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Committee Meeting: 5/7/2025

Board Meeting: 5/8/2025
Austin, Texas

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

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Convene	1:15 p.m. <i>Chairman Perez</i>		
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2. U.T. System Board of Regents: Discussion and appropriate action regarding amendments to Regents' <i>Rules and Regulations</i>, Rule 10402 (Committees and Other Appointments), Section 1.6, regarding duties of the Audit, Compliance, and Risk Management Committee	Action <i>Mr. Peppers</i>	Action	21
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Adjourn	1:45 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 176](#).

2. **U.T. System Board of Regents: Discussion and appropriate action regarding amendments to Regents' *Rules and Regulations*, Rule 10402 (Committees and Other Appointments), Section 1.6, regarding duties of the Audit, Compliance, and Risk Management Committee**

RECOMMENDATION

The Chancellor and the General Counsel to the Board recommend that the U.T. System Board of Regents approve the following revisions to Regents' *Rules and Regulations*, Rule 10402 (Committees and Other Appointments) to reflect requirements of recently revised professional standards for internal audit:

Sec. 1.6 Duties of the Audit, Compliance, and Risk Management Committee. The Audit, Compliance, and Risk Management Committee (ACRMC) shall:

(a) ~~Provide strategic oversight~~ Establish, approve, and direction to support fulfillment of the Systemwide internal audit activities, ~~a primary source of independent and objective risk information~~ function mandate, specifically:

i. Specify the authority, role, and responsibilities of the Systemwide internal audit function.

ii. Approve a Systemwide internal audit charter.

iii. Support unrestricted access to data, records, information, personnel, and physical properties necessary to conduct internal audit activities.

(b) ~~Conduct appointment, evaluation, and dismissal duties, specifically:~~

~~i. Approve the appointment of System Administration and institutional audit committee chairs. By extension, this recognizes the role of the System Administration and institutional audit committees as risk advisors to the ACRMC and their authority derived from the Board of Regents.~~

~~ii. Take personnel actions regarding appointment and dismissal of the U.T. System Chief Audit Executive following recommendations by the General Counsel to the Board of Regents and the Chancellor. The U.T. System Chief Audit Executive shall hold office subject to the pleasure of the ACRMC.~~

(b) Establish and protect the independence and qualifications of the Systemwide internal audit function, specifically:

i. Ensure a direct reporting relationship between the ACRMC and the U.T. System Chief Audit Executive.

- ii. Authorize the appointment and dismissal of the U.T. System Chief Audit Executive following recommendations by the General Counsel to the Board of Regents and the Chancellor and provide concurrence with any president's appointment and dismissal of institutional chief audit executives with advice and recommendation from the U.T. System Chief Audit Executive. The U.T. System Chief Audit Executive shall hold office subject to the pleasure of the ACRMC.
 - iii. Perform the annual evaluation of the U.T. System Chief Audit Executive.
 - ~~iv. Provide concurrence with any president's appointment and dismissal of institutional chief audit executives with advice and recommendation from the U.T. System Chief Audit Executive.~~
 - iv. Support the independence of the internal audit function in determining scope, performance of internal audit engagements, and communication of results.
 - v. Approve the appointment of System Administration and institutional audit committee chairs. By extension, this recognizes the role of the System Administration and institutional audit committees as risk advisors to the ACRMC and their authority derived from the Board of Regents.
- ~~(c) Consider, review, and when appropriate refer to the full Board of Regents matters regarding the activities of the Office of Systemwide Compliance, as an integral component of Systemwide risk oversight.~~
- (c) Oversee the Systemwide internal audit function to ensure its effectiveness.
 - i. Engage with the U.T. System Chief Audit Executive to understand how the internal audit function fulfills its mandate.
 - ii. Communicate the Board's perspective on strategies, objectives, and risks to assist the internal audit function's determination of priorities.
 - iii. Gain an understanding of the effectiveness of the U.T. System's governance, risk management, and control processes based on the results of internal audit engagements.
 - iv. Ensure the internal audit function has sufficient resources or consider the impact of insufficient resources to achieve the internal audit plan.
 - v. Ensure the establishment of a quality assurance and improvement program that includes external quality assessments.

- (d) Be primarily responsible for the Systemwide risk oversight function of the Board of Regents. Provide relevant information from risk management activities, risk assessments and reviews, and reports both internal and external to the Board of Regents.
- (e) Consider, review, and when appropriate refer to the full Board of Regents matters regarding the activities of the Office of Risk Management, Office of Systemwide Compliance, Office of Information Security, and any other management function with a significant Systemwide risk oversight role.
- (f) Consider, review, and recommend to the full Board of Regents factors to be considered in establishing Board and Board Committee risk tolerance and risk mitigation strategies.

BACKGROUND INFORMATION

The Institute of Internal Auditors (IIA) promulgates international standards for the profession of internal auditing. As required by the Texas Internal Audit Act, the independent internal audit functions at U.T. System Administration and each U.T. institution follow these standards. Effective January 2025, the IIA replaced its Standards for the Professional Practice of Internal Auditing with the Global Internal Audit Standards. Revisions to Regents' *Rules and Regulations*, Rule 10402 (Committees and Other Appointments), Section 1.6 are necessary to reflect that the Systemwide internal audit function is authorized by the Board's Audit, Compliance, and Risk Management Committee (ACRMC), positioned independently, and overseen by the ACRMC, as required by the Global Internal Audit Standards.

The proposed revisions do not impact the full-time equivalent (FTE) employee count Systemwide and are budget-neutral. The proposed Rules change was reviewed by the institutional presidents and representatives of the Student Advisory Council, the Faculty Advisory Council, and the Employee Advisory Council.

3. **U.T. System: Discussion and Appropriate Action regarding institutional Audit Committee chair changes; Report on the State Auditor's Office Statewide Single Audit Report for FY 2024; and Systemwide internal audit administrative items, including Required Communications and Annual Audit Plan Status**

RECOMMENDATION

Chief Audit Executive Peppers, on behalf of the Presidents at U.T. Austin and U.T. Permian Basin, recommends formal approval by the Audit, Compliance, and Risk Management Committee (ACRMC) of the appointment of the following individuals to serve as Chairs of the Institutional Audit Committees:

- Joe E. Holt, Retired Senior Executive from JPMorgan Chase, U.T. Austin; and
- Catherine Speer, Assurance Partner, Whitley Penn, U.T. Permian Basin.

Details on the qualifications of the new Chair candidates were provided to the ACRMC members prior to the meeting.

REPORT

In January 2025, the International Internal Audit Standards Board released a new version of the professional standards under which internal auditing functions operate: the Global Internal Audit Standards. Mr. Peppers will inform the ACRMC of the steps taken to ensure conformance with the new and revised guidance. He will also summarize the “essential conditions” for effective governance included in the new standards using the PowerPoint set forth on the following pages.

Additionally, he will:

- 1) provide a report on the State Auditor's Office (SAO) State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2024; and
- 2) provide an update on the Fiscal Year 2025 Annual Audit Plan status as of February 28, 2025.

Details on required communications, the SAO audit results, and Audit Plan status, including Priority Observations, were provided to the ACRMC members prior to the meeting.

BACKGROUND INFORMATION

The ACRMC annually reviews and approves nominations from the institutional presidents for external member chairs of their institutional audit committees. Delegated approval was provided by the ACRMC Chairman and the Chancellor for those candidates with terms beginning between May ACRMC meetings.

Required communications to the ACRMC include the discussion of internal auditing professional standards and confirmation of the organizational independence of the internal audit activity. Through their annual certification process, all institutional chief audit executives confirmed they are receiving adequate support to conduct the necessary audit services and there are institutional internal audit departmental processes to ensure compliance with professional standards.

The Texas State Auditor's Office performs the Statewide Single Audit annually. The audit includes a federal portion, which is an audit of compliance and controls over the State's federal awards, and a financial portion, which includes an audit of the basic financial statements for the State of Texas. These reports are submitted to the federal government.

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).

New Global Internal Audit Standards

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

U.T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
May 2025



The New Structure



Domain III: Governing the Internal Audit Function

Domain III standards include “essential conditions” for an effective internal audit function.

6. Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

6.1 Internal Audit Mandate

6.2 Internal Audit Charter

7. Positioned Independently

The board establishes and protects the internal audit function’s independence and qualifications.

7.1 Organizational Independence

7.2 Chief Audit Executive Qualifications

8. Overseen by the Board

The board oversees the internal audit function to ensure the function’s effectiveness.

8.1 Board Interaction

8.2 Resources

8.3 Quality

8.4 External Quality Assessment

4. **U.T. System: Report on the results of the Fiscal Year 2024 U.T. Systemwide Endowment Compliance Program**

Vice Chancellor Safady will report on the U.T. Systemwide Endowment Compliance Program for the fiscal year ended August 31, 2024, using a PowerPoint presentation set forth on the following pages.

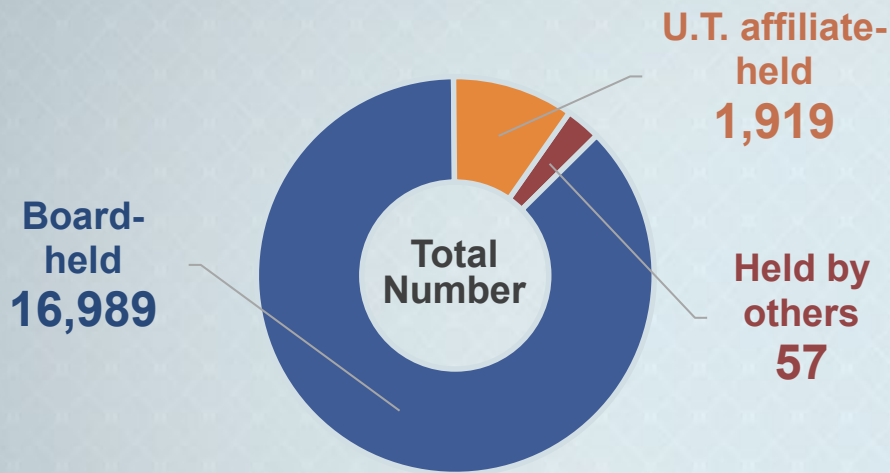
Systemwide Endowment Compliance Report FY 2024

Dr. Randa Safady, Vice Chancellor for External Relations,
Communications and Advancement Services

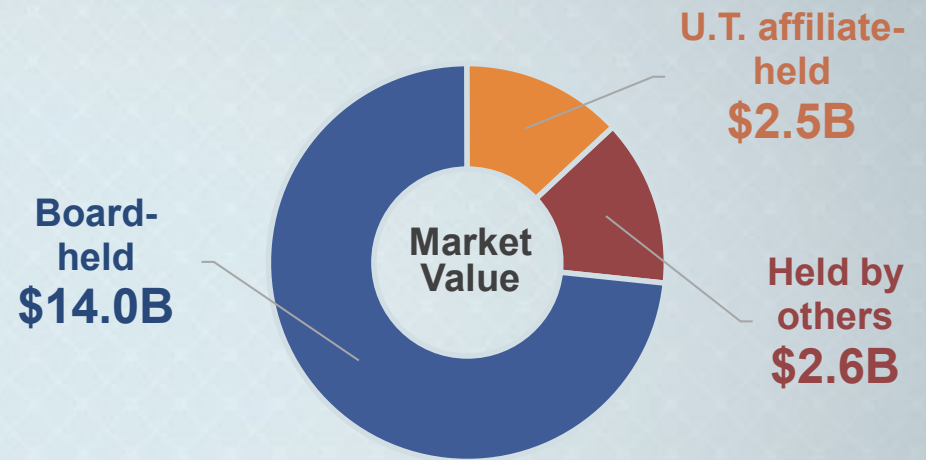
U.T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
May 2025



FY 2024 Total U.T. Systemwide Endowments

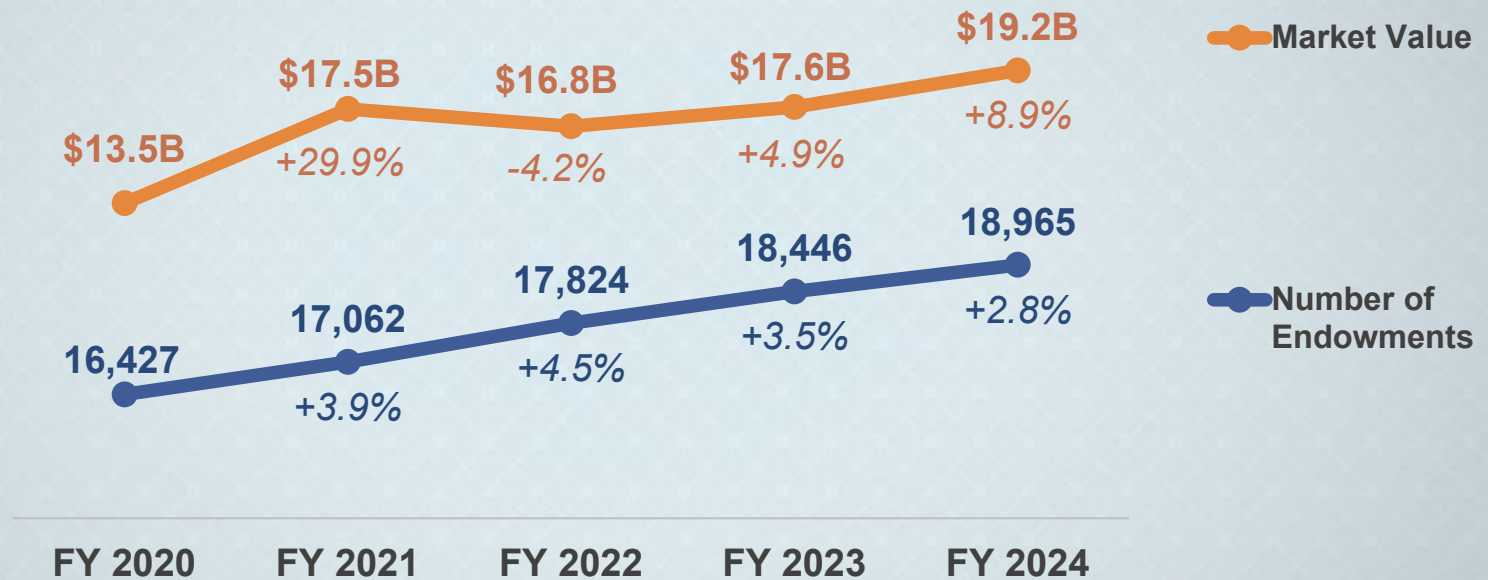


18,965 total endowments held by Board and external entities



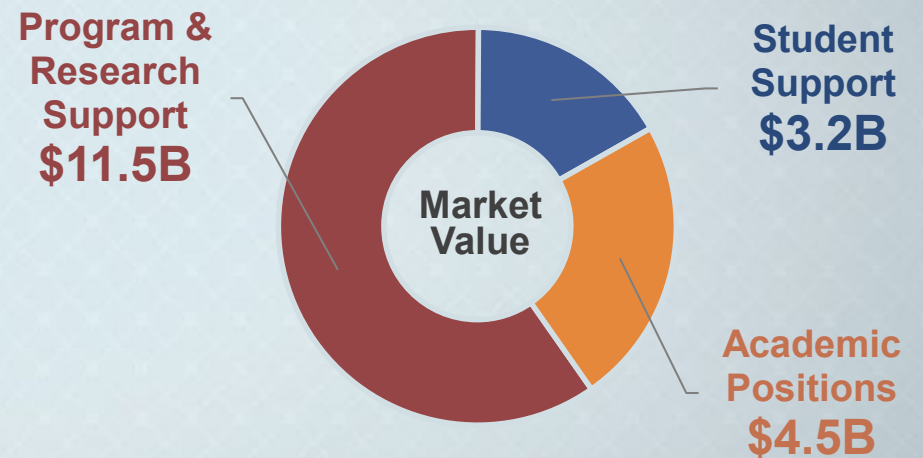
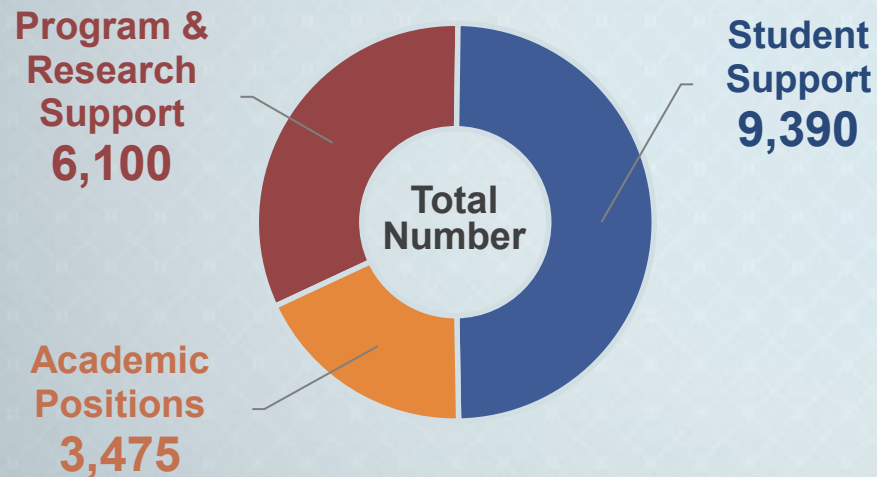
\$19.2B in total market value

Total Endowments: Five-Year Trends



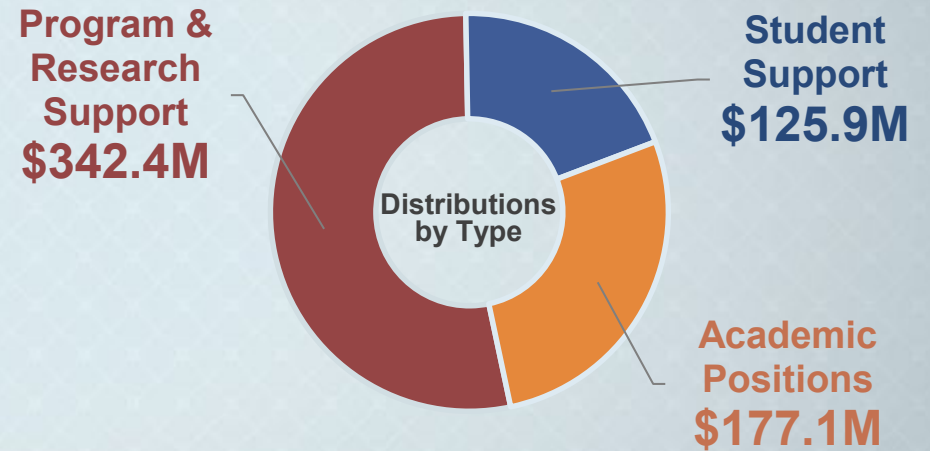
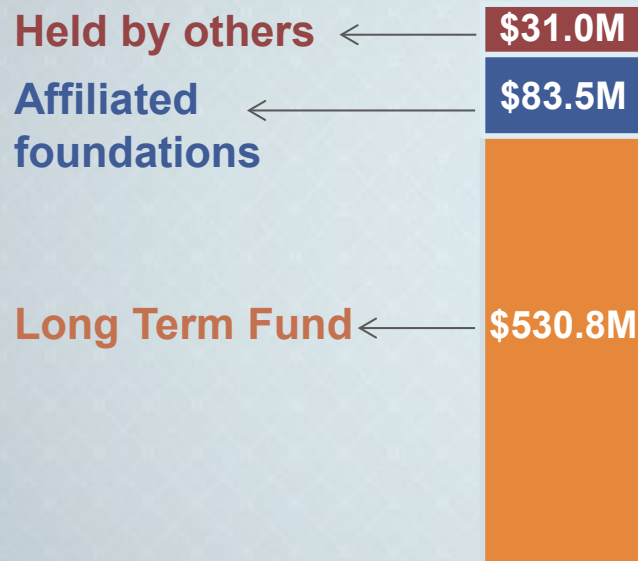
Total Endowments by Type

Endowments typically fall into three categories: Student Support, Academic Positions, and Program/Research Support.



Total Endowments: FY 2024 Distributions

\$645.4M was distributed from endowments.



Purpose of Endowment Compliance Program

- U.T. System Board of Regents' Rule 60102:

"...Administration and management of the endowments are the joint responsibility of the U.T. System and each institution."

- To **honor donor intent** by the appropriate use of gift funds, confirmed by timely reporting
- To **utilize endowment resources** most effectively
- To **standardize management** of endowments
- To **ensure awareness** of compliance issues across U.T. institutions
- To **encourage philanthropy** through donor trust

Annual Report: Primary Risks and Activities Monitored

Annual review of between 20% to 100% of all endowments, depending on how many endowments a university holds.

Endowments monitored to confirm:

- Timely spending in accordance with donor intent
- Timely appointment of endowed academic positions
- Timely awarding of student scholarships and fellowships

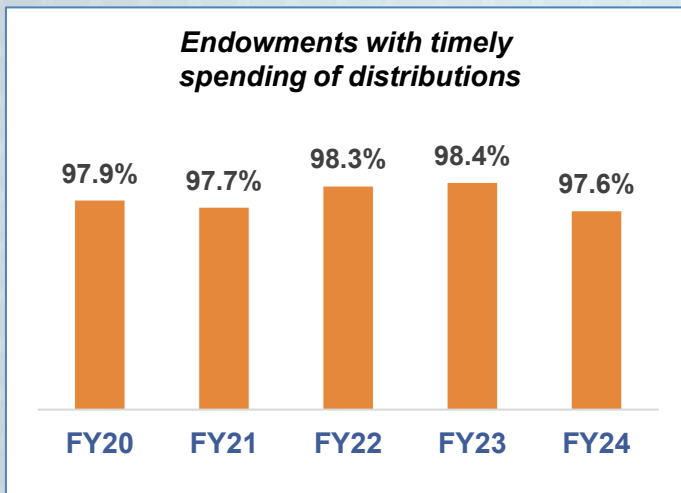
Ensuring essential activities:

- Donor reporting
- Endowment compliance committee meetings
- Training of institution staff

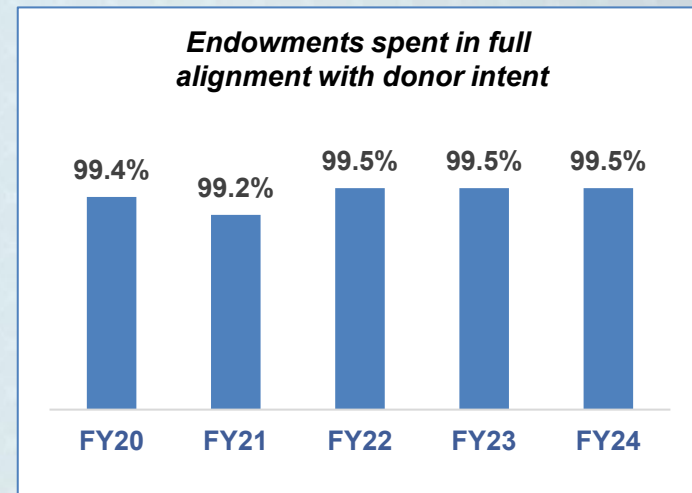
Each institution submits its assessment to the U.T. System Administration annually, including responses to significant findings or other trends.

Risks Monitored: Summary of Findings FY 2024

Timely spending and in accordance with donor intent:



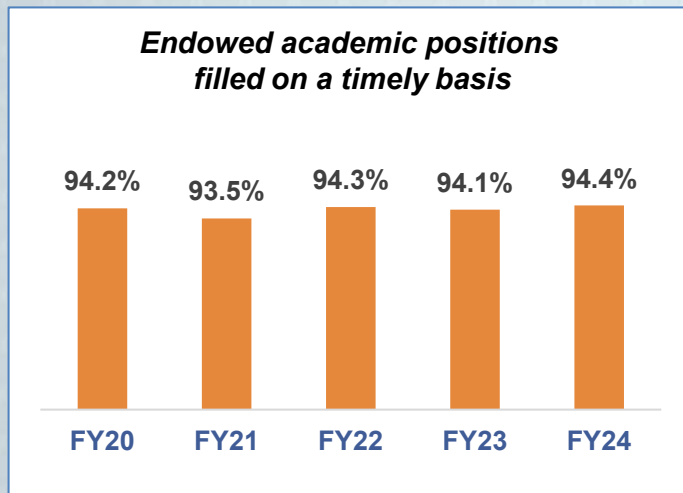
7,991 endowments reviewed in FY20
8,162 endowments reviewed in FY24



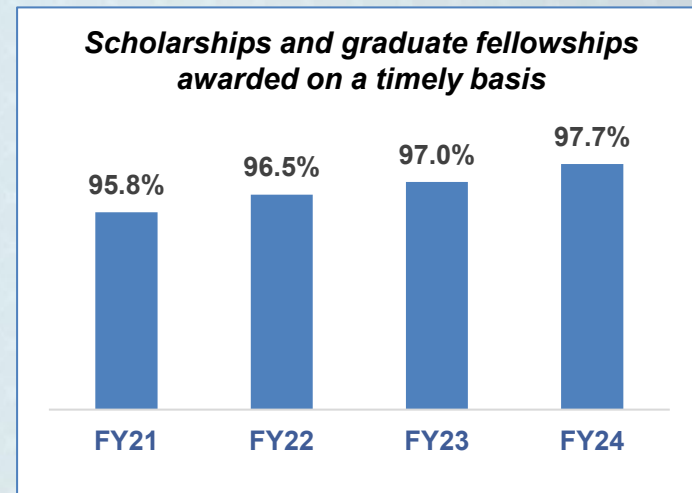
6,832 endowments reviewed in FY20
8,284 endowments reviewed in FY24

Risks Monitored: Summary of Findings FY 2024 (cont.)

Appointment of faculty endowment holders and scholarship recipients across the U.T. System:



2,962 endowments reviewed in FY20
3,242 endowments reviewed in FY24



7,352 endowments reviewed in FY21
8,378 endowments reviewed in FY24

Other Activities Addressed in FY 2024

Donor Reporting:

- 100% of known endowment donors or honorees received an annual financial report and a use report

Institutional Endowment Compliance Committee:

- Each U.T. institution has an internal committee charged with overseeing endowment compliance
- Each committee includes representation from the offices of development, compliance and/or audit, business, financial aid, and various academic and health departments

Staff Training:

- Training required on endowment administration and compliance at U.T. institutions at least every two years

Moving Forward

- Minimum number of endowments reviewed annually will increase beginning with the FY25 report
- U.T. institutions continue to review gift agreements to ensure full alignment with donor intent