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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 5/11/2016

Board Meeting: 5/12/2016
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
Convene	9:30 a.m. <i>Chairman Hildebrand</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	Discussion	Action	29
2. U. T. System: Approval of services to be performed by Deloitte & Touche LLP for Cancer Prevention and Research Institute of Texas (CPRIT) grant audits and approval of a consulting project (Project Integrating Physicians and Community with Dell Medical School) by Deloitte Consulting LLP for U. T. Austin	9:31 a.m. Action <i>Mr. Peppers</i>	Not on Agenda	30
3. U. T. System: Report on the Systemwide internal audit activities and audit administrative items, including Priority Findings, Annual Audit Plan status, and Chief Audit Executive Annual Statements; and consideration and approval of Institutional Audit Committee chair changes	9:35 a.m. Action <i>Mr. Peppers</i>	Not on Agenda	31
4. U. T. System: Report on the Proportionality of Higher Education Benefits Audits	9:42 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	36
5. U. T. System: Report on the State Auditor’s Office Statewide Single Audit for FY 2015	9:50 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	37
6. U. T. System: Report on the Systemwide Data Analytics Initiative for internal audit	9:58 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	40
7. U. T. System: Report on U. T. System Information Security Strategic Plan	10:13 a.m. Report/Discussion <i>Mr. Mattison</i>	Not on Agenda	55
Adjourn	10:30 a.m.		

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. The Consent Agenda begins on [Page 251](#).

2. U. T. System: Approval of services to be performed by Deloitte & Touche LLP for Cancer Prevention and Research Institute of Texas (CPRIT) grant audits and approval of a consulting project (Project Integrating Physicians and Community with Dell Medical School) by Deloitte Consulting LLP for U. T. Austin

RECOMMENDATION

It is recommended that approval be given by the Audit, Compliance, and Management Review Committee (ACMRC) for Deloitte subsidiaries, one of which is U. T. System's external audit firm, to perform the following non-audit services:

- a. Cancer Prevention and Research Institute of Texas (CPRIT) grant audits (to be performed by Deloitte & Touche LLP).
- b. Consulting (Project Integrating Physicians and Community with Dell Medical School) for U. T. Austin (to be performed by Deloitte Consulting LLP).

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 28, 2016.

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 both non-audit service projects prior to the meeting. The Texas State Auditor has approved the use of an external auditor, as required under *Texas Government Code* Section 321.020, for the CPRIT grant audit work.

Deloitte previously performed audits in 2014 and 2015 at the U. T. System institutions that received CPRIT grant audits. The source of funding for the audit of CPRIT grant awards will be from CPRIT grant money, an allowable direct expense. The grant audits are within the Rule 20402 definition of non-audit services.

The Consent Agenda for this meeting includes an item seeking Board approval for a proposed consulting services contract in excess of \$1.0 million between U. T. Austin and Deloitte Consulting LLP (Consent Agenda Item 6). The contract, which will support other anticipated consulting projects for the Dell Medical School, 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 above is for the first phase of work under the proposed contract and has an estimated cost of \$316,000. Any additional phases of work under the contract will also be processed for review and approval as required.

3. **U. T. System: Report on the Systemwide internal audit activities and audit administrative items, including Priority Findings, Annual Audit Plan status, and Chief Audit Executive Annual Statements; and consideration and approval of Institutional Audit Committee chair changes**

RECOMMENDATION

Chief Audit Executive Peppers will report on

- a. the status of Systemwide Priority Findings (see the PowerPoint on [Pages 33 - 35](#));
- b. the Fiscal Year 2015 Annual Audit Plan status as of February 29, 2016; and
- c. the Chief Audit Executive Annual Statements.

Chief Audit Executive Peppers, on behalf of the Presidents at U. T. San Antonio, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Houston, recommends for consideration and approval by the ACMRC the appointment of the following individuals to serve as Chairs of the Institutional Audit Committees:

- Mr. Franklin W. Burk, retired senior partner of Carneiro, Chumney, and Co. at U. T. San Antonio
- Mr. Thomas H. Grace, partner of Vorys, Sater, Seymore, and Pease, LLP at U. T. Medical Branch - Galveston; and
- Mr. Robert E. George, retired partner of PricewaterhouseCoopers, LLC at U. T. Health Science Center - Houston.

The nominations have been reviewed by the ACMRC Chairman, the Chancellor, and the U. T. System Chief Audit Executive.

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).

The Chief Audit Executive Annual Statement process is a way to routinely and consistently obtain assurance that the chief audit executives are receiving adequate support to conduct the necessary audit services and that there are institutional internal audit departmental processes for certifying compliance with the Institute of Internal Auditors' International Professional

Practices Framework and internal auditor independence and objectivity. Each of the chief audit executives responded positively to the statement, noting no exceptions or requests to attend an ACMRC executive session meeting.

At the May 14, 2014 meeting, the ACMRC reviewed and approved nominations from all the institutional presidents for external member chairs of their institutional audit committees. Any subsequent changes in the external member chairs will be presented to the ACMRC annually for review and approval.

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
May 2016



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Priority Findings Status as of February 29, 2016

INSTITUTION	General				Academic	TOTAL	Risk Factors							
	FINANCE	INFORMATION TECHNOLOGY	RESEARCH	ACADEMIC SUPPORT	TOTAL	PAST DUE	REPUTATION	INFORMATION SECURITY	COMPLIANCE	ACCOMPLISHMENT OF OBJECTIVES	LIFE SAFETY	OPERATIONAL OVERSIGHT	MANAGEMENT OVERSIGHT	
U. T. Arlington	1	2	0	0	3	0	X	X	X				X	
U. T. Austin	0	4	1	0	5	0		X	X		X			
U. T. Dallas	0	1	0	0	1	0		X						
U. T. El Paso	0	1	1	0	2	0		X	X					
U. T. Permian Basin	0	0	0	0	0	0								
U. T. Rio Grande Valley	0	0	0	0	0	0								
U. T. San Antonio	0	0	0	0	0	0								
U. T. Tyler	0	0	0	0	0	0								
U. T. Southwestern Medical Center	0	0	0	0	0	0								
U. T. Medical Branch - Galveston	0	0	0	0	0	0								
U. T. Health Science Center - Houston	0	0	0	0	0	0								
U. T. Health Science Center - San Antonio	0	0	0	0	0	0								
U. T. M. D. Anderson Cancer Center	0	6	1	0	7	0		X	X					
U. T. Health Science Center - Tyler	0	0	0	0	0	0								
U. T. System Administration	0	0	0	1	1	0	X		X	X		X		
TOTALS	1	14	3	1	19	0								



Changes Since Last Report

	<u>Reported Feb 2016</u>	<u>Implemented</u>	<u>New</u>	<u>Reported May 2016</u>
IT related Priority Findings	14	(0)	0	14
Non-IT related Priority Findings	<u>7</u>	<u>(2)</u>	<u>0</u>	<u>5</u>
Total Priority Findings	21	(2)	0	19
Past due Priority Findings	0			0



4. U. T. System: Report on the Proportionality of Higher Education Benefits Audits

REPORT

Chief Audit Executive Peppers will report on the status of the Proportionality of Higher Education Benefits Audits that were conducted across U. T. System.

BACKGROUND INFORMATION

The 84th Legislature's General Appropriations Act, Rider 8, Page III-39, requires each higher education institution, excluding public community/junior colleges, to conduct an internal audit of benefits proportional by fund for appropriation years (AY) 2012 through 2014 using a methodology approved by the State Auditor's Office (SAO).

During Fiscal Year 2016, Proportionality of Higher Education Benefits audits were performed by U. T. System Administration's and each institution's respective internal audit department. The procedures conducted were consistent with the audit methodology prescribed by the SAO. The objective of these audits was to ensure that proportional benefits by fund were accurately calculated and applied according to the established statutory guidelines. The scope of the audits included benefits funding proportionality reporting for AY 2012 and AY 2014 as AY 2013 was audited during Fiscal Year 2015 at the request of the Governor. The internal audits done at U. T. Austin and U. T. M. D. Anderson Cancer Center only included AY 2012, and the SAO conducted the audits for AY 2014.

5. **U. T. System: Report on the State Auditor's Office Statewide Single Audit for FY 2015**

REPORT

Chief Audit Executive Peppers will report on the State Auditor's Office State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2015. A summary of the audit reports is set forth on the following pages.

BACKGROUND INFORMATION

The Texas State Auditor's Office performs the Statewide Single Audit annually in accordance with OMB Circular A-133. The Statewide Single Audit includes a federal portion, which is an audit of compliance and controls over the State's federal awards, and a financial portion, which includes an audit of the basic financial statements for the State of Texas. Reports are submitted to the federal government to fulfill Single Audit reporting requirements.

The University of Texas System
State Auditor's Office FY 2015 Statewide Single Audit
Summary of Results

State of Texas Compliance with Federal Requirements for Federal Programs

As a condition of receiving federal funding, the U.S. Office of Management and Budget Circular A-133 requires non-federal entities that expend at least \$500,000 in federal awards in a fiscal year to obtain annual Single Audits. To supplement the audit procedures performed by KPMG for the annual Single Audit of federal expenditures for the State of Texas for Fiscal Year (FY) 2015, the State Auditor's Office (SAO) audited student financial aid at U. T. Arlington, U. T. Austin, U. T. El Paso, U. T. San Antonio, U. T. Health Science Center - San Antonio, and U. T. Medical Branch - Galveston and audited research and development programs at U. T. Austin, U. T. Dallas, U. T. Southwestern Medical Center, and U. T. Health Science Center at Houston. The SAO performs this audit every year, and institutions are chosen on a rotational basis with the size of their programs factored into the selection process. Procedures included assessing compliance with regulatory requirements and internal controls over federal funds. The SAO classifies findings identified in their samples as a significant deficiency/non-compliance or material weakness/material non-compliance, the latter of which indicates a more serious reportable issue.

Compliance with Federal Requirements for the Student Financial Assistance Cluster of Federal Programs for the Fiscal Year Ended August 31, 2015¹ (February 23, 2016)

The Student Financial Assistance (SFA) Cluster audits test compliance with federal requirements in up to 12 areas, such as eligibility and reporting. Overall, the State of Texas complied in all material respects with the federal requirements for the SFA Cluster of federal programs in FY 2015. The audit resulted in a total of 11 findings/recommendations at five U. T. System institutions for a total questioned cost of \$8,991 as outlined below:

- U. T. Arlington (questioned cost: \$0)
- U. T. Austin (questioned cost: \$0)
- U. T. El Paso (questioned cost: \$0)
- U. T. San Antonio (questioned cost: \$0)
- U. T. Medical Branch - Galveston (questioned cost: \$8,991)

At the remaining institution audited, U. T. Health Science Center - San Antonio, auditors did not identify any findings related to the SFA Cluster. All of the findings are categorized as significant deficiencies and non-compliance (none as material weaknesses). Institutional management has taken action to correct errors, as needed, and responded appropriately to the recommendations with several institutions having taken steps towards implementation.

Additionally, corrective actions were taken for several findings from the SAO's previous SFA Cluster audits, and management provided updated corrective action plans for the remaining open recommendations. Some recommendations were reissued as new findings in the FY 2015 audit report.

Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2015² (February 23, 2016)

The Research and Development (R&D) Cluster audits test compliance with federal requirements in up to 12 areas, such as allowable costs, procurement, reporting, and monitoring of non-state entities to which the State passes federal funds. Overall, the State of Texas complied in all material

¹ <http://www.sao.texas.gov/reports/main/16-016.pdf>

² <http://www.sao.texas.gov/reports/main/16-017.pdf>

**The University of Texas System
State Auditor's Office FY 2015 Statewide Single Audit
Summary of Results**

respects with the federal requirements for the R&D Cluster of federal programs in FY 2015. The audit resulted in a total of 17 findings/recommendations (questioned cost: \$45,558.31) at four U. T. System institutions as outlined below:

- U. T. Austin (questioned cost: \$0)
- U. T. Dallas (questioned cost: \$45,230)
- U. T. Southwestern Medical Center (questioned cost: \$0)
- U. T. Health Science Center - Houston (questioned cost: \$328)

All the findings are categorized as significant deficiency and non-compliance (none as material weaknesses). Institutional management has taken action to correct errors, as needed, and responded appropriately to the recommendations with several institutions having taken steps towards implementation.

Additionally, corrective actions were taken for several findings from the SAO's previous R&D Cluster audits, and management provided updated corrective action plans for the remaining open recommendations. Some recommendations were reissued as new findings in the FY 2015 audit report.

**State of Texas Financial Portion of the Statewide Single Audit
Report for the Year Ended August 31, 2015³ (March 14, 2016)**

The SAO did not conduct audit procedures on the U. T. System institutions' financial statements as part of the audit of the State of Texas *Comprehensive Annual Financial Report* for the Fiscal Year Ended August 31, 2015, as they relied on the external audit of the U. T. System FY 2015 financial statements, which was performed by Deloitte. However, as part of the State of Texas financial portion of the statewide Single Audit report, the SAO made recommendations related to strengthening processes to ensure the completeness, accuracy, and review of the FY 2015 Schedules of Expenditures of Federal Awards (SEFAs) to U. T. Arlington, U. T. Austin, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. San Antonio, U. T. Health Science Center - Houston, U. T. Health Science Center - San Antonio, and U. T. M. D. Anderson Cancer Center.

Additionally, while corrective actions were taken for several findings from the SAO's previous financial portion of the Statewide Single Audit, several recommendations were reissued as new findings in the FY 2015 audit report related to the SEFAs.

³ <http://www.sao.state.tx.us/reports/main/16-555.pdf>

Prepared by: System Audit Office

Date: April 2016

6. U. T. System: Report on the Systemwide Data Analytics Initiative for internal audit

REPORT

Chief Audit Executive Peppers will report on the progress of the U. T. Systemwide Data Analytics Initiative for internal audit. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

In Fiscal Year 2014, the System Audit Office established a Specialty Audit Services section to support institutional internal audit offices in the specialized audit practice areas of investigations, information technology audits, and data analytics. For the Data Analytics Initiative, a three-year strategic plan was created to guide development of the program.

U. T. Systemwide Data Analytics Initiative for Internal Audit

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

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2016



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Data Analytics Benefits for Internal Audit

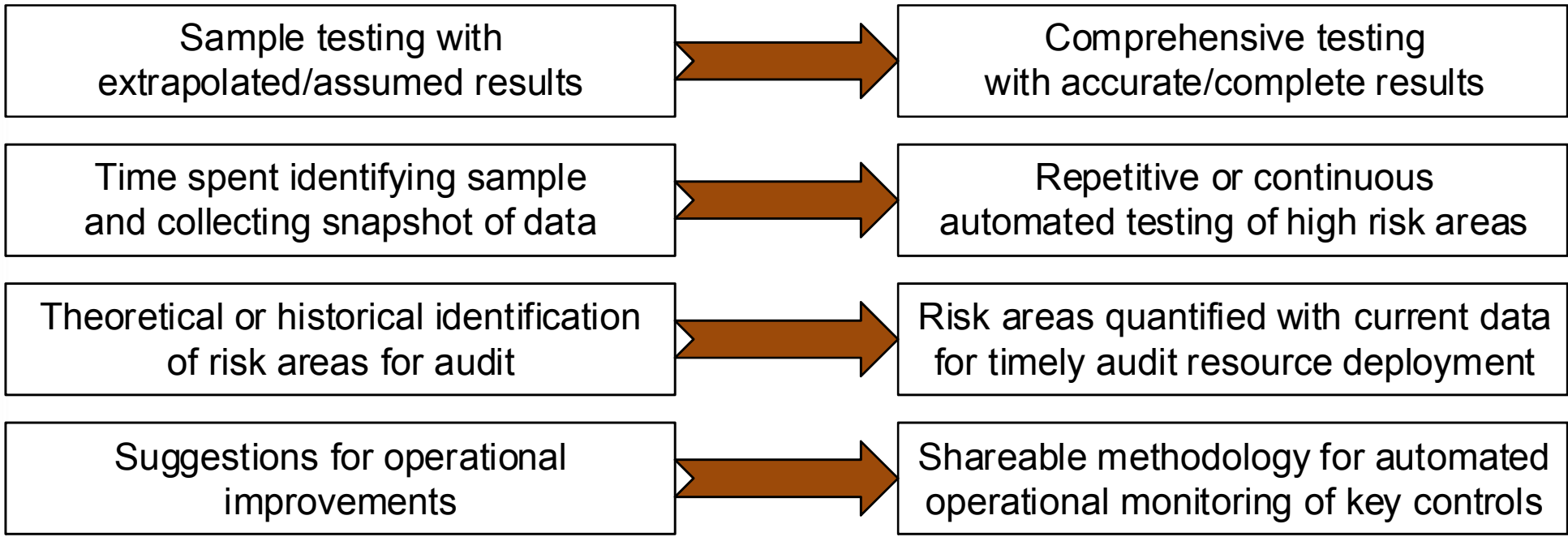
- Data Analytics is the process of leveraging technology to obtain, combine, validate, and analyze data. Data Analytics increases the ability to:
 - Identify potential errors
 - Quantify and highlight risks or opportunities for improvements
 - Reach conclusions
 - Support decision making
- Use of Data Analytics allows internal audit to perform comprehensive testing, identify trends and anomalies, and gain more accurate and useful risk insight



Data Analytics Benefits for Internal Audit (cont.)

Traditional Audit Approach

Audit with Data Analytics



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Data Analytics Benefits for Internal Audit (cont.)

- Cost effective method to collect audit evidence
- Quantitative, data-driven approach to reach historical or predictive conclusions and identify risk
- Repeatable, sustainable, and shareable audit approach
- Eliminates random or judgmental sampling, offering improved fraud detection and better proof to support audit conclusions
- Enables trend, regression, and predictive analyses not possible with traditional sampling approach
- Enhances visualization of results



Data Analytics Program Objective

- Design and execute technology-based data mining, analysis, and continuous auditing activities in support of audit engagements throughout the U. T. System using a variety of software tools across different applications, databases, and platforms
 - Analytics specialist hired, current-state assessment performed, and strategic plan developed in Spring 2014

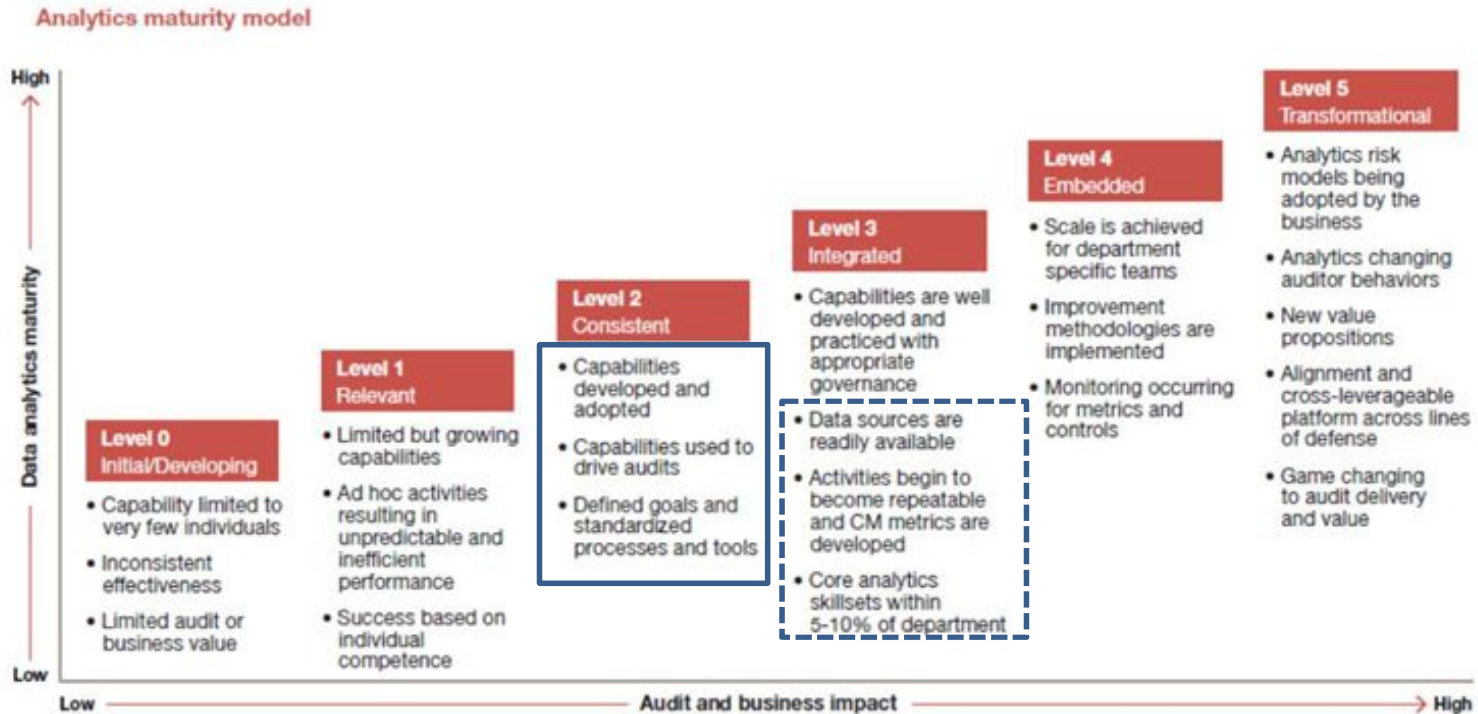


Data Analytics Program Goals

- Lead the development of a Systemwide data analytics program, including the design and implementation of tools and techniques
- Advise and consult with institutional internal audit teams
- Develop training programs
- Provide on-demand data analytics specialist to institutional internal audit teams
- Encourage/enable collaboration and sharing among institutions
- Establish cooperative relationships with external organizations



Progress Toward Goals



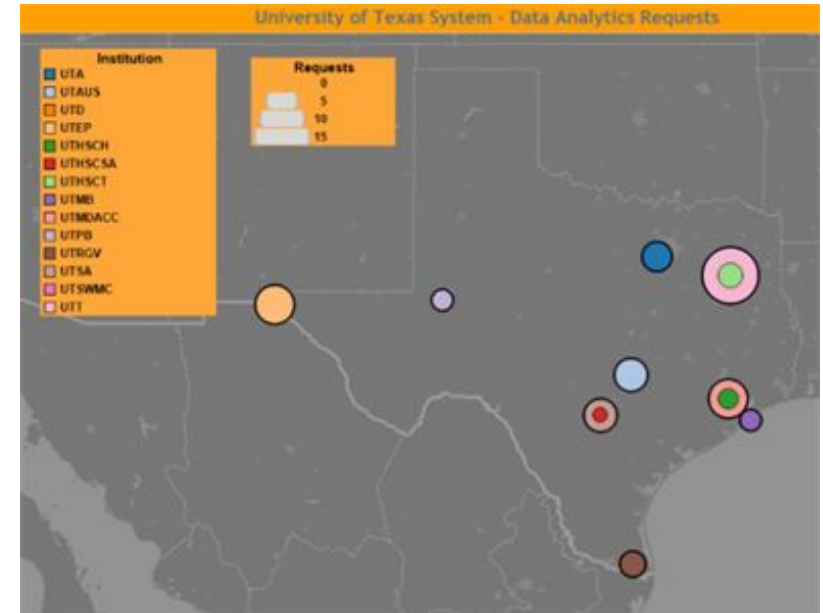
Source: PricewaterhouseCoopers, *The Internal Audit Analytics Conundrum – Finding Your Path Through Data*

CM – Continuous Monitoring



Progress Toward Goals (cont.)

- Sharp increase in on-demand requests from internal audit teams
- Training curriculum
 - Two-day beginner training in progress
 - Lunch and Learn webcasts
 - Tool-specific webcasts



Progress Toward Goals (cont.)

- Multi-institution analytics tools deployed for use by internal audit
 - Completed: Procurement card, department financial profile, travel and entertainment expenses, National Collegiate Athletic Association revenue and expense mapping
 - Under development: student financial aid, oil and gas revenue
 - Next: revenue capture, accounts payable, segregation of duties
 - Ongoing: visualization and dashboarding for existing tools
- Central hosting of analytics software, and ongoing evaluation of additional tools
- Higher Education Analytics Forum participation

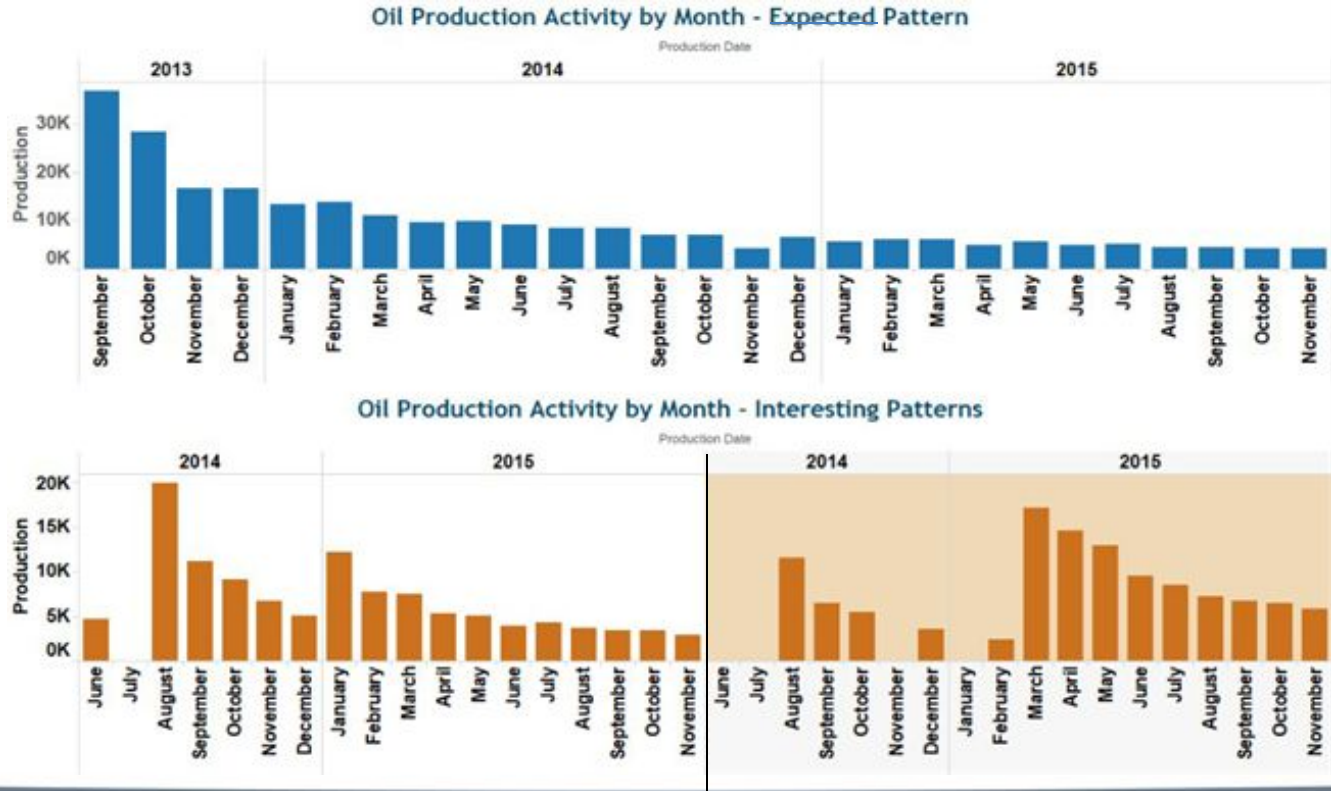


Data Analytics Program Challenges

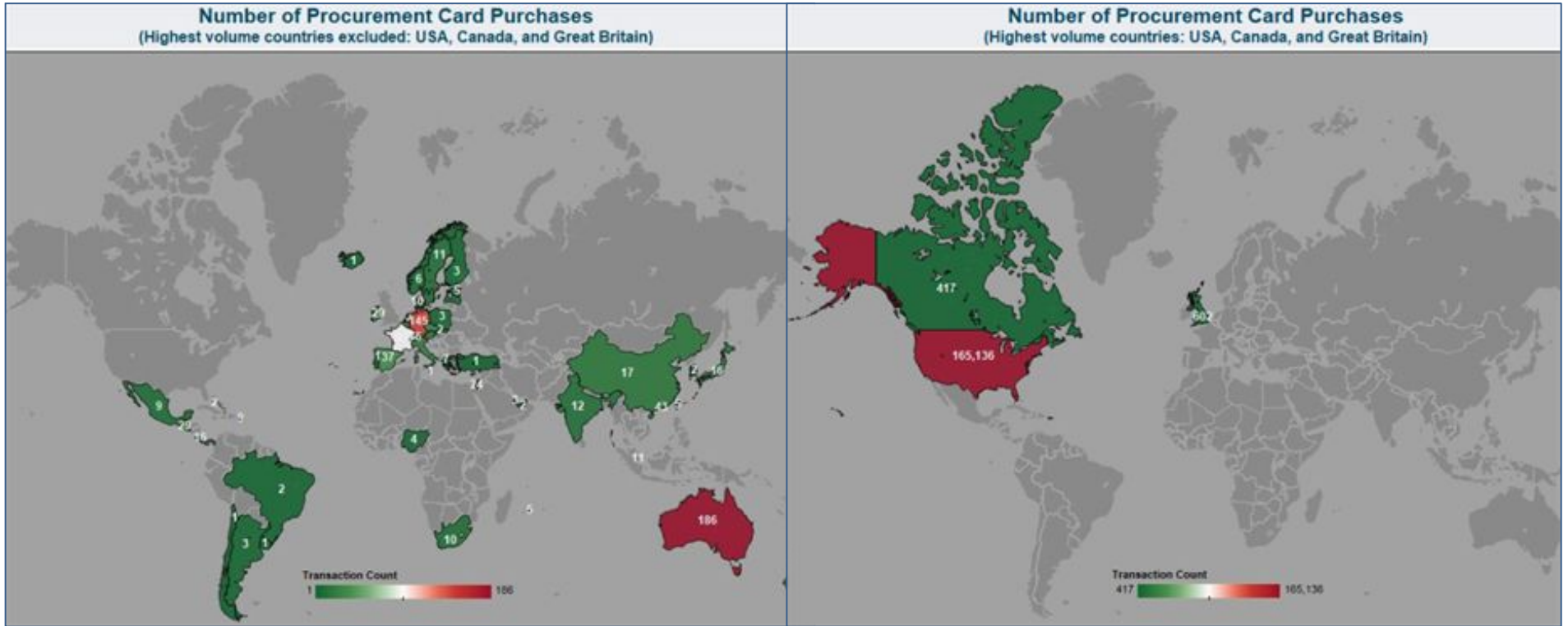
- Limited resources with rapidly increasing requests for campus-level assistance
- Use of different systems among institutions
- Complex data and the need for customized extraction tools
- Direct data access across U. T. System networks and systems
- Ongoing training needs for internal audit teams
- Management buy-in for operational use of audit-driven analytics



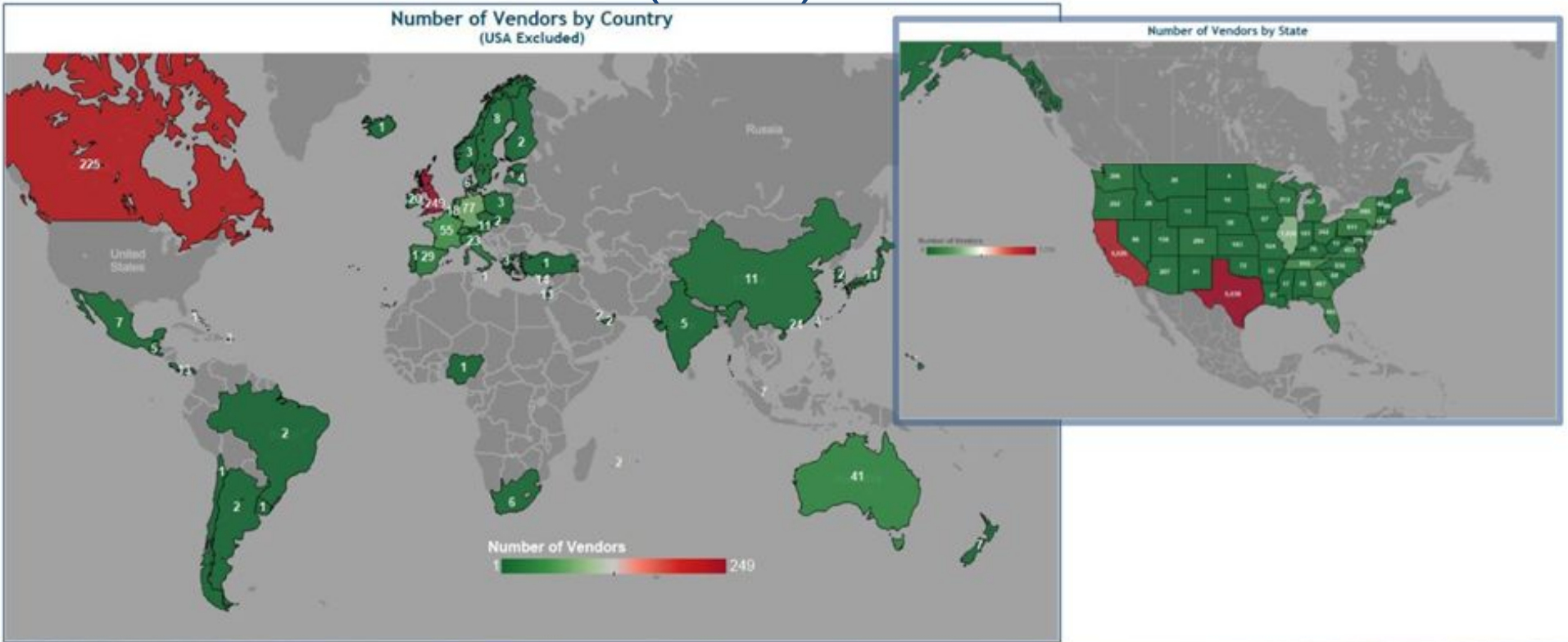
Visual Audit Results



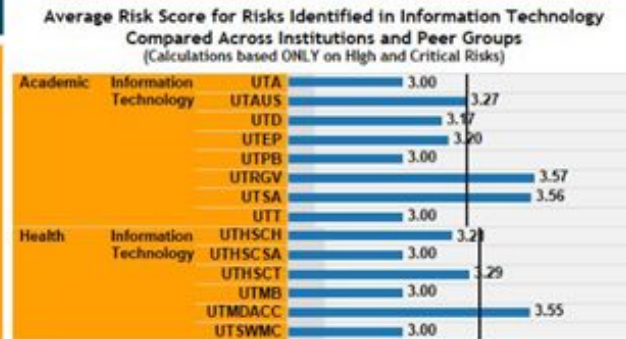
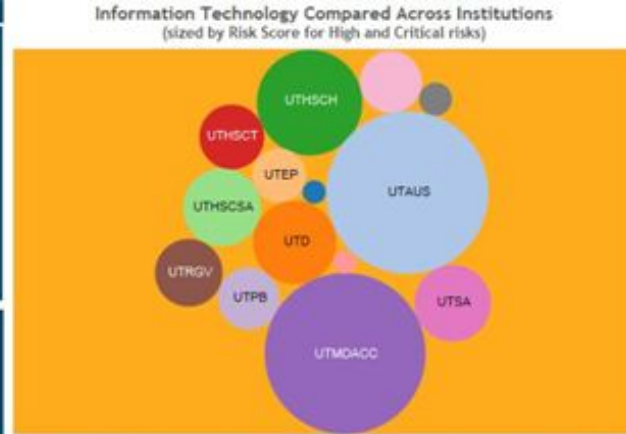
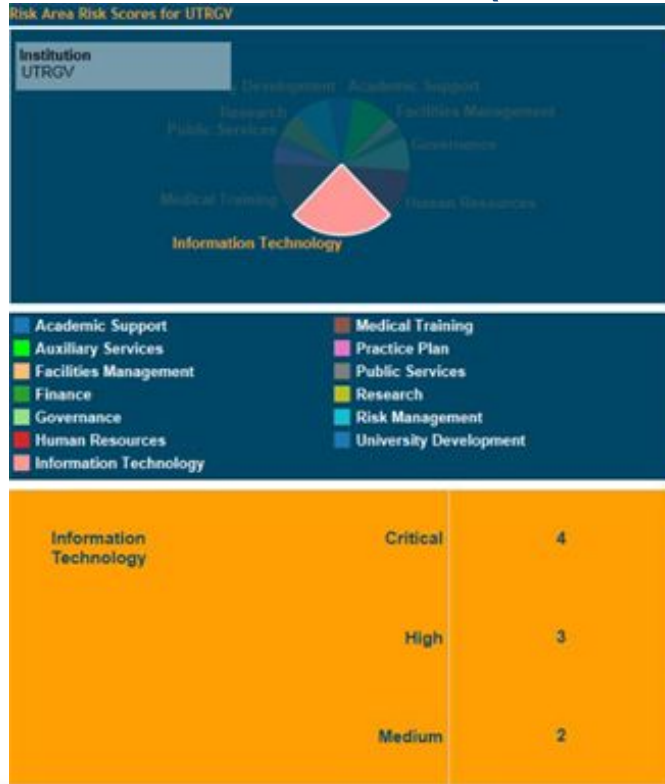
Visual Audit Results (cont.)



Visual Audit Results (cont.)



Visual Audit Results (cont.)



7. U. T. System: Report on U. T. System Information Security Strategic Plan

REPORT

Chief Information Security Officer Mattison will reaffirm the vision and mission of the Office of Information Security and discuss the U. T. System Information Security five-year strategic plan, including its four objectives and 10 major initiatives. A PowerPoint presentation is set forth on the following pages.

U. T. System Information Security 5-Year Strategic Plan

Mr. Edward Mattison, U. T. System Chief Information Security Officer

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2016



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Agenda

- Information Security Strategic Plan Overview
- U. T. System Information Security Vision revisited
- Systemwide Information Security Office Mission
- Systemwide Information Security Objectives
- National Institute of Standards and Technology (NIST) Cybersecurity Framework
- U. T. System Information Security Maturity Model
- U. T. System Information Security Initiatives



Chief Information Security Officer (CISO) Vision

The U. T. System Office of Information Security exists to accomplish the following three tasks. All CISO actions should support one of these tasks:

- **Enable** the business of U. T. System
- **Protect** the business of U. T. System
- **Promote** a positive information security culture



Systemwide Information Security Office Mission

- Implement a Systemwide information security program
- To provide guidance and support to the eight academic and six health institutions
- To maintain a high level of availability, integrity, and confidentiality in critical information systems



U. T. Systemwide Information Security Objectives

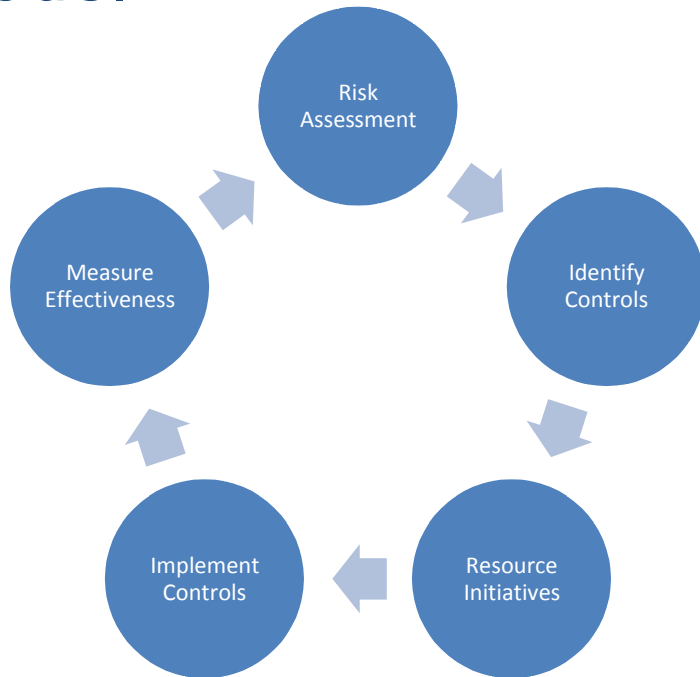
1. To improve Information Security (IS) situational awareness across U. T. System
2. To improve protection technologies and response procedures across U. T. System
3. To provide collaboration systems, consulting services, and security-as-a-service offerings in a cost-effective manner
4. To improve information security through the education and training of the IT and IS workforce



NIST Cybersecurity Framework



U. T. System Information Security Implementation Model



- Continuous process required
- Many overly focus on protection
- All stages equally important
- Likelihood of incidents is 100%
- Key is to “fail gracefully”
- Increase focus on response
- Exercises / practice is required
- Collaboration is critical



U. T. System Information Security Maturity Model Approach



Information Security Initiatives (next 12 to 36 months)

- Initiative 1: Two-Factor Authentication (Completed)
- Initiative 2: Splunk-as-a-Service (Ongoing)
- Initiative 3: University of Texas Cybersecurity Dashboard (Upcoming)
- Initiative 4: External / Internal Vulnerability-Scanning Service (Ongoing)
- Initiative 5: Third-Party Vendor Risk Management (Ongoing)



Information Security Initiatives (continued)

- Initiative 6: Risk Assessment and Risk Management Solution (Ongoing)
- Initiative 7: IT and Security Learning Management Portal (Completed)
- Initiative 8: Mobile Device Management Approach (Upcoming)
- Initiative 9: Unstructured Data Classification Project (Ongoing)
- Initiative 10: Enterprise Incident Management (Upcoming)

