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FOR
AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE

Committee Meeting: 11/20/2024

Board Meeting: 11/21/2024
Austin, Texas

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

1.   **U. T. System Board of Regents: Approval of Consent Agenda and consideration of any item referred to the full Board**

<u>RECOMMENDATION</u>

The Board will be asked to approve the Consent Agenda beginning on Page 171.

2. **U. T. System: Report and discussion on the Systemwide internal audit activities, including Fiscal Year 2024 Annual Report**

Chief Audit Executive Peppers will present the FY 2024 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 2024 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
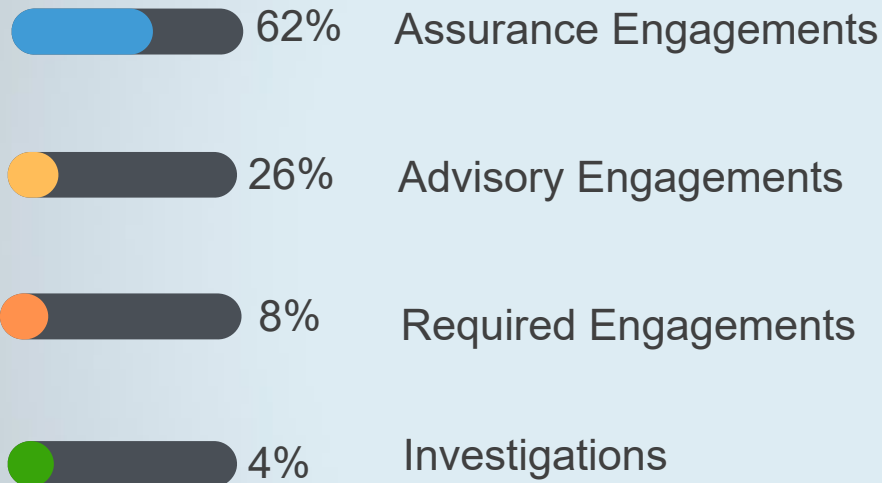
November 2024

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Systemwide Internal Audit Hours

- Approximately 168k hours were spent by 106 internal auditors to complete the Fiscal Year (FY) 2024 Systemwide Annual Audit Plan

  - Assurance Engagements
  - Advisory Engagements
  - Required Engagements
  - Investigations
  - Follow-Up
  - Operations
  - Initiatives & Education

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Systemwide Internal Audit Reports & Observations

- In FY 2024, 221 engagement reports and memos were issued

- 123 of the 221 reports resulted in 492 observations ranked as follows:
  - 6 Priority level observations
  - 169 High level observations
  - 260 Medium level observations
  - 57 Low level observations

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Systemwide Observations - Number & Level

FY 2024

221 engagement reports and memos were issued

123 reports (56%) resulted in a total of
492 observations:

🔴	1%	Priority level observations
🟠	34%	High level observations
🟡	53%	Medium level observations
🟢	12%	Low level observations

5-Year Average (FY 2020-2024)

227 engagement reports and memos were issued

114 reports (50%) resulted in a total of
447 observations:

🔴	2%	Priority level observations
🟠	35%	High level observations
🟡	56%	Medium level observations
🟢	8%	Low level observations

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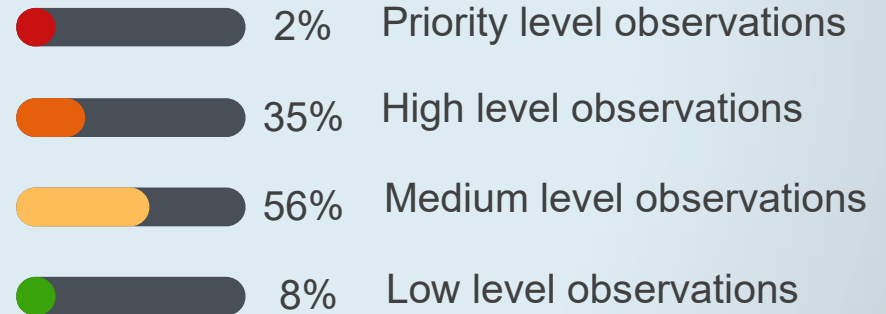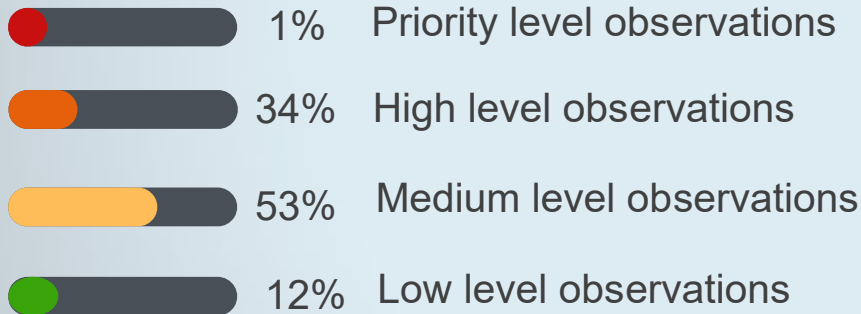
Systemwide Observations by Subject Area (Taxonomy)
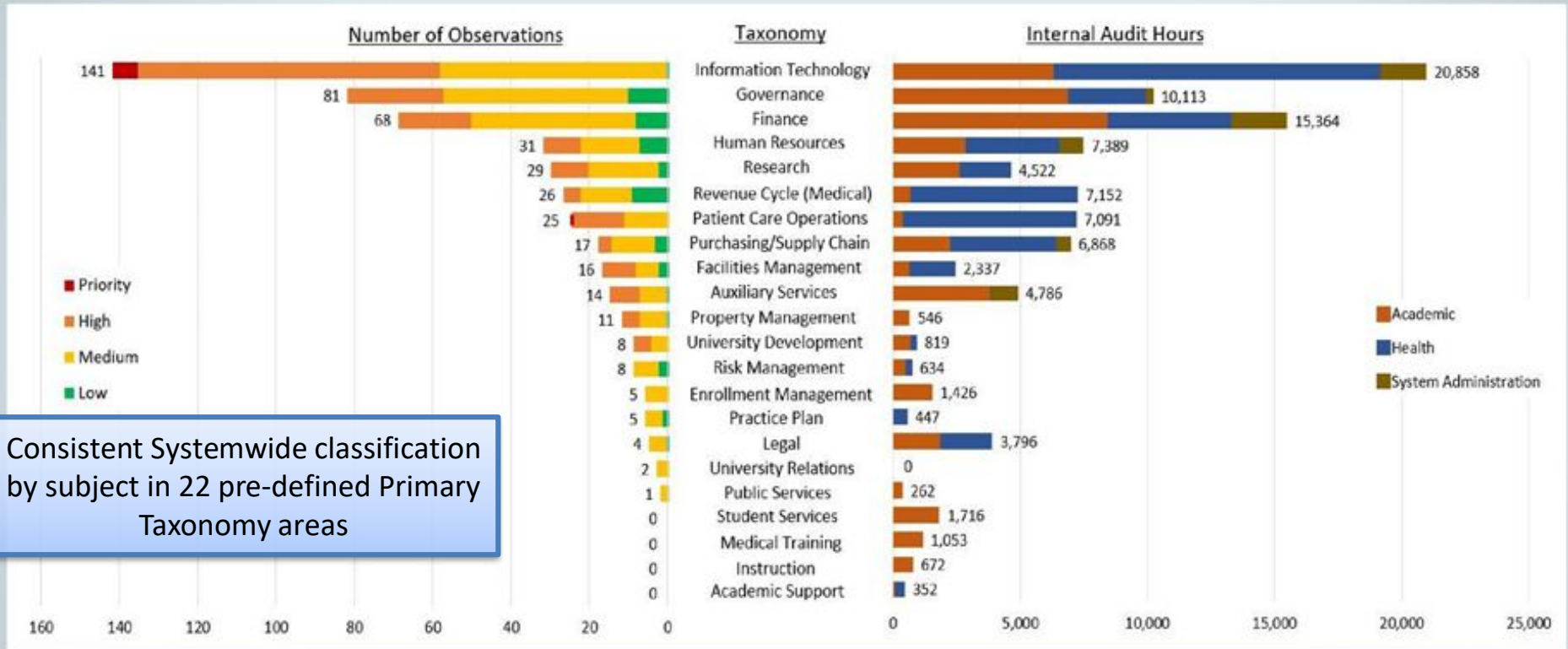
Consistent Systemwide classification by subject in 22 pre-defined Primary Taxonomy areas

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Systemwide Information Technology (IT) Observations
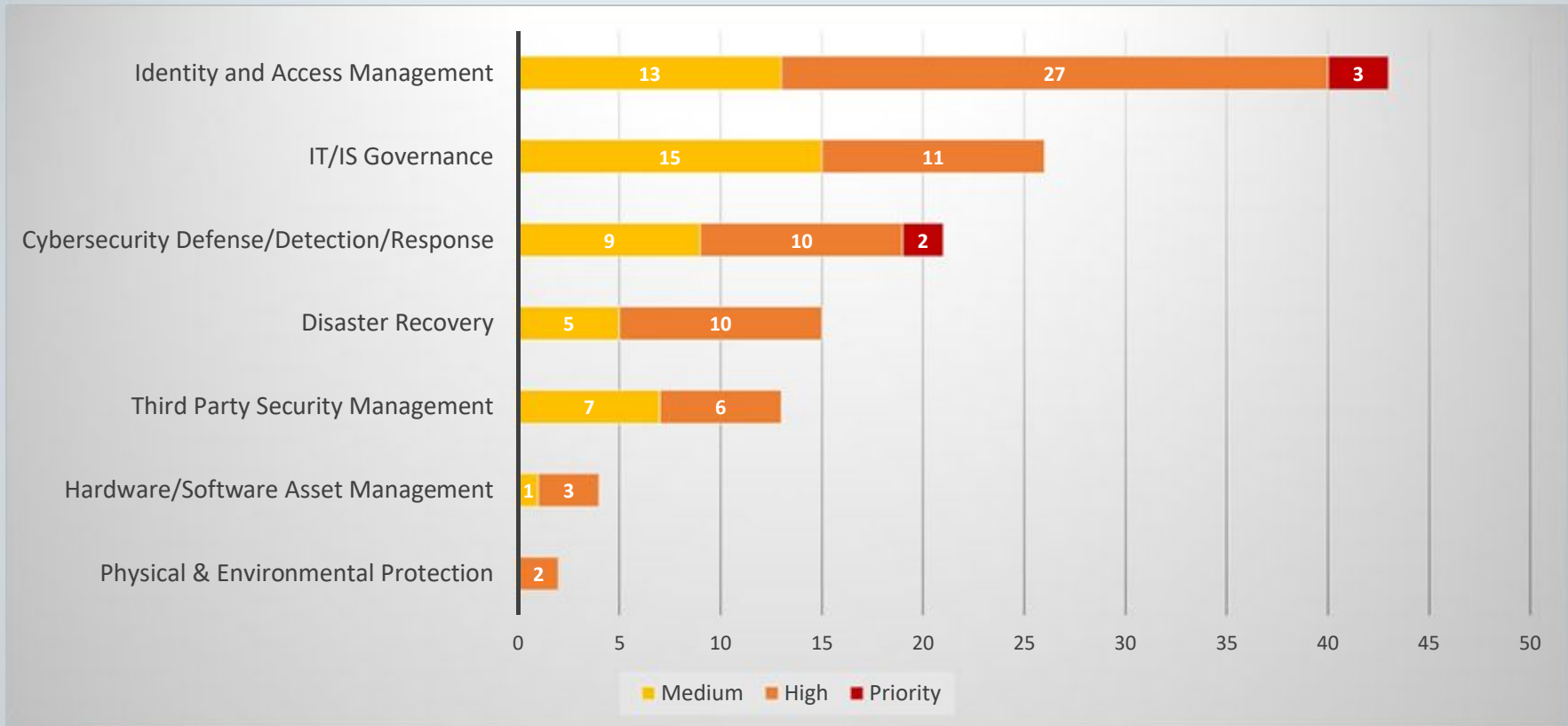
Systemwide Top Non-IT Observations

Bar chart showing non-IT observations by category, segmented by severity (Low, Medium, High, Priority):

Category	Low	Medium	High	Priority
TEC 51.3525 Compliance	19	35	8	
Patient Care Operations	1	27	24	1
Financial Reporting	4	16	4	
Medical Services Revenue Cycle	10	11		
Purchasing/Supply Chain	4	11	2	
Policy Management	2	12	2	
Construction	3	6	6	
Research Administration	1	10	3	
Accounts Payable/Disbursements		4	7	
Property Management		7	3	

Legend: ■ Low ■ Medium ■ High ■ Priority

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Systemwide Observations by Risk Factors

Chart: Systemwide Observations by Risk Factors (Low, Medium, High, Priority)

- Compliance
- Designed Controls
- Information Security
- Management Oversight
- Effectiveness and Efficiency
- Operational Oversight/Alignment
- Accomplishment of Management's Objectives
- Payments/Expenditures
- Management Alignment
- Reputation
- Life Safety
- Lost Revenue
- Capital Impact

Legend: Low, Medium, High, Priority

Operational Control, Qualitative, and Quantitative Risk Factors

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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 for FY24 engagements is 4.5 (5-strongly satisfied to 1-strongly dissatisfied) with a 57% response rate

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Systemwide Internal Audit Competencies & Contributions

- Proficiency (average employee statistics):
  - 79% hold professional certifications
  - 50% earned advanced degrees
  - 18 years of relevant and 9 years of U. T. experience
  - 61 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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3. **U. T. System: Approval of the U. T. Systemwide Annual Audit Plan for Fiscal Year 2025**

RECOMMENDATION

Chief Audit Executive Peppers will present the proposed Fiscal Year 2025 U. T. Systemwide Annual Audit Plan (Audit Plan) using the PowerPoint set forth on the following pages and will recommend its approval. Development of the Audit Plan is based on risk assessments performed at each institution. Implementation of the Audit Plan will be coordinated with the institutional auditors. The Audit Plan executive summary and the detailed annual audit plans were provided to the Audit, Compliance, and Risk Management Committee members prior to the meeting.

BACKGROUND INFORMATION

Institutional audit plans, compiled by the internal audit departments after input and guidance from the U. T. System Audit Office, the Offices of Academic or Health Affairs, and the institution's management and institutional internal audit committee, were submitted to the respective institutional internal audit committee and institutional president for review and comments. Also, the U. T. System Chief Audit Executive provided feedback by conducting audit plan presentations with each institution. After the review process, each institutional internal audit committee formally approved its institution's audit plan.

U. T. Systemwide FY 2025 Annual Audit Plan

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

U. T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
November 2024

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Overall Audit Plan Process

Systemwide Methodology
- Risk Assessment (enhanced)
- Plan Development
- Format and Content

Review of Audit Plans
- Institutional Management & Stakeholders
- System Audit Office
- Offices of Academic and Health Affairs

Approval of Audit Plans
- Institutional Internal Audit Committees
- Audit, Compliance, and Risk Management Committee

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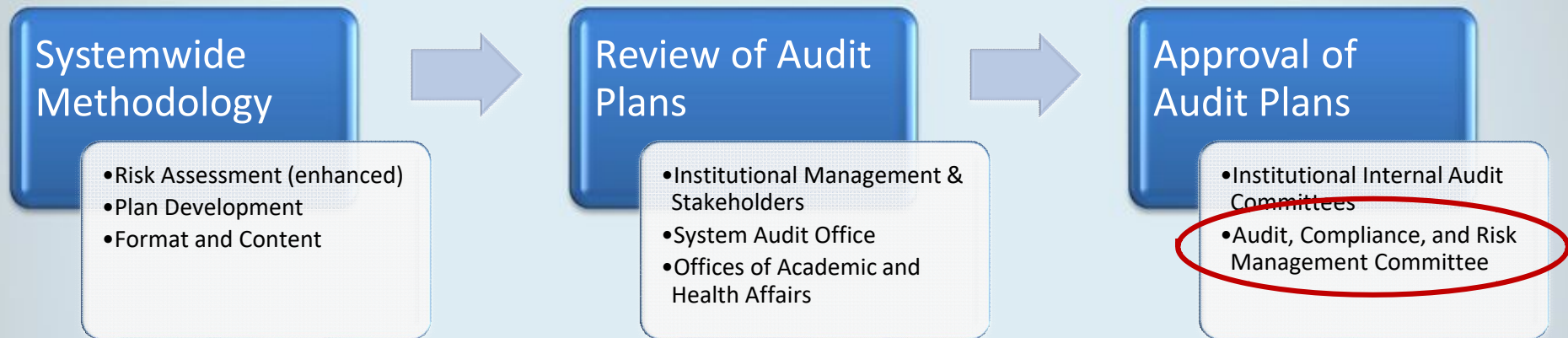
Annual Audit Plans

- Internal audit plans across the System include 180k direct hours of work in the following categories:
  - Assurance, Advisory, and Required Engagements
  - Investigations
  - Reserve
  - Follow-up
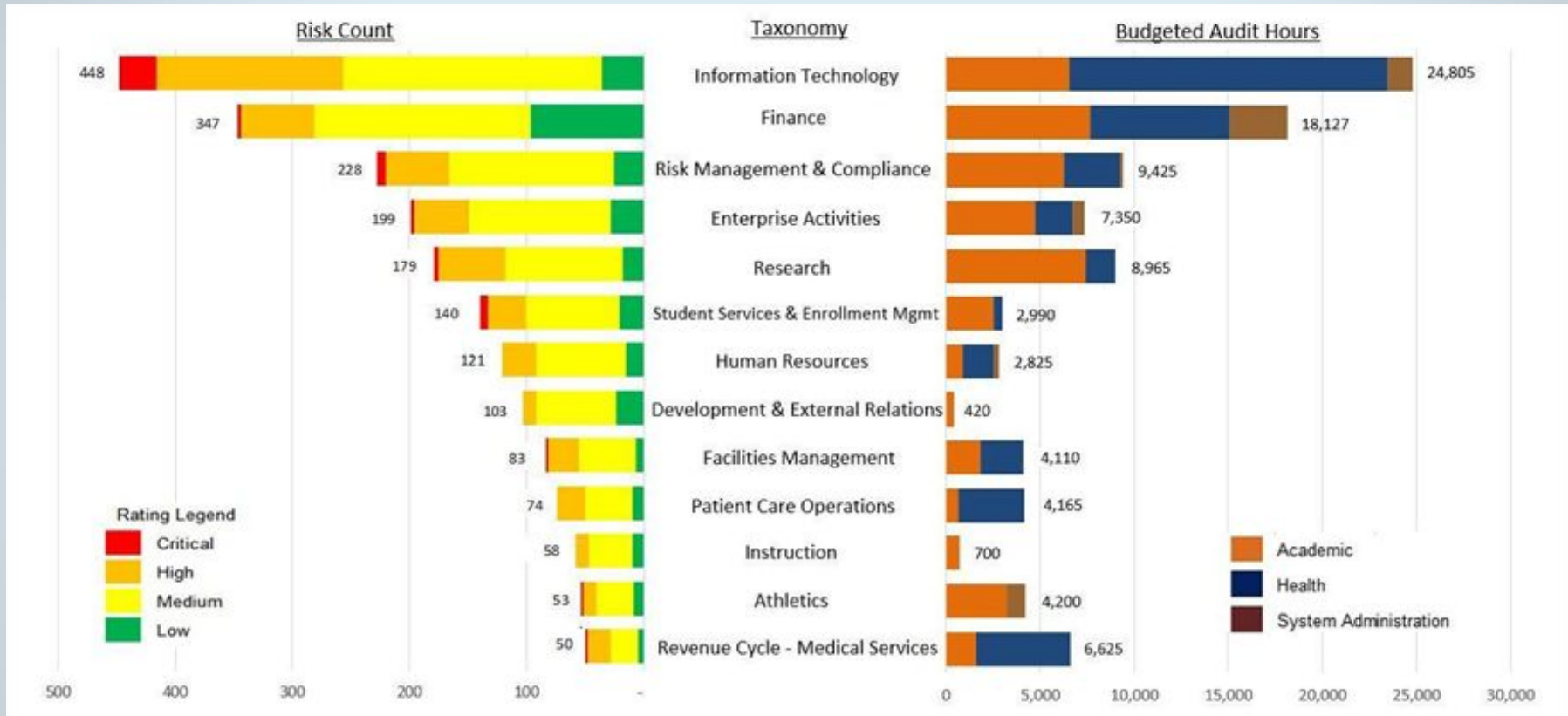 - Development Operations and Initiatives
- Diverse topics to maximize coverage of risk areas
- Commonality in high-risk area topics

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Risk Assessment Methodology and Plan Development

- Risk Assessment Changes
  - Streamlined Taxonomies
  - Probability and Impact weighted 35% and 65%, respectively
  - Probability and Impact rated from 1 to 4
  - Probability and Impact rating and weights determine Risk Score
  - Risk Score range determines Risk Rank (Critical/High/Medium/Low)

- Identify risks related to strategic priorities and operational objectives that could impede successful achievement

- Develop engagements that provide validation of activities in place to mitigate the highest risks

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Systemwide Risk Count vs. Audit Hours by Taxonomy

Risk Count	Taxonomy	Budgeted Audit Hours
448	Information Technology	24,805
347	Finance	18,127
228	Risk Management & Compliance	9,425
199	Enterprise Activities	7,350
179	Research	8,965
140	Student Services & Enrollment Mgmt	2,990
121	Human Resources	2,825
103	Development & External Relations	420
83	Facilities Management	4,110
74	Patient Care Operations	4,165
58	Instruction	700
53	Athletics	4,200
50	Revenue Cycle - Medical Services	6,625

Rating Legend
- Critical
- High
- Medium
- Low

- Academic
- Health
- System Administration

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Most Common IT Topics

Information Security

- Cyber vulnerability management and incident response
- Third-party security and risk management
- Identity and access management

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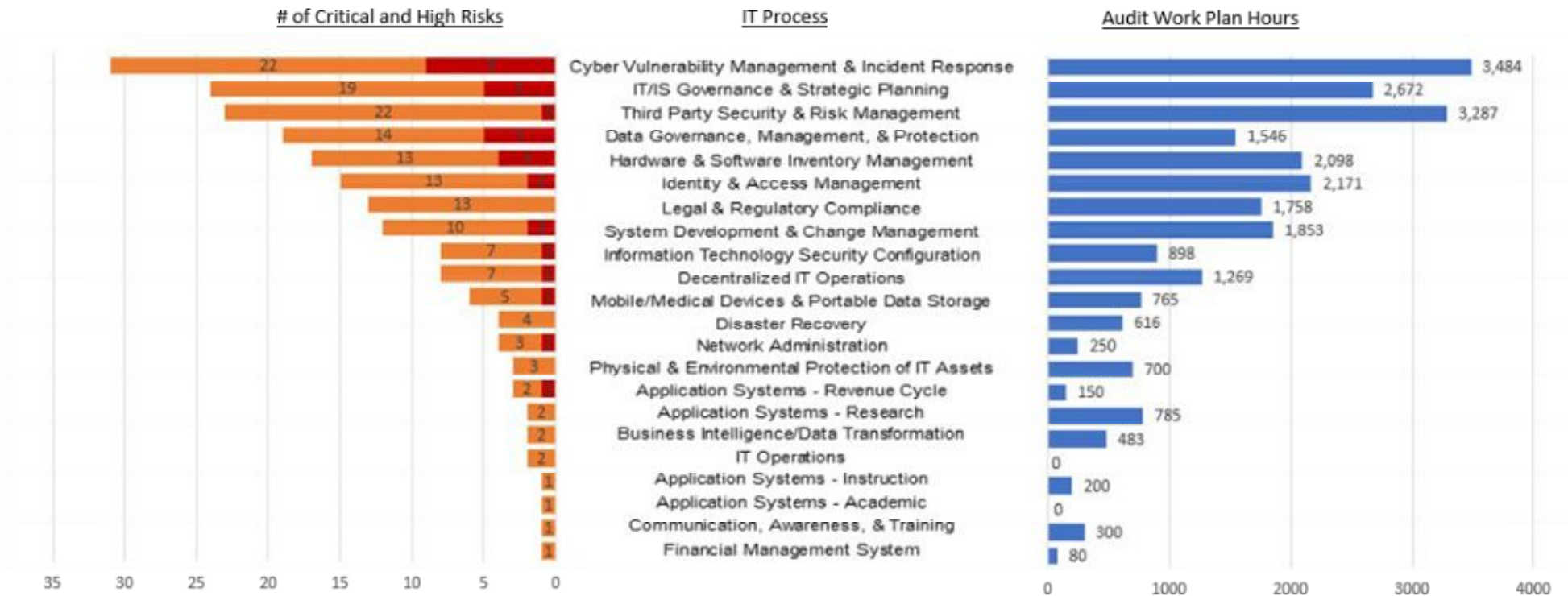
Other Common IT Topics

Data Governance, Management, & Protection

Legal & Regulatory Compliance

Hardware & Software Inventory Management

AI Governance

System Development & Change Management

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Systemwide IT Critical/High Risk Count vs. Audit Hours by IT Process

Most Common Topics

Research Administration

- Ensure expenditure compliance with grant- or contract-specific requirements, including:
  - Evaluating processes and controls, policies, and procedures

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Most Common Topics (cont.)

Construction/ Facilities Management

- Assess policies, processes, risks and controls for:
  - Construction: timely completion of projects, accurate billing, and change order/contract management
  - Facilities management: preventative maintenance, deferred maintenance, planned improvements, inventory, and compliance with regulatory laws

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Most Common Topics (cont.)

Purchasing/ Supply Chain

- Review processes, policies, and controls around purchasing:
  - Oversight of vendor activities and billing
  - Monitoring for conflicts of interest
  - Ensuring supply chain resilience
  - Compliance with statutes/regulations

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Most Common Topics (cont.)

Compliance Program

- Review policies and procedures
- Oversight and monitoring of institutional compliance programs

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Most Common Topics (cont.)

Medical Services Revenue Cycle

- Evaluate processes and controls around various aspects of the medical services revenue cycle, including:
  - Billing practices
  - Charge capture for services provided
  - Clinical operations
  - Collections
  - Compliance with regulations

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Other Common Topics

Financial Reporting	Business Continuity	TEC 51.3525	Clinical Trials
Recruiting & Employee Retention	Cash Management, Treasury, & Investments	Research Compliance	Financial Aid

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Common Topics for Required Engagements

Procurement Compliance

Annual Financial Report

NCAA Compliance

Joint Admission Medical Program (JAMP)

Various Grants

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FY 2025 Internal Audit Resources

- Approximately 104 internal audit professionals Systemwide

- Co-source hours to meet long-term and immediate needs
  - Master Service Agreements with 15 service providers

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