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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 2/8/2017

Board Meeting: 2/9/2017
Austin, Texas

Jeffery D. Hildebrand, Chairman
Ernest Aliseda
David J. Beck
R. Steven Hicks
Brenda Pejovich

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A. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE			
1. U. T. System: Report on the Fiscal Year 2016 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, and U. T. Medical Branch - Galveston financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)	2:15 p.m. Report/Discussion <i>Mr. Wallace</i> <i>Mr. Peppers</i> <i>Ms. Tracey Cooley,</i> <i>Mr. Robert Cowley,</i> <i>Mr. Blake Rodgers,</i> <i>Mr. Randall Brown,</i> <i>Deloitte & Touche</i>	Not on Agenda	74
B. ADJOURN JOINT MEETING			
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2. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	2:45 p.m. Discussion	Action	75
3. U. T. System: Approval of a consulting project to be performed by Deloitte Consulting LLP for U. T. Austin	2:50 p.m. Action <i>Chairman Hildebrand</i>	Not on Agenda	76
4. U. T. System: Report on the Systemwide internal audit activities, including results of the executive travel and entertainment expenses and practice plan audits, and the status of Priority Findings and the Annual Audit Plan	2:55 p.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	77

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5. U. T. System: Report on the Risk Finance Programs administered by the Office of Risk Management	3:04 p.m. Report/Discussion <i>Mr. Dendy</i>	Not on Agenda	81
6. U. T. System: Report on U. T. System Environmental Health and Safety Compliance	3:17 p.m. Report/Discussion <i>Mr. Patrick Durbin, U. T. System</i> <i>Mr. Scott Patlovich, U. T. Health Science Center - Houston</i>	Not on Agenda	97
D. ADJOURN	3:30 p.m.		

1. **U. T. System: Report on the Fiscal Year 2016 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, and U. T. Medical Branch - Galveston financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)**

REPORT

See Item 6 beginning on [Page 211](#) of the Finance and Planning Committee.

2. **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. The Consent Agenda begins on [Page 326](#).

3. **U. T. System: Approval of a consulting project to be performed by Deloitte Consulting LLP for U. T. Austin**

RECOMMENDATION

Chairman Hildebrand recommends that approval be given by the Audit, Compliance, and Management Review Committee (ACMRC) for Deloitte Consulting LLP to perform non-audit services for the U. T. Austin Dell Medical School (DMS) related to evaluating its options for fee-for-service contracting and billing and creating an infrastructure to assist with the contracting and credentialing/enrollment of DMS employed physicians.

BACKGROUND INFORMATION

Deloitte & Touche LLP and Deloitte Consulting LLP are subsidiaries of Deloitte LLP. Deloitte & Touche LLP is the current external audit firm engaged by the U. T. System Board of Regents to provide audit services. Audit services are those provided for the purpose of expressing an opinion on the financial statements of U. T. System or any of the U. T. System institutions. The current audit services contract expires May 30, 2018.

Regents' Rule 20402, Section 2.1 requires review and approval by the ACMRC of the performance of certain non-audit services by the external audit firm. Section 2.2 of the Rule allows the ACMRC Chairman to delegate authority to grant approval to any ACMRC member, with the requirement that the decision made be presented to the full ACMRC at the next Committee meeting. The review and approval process assures no conflict of interest between the audit services and the proposed non-audit services. ACMRC Chairman Hildebrand approved this non-audit services project on December 21, 2016.

The U. T. System Board of Regents approved a consulting services contract in excess of \$1.0 million between U. T. Austin and Deloitte Consulting LLP (Consent Agenda Item 21 of the May 12, 2016 meeting). The contract, which supports other anticipated consulting projects for the DMS, was awarded following a Request for Proposal process and has a maximum total cost of \$1.5 million. The non-audit services consulting project described in the Recommendation is part of the work under this contract and has an estimated cost of \$86,000 to be paid from the Available University Fund. Any additional phases of work under the contract will also be processed for review and approval as required.

4. **U. T. System: Report on the Systemwide internal audit activities, including results of the executive travel and entertainment expenses and practice plan audits, and the status of Priority Findings and the Annual Audit Plan**

REPORT

Chief Audit Executive Peppers will present the results of the executive travel and entertainment expenses audits that were conducted at U. T. System Administration and each of the U. T. System institutions and the practice plan audits that were performed at the U. T. System health institutions. Summaries of the results for these audits were provided to the Audit, Compliance, and Management Review Committee (ACMRC) members prior to the meeting. Mr. Peppers will also report on the status of Systemwide Priority Findings, using a PowerPoint presentation set forth on the following pages. The FY 2016 Systemwide annual audit plan status as of November 30, 2016, was also provided to the ACMRC members prior to the meeting.

BACKGROUND INFORMATION

A Priority Finding is defined as “an issue identified by an audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a U. T. System institution or the U. T. System as a whole.” A Priority Findings Matrix is used by the chief audit executives to aid in the determination of a Priority Finding. The matrix provides three categories of standard factors to consider, each alone with the potential to result in a Priority Finding. They are: Qualitative Risk Factors (evaluates the probability and consequences across seven high risks), Operational Control Risk Factors (evaluates operational vulnerability to risks by considering the existence of management oversight and effective alignment of operations), and Quantitative Risk Factors (evaluates the level of financial exposure or lost revenue).

U. T. Systemwide Priority Findings

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

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
February 2017



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Priority Findings Status

INSTITUTION	General				Health	TOTAL		PAST DUE	REPUTATION	INFORMATION SECURITY	COMPLIANCE	LIFE SAFETY	DESIGNED CONTROLS	CAPITAL IMPACT	ACCOMPLISHMENT OF OBJECTIVES	OPERATIONAL OVERSIGHT	MANAGEMENT OVERSIGHT
	INFORMATION TECHNOLOGY	RISK MANAGEMENT	HUMAN RESOURCES	RESEARCH	PATIENT CARE OPERATIONS												
U. T. Arlington	2	0	0	0	0	2	0		X								X
U. T. Austin	4	1	0	0	0	5	0	X	X	X	X	X	X	X			
U. T. Dallas	1	0	0	0	0	1	0		X								
U. T. El Paso	1	0	0	1	0	2	0		X	X							
U. T. Permian Basin	0	0	0	1	0	1	0			X							
U. T. Rio Grande Valley	0	0	0	0	0	0	0										
U. T. San Antonio	0	0	0	0	0	0	0										
U. T. Tyler	0	0	0	0	0	0	0										
U. T. Southwestern Medical Center	0	0	0	0	0	0	0										
U. T. Medical Branch - Galveston	0	0	1	0	1	2	0							X	X		X
U. T. Health Science Center - Houston	0	0	0	0	0	0	0										
U. T. Health Science Center - San Antonio	0	1	0	1	0	2	0	X	X	X				X	X	X	X
U. T. M. D. Anderson Cancer Center	7	0	0	1	0	8	2		X	X							
U. T. Health Science Center - Tyler	0	0	0	0	0	0	0										
U. T. System Administration	0	0	0	0	1	1	0	X		X					X	X	
TOTALS	15	2	1	4	2	24	2										



Changes Since Last Report

	<u>Reported Nov 2016</u>	<u>Implemented</u>	<u>New</u>	<u>Reported Feb 2017</u>
IT related Priority Findings	13	(1)*	3	15
Non-IT related Priority Findings	<u>8</u>	<u>(2)</u>	<u>3</u>	<u>10</u>
Total Priority Findings	21	(3)	6**	24
Past Due Priority Findings	1			2***

*One IT related Priority Finding at UTAUS was closed. Responsible parties proposed that the resolution and tracking of the finding be transferred to the institutional executive compliance committee, which was approved by the institutional internal audit committee.

**New Priority Findings: UTAUS - IT (2); UTPB - Research (1); UTHSCSA - Risk Management (1) and Research (1); UTMDACC - IT (1)

***Past Due Priority Findings: UTMDACC - IT (2)



5. **U. T. System: Report on the Risk Finance Programs administered by the Office of Risk Management**

REPORT

Chief Compliance and Risk Officer Dendy will report on Systemwide Risk Finance programs, including the Comprehensive Property Protection Plan, Rolling Owner Controlled Insurance Program, Workers' Compensation Insurance Program, and other self-insured or high retention programs administered by the Office of Risk Management. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

In Fiscal Year (FY) 2016, the total population of U. T. System, including students, faculty, and staff, was over 341,000 and total payroll was approximately \$8 billion. Collectively, there were approximately 101 million gross square feet of building space and Total Insured Values (TIV), including building, contents, and business income, of over \$34 billion. There were over 17,000 trips internationally for business, research, or study abroad, and 2,400 vehicles in the U. T. System fleet.

These are only a few of the metrics reflecting the diversity and magnitude of the operational exposures facing the U. T. System institutions. Creative and comprehensive risk retention and risk transfer strategies are necessary to leverage the size and strength of the U. T. System while ensuring effective operational, physical, and financial recovery in the event of a loss.

Office of Risk Management Risk Finance Programs

Mr. Phillip Dendy, Chief Compliance and Risk Officer

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Operational Exposures (FY 2016)

- Employee headcount - 119,953
- Enrollment - 221,337
- Outpatient visits - 7.3 million
- Total Insured Values - \$34 billion
- Gross square feet - 101 million
- Construction values in progress - \$2 billion
- Faculty/staff/student international trips - 17,000



Risk Finance Programs

- Administration of Risk Financing Programs
 - Automobile, Property, and Liability (APL)
 - Comprehensive Property Protection Plan (CPPP)
 - Rolling Owner Controlled Insurance Program (ROCIP)
 - Builder's Risk (BR)
 - Director's and Officer's/Employment Practices Liability (D&O/EPL)
 - Cyber Liability Program (CLP)
 - Unemployment Compensation Insurance (UCI)
 - Workers' Compensation Insurance (WCI)

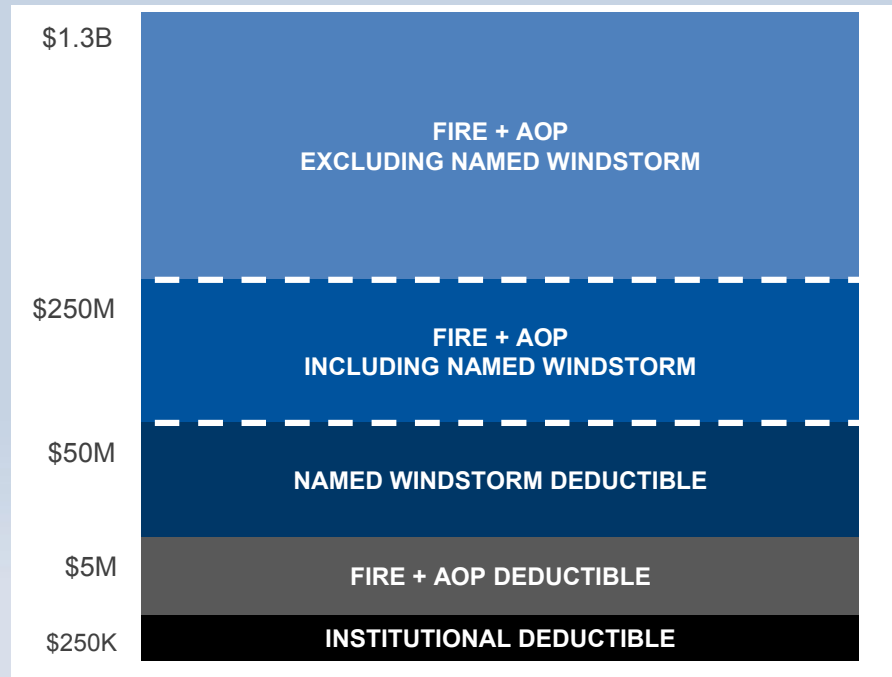


CPPP: How It Works

- Fire and All Other Perils (AOP)
 - \$1.3 billion limit
 - \$5 million deductible

- Named Windstorm
 - \$250 million limit
 - \$50 million or 5% deductible
 - Texas Windstorm Insurance Association (TWIA) and National Flood Insurance Program (NFIP) losses erode CPPP deductible

2016 – 2017 CPPP Master Program



CPPP: Benefits

Financial

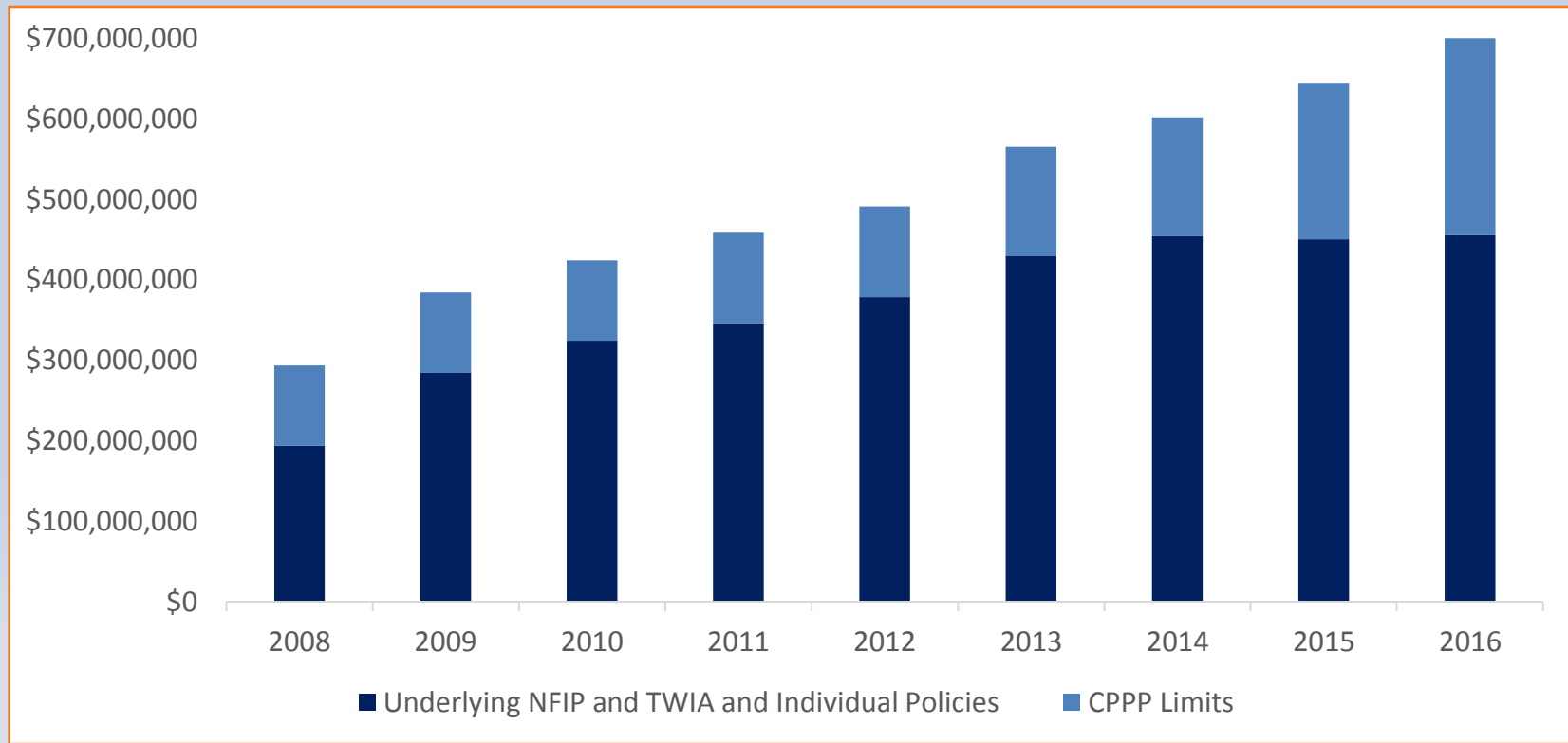
- Cost savings due to:
 - Increased purchasing power
 - Larger retention
 - Long-term returns if favorable loss experience
- More predictable budgeting
- Risk sharing reduces financial burden on individual institutions

Programmatic

- Consistency of coverage
- Additional loss control services
 - Property Conservation Surveys
 - 122 Buildings surveyed in FY 2016



Named Windstorm & Resulting Flood Limits



CPPP: Claims

Recent CPPP Claim Activity (2015 - present)

3 Hail Damage

- UTD - 3/23/16; UTAUS - 10/7/15; UTMB - 4/17/15

3 Water Damage

- UTMB - 6/16/16; UTSA - 2/2/16; UTMDACC - 4/13/15

2 Flood Damage

- UTMDACC - 5/25/15; UTAUS - 5/25/15

2 Fire Damage

- UTMDACC - 10/13/15; UTHSCH - 5/25/15



ROCIP and BR

- ROCIP provides Workers' Compensation, General Liability, and Excess Liability insurance coverage for designated U. T. System construction projects.
- BR provides a type of property insurance for physical loss to U. T. System buildings while they are under construction.



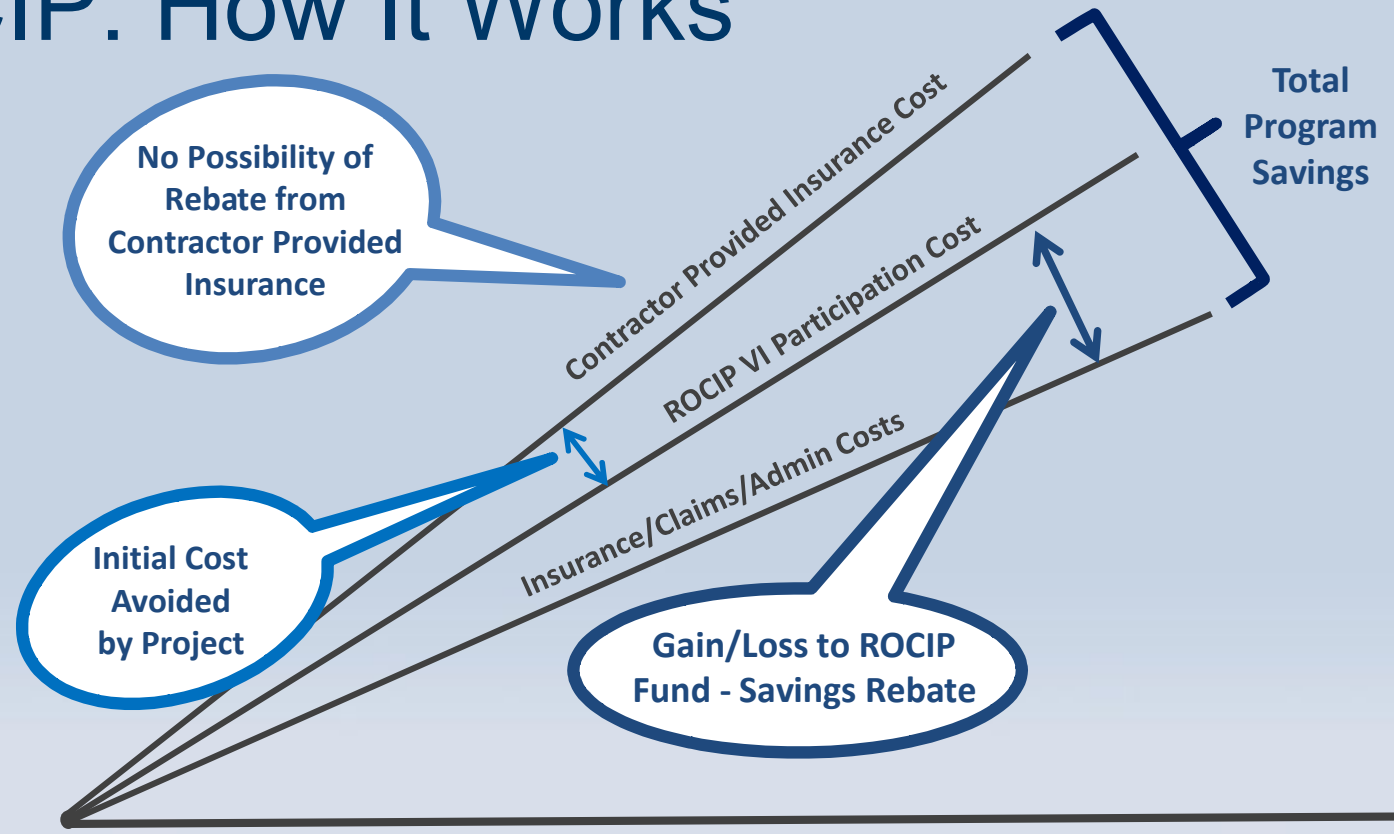
ROCIP and BR (cont.)

Construction values in recent phases

- ROCIP IV: 2004 - 2011, \$2.1 billion
- ROCIP V: 2008 - 2016, \$4.2 billion
- ROCIP VI: 2013 - 2019, \$2.5 billion+
- BR I: 2013 - 2016, \$2.1 billion
- BR II: 2016 - 2019, \$250 million+



ROCIP: How It Works



Construction Insurance Program Benefits (ROCIIP & BR)

Financial

- Cost savings due to bulk purchasing and favorable claims experience
 - Over \$60 million estimated savings since inception (all phases)
- Rebates issued to institutions following phases with favorable loss outcomes
 - \$18 million rebated to institutions since inception (Phases I-IV)
 - \$8.9 million adjustment refunded to institutions from ROCIIP V
 - Rebate for Phase V projects to be determined in FY 2018



Construction Insurance Program Benefits (ROCIIP & BR) (cont.)

Programmatic

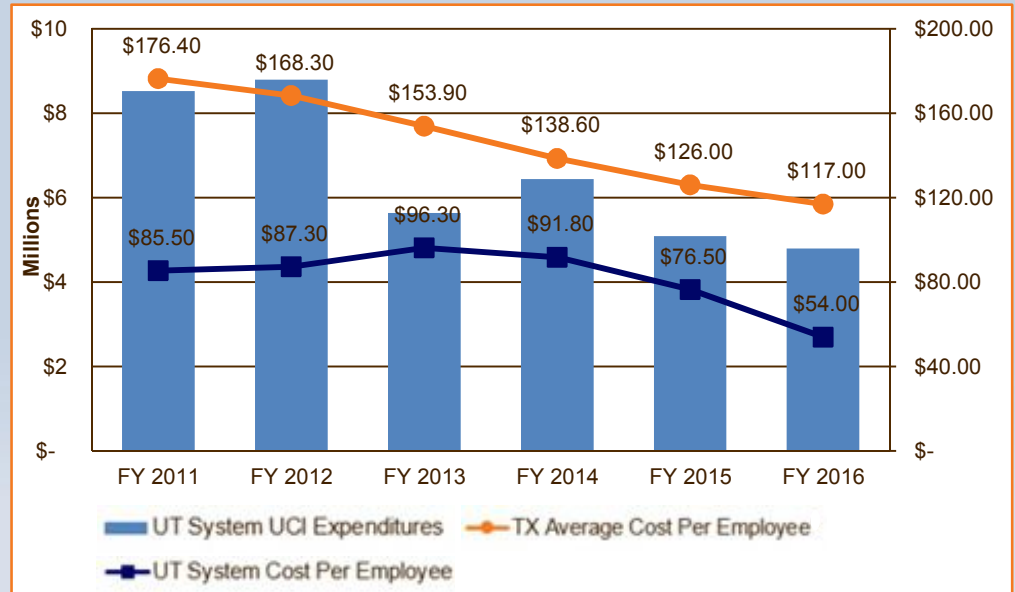
- Consistency of insurance provided on each project and for all contractors and subs
- Eliminates cross claims among contractors
- Enhanced safety and loss control
- Increases Historically Underutilized Business (HUB) Participation
- Robust loss control program emulated by contractors on non-U. T. projects



Unemployment Compensation Insurance

UCI is a self-insurance plan that assists workers who become unemployed through no fault of their own.

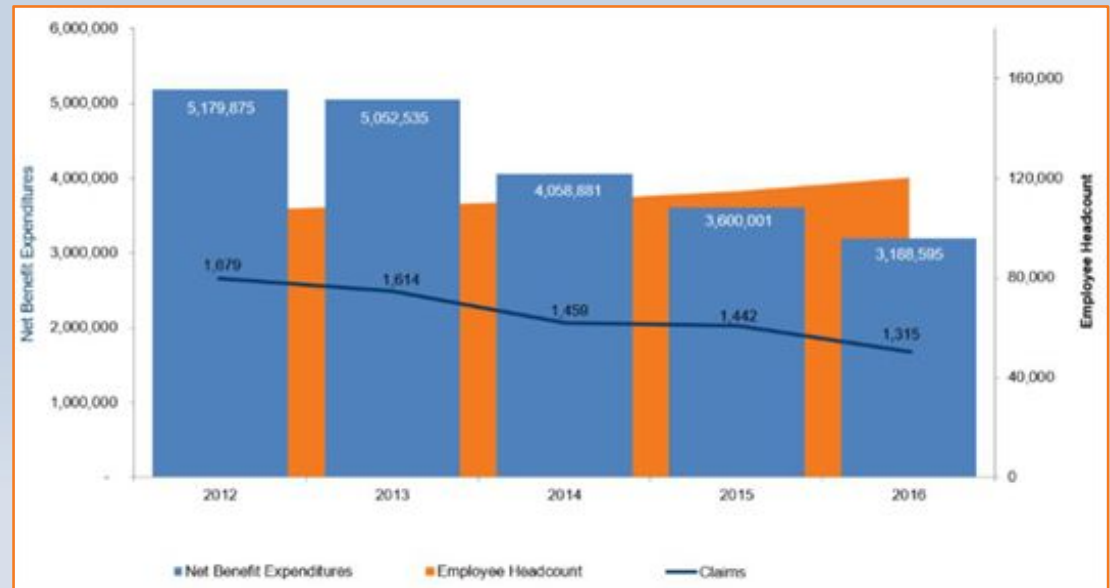
- Lowest fiscal year expenditures since FY 2008
- 6% decrease in claims from FY 2015
- Average U. T. System cost per employee is \$54 compared to experience-rated Texas employers at \$117 per employee



Workers' Compensation Insurance

WCI is a self-insurance plan that provides medical coverage and income benefits to U. T. System employees injured on the job.

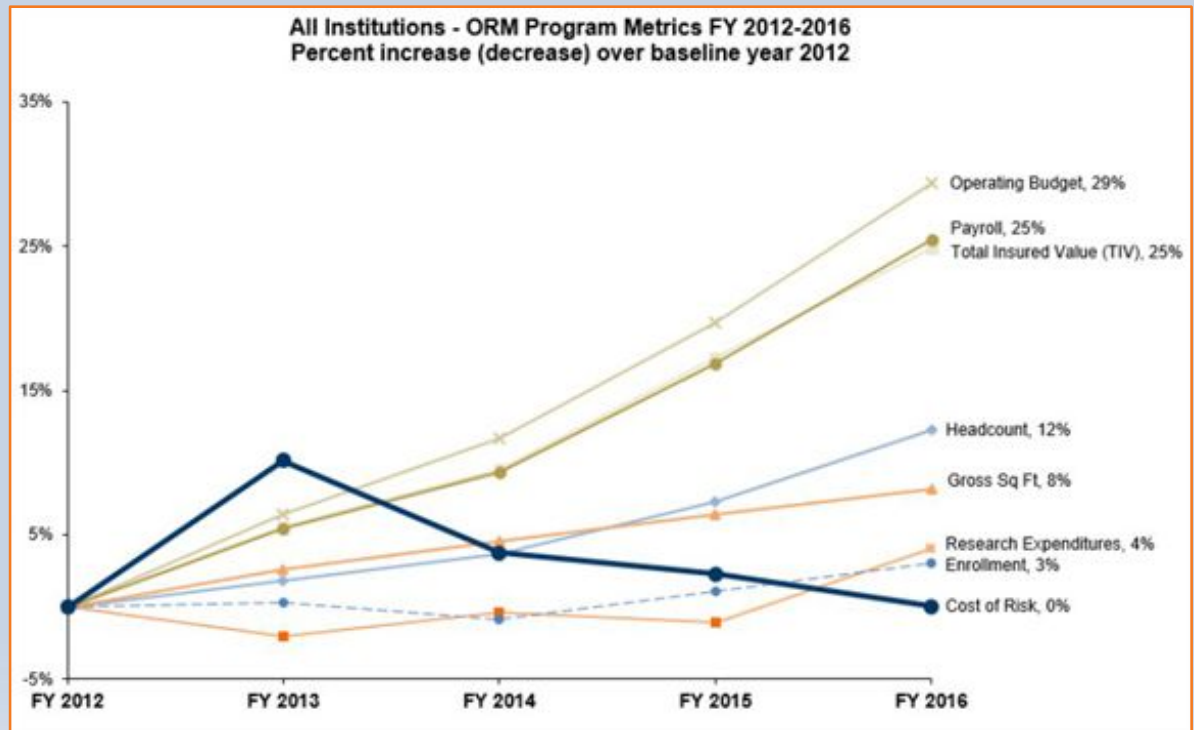
- Net expenditure of \$3.2 million, lowest in 20 years
- Program includes Third Party Administrator and Certified WCI Healthcare network
- Collaboration with loss control
- Favorable rate comparison to peers



Cost of Risk

Cost of risk is a method of representing the financial performance of risk management programs.

- Includes fixed costs such as commercial and self-insurance premiums
- The cost of risk in FY 2016 was approximately \$34 million, with no increase from FY 2012



6. U. T. System: Report on U. T. System Environmental Health and Safety Compliance

REPORT

Mr. Patrick Durbin, Assistant Director of Risk Control in the U. T. System Office of Risk Management, and Mr. Scott Patlovich, Director of Environmental Health and Safety at U. T. Health Science Center - Houston and current Chair of the Systemwide Environmental Health and Safety (EHS) Advisory Committee, will provide an overview on the current EHS programs, activities, and emerging issues impacting U. T. System institutions. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

Compliance with environmental regulations and maintaining a safe work environment for students, faculty, and staff is a top priority for all U. T. System institutions. Penalties for failing to maintain a compliant and safe workplace could include fines, injuries, and negative publicity that could impact enrollment, funding, and research. The U. T. System has policies and programs in place to ensure compliance and maintain a safe work environment, but it also faces challenges in the current regulatory realm and consistently changing dynamic teaching and research landscape.

Environmental Health and Safety Compliance

Mr. Scott Patlovich

Director of Environmental Health and Safety at U. T. Health Science Center - Houston

Mr. Patrick Durbin

Assistant Director of Risk Control in the U. T. System Office of Risk Management

U. T. System Board of Regents' Meeting

Audit, Compliance, and Management Review Committee

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Environmental Health and Safety

- Overview of Systemwide Environmental Health and Safety compliance
- Highlight specific Systemwide programs
- Emerging issues and local challenges



Systemwide Standards for Compliance

- UTS Policies
 - UTS135 – Fire and Life Safety Reviews
 - UTS161 – Environmental Review for Acquisition of Real Property
 - UTS172 – Emergency Management
 - UTS174 – Environmental Health and Safety



UTS135 Fire and Life Safety Reviews

- Buildings must comply with National Fire Protection Association Life Safety Code 101 (NFPA 101)
- Includes owned and leased spaces
- Challenges when leasing property out of state
- Will be updated to include inclusion of NFPA 1 as adopted by the State Fire Marshal



UTS161 Environmental Review for Acquisition of Real Property

- Process for all appropriate inquiries
- Due diligence can incorporate proposed development
- Property for specific purpose vs. speculative purchase
- Risk appetite varies based on past use and potential for development based on campus needs



UTS172 Emergency Management

- Standards for maintaining multi-hazard emergency management programs
- Framework for conducting safety and security audits as required by *Texas Education Code Sec. 51.217*
- Process for transmitting audits to the U. T. System Board of Regents and Texas Division of Emergency Management
- Establishes the Emergency Management Committee



UTS174 Environmental Health and Safety

- Risk Assessments
 - Occupational safety
 - Fire and life safety
 - Chemical and biological safety
 - Radiation safety
 - Environmental management
 - Emergency management
- Peer reviews
- Defines the U. T. Systemwide Environmental Health and Safety Advisory Committee



Systemwide Contracts

- Hazardous waste disposal
- Low-level radioactive waste disposal
- Medical and biological waste disposal
- Disaster recovery
- Disaster restoration
- Emergency response
- Environmental services



Systemwide Training

- Code Compliance - NFPA 101 and 1
- Resource Conservation Recovery Act Hazardous Waste Management
- Hazardous Materials Transportation
- Cause Mapping Incident Investigation
- FY 2015 included 24 classes with over 400 attendees



Systemwide Committees

- Environmental Health and Safety Advisory Committee
- Emergency Management Committee
- Institution led
- Representatives from all 14 U. T. System institutions, Office of Risk Management, Office of General Counsel, and Office of Facilities Planning and Construction



Emerging issues for 2017

- Continuously evolving/increasing regulatory oversight
 - New federal rules for hazardous and pharmaceutical waste
 - Department of State Health Services Proposed Rule - Definition, Treatment, and Disposition of Special Waste From Health Care Related Facilities
 - Continued implementation of NFPA 1 (State Fire Marshal)
 - and many more...
- Safety's involvement with mitigating insider threat security risks
- Environmental health and safety support of rapidly expanding clinical services across U. T. System
- Keeping pace with emerging technologies

