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FOR
AUDIT, COMPLIANCE, AND RISK MANAGEMENT
COMMITTEE**

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Board Meeting: 5/9/2024
Austin, Texas

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

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Convene	<i>1:00 p.m. Chairman Perez</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	Discussion	Action	26
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Adjourn	<i>1:30 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 Board will be asked to approve the Consent Agenda beginning on [Page 150](#).

2. U. T. System: Authorization to settle property insurance claims for Winter Storm Uri and delegation of authority

RECOMMENDATION

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

- a. approve, in accordance with Regents' Rule 80601, final settlement of the property insurance claims for Winter Storm Uri covered under the Comprehensive Property Protection Plan (CPPP) in the amount of \$79,715,083;
- b. delegate authority to the Executive Vice Chancellor for Business Affairs to execute all related Proofs of Loss and other settlement documents.

BACKGROUND INFORMATION

The Comprehensive Property Protection Plan (CPPP) provides coverage to U. T. institutions for fire and other perils through a combination of commercial insurance and interim financing. The CPPP commercial insurance coverage is subject to a large deductible that varies by type of loss and loss location. The deductible is funded with a combination of interim financing provided by the CPPP Fund and smaller, institution-funded deductibles.

In February 2021, Winder Storm Uri caused widespread property damage at all U. T. institutions. In addition, all health institutions experienced business interruption losses due to utility and water service disruptions resulting from the storm.

The insurance claim for Winter Storm Uri has been adjusted and measured with the assistance of various third parties and all impacted institutions to a total adjusted loss amount of \$79,715,083. The applicable deductible for the Winter Storm Uri claim is \$5,000,000, resulting in a CPPP commercial insurance settlement amount of \$74,715,083.

The CPPP Fund participated in a 7% quota share of a large layer of the commercial insurance. As a result, the CPPP Fund will pay \$3,496,741 of the \$74,715,083 settlement amount to institutions. In addition, the CPPP Fund will pay \$1,711,495 to institutions to fund a portion of property losses within the CPPP's deductible layer. These payments from the CPPP Fund are all considered interim financing, and institutions will repay these to the CPPP Fund in annual installments over five years. Any funds received from pending FEMA claims will offset the repayments.

Winter Storm Uri Insurance Claim

Phillip Dendy, Chief Compliance and Risk Officer

U. T. System Board of Regents Meeting
May 2024



Winter Storm Uri 2021

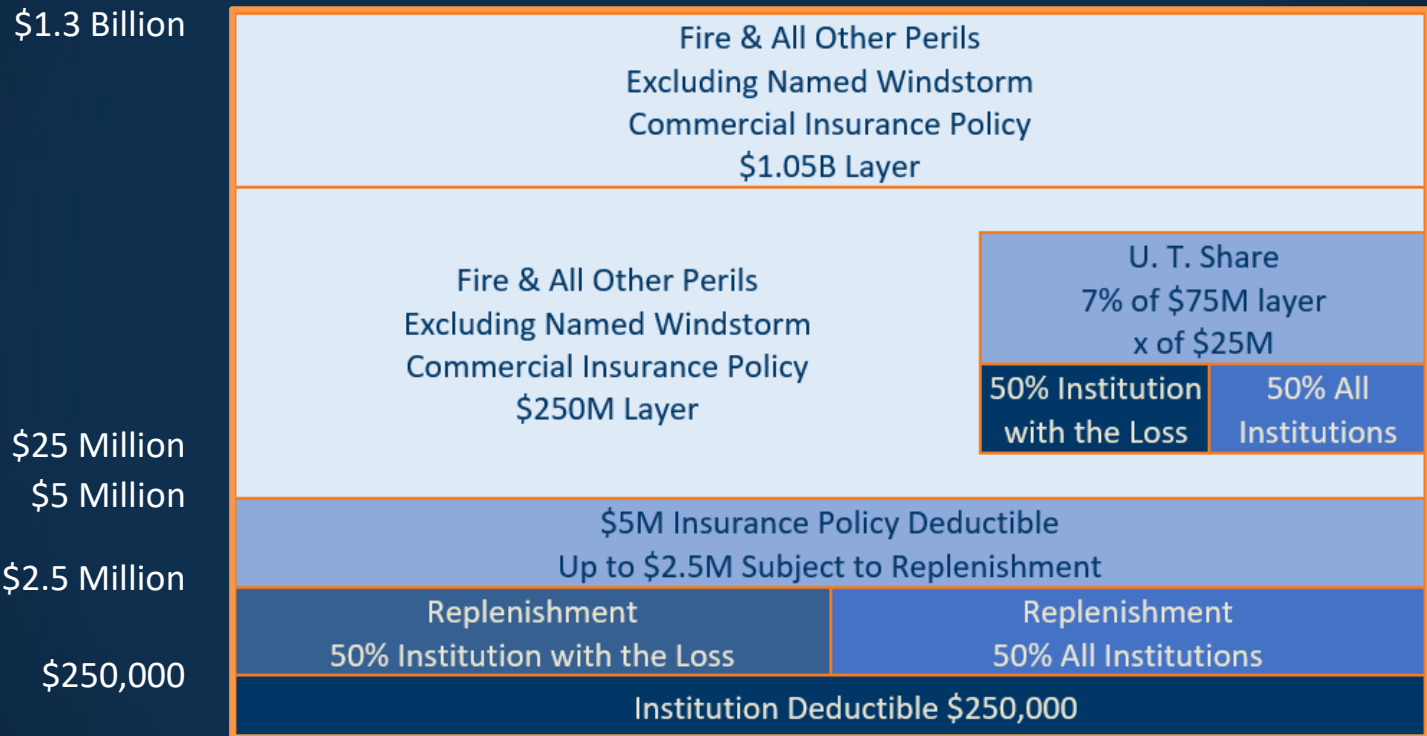
- Extremely low temperatures moved across Texas beginning Sunday, February 14. Campuses made preparations to be closed Monday, February 15, with the exception of some healthcare locations.
- Sustained freezing temperatures caused damage to campus infrastructure throughout the state including broken domestic water lines, sprinkler lines, and broken HVAC coils causing extensive water damage at many campuses.
- Local utilities, particularly water distribution, were severely impacted by the extreme temperatures.
- Temperatures were above freezing by Wednesday, February 17, but utility outages continued to impact campuses, particularly the health institutions with several cities under a boil water notice.
- Campuses were open by Monday, February 22, with several locations working throughout the weekend to ensure drinking water on campus was safe.



How The Loss Was Measured

- Business Income losses and related expenses were compiled and submitted with assistance from a U. T. contracted forensic accountant, KPMG, and using a methodology mutually agreed upon between the institutions and the accountant.
- The Office of Risk Management (ORM), working with adjusters and campus stakeholders, facilitated damage assessments to develop the scope of physical damage.
- Documentation for repairs, including receipts, contracts, purchase orders, and documentation of internal labor was submitted to and compiled by KPMG.
- Working with the adjuster, all completed work was reviewed against the agreed scope of damages with campus stakeholders.

Comprehensive Property Protection Program (CPPP) Fire and All Other Perils in February 2021



The University of
Texas System

Total Adjusted Loss by Institution

Institution	Property Damage	Business Interruption	Total Adjusted Loss
U. T. Arlington	\$ 2,990,595.75	\$ -	\$ 2,990,595.75
U. T. Austin	\$ 10,322,264.41	\$ -	\$ 10,322,264.41
U. T. Dallas	\$ 2,331,825.78	\$ -	\$ 2,331,825.78
U. T. El Paso	\$ 360,911.36	\$ -	\$ 360,911.36
U. T. Permian Basin	\$ -	\$ -	\$ -
U. T. Rio Grande Valley	\$ 306,394.60	\$ 47,580.08	\$ 353,974.68
U. T. San Antonio	\$ 1,461,487.12	\$ -	\$ 1,461,487.12
U. T. Tyler	\$ 279,516.65	\$ -	\$ 279,516.65
U. T. Southwestern Medical Center	\$ 8,366,955.39	\$ 1,680,567.68	\$ 10,047,523.07
U. T. Medical Branch - Galveston	\$ 2,240,632.22	\$ 7,383,818.48	\$ 9,624,450.70
U. T. Health Science Center - Houston	\$ 806,927.46	\$ 1,077,400.28	\$ 1,884,327.74
U. T. Health Science Center - San Antonio	\$ 676,364.59	\$ 2,355,068.31	\$ 3,031,432.90
U. T. M. D. Anderson Cancer Center	\$ 2,429,205.70	\$ 31,112,273.27	\$ 33,541,478.97
U. T. Health Science Center - Tyler	\$ 768,376.62	\$ 888,252.43	\$ 1,656,629.05
U. T. System Administration	\$ 38,505.40	\$ -	\$ 38,505.40
Claims Preparation Fees	\$ 1,790,159.47	\$ -	\$ 1,790,159.47
Total	\$ 35,170,122.52	\$ 44,544,960.53	\$ 79,715,083.05



Total Insurance Recoveries by Institution

Institution	Total Adjusted Loss	CPPP Insurance Recoveries*	Institution-Funded Deductible	CPPP Fund (Balance of \$5m Deductible)
U. T. Arlington	\$ 2,990,595.75	\$ 2,679,222.93	\$ 250,000.00	\$ 61,372.82
U. T. Austin	\$ 10,322,264.41	\$ 9,846,706.41	\$ 250,000.00	\$ 225,558.00
U. T. Dallas	\$ 2,331,825.78	\$ 2,035,205.43	\$ 250,000.00	\$ 46,620.35
U. T. El Paso	\$ 360,911.36	\$ 108,427.61	\$ 250,000.00	\$ 2,483.75
U. T. Permian Basin	\$ -	\$ -	\$ -	\$ -
U. T. Rio Grande Valley	\$ 353,974.68	\$ 101,646.27	\$ 250,000.00	\$ 2,328.41
U. T. San Antonio	\$ 1,461,487.12	\$ 1,184,357.11	\$ 250,000.00	\$ 27,130.01
U. T. Tyler	\$ 279,516.65	\$ 28,855.65	\$ 250,000.00	\$ 661.00
U. T. Southwestern Medical Center	\$ 10,047,523.07	\$ 9,578,117.62	\$ 250,000.00	\$ 219,405.45
U. T. Medical Branch - Galveston	\$ 9,624,450.70	\$ 9,164,519.52	\$ 250,000.00	\$ 209,931.18
U. T. Health Science Center - Houston	\$ 1,884,327.74	\$ 1,597,728.65	\$ 250,000.00	\$ 36,599.09
U. T. Health Science Center - San Antonio	\$ 3,031,432.90	\$ 2,719,145.57	\$ 250,000.00	\$ 62,287.33
U. T. M. D. Anderson Cancer Center	\$ 33,541,478.97	\$ 32,545,950.54	\$ 250,000.00	\$ 745,528.43
U. T. Health Science Center - Tyler	\$ 1,656,629.05	\$ 1,375,129.04	\$ 250,000.00	\$ 31,500.01
U. T. System Administration	\$ 38,505.40	\$ -	\$ 38,505.40	\$ -
Claims Preparation Fees**	\$ 1,790,159.47	\$ 1,750,070.70	\$ -	\$ 40,088.77
Total	\$ 79,715,083.05	\$ 74,715,083.05	\$ 3,288,505.40	\$ 1,711,494.60



*Includes \$3.5m paid by CPPP Fund
 **\$250,000 deductible does not apply

3. **U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche LLP to provide financial auditing services for Fiscal Years 2024 and 2025**

RECOMMENDATION

Committee Chairman Perez recommends approval for Deloitte & Touche LLP (Deloitte) to provide independent auditing services for the Fiscal Year 2024 and Fiscal Year 2025 financial statement audits of the U. T. System, U. T. Austin, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, U. T. M. D. Anderson Cancer Center, and the funds managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO).

Approval is requested for U. T. System staff to negotiate and enter into an auditing services contract amendment with Deloitte to renew the contract for a two-year term pursuant to delegation of authority from the State Auditor's Office.

BACKGROUND INFORMATION

The contract with Deloitte, effective August 1, 2022, to provide audit services for Fiscal Years 2022 and 2023 is set to expire on July 31, 2024. It has an option to renew for two additional two year terms.

The source of funding for this contract is primarily Available University Funds, as approved for the prior contracts.

4. **U. T. System: Discussion and Appropriate Action regarding institutional Audit Committee chair changes; Report on Systemwide internal audit administrative items, including Required Communications and the new Global Internal Audit Standards, and the State Auditor's Office Statewide Single Audit Report for FY 2023**

RECOMMENDATION

Chief Audit Executive Peppers, on behalf of the Presidents at U. T. San Antonio and U. T. M. D. Anderson Cancer Center, recommends formal approval by the Audit, Compliance, and Risk Management Committee (ACRMC) of the appointment of the following individuals to serve as Chairs of the Institutional Audit Committees:

- Albert Fernandez, Payment and Fraud Services Manager at Credit Human Federal Credit Union, U. T. San Antonio; and
- Laura Sayavedra, Senior Vice President, Safety, Projects and Chief Administrative Officer at Enbridge, U. T. M. D. Anderson Cancer Center.

Details on the qualifications of the new Chair candidates were provided to the ACRMC members prior to the meeting.

REPORT

In January 2024, the International Internal Audit Standards Board released a new version of the professional standards under which internal auditing functions operate. The effective date for conformance is January 2025. During the implementation period, the System Audit Office will lead the institutions in a "current state" assessment to identify all new or revised requirements. Any work required to ensure conformance will be planned and prioritized. Mr. Peppers will inform the ACRMC of the new and revised guidance that is essential for effective governance, including independence of the chief audit executives, using the PowerPoint set forth on the following pages.

Additionally, he will:

- 1) provide a report on the State Auditor's Office (SAO) State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2023; and
- 2) provide an update on the Fiscal Year 2024 Annual Audit Plan status as of February 29, 2024.

Details on required communications, the SAO audit results, and Audit Plan status, including Priority Observations, were provided to the ACRMC members prior to the meeting.

BACKGROUND INFORMATION

The ACRMC annually reviews and approves nominations from the institutional presidents for external member chairs of their institutional audit committees. Delegated approval was provided by the ACRMC Chairman and the Chancellor for those candidates with terms beginning between May ACRMC meetings.

Required communications to the ACRMC include the discussion of internal auditing professional standards and confirmation of the organizational independence of the internal audit activity. Through their annual certification process, all institutional chief audit executives confirmed they are receiving adequate support to conduct the necessary audit services and there are institutional internal audit departmental processes to ensure compliance with professional standards.

The Texas State Auditor's Office performs the Statewide Single Audit annually. The 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. These reports are submitted to the federal government.

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).

New Global Internal Audit Standards

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

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



Institute of Internal Auditors

- What are the Standards?
 - Principles-focused framework for performing and promoting internal auditing
- Why have Standards?
- Why have an update?

The New Structure



Domain I. Purpose of Internal Auditing

Purpose Statement:

Internal auditing strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organization’s:

- successful achievement of its objectives.
- governance, risk management, and control processes.
- decision-making and oversight.
- reputation and credibility with its stakeholders.
- ability to serve the public interest.

Internal auditing is most effective when:

- it is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- the internal audit function is independently positioned with direct accountability to the board.
- internal auditors are free from undue influence and committed to making objective assessments.



Domain III: Governing the Internal Audit Function

Domain III standards include “essential conditions” for an effective internal audit function.

6. Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

6.1 Internal Audit Mandate

6.2 Internal Audit Charter

7. Positioned Independently

The board establishes and protects the internal audit function’s independence and qualifications.

7.1 Organizational Independence

7.2 Chief Audit Executive Qualifications

8. Overseen by the Board

The board oversees the internal audit function to ensure the function’s effectiveness.

8.1 Board Interaction

8.2 Resources

8.3 Quality

8.4 External Quality Assessment

What's Next?

- Further communication and education
- “Gap” assessments
- Implementation of any new processes
 - Governance
 - Strategic Plans
 - Resources