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FOR
AUDIT, COMPLIANCE, AND RISK MANAGEMENT
COMMITTEE**

Committee Meeting: 11/13/2019

Board Meeting: 11/14/2019
Austin, Texas

*David J. Beck, Chairman
Christina Melton Crain
Jodie Lee Jiles
Janiece Longoria
Nolan Perez
Rad Weaver*

	Committee Meeting	Board Meeting	Page
A. CONVENE	9:30 a.m. <i>Chairman Beck</i>		
B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551			
<p>Deliberation Regarding Security Devices or Security Audits – Sections 551.076 and 551.089</p> <p>U. T. System Board of Regents: Discussion and appropriate action regarding safety and security issues, including security audits and the deployment of security personnel and devices</p>			
C. RECONVENE IN OPEN SESSION			
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	9:50 a.m. Discussion	Action	26
2. U. T. System: Report on the Systemwide internal audit activities, including the FY 2019 Annual Report	9:51 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	27
3. U. T. System: Report on the results of the presidential and executive travel and entertainment expenses audits and discussion and possible appropriate action regarding frequency of future audits	10:00 a.m. Action <i>Mr. Peppers</i>	Action	40

	Committee Meeting	Board Meeting	Page
4. U. T. System: Report on Guidelines for Available University Fund-funded System Administration Initiatives	<i>10:07 a.m.</i> Report/Discussion <i>Mr. Peppers</i> <i>Mr. Long</i>	Not on Agenda	41
5. U. T. System: Review and discussion of the Systemwide Information Security Risk Report	<i>10:15 a.m.</i> Report/Discussion <i>Ms. Mohrmann</i>	Not on Agenda	44
D. ADJOURN	<i>10:30 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

No [Consent Agenda](#) items are assigned for review by this Committee.

2. U. T. System: Report on the Systemwide internal audit activities, including the FY 2019 Annual Report

REPORT

Chief Audit Executive Peppers will present the FY 2019 Systemwide Annual Report of internal audit activities, using a PowerPoint presentation set forth on the following pages. He will also discuss the status of the external financial audit. Additional details on Systemwide findings by subject area and significance and the annual audit plan's budget to actual hours status was 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 findings classification process to evaluate audit results to identify Priority, High, Medium, or Low level reportable findings. A Priority Finding is defined as “an issue identified by an internal audit that, if not addressed timely, could 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 findings 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 2019 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 2019



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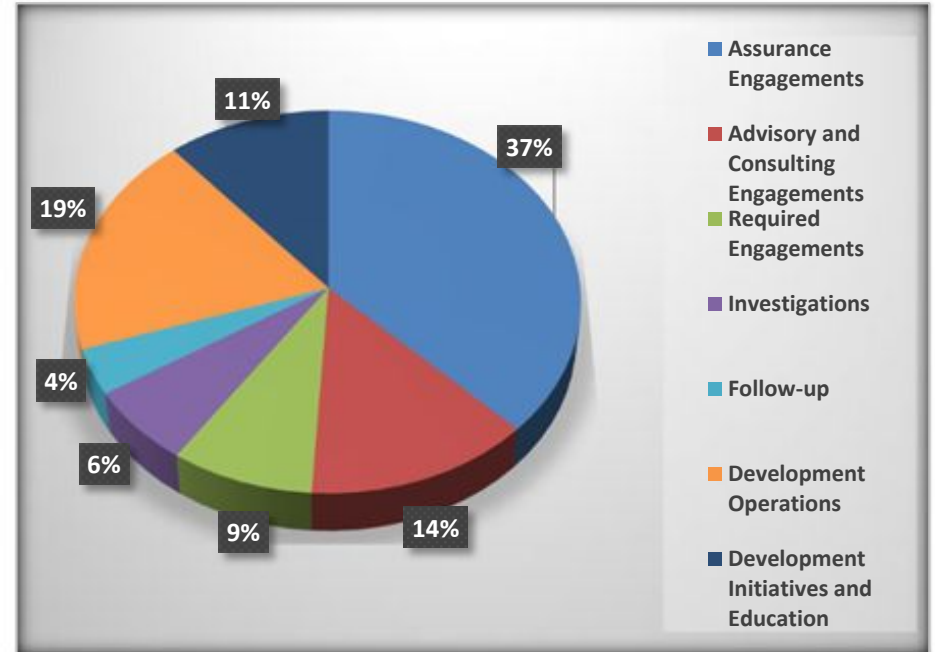
Systemwide Internal Audit Strategic Items

- FY 2019 Initiatives
 - Implementing information technology (IT) auditing capabilities in non-IT audits
 - Delivering non-assurance services (advisory and consulting)



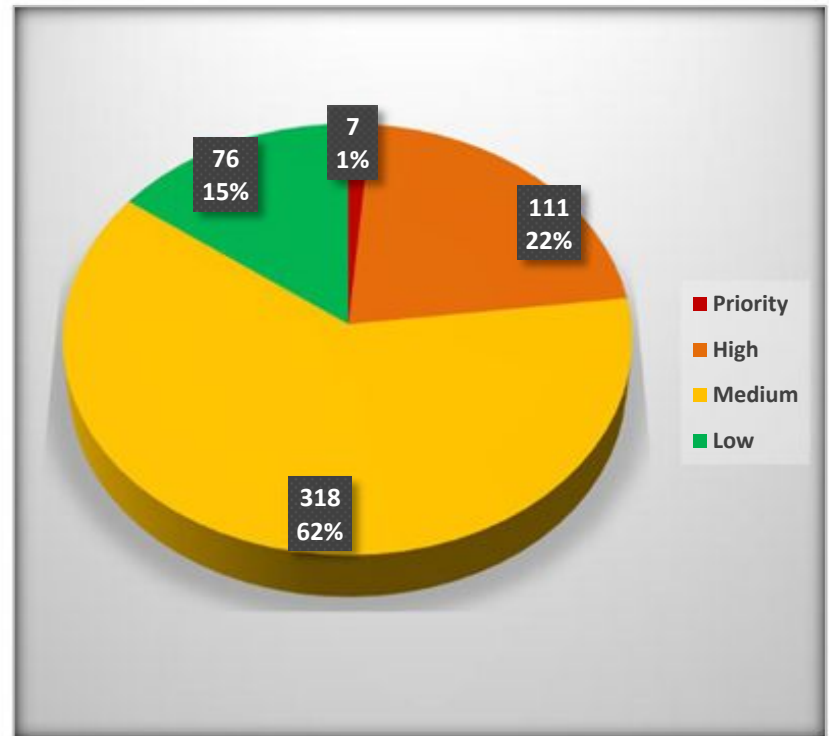
Systemwide Internal Audit Hours

- During Fiscal Year (FY) 2019, approximately 162k hours were incurred to complete the Systemwide Annual Audit Plan.
- Of these hours, 70% were spent on Assurance, Required, Consulting, Investigation, and Follow-up engagements.

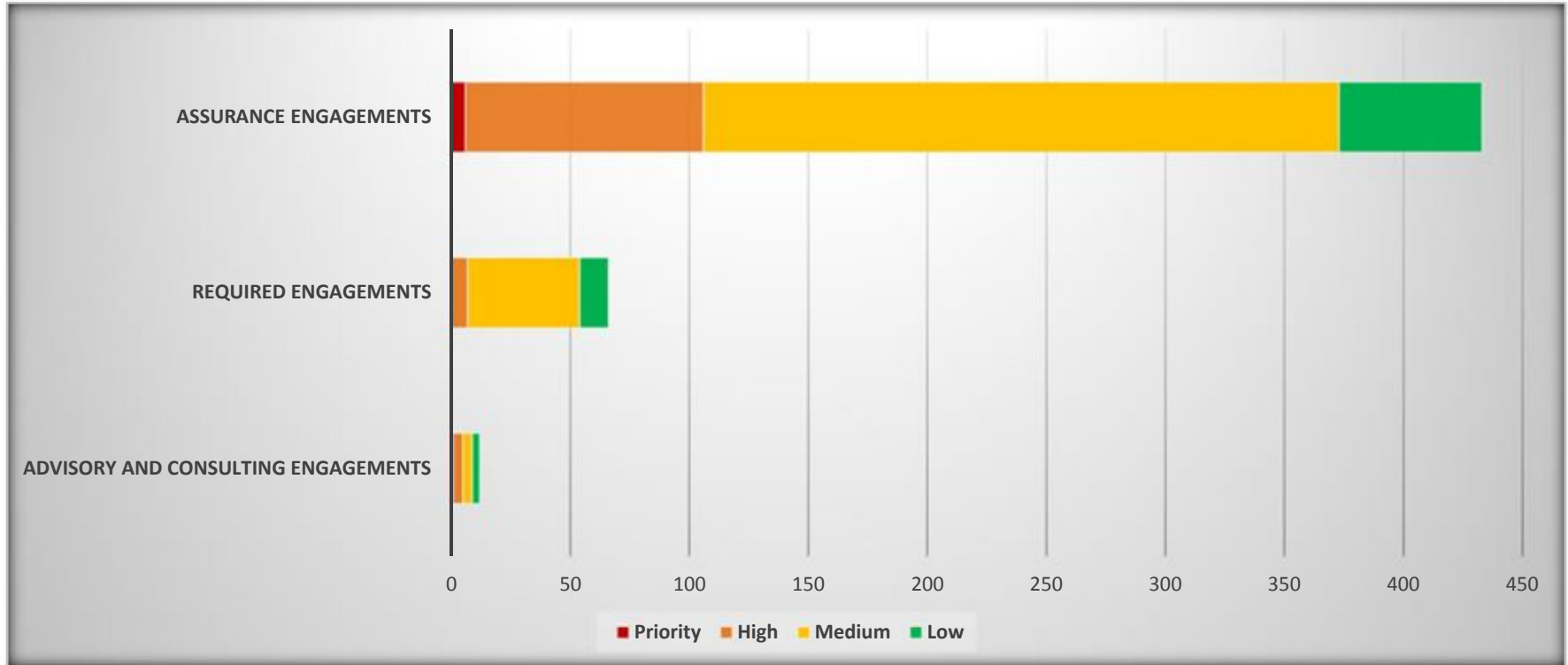


Systemwide Internal Audit Reports and Findings

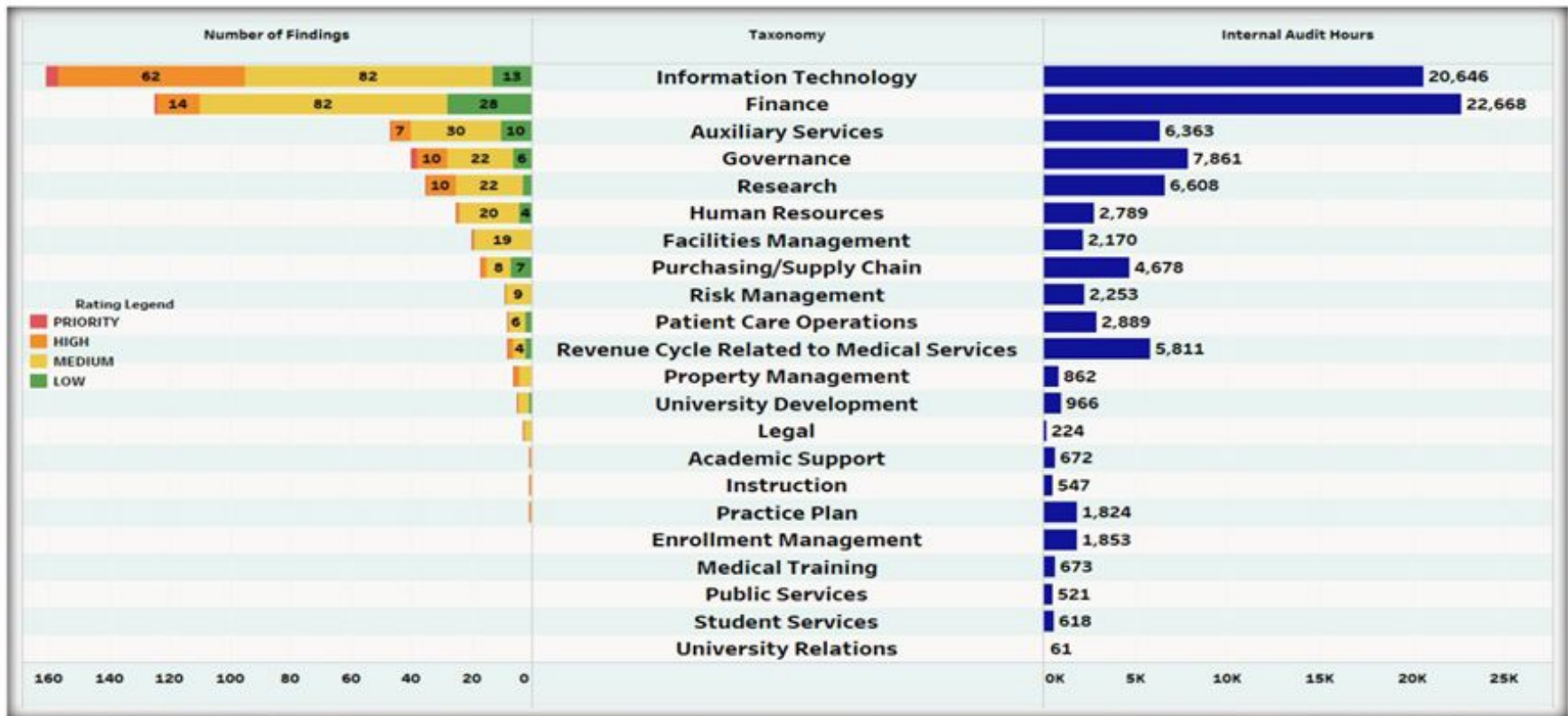
- In FY 2019, 242 engagement reports and memos were issued.
- 127 of the 242 reports resulted in 512 findings ranked as follows:
 - 7 Priority level findings
 - 111 High level findings
 - 318 Medium level findings
 - 76 Low level findings
- Average client survey score for these engagements was 4.63 (5 - strongly satisfied to 1 - strongly dissatisfied), with an average response rate of 45%.



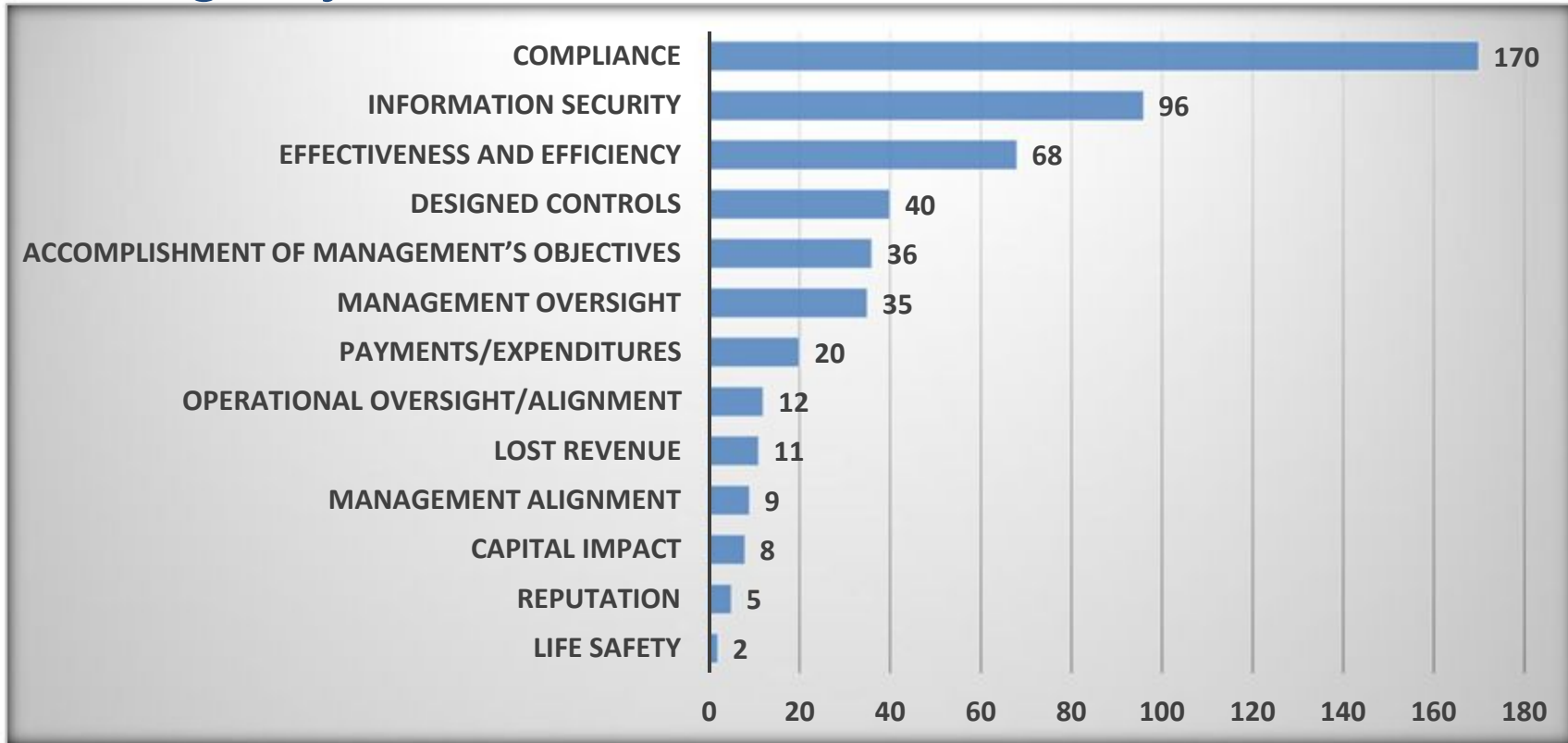
Systemwide Finding Levels by Engagement Type



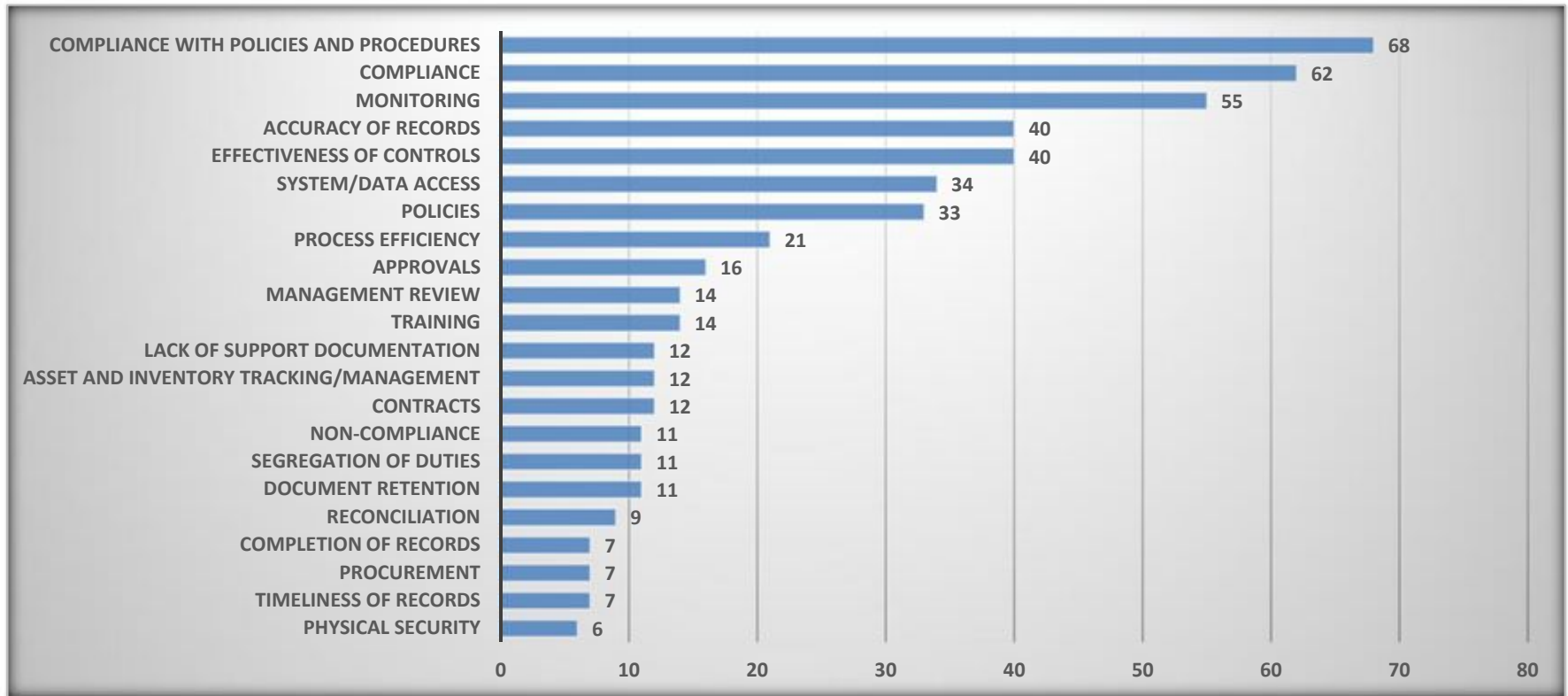
Findings by Subject Area (Taxonomy) - Systemwide



Findings by Risk Factors

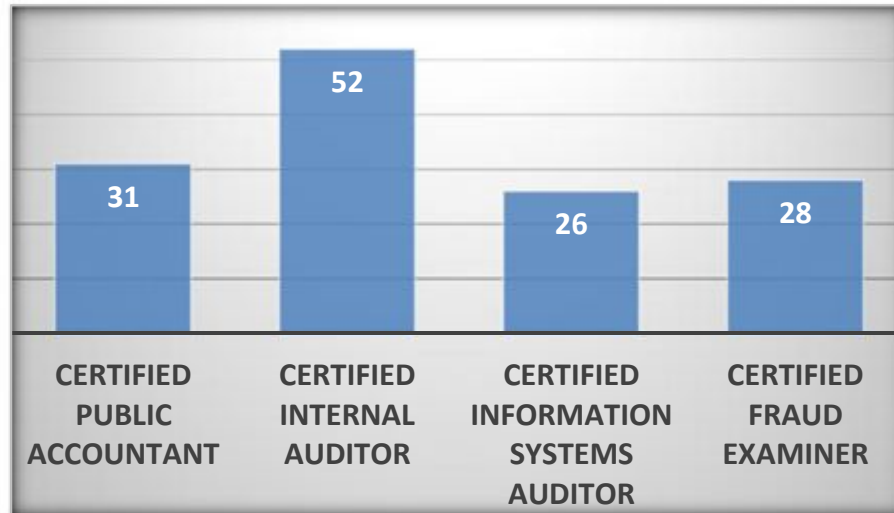


Findings By Categories



Internal Audit Competencies

- On average, 75% of professional employees hold the following certifications:



- Approximately, 35% of professional employees hold advanced degrees
- Average number of years of relevant and U. T. experience is 17 and 9 years, respectively
- Professional employees participate in an average of 55 hours of continuing professional education during the fiscal year



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
- Contributed in various roles to multiple professional publications



Student Opportunities in Internal Audit

- Provided professional auditing experience to students through educational partnerships, internships, and other activities



Looking Ahead

- FY 2020 Initiatives
 - Developing and retaining talent
 - Increasing awareness of internal audit services
 - Enhancing audit reports



3. **U. T. System: Report on the results of the presidential and executive travel and entertainment expenses audits and discussion and possible appropriate action regarding frequency of future audits**

REPORT

Chief Audit Executive Peppers will present the results of the presidential and executive travel and entertainment expenses audits that were conducted across U. T. System. Summaries of the results for these audits were provided to the Audit, Compliance, and Risk Management Committee members prior to the meeting. In addition, Mr. Peppers will discuss and may recommend changing the frequency of future audits from every two years to a 'periodic' frequency based on an assessment of risk factors.

4. **U. T. System: Report on Guidelines for Available University Fund-funded System Administration Initiatives**

REPORT

Chief Audit Executive Peppers and Assistant Vice Chancellor for Budget and Planning Long will present the Guidelines for Available University Fund (AUF)-funded System Administration Initiatives, which is included on the following pages.

BACKGROUND INFORMATION

In August 2018, the System Audit Office issued a report on the Audit of AUF-Funded U. T. System Initiatives. The results led U. T. System Administration management to establish documented guidelines in the areas of initial evaluation, eligibility, oversight, project reporting, and post-project evaluation for System Administration initiatives funded by the AUF. This guidance will be codified as a U. T. Systemwide policy.

***Guidelines for Available University Fund-funded System Administration Initiatives
(September 2019)***

Overview

Article 7, Section 18(f) of the Texas Constitution requires proceeds from the Available University Fund (AUF) be appropriated only for the payment of principal and interest due on Permanent University Fund (PUF) bonds, for UT Austin, or for UT System Administration operations and support for Board operations. UT System’s statutory responsibilities include providing oversight and coordination, as well as technical assistance, to UT System institutions. System initiatives focused on meeting those responsibilities may be eligible for funding from the AUF.

The UT System Board of Regents may occasionally be asked to authorize System initiatives funded fully or partially by the AUF. Adherence to the following guidelines will ensure compliance with law and appropriate oversight for System initiatives. These guidelines allow customization to fit the unique characteristics of individual initiatives, while providing information and data to facilitate effective oversight.

Prior to Seeking Board of Regents Approval

Initiative Evaluation

Prior to requesting Board approval for an AUF-funded System initiative, UT System leadership will conduct an evaluation of the proposed initiative and consultations with UT institutions, as appropriate, to ensure institutional support. The evaluation process should include review of a comprehensive business plan that incorporates the following elements:

<u>Element</u>	<u>Description</u>
Scope of Work	Must clearly communicate the initiative’s goals and the steps to achieve those goals.
Oversight/Accountability Plan	Should include a plan for an oversight group from outside the initiative’s project team, to receive regular status reports and provide guidance. This oversight group should be structured to reflect the scale of the initiative and, at a minimum, include financial oversight and accountability. An AUF-funded initiative should be assigned to the oversight of an Executive Vice Chancellor; depending on the complexity of the initiative and size of the budget, additional oversight may be required.
Staffing Plan	Should identify the level and type of staffing or structure and include an Initiative Director or Team Leader. Any changes to staffing or structure must be communicated to the initiative’s oversight group for review.
Project Plan	Should include specific tasks, milestones, and an overall timeline. Any changes to the timeline should be brought to the initiative’s oversight group for review.

Budget	Should include detail on personnel, equipment, travel, and other expenses by time period (e.g., year). Expenses should be aligned with activities in the project plan.
Anticipated Outcomes	Should include specific outcomes to measure the initiative’s performance.
Stakeholder Support	Should identify institutional stakeholders at appropriate levels of leadership and describe institutional support for the initiative.

AUF Eligibility

If the evaluation process results in a decision by the Chancellor to recommend a System initiative, a determination will be made regarding eligibility for AUF funding. If the Chancellor decides to present the project and funding request to the Board of Regents, the Office of Budget & Planning will prepare a notice to the Legislative Budget Board, as required by law, at least 30 days prior to consideration by the Board.

If Board Approval Received

Oversight

The assigned Executive Vice Chancellor will monitor progress at least annually to assure oversight is consistent with the business plan.

For a project with a total budget exceeding \$20 million or for which annual expenditures exceed \$10 million, an annual project audit will be conducted. For other projects with a total budget exceeding \$5 million, the project audit will take place at the end of the project.

Project Reporting

The assigned Executive Vice Chancellor will report annually to the Chancellor in coordination with the annual budget cycle. The report will include the following:

- Summary of activities and accomplishments
- Analysis of work performed in comparison to the initiative’s workplan with variance analysis, if appropriate
- Financial report for the reporting period showing actual expenditures in comparison to the initial budget with variance analysis
- Overall assessment of the initiative’s status with appropriate remediation steps, if appropriate

Post-Project Evaluation

Within 2 months of the conclusion of the initiative, a final project report will be submitted to the Chancellor by the assigned Executive Vice Chancellor, describing the project approach, methodology, findings, conclusions, and any outcomes. The report should also include a complete financial summary and should identify lessons learned and best practices.

Project closure occurs when a report is submitted to the Board of Regents by the Chancellor.

5. **U. T. System: Review and discussion of the Systemwide Information Security Risk Report**

REPORT

Ms. Helen Mohrmann, Chief Information Security Officer, will report on the Systemwide Information Security Risk Report. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

Over the course of FY2019, System Audit Office and the Office of Information Security partnered with the U. T. institutions and Baker Tilly to develop a report for each Information Security Officer to review with their institutional audit committee. The report assigns a risk rating to each of eighteen risks and discusses the mitigation strategies employed for those risks. This is the first time the consolidated view of those reports will be presented to the Audit, Compliance, and Risk Management Committee.

Information Security Risk Report

Ms. Helen Mohrmann, Chief Information Security Officer

U. T. System Board of Regents' Meeting
Audit, Compliance, and Risk Management Committee
November 2019



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Purpose of the Report

- Educate institutional leadership and external Audit Committee members
- Enable a systemwide overview

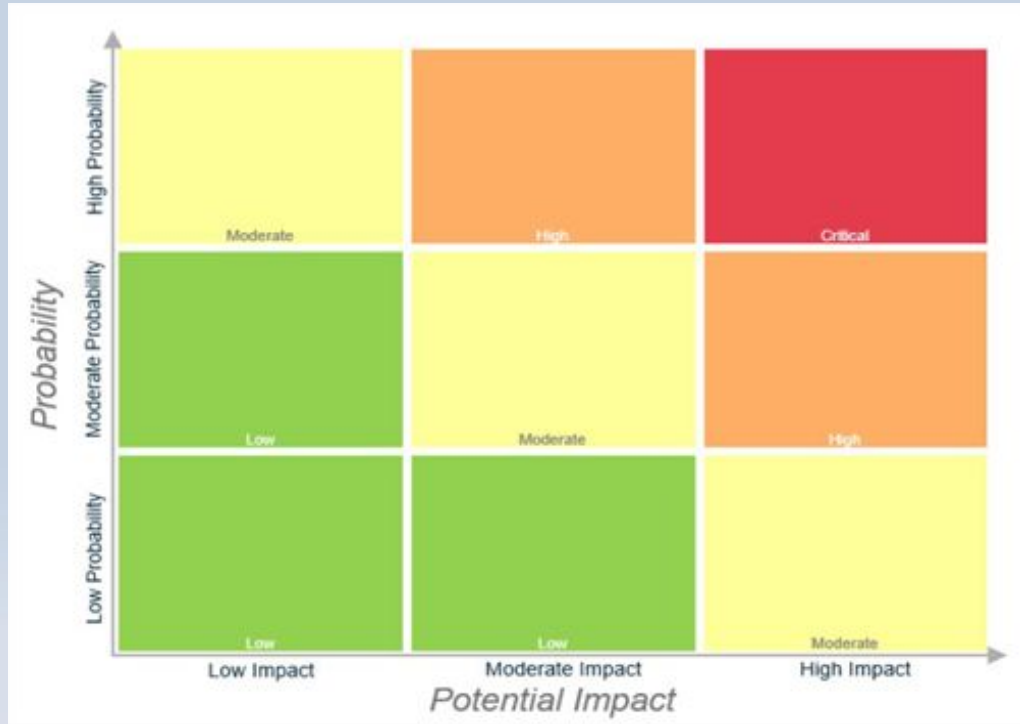


Scope of the Report

- Presentation:
 - Ranking of risks with a focus on critical and high risks
 - Mitigation strategies
 - Current and target maturity levels
- Reference guide:
 - Overview of information assets
 - Overview of regulations
 - Definitions



Report Leverages the System Audit Office Construct



Issues Identified

- Sources of critical risk
 - Insider threats, vulnerability and patch management, asset and inventory management, and network security
- Sources of high risk
 - Funds for upgrades, inadequate IT and security staffing, access control management, and management of the IT lifecycle

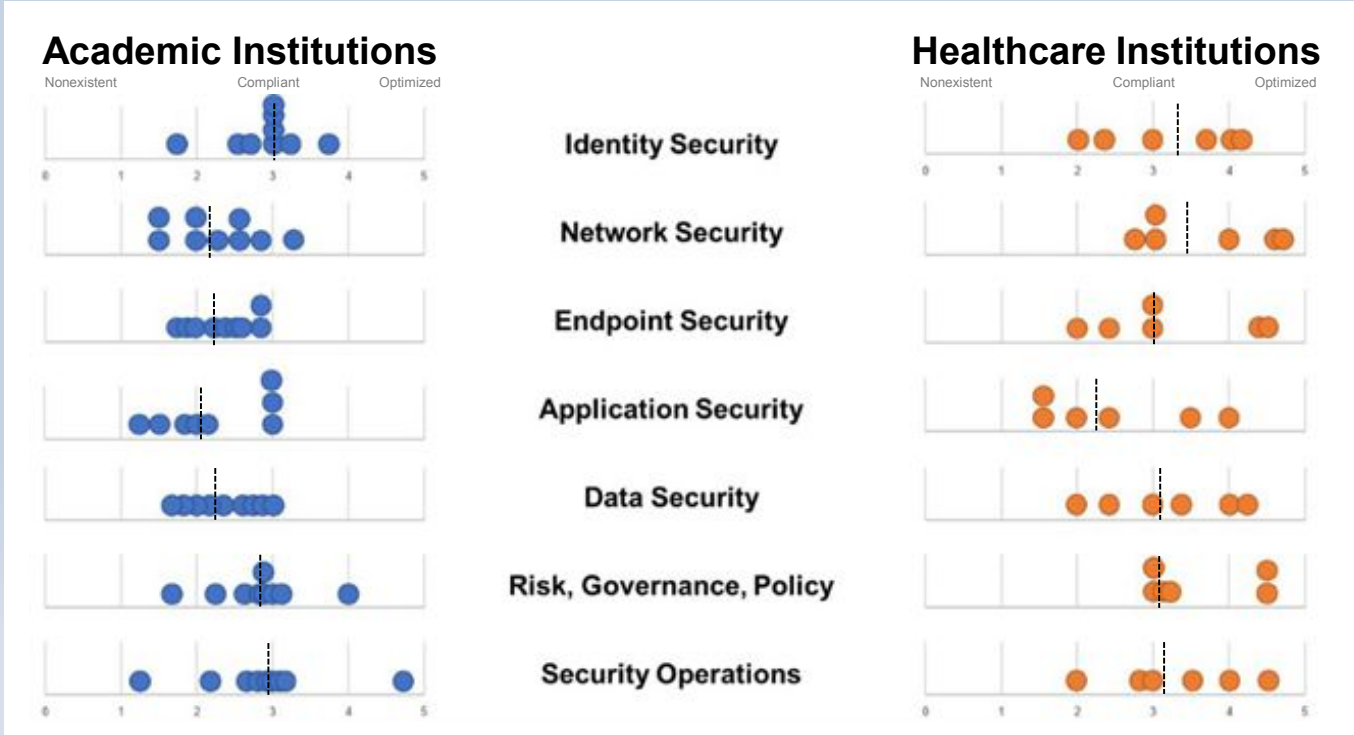


Example Risks and Mitigation Strategies

General Risk: Common taxonomy	Specific Risk: The nature of the risk as it applies to the institution	Business Impact: How would exploitation of this risk affect the business?	Mitigation Strategy: How is the risk being addressed?
Access control management at institution 1	The system does not require multi-factor authentication	Potential unauthorized access to confidential data	Budget includes funds to provide multi-factor application
Access control management at institution 2	The employee off-boarding process is erratic and inconsistent	Potential unauthorized access to data	A task force has been formed to re-design the process



Current Program Maturity Levels



----- Median score

- 0.0 Non-existent
- 1.0 Ad-hoc
- 2.0 Repeatable
- 3.0 Defined
- 4.0 Risk-based
- 5.0 Optimized



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