of insurance provided on each project and for all contractors and subs
- Enhanced safety and loss control
- Over \$9 billion in total construction values enrolled since inception (1998)
- Over \$50 million estimated savings since inception (all phases)



Cyber Liability Program

In collaboration with the RMEC, RMAC, Chief Information Security Council and the Chief Information Officers, the CLP was incepted on September 15, 2015.

The CLP provides \$50 million aggregate coverage for:

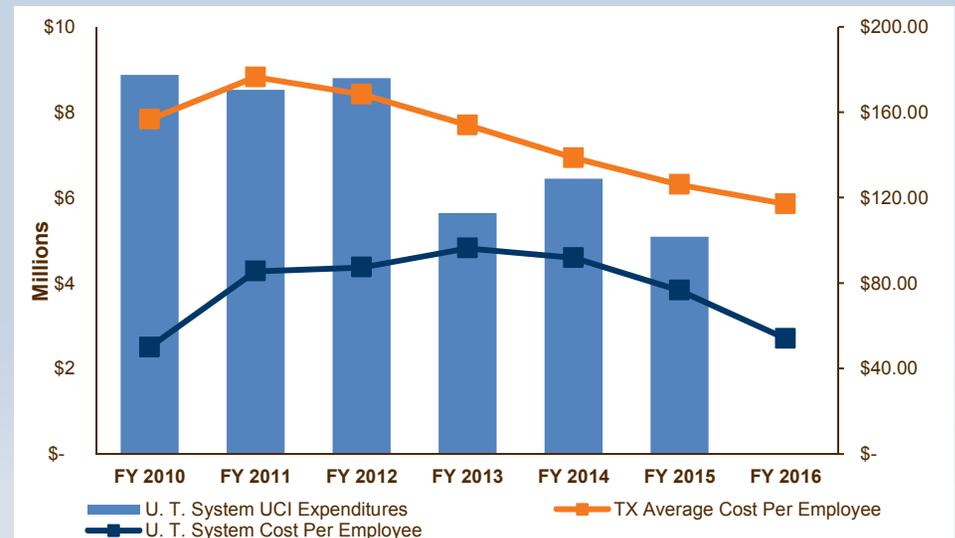
- Network security and privacy liability
- Regulatory liability
- Breach response costs
- Cyber extortion
- Other coverages



Unemployment Compensation Insurance

UCI is a self-insurance plan that assists workers who become unemployed through no fault of their own.

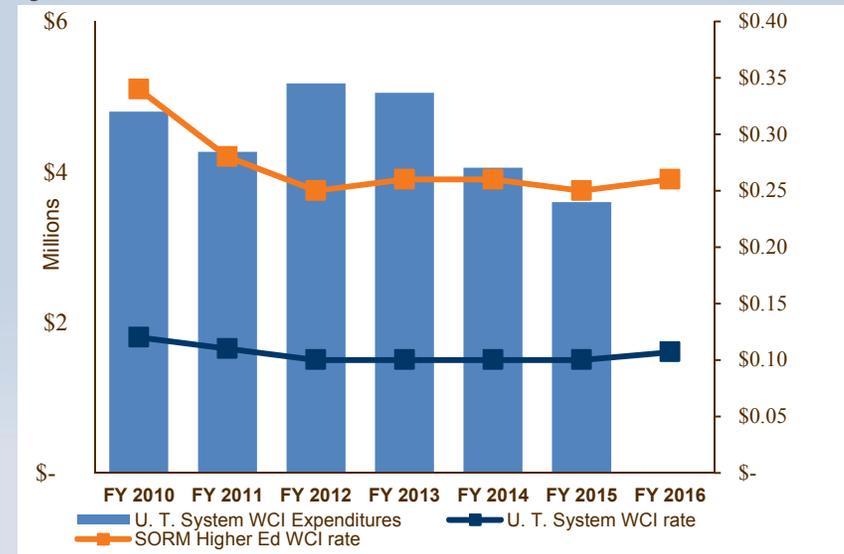
- Lowest fiscal year expenditures since FY 2008
- 11% decrease in claims from FY 2014
- Average U. T. System cost per employee in FY 2016 is \$54 compared to experience rated Texas employers, \$117 per employee



Workers' Compensation Insurance

WCI is a self-insurance plan that provides medical coverage and income benefits to U. T. System employees who are injured in the course and scope of their employment.

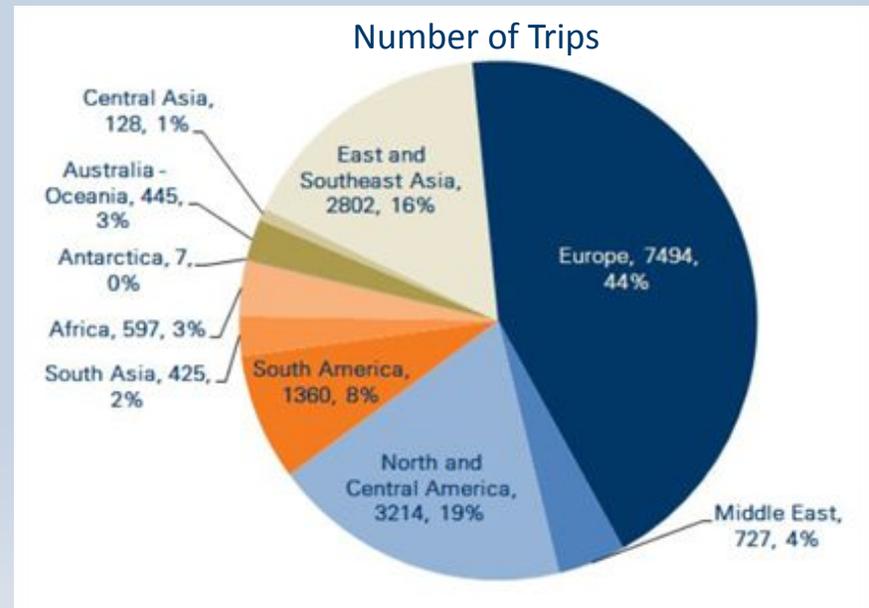
- Lowest fiscal year expenditure in over 20 years, \$3.6 million
- Claims managed by third party administrator
- Certified WCI Health Care Network to control medical costs
- Collaboration with loss control
- Return to Work programs
- Favorable rate comparison to peers



International Risk Management Programs

- International Travel (FY 2014)
 - 11,118 employee trips
 - 6,081 student trips
 - 151 countries visited
- International Oversight Committee Activity
 - 1,456 requests reviewed for travel to restricted regions

FY 2014 INTERNATIONAL TRAVEL TRIPS BY REGION



International Risk Management Programs (cont.)

- International medical and security emergency assistance
 - Global 24 hour assistance
 - Online/automated travel advisors
 - Travel tracker
- Blanket Student Accident and Sickness Policy
- Foreign Package Insurance Policy
 - Foreign workers' compensation
 - Foreign general liability
 - Foreign auto liability
- Defense Base Act



Emergency Management

- Assist institutions with requirements of UTS172 – Emergency Management and *Texas Education Code Section 52.217*
- Interface with Texas Division of Emergency Management and the Department of Public Safety
- Administer Systemwide contracts for disaster recovery
- Conducted safety and security audits at eight institutions in FY 2015



Property Conservation

- Coordinate carrier and property engineer visits and surveys
- In 2015, surveyed 108 buildings with combined TIV over \$6.1 billion
- 877 recommendations made since 2003
- 522 recommendations closed with a projected loss avoidance of \$6.2 billion
- Focused flood exposure analysis to determine need for new NFIP coverage



Systemwide Environmental Contracts

- Leverage purchasing power and provide enhanced services

Includes

- Hazardous waste
- Low-level radioactive waste
- Emergency spill response
- Medical/biological waste
- Environmental services



Claims Coordination

- Oversee and coordinate claims process
- Works with General Counsel and Attorney General on claim litigation
- Administers contracts for:
 - Disaster response (flood and water intrusion, fire/smoke, Federal Emergency Management Agency assistance, salvage)



Resource Allocation Program (RAP)

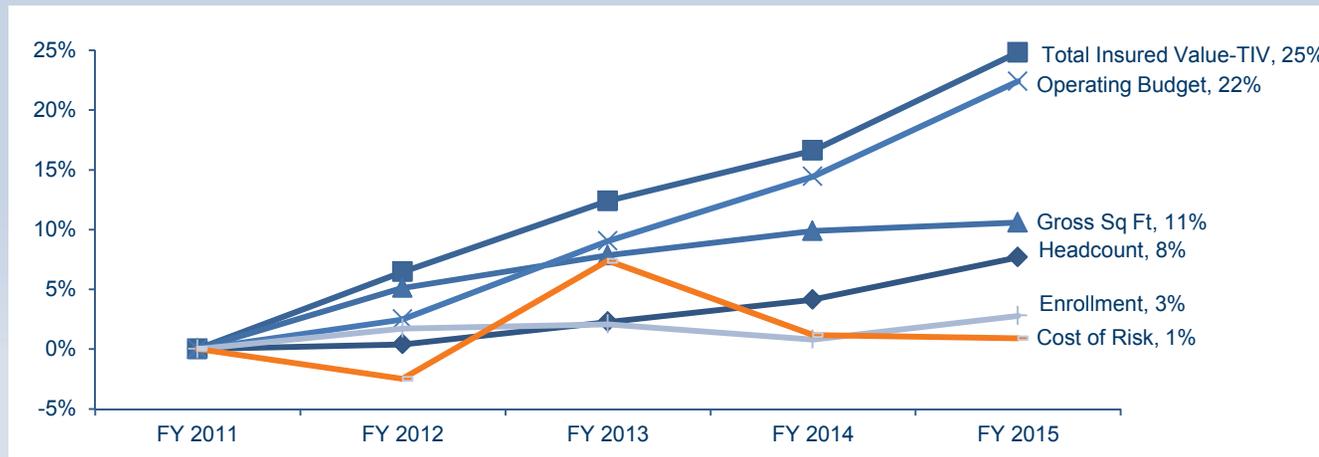
- \$51 million has been distributed through RAP
- Funds used for risk management and safety initiatives that are outside current budgets
 - Occupational safety programs
 - Strain and sprain prevention
 - Laboratory safety initiatives
- Systemwide initiatives
 - Systemwide training
 - National Fire Protection Association
 - Risk Management Conference



Cost of Risk

Cost of risk is a method of representing the financial performance of risk management programs.

- Includes fixed costs such as commercial and self-insurance premiums
- The cost of risk in FY 2015 was approximately \$35 million (increase of only 1% since 2011)



7. U. T. System: Report on U. T. System medical billing compliance activities

REPORT

Mr. Dieter A. Lehnortt, Director of Billing Compliance at U. T. Southwestern Medical Center and current Chair of the U. T. System Medical Billing Compliance Advisory Committee (MBCAC), will provide an update on the current activities, emerging issues, and work plan of the MBCAC. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

Medical billing is an area of significant risk to any entity involved in billing for medical services. Considerable monetary penalties, program exclusion, and strict regulatory corporate integrity agreements are examples of actions that can result from non-compliance with medical billing rules. U. T. System seeks to more proactively standardize its billing practices, ensure an effective system of compliance, and exhibit national leadership in this area.

The U. T. Systemwide Executive Compliance Committee has charged the MBCAC with studying and making recommendations with regard to best practices in the area of medical billing compliance for the U. T. System institutions.

U. T. System Medical Billing Compliance Advisory Committee Report

Mr. Dieter A. Lehnortt, Director, Billing Compliance,
U. T. Southwestern Medical Center

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
February 2016



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U. T. System Health Institution Facts

- Four medical schools, two dental schools, three nursing schools, four biomedical science graduate schools, four schools of health professions, plus schools of biomedical informatics and a school of public health
- More than 6.78 million outpatient visits (physician) annually
- More than 1.38 million patient days (hospital) annually
- FY 2016 budget - \$6.8 billion (estimated) in insurance and patient payments



Purpose and Background

- Medical billing is an area of significant risk to any entity involved in providing medical services to patients
- Significant penalties can result when there is noncompliance with medical billing rules
- The U. T. Systemwide Executive Compliance Committee in 2009 charged the Medical Billing Compliance Advisory Committee (MBCAC) with studying and making recommendations with regard to best practices in billing compliance



MBCAC Membership

- The Chief Compliance Officer or his/her designee from each of the six U. T. System health institutions
- Members have functional expertise in medical billing compliance and are accountable for the effectiveness of their respective billing compliance programs
- At least one member from the U. T. Systemwide Compliance Office
- Representative from the U. T. System Office of Health Affairs



MBCAC Responsibilities

- Develop an annual work plan to address key billing compliance issues/risks
- Convene quarterly in-person or telephonic meetings
- Identify opportunities to leverage available billing compliance audit software systems to effectively monitor billing compliance risks



FY 2015 Accomplishments

- Developed a model policy addressing cloned documentation
- Conference calls with Texas Medicare contractor (Novitas) leadership to discuss documentation cloning concerns
- Developed institutional monitoring plans to address clinical trial billing compliance risks
- Identified opportunities for enhancing inter-institution communications on clinical trial billing compliance activities



FY 2015 Accomplishments (cont.)

- Revised the audit approach and timeframe for conducting professional services audits
- Developed and implemented a quality assurance process to ensure the accuracy of audit work performed
- Worked to ensure operational readiness for conversion to a new diagnosis coding system (ICD-10)



FY 2016 Priorities

- Assist in the development of a competitive solicitation to procure needed billing compliance audit software systems
- Successfully implement new billing compliance audit software systems by fiscal year end
- Ensure an effective policy addressing cloned documentation is created and implemented at each health institution
- Develop best practices for monitoring both clinical trial billing and ICD-10 coding compliance



FY 2016 Priorities (cont.)

- Review and make recommendations for needed updates/enhancements to U. T. System Guiding Principle documents
- Develop recommendations for reporting meaningful billing compliance audit result metrics to U. T. System
- Collect and share information about the organizational structure, staffing, and audit priorities for the billing compliance group at each health institution

