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FOR
AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE

Committee Meeting: 11/18/2020

Board Meeting: 11/19/2020
Austin, Texas

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

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>**U. T. System: Report and discussion on the Systemwide internal audit activities, including the FY 2020 Annual Report**</u>

<u>REPORT</u>

Chief Audit Executive Peppers will present the FY 2020 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.

<u>BACKGROUND INFORMATION</u>

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 2020 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 2020

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Systemwide Internal Audit Hours

- Approximately 170k hours were incurred to complete the Fiscal Year (FY) 2020 Systemwide Annual Audit Plan.

  - Assurance Engagements
  - Consulting & Advisory Engagements
  - Required Engagements
  - Investigations

  - Follow-Up
  - Development – Operations
  - Development – Initiatives & Education

- 67% of the hours were spent on Assurance, Consulting and Required Engagements; Investigations; and Follow-Up.

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Systemwide Internal Audit Reports and Observations

- In FY 2020, 243 engagement reports and memos were issued.

- 118 of the 243 reports resulted in 453 observations ranked as follows:
  - 18 Priority level observations
  - 175 High level observations
  - 229 Medium level observations
  - 31 Low level observations

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Systemwide Observations by Subject Area (Taxonomy)
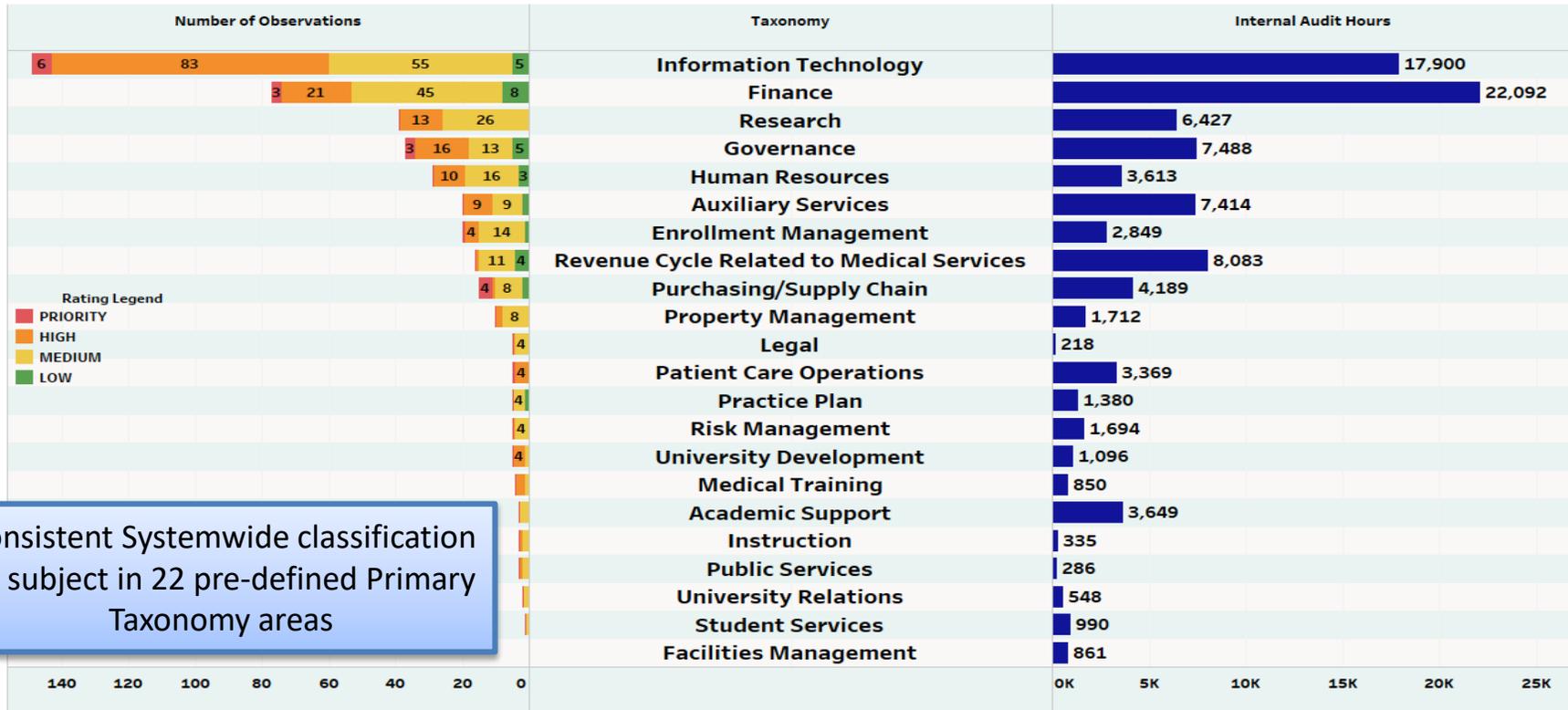
Number of Observations				Taxonomy	Internal Audit Hours
6	83	55	5	**Information Technology**	17,900
3	21	45	8	**Finance**	22,092
		13	26	**Research**	6,427
3	16	13	5	**Governance**	7,488
	10	16	3	**Human Resources**	3,613
		9	9	**Auxiliary Services**	7,414
		4	14	**Enrollment Management**	2,849
		11	4	**Revenue Cycle Related to Medical Services**	8,083
		4	8	**Purchasing/Supply Chain**	4,189
			8	**Property Management**	1,712
			4	**Legal**	218
			4	**Patient Care Operations**	3,369
			4	**Practice Plan**	1,380
			4	**Risk Management**	1,694
			4	**University Development**	1,096
				Medical Training	850
				Academic Support	3,649
				Instruction	335
				Public Services	286
				University Relations	548
				Student Services	990
				Facilities Management	861

Rating Legend
- PRIORITY
- HIGH
- MEDIUM
- LOW

Consistent Systemwide classification by subject in 22 pre-defined Primary Taxonomy areas

Number of Observations axis: 140 120 100 80 60 40 20 0
Internal Audit Hours axis: 0K 5K 10K 15K 20K 25K

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Systemwide Observations by Subject Area (Taxonomy)

Agenda Book - 20

Number of Observations	Taxonomy	Internal Audit Hours
6 / 83 / 55 / 5	Information Technology	17,900
2 / 21 / 45 / 8	Finance	22,092
13 / 26	Research	6,427
3 / 16 / 13 / 5	Governance	7,488
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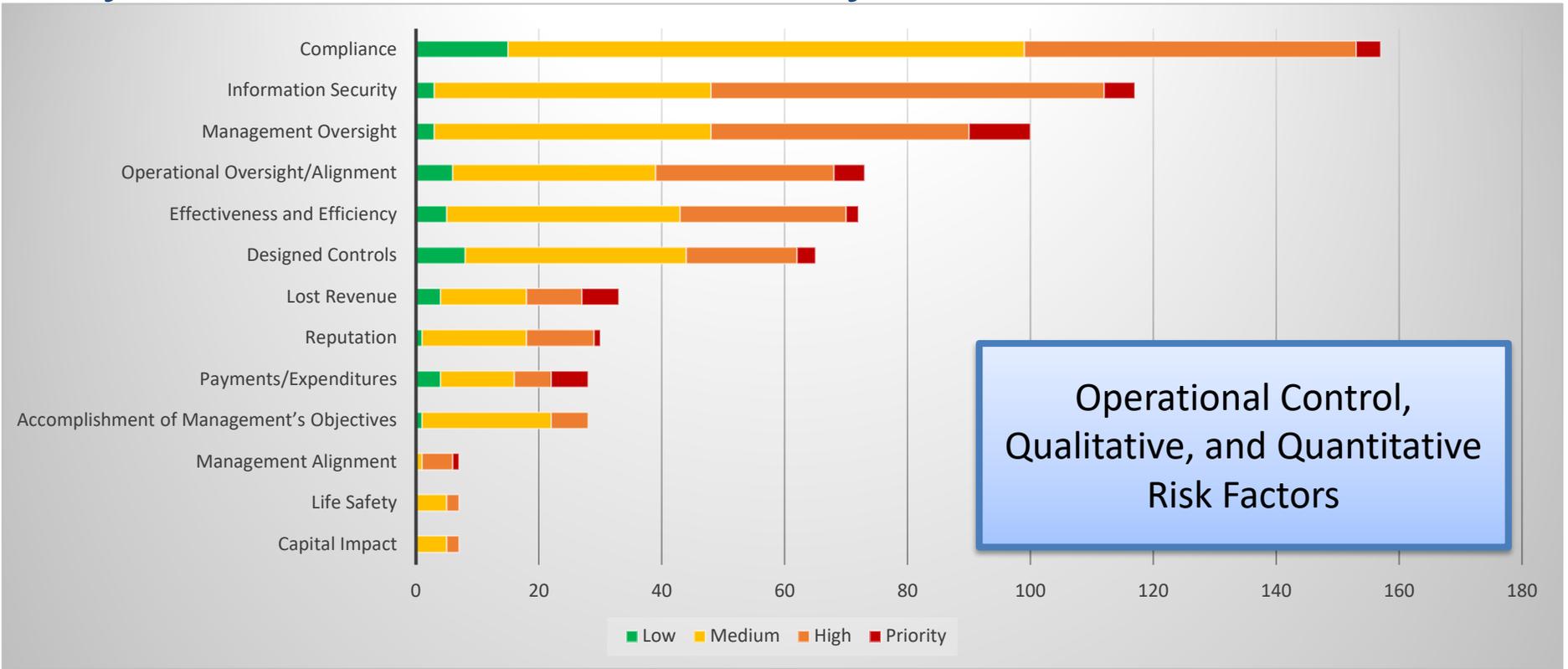
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Systemwide Information Technology Observations

Systemwide Observations by Risk Factors

Operational Control, Qualitative, and Quantitative Risk Factors

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Systemwide Observations By Categories

Categorized by internal control areas

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Client Satisfaction

- In the spirit of continuous improvement, client feedback is sought to ensure internal audit:

  – Provides valuable and constructive information and insights

  – Conducts work in professional and competent manner

  – Produces clear and accurate communication and reporting

- The average client survey score stays steady at 4.63 (5 - strongly satisfied to 1 - strongly dissatisfied) for FY20 engagements, with an average response rate of 50%

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Systemwide Internal Audit Competencies & Contributions

- Proficiency (average employee statistics):
  - 75% hold professional certifications
  - 35% earned advanced degrees
  - 17 years of relevant and 9 years of U. T. experience
  - 55 hours of continuing professional education annually

- Contributions
  - Professional organizations at the local, national, and global levels through board service, leadership positions, and conference presentations

- Support the academic enterprise
  - Student interns, guest/part-time lecturers, professional publications

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Systemwide Internal Audit Strategic Items

- Accomplishments
  - Provide custom data analytics services
  - Implement IT auditing capabilities in non-IT audits
  - Deliver non-assurance services (advisory and consulting)
  - Enhance audit reports

- Looking ahead
  - Develop and retain internal audit talent
  - Increase awareness of internal audit services

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