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FOR  
AUDIT, COMPLIANCE, AND RISK MANAGEMENT  
COMMITTEE**

**Committee Meeting:** 11/16/2022

**Board Meeting:** 11/17/2022  
Austin, Texas

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

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	<i>2:00 p.m. Chairman Perez</i>		
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration</b>	<b>Discussion</b>	<b>Action</b>	<b>26</b>
2. <b>U. T. System: Report and discussion on the Systemwide internal audit activities, including FY 2022 Annual Report</b>	<b>Report/Discussion</b> <i>Mr. Peppers</i>	Not on Agenda	<b>27</b>
3. <b>U. T. System: Authorization to settle property insurance claims for COVID 19 response costs and business interruption and delegation of authority to Chief Compliance and Risk Officer</b>	<b>Action</b> <i>Mr. Dendy</i>	<b>Action</b>	<b>39</b>
<b>Adjourn</b>	<i>2:30 p.m.</i>		

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

RECOMMENDATION

The proposed Consent Agenda item assigned to this Committee is [Item 2](#).

**2. U. T. System: Report and discussion on the Systemwide internal audit activities, including FY 2022 Annual Report**

Chief Audit Executive Peppers will present the FY 2022 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 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 2022 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 2022



THE UNIVERSITY of TEXAS SYSTEM  
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

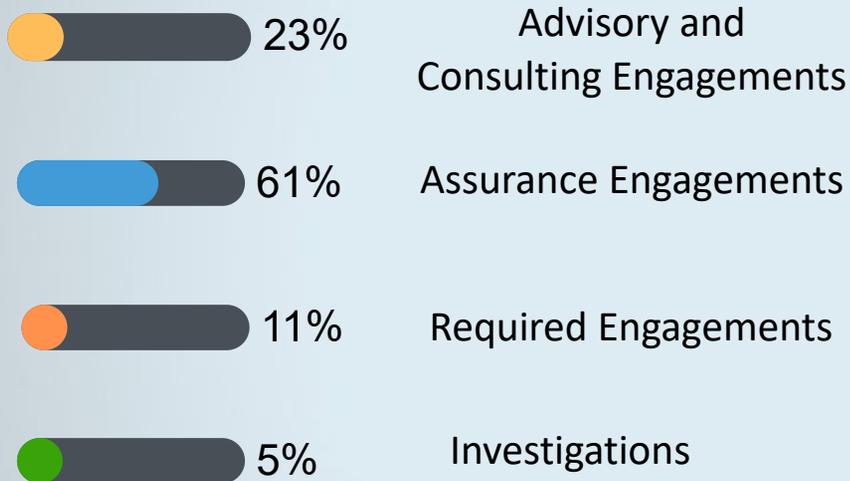
## Systemwide Internal Audit Hours

- Approximately 154k hours were spent by 100 internal auditors to complete the Fiscal Year (FY) 2022 Systemwide Annual Audit Plan.
  - Assurance Engagements
  - Consulting & Advisory Engagements
  - Required Engagements
  - Investigations
  - Follow-Up
  - Operations
  - Initiatives & Education

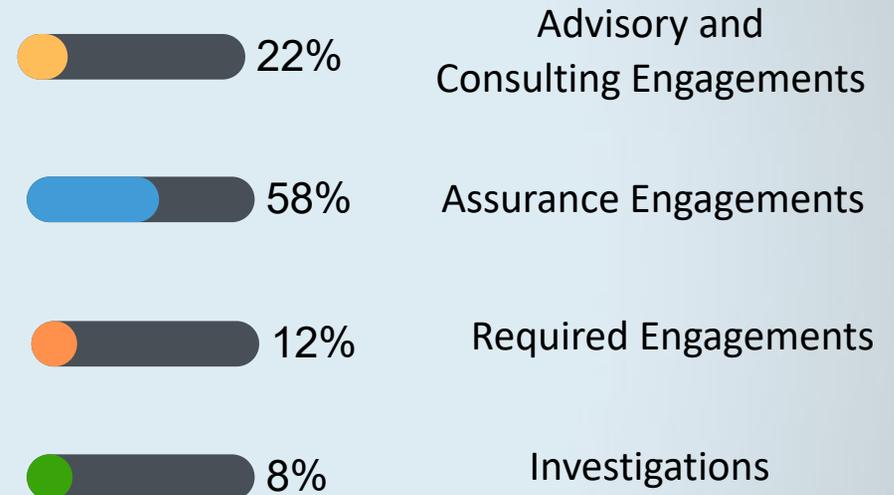


# Systemwide Engagement Categories Detail

## FY 2022

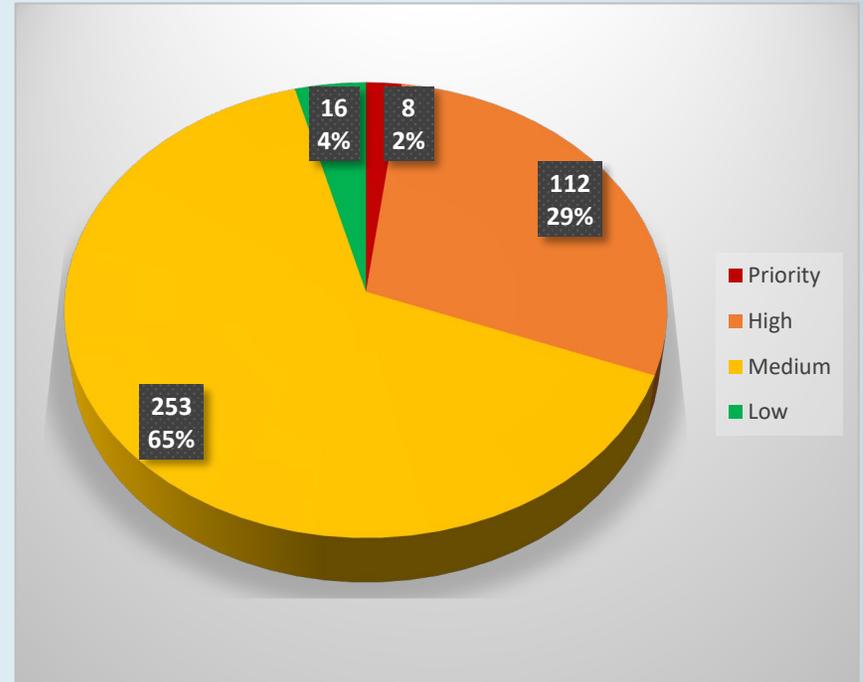


## 5-Year Average (FY 2018-2022)



# Systemwide Internal Audit Reports and Observations

- In FY 2022, 218 engagement reports and memos were issued.
- 102 of the 218 reports resulted in 389 observations ranked as follows:
  - 8 Priority level observations
  - 112 High level observations
  - 253 Medium level observations
  - 16 Low level observations

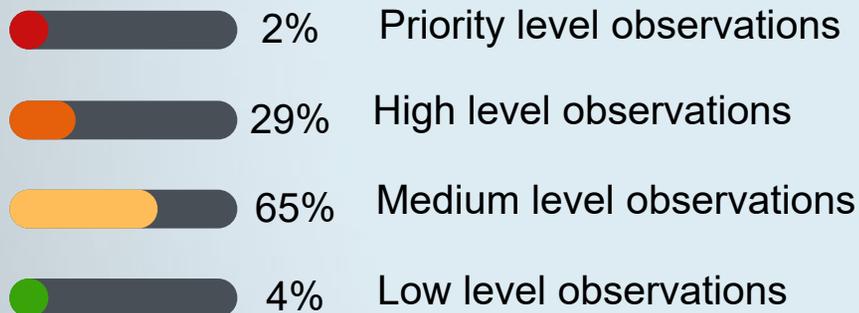


# Systemwide Observations - Number & Level

## FY 2022

218 engagement reports/memos were issued.

102 reports (47%) resulted in a total of **389** observations:



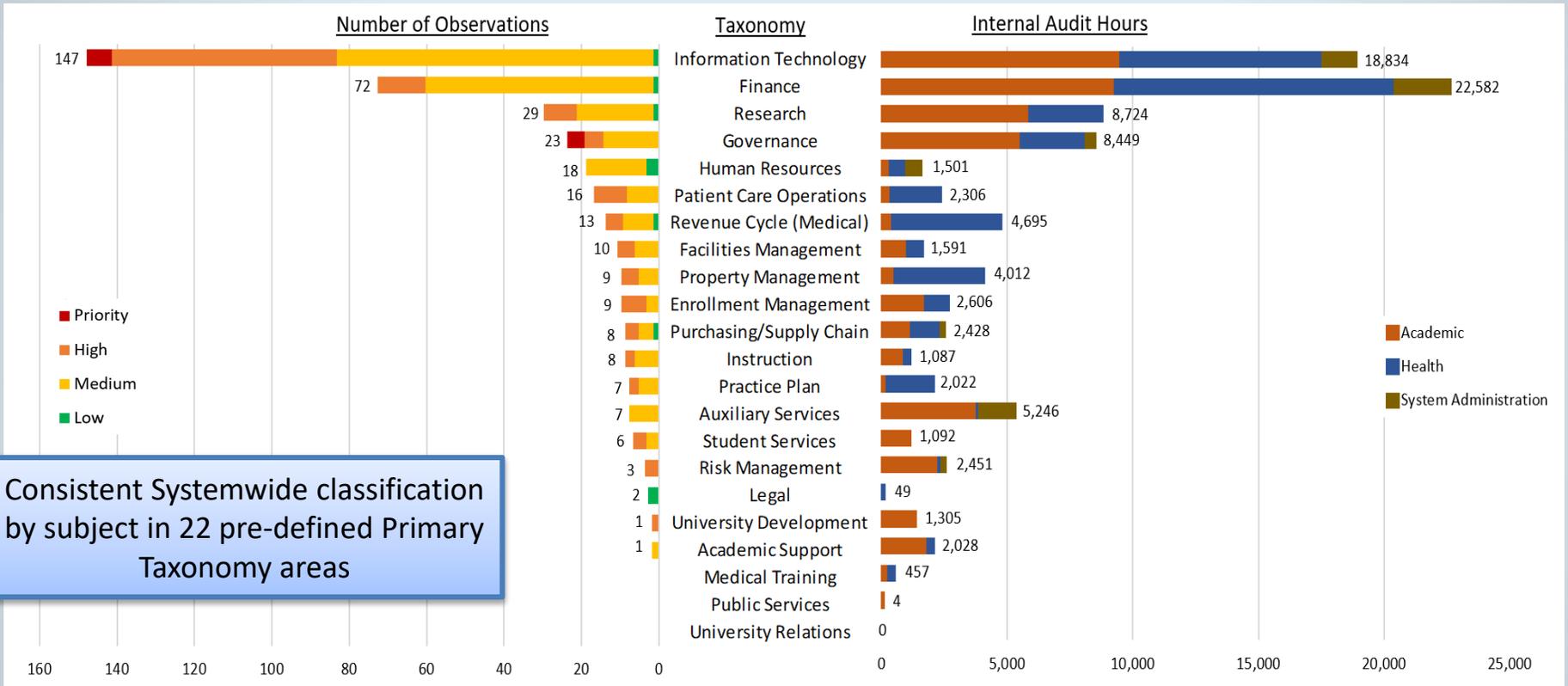
## 5-Year Average (FY 2018-2022)

235 engagement reports/memos were issued.

114 reports (48%) resulted in a total of **439** observations:



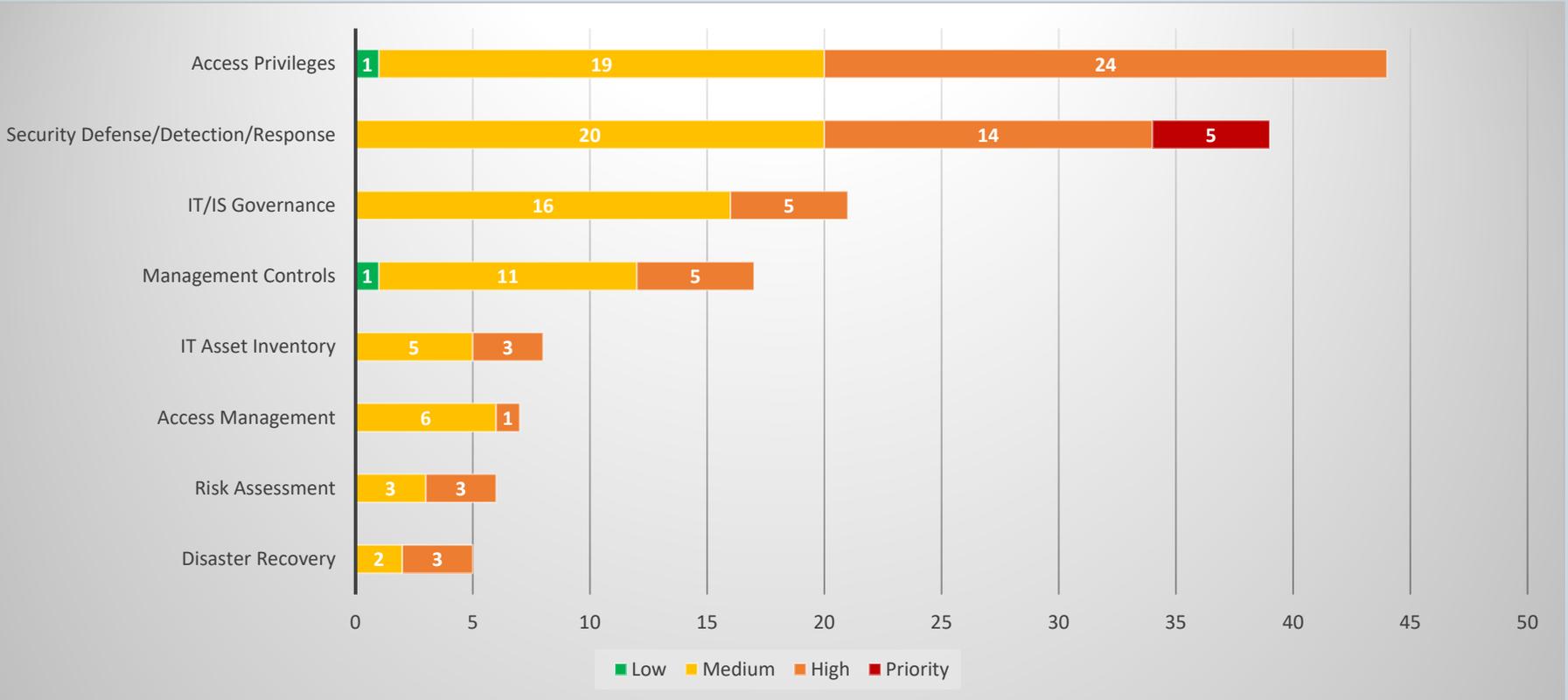
# Systemwide Observations by Subject Area (Taxonomy)



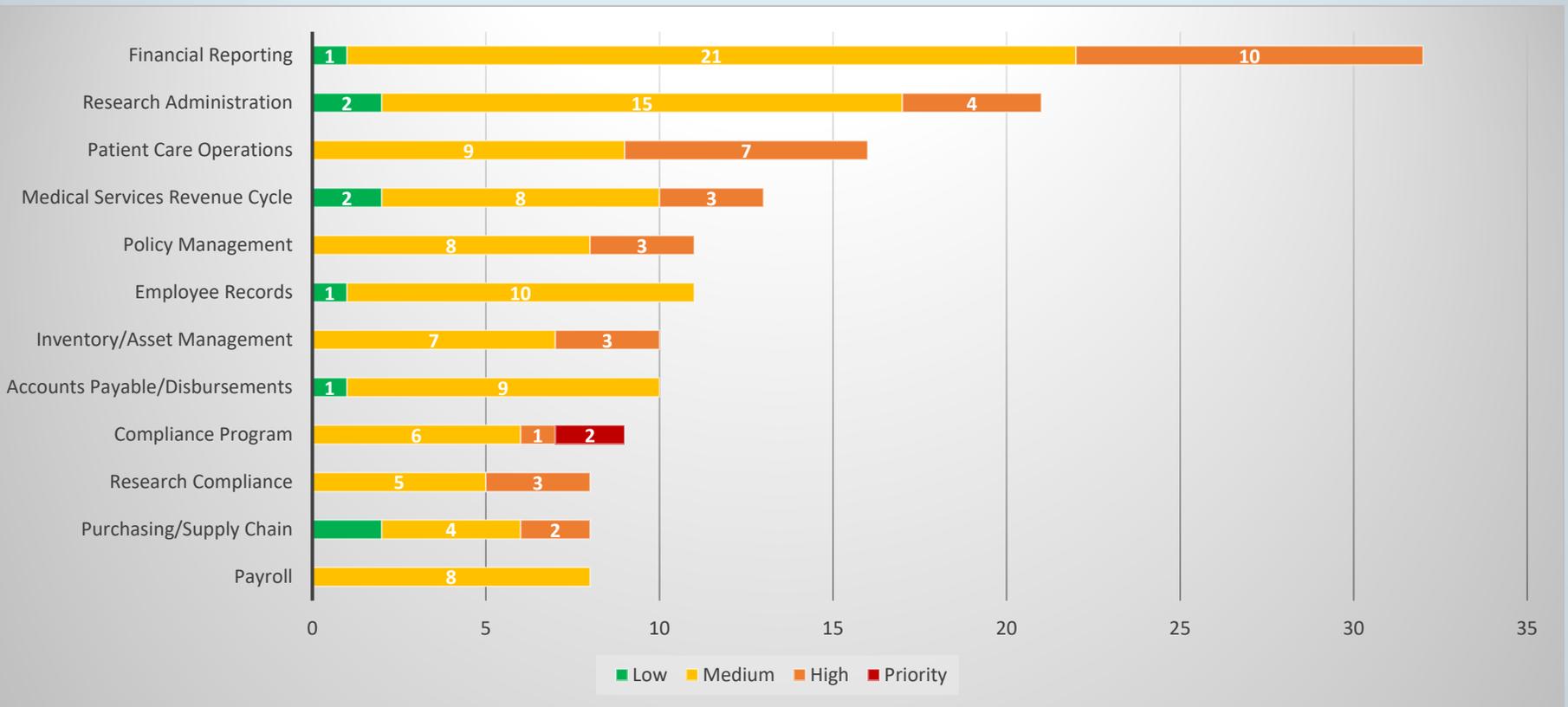
Consistent Systemwide classification by subject in 22 pre-defined Primary Taxonomy areas



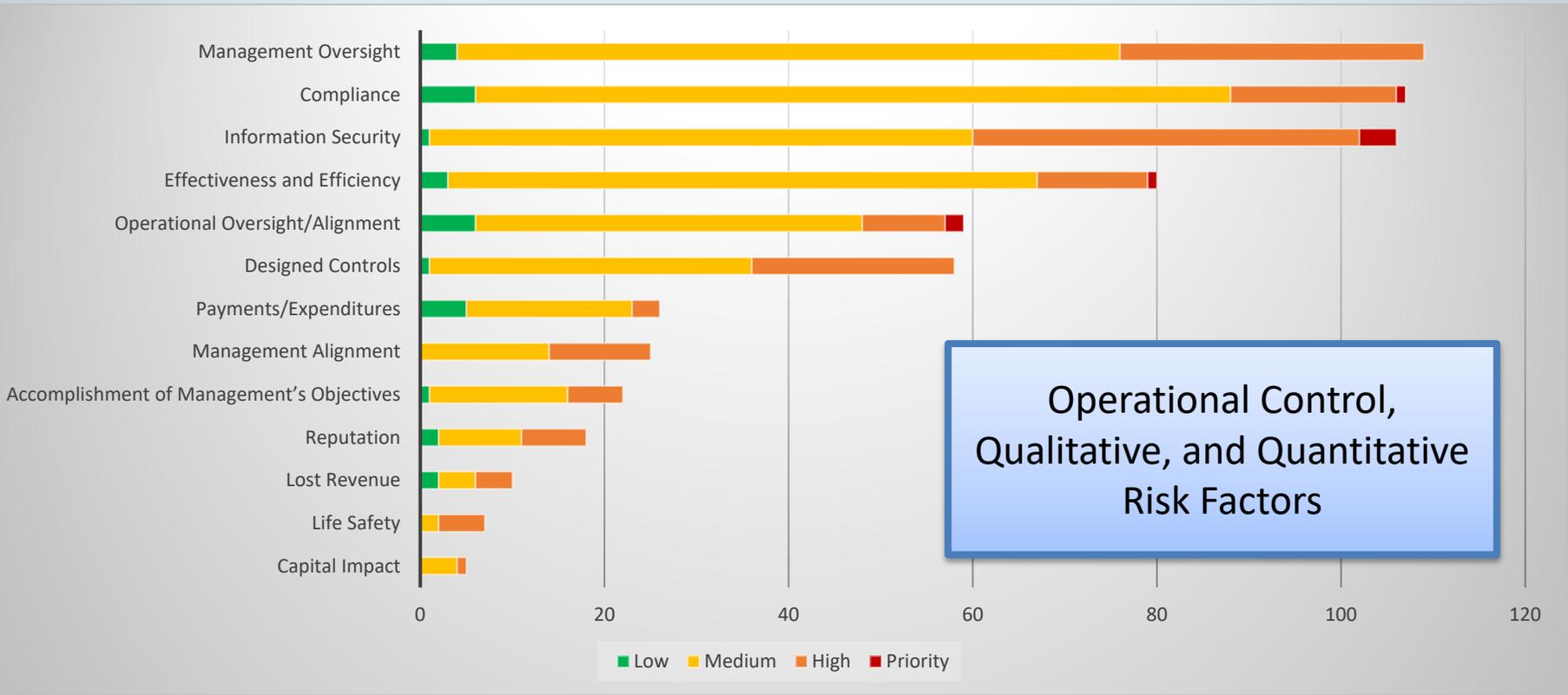
# Systemwide Information Technology (IT) Observations



# Systemwide Top Non-IT Observations



# Systemwide Observations by Risk Factors



## 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
- Average client survey score stays steady at 4.6 (5 - strongly satisfied to 1 - strongly dissatisfied) for FY 2022 engagements, with an average response rate of 56%



## Systemwide Internal Audit Competencies & Contributions

- Proficiency (average employee statistics):
  - 82% hold professional certifications
  - 44% earned advanced degrees
  - 18 years of relevant and 9 years of U. T. experience
  - 52 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



**3. U. T. System: Authorization to settle property insurance claims for COVID 19 response costs and business interruption and delegation of authority to Chief Compliance and Risk Officer**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Chief Compliance and Risk Officer and the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents:

- a. approve, in accordance with Regents' Rule 80601, final settlement of the property insurance claims for COVID 19 response costs and business interruption covered under the Comprehensive Property Protection Plan (CPPP) in the amount of \$5,880,000, and
- b. delegate authority to Chief Compliance and Risk Officer to execute all related Proofs of Loss and other settlement documents.

BACKGROUND INFORMATION

For the policy period ending April 1, 2020, the CPPP provided coverage to U. T. institutions for named windstorm, fire, and other perils through a combination of commercial insurance and interim financing. Although all the insurance policies comprising the CPPP included a contamination/virus exclusion, certain policies also offered sub-limited coverage additions/extensions for Communicable Disease Response Costs (\$2,850,000) and Business Interruption (BI) by Communicable Disease (\$3,030,000). The total insurance recovery, after deductible, is \$5,880,000.

COVID 19 impacted all U. T. institutions, resulting in additional operational costs and lost revenues in multiple areas (housing, patient care). All institutions were required to report expenses and revenue losses related to COVID to the Legislative Budget Board (LBB). Collectively, U. T. institutions reported almost \$1.2 billion in expenditure and revenue loss through December 2020.

The applicable deductible for this loss is \$5 million, which is paid by the CPPP Fund and considered interim financing. After application of the \$250,000 institution deductible to each institution, the net payment from the CPPP Fund is \$1,250,000. In accordance with plan guidelines, all institutions will collectively reimburse the CPPP Fund the \$1,250,000 over five years.

The insurance recoveries and fund distribution will be allocated to all institutions based on their percentage of loss in the respective Response Cost and BI coverage categories, as reported to the LBB through December 2020.

Upon approval by the Board of Regents, insurance proceeds in the amount of \$5,880,000 and CPPP Fund payments in the amount of \$1,250,000 (\$7,130,000 in total) will be distributed as described in the table below.

<b>Institution</b>	<b>Insurance Payment</b>	<b>CPPP Fund Payment</b>	<b>Total All Payments</b>
U. T. Arlington	\$130,285	\$25,454	\$155,739
U. T. Austin	\$1,074,708	\$232,662	\$1,307,370
U. T. Dallas	\$217,050	\$59,725	\$276,775
U. T. El Paso	\$54,035	\$6,221	\$60,256
U. T. Permian Basin	\$7,343	\$1,457	\$8,800
U. T. Rio Grande Valley	\$387,800	\$55,527	\$443,327
U. T. San Antonio	\$80,893	\$22,308	\$103,201
U. T. Tyler	\$22,089	\$1,658	\$23,747
U. T. Southwestern Medical Center	\$1,044,881	\$205,045	\$1,249,926
U. T. Medical Branch Galveston	\$882,915	\$174,356	\$1,057,271
U. T. Health Science Center - Houston	\$374,139	\$68,500	\$442,639
U. T. Health Science Center - San Antonio	\$210,944	\$54,661	\$265,605
U. T. MD Anderson Cancer Center	\$1,334,709	\$335,825	\$1,670,534
U. T. Health Science Center at Tyler	\$35,404	\$4,889	\$40,293
U. T. System Administration	\$22,805	\$1,712	\$24,517
<b>TOTAL</b>	<b>\$5,880,000</b>	<b>\$1,250,000</b>	<b>\$7,130,000</b>