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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 8/21/2013

Board Meeting: 8/22/2013
Austin, Texas

*Brenda Pejovich, Chairman
Ernest Aliseda
Alex M. Cranberg
Paul L. Foster
Wallace L. Hall, Jr.*

	Committee Meeting	Board Meeting	Page
A. CONVENE <i>(Conference Room, Ashbel Smith Hall, 9th Floor)</i>	9:30 a.m. <i>Chairman Pejovich</i>		
B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551			
Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - <i>Texas Government Code Section 551.074</i>			
U. T. System: Discussion with the Chief Audit Executive concerning personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of individual System Administration and institutional officers or employees involved in internal audit functions	<i>Mr. Peppers</i>		
C. RECONVENE IN OPEN SESSION <i>(Board Room, Ashbel Smith Hall, 9th Floor)</i>			
1. U. T. System Board of Regents: Discussion and appropriate action regarding review of Consent Agenda items, if any, referred for Committee consideration	9:55 a.m. Action	Action	41
2. U. T. System: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2014	9:56 a.m. Action <i>Mr. Peppers</i>	Action	42
3. U. T. System: Report on the Systemwide internal audit activities	10:00 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	45
4. U. T. System Board of Regents: Discussion and appropriate action concerning amendments to the Regents' <i>Rules and Regulations</i>, Rule 20205, Section 8, regarding the performance, timing, and reporting of audits of Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences	10:10 a.m. Action <i>Mr. Peppers</i>	Action	46

	Committee Meeting	Board Meeting	Page
5. U. T. System Board of Regents: Discussion and appropriate action concerning amendments to the Regents' <i>Rules and Regulations</i>, Rule 20402, Sections 2 and 3, regarding approval of non-audit services provided by an external audit firm	10:15 a.m. Action <i>Mr. Peppers</i>	Action	48
6. U. T. System: Report and recommendations on review of U. T. System compliance with the Texas Public Information Act	10:20 a.m. Action <i>Chancellor Cigarroa</i>	Action	50
D. ADJOURN	10:30 a.m.		

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

The proposed Consent Agenda is located at the back of the book.

2. **U. T. System: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2014**

RECOMMENDATION

Chief Audit Executive Peppers recommends approval of the proposed Fiscal Year 2014 U. T. Systemwide Annual Audit Plan (Audit Plan). 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's executive summary is set forth on the following pages. The full Audit Plan was provided to all Regents 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. Additionally, the institutional audit plans were presented at the U. T. System Administration Internal Audit Committee meeting held on July 24, 2013. Also, the 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.

**The University of Texas System
Systemwide Internal Audit Program
Fiscal Year 2014 Annual Audit Plan
Executive Summary**

The University of Texas (U. T.) Systemwide fiscal year (FY) 2014 Annual Audit Plan (FY 2014 Audit Plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout the System in FY 2014.

To provide consistency at the Systemwide level, the U. T. System Audit Office provided the institutional audit departments with guidance in May 2013 on the audit plan format, content, and development methodology, including the general risk assessment process. The annual audit plans are prepared using a risk-based approach to ensure that areas and activities specific to each institution with the greatest risk are identified for consideration to be audited. Individual institutional annual audit plans were prepared in June and July 2013. The U. T. System Audit Office, the Office of Academic or Health Affairs, and the institution's management and internal audit committee provided input and guidance on the annual audit plans. Additionally, the U. T. System Chief Audit Executive provided direction to the institutional chief audit executives prior to the preparation of the annual audit plans and through feedback during "annual audit plan presentations" with each institution.

After the review process, each institutional internal audit committee formally approved its institution's annual audit plan. The FY 2014 Audit Plan, as summarized in the following table and charts, is formally presented to the Audit, Compliance, and Management Review Committee and the U. T. System Board of Regents for consideration for approval at the August 2013 meeting. The full FY 2014 Audit Plan was provided to all Regents prior to the meeting

The table below lists the FY 2014 Audit Plan total budgeted audit hours by institution. However, with potential changes in priorities and staffing resources that may occur during the fiscal year, institutions may request approval from their respective president and/or internal audit committee to change their budgeted hours or reallocate budgeted hours among audits and projects.

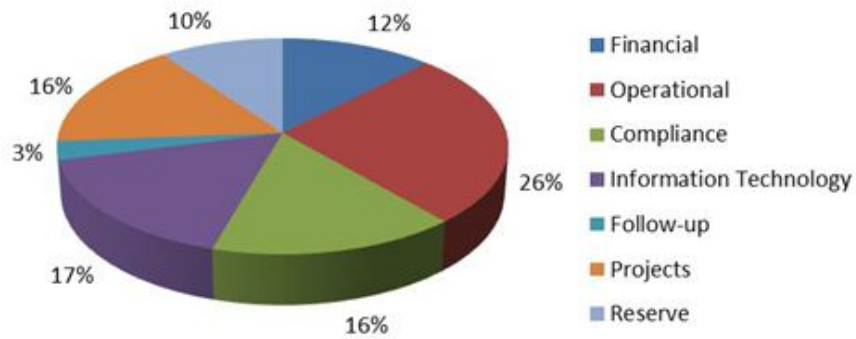
FY 2014 Total Budgeted Audit Plan Hours by Institution:

Institution	Budgeted Audit Hours
U. T. System Administration	17,617
U. T. Arlington	6,600
U. T. Austin	16,904
U. T. Brownsville	3,460
U. T. Dallas	11,768
U. T. El Paso	11,688
U. T. Pan American	6,111
U. T. Permian Basin	2,912
U. T. San Antonio	7,895
U. T. Tyler	4,500
U. T. Southwestern Medical Center	14,415
U. T. Medical Branch - Galveston	11,874
U. T. Health Science Center - Houston	10,490
U. T. Health Science Center - San Antonio	9,750
U. T. M. D. Anderson Cancer Center	15,552
U. T. Health Science Center - Tyler	3,002
Total Budgeted Audit Hours	154,538

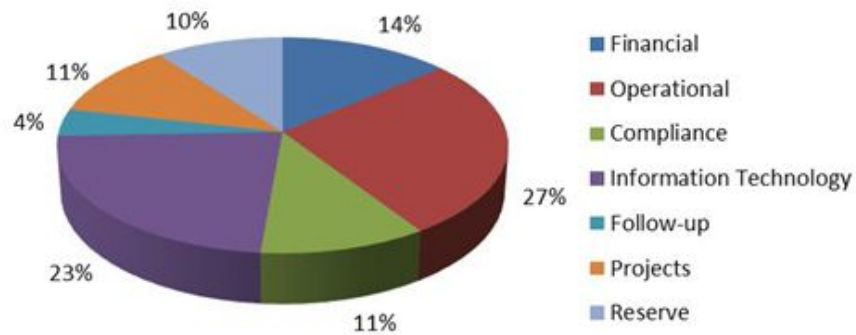
Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: July 2013

The FY 2014 Audit Plan directs internal audit resources on audits and other engagements allocated among different categories (i.e., Financial, Operational, Compliance, Information Technology, Follow-up, Projects, and Reserve) to address the various risks of U. T. System. The charts below depict a percentage analysis of budgeted audit hours in these seven categories for the academic institutions and the health institutions. *NOTE:* The break down of budgeted hours for U. T. Permian Basin (UTPB) is not included in the academic institutions chart as the UTPB Chief Audit Executive was given an extension to prepare a detailed annual audit plan since he started in his position in late June 2013. The annual audit plan is expected to be developed before the start of FY 2014.

Academic Institutions



Health Institutions



3. **U. T. System: Report on the Systemwide internal audit activities**

REPORT

Chief Audit Executive Peppers will report on the audits of the Chief Administrators' Travel, Entertainment, and Maintenance of University Residence Expenses that were conducted at U. T. System Administration and each of the U. T. System institutions. A summary of the audit results was provided to the Regents prior to the meeting.

Chief Audit Executive Peppers will provide an update on the Systemwide internal audit of development activities performed by the U. T. System Audit Office. The report for U. T. Southwestern Medical Center has been issued and was provided to the Regents prior to the meeting. The report for U. T. M. D. Anderson Cancer Center is currently in progress. Report letters for each of the remaining health institutions and for each of the academic institutions (except U. T. Austin) were also provided to the Regents prior to the meeting. The U. T. Austin report was previously provided to the Regents and presented at the May 8, 2013 meeting.

4. **U. T. System Board of Regents: Discussion and appropriate action concerning amendments to the Regents' Rules and Regulations, Rule 20205, Section 8, regarding the performance, timing, and reporting of audits of Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Chief Audit Executive and the Interim Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Rule 20205, Section 8, regarding the performance, timing, and reporting of audits of Expenditures for Travel and Entertainment by Chief Administrators and for the Maintenance of University Residences, be amended as set forth below in congressional style:

- Sec. 8 Audits. ~~Annually Within 90 days after the end of each fiscal year, the System Audit Office shall audit~~ the travel and entertainment expenses and expenses for the maintenance of University residences for which the Chancellor or spouse has been reimbursed or that have been directly paid on the Chancellor's or spouse's behalf ~~shall be audited by an entity that does not report directly to the Chancellor. Within 90 days after the end of each fiscal year, the office that performs internal audits at each institution shall audit t~~he travel and entertainment expenses and expenses for the maintenance of University residences for which the presidents or their spouses ~~have has~~ been reimbursed or that have been paid directly to a vendor on the presidents' ~~president's~~ or their spouses' ~~spouse's~~ behalf will be audited by the U. T. System Audit Office. All of the presidents will be subject to audit annually. The U. T. System Chief Audit Executive shall provide guidance and direction to the institutional auditors as appropriate.
- 8.1 The independent entity System Audit Office shall submit the results of the audit of the Chancellor and the Chancellor's spouse's expenditures to the Chairman of the Board ~~and with a copy~~ to the General Counsel to the Board of Regents. The System Audit Office ~~institutional audit offices~~ shall submit the results of the audit of the president and the president's spouse's expenditures to ~~the System Audit Office with copies to~~ the appropriate Executive Vice Chancellor.
- 8.2 All audits shall be submitted to the Audit, Compliance, and Management Review Committee for review during a quarterly meeting of the Committee.

BACKGROUND INFORMATION

Deloitte's Strategic Assessment of the U. T. System Internal Audit Services report (February 19, 2013) included a recommendation regarding the use of U. T. System Audit personnel, cross-institutional audit personnel, or outside subject matter expertise for sensitive or specialized projects, such as audits of the presidents' travel and entertainment activity. Following review of this recommendation, amendments to Regents' Rule 20205 are proposed to increase the independence of the audits performed of the Chancellor's and presidents' travel, entertainment, and University residences' maintenance expenditures.

5. **U. T. System Board of Regents: Discussion and appropriate action concerning amendments to the Regents' Rules and Regulations, Rule 20402, Sections 2 and 3, regarding approval of non-audit services provided by an external audit firm**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Chief Audit Executive, the Executive Vice Chancellor for Business Affairs, and the Interim Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Rule 20402, Sections 2 and 3, regarding the delegation of authority by the Audit, Compliance, and Management Review Committee (ACMRC) for approval of non-audit services, be amended as set forth below in congressional style:

Sec. ~~23~~ **Possible Conflicts Non-Audit Services.**

~~23.1~~ **ACMRC Review and Approval.** ~~If the aggregate amount of fees to be paid to an external audit firm for the performance of non-audit services exceeds five percent of the total amount of fees anticipated to be paid to the external audit firm for the performance of audit services provided during any fiscal year in which non-audit services will be provided, then~~ **The** U. T. System and the institutions may not engage the external audit firm to perform ~~the~~ non-audit services unless the proposed engagement is reviewed and approved by the ACMRC.

~~23.2~~ **Delegation of authority.** ~~The ACMRC Chairman may delegate to one or more designated members of the ACMRC the authority to grant the approval required in the previous Subsection. The decision(s) of any member to whom authority to approve is delegated shall be presented to the full ACMRC at the next Committee meeting.~~

~~23.32~~ **Conflict of Interest Not Permitted.** If, upon review of a proposed engagement for non-audit services under Subsection ~~23.1~~ of this Rule, the ACMRC determines that a conflict of interest exists between the external audit firm's obligations to perform audit services and that firm's anticipated obligations to perform non-audit services contemporaneously with the performance of audit services, then U. T. System and the institutions may not engage the external audit firm to perform the non-audit services.

Sec. ~~32~~ **Prohibited Non-Audit Services.** Neither U. T. System nor any of the institutions may engage an external audit firm to provide prohibited non-audit services contemporaneously with the provision of audit services.

BACKGROUND INFORMATION

Section 3.1 of Regents' Rule 20402 currently requires ACMRC review and approval if the aggregate amount of fees to be paid to an external audit firm for the performance of non-audit services exceeds five percent of the total amount of fees anticipated to be paid to the external audit firm for the performance of audit services (specifically, to express an opinion on the financial statements of U. T. System or any of the institutions) provided during any fiscal year in which non-audit services will be provided. The proposed change to Section 2.1 results in a more conservative approach by requiring all non-audit services provided by an external audit firm to be reviewed and considered for approval by the ACMRC. The addition of Section 2.2 allows the approval of non-audit services to be facilitated in a timely manner through a delegation of authority to one or more members of the ACMRC with a report to the full ACMRC at the next Committee meeting.

6. U. T. System: Report and recommendations on review of U. T. System compliance with the Texas Public Information Act

RECOMMENDATION

Chancellor Cigarroa will report and provide recommendations on the direction of a review of U. T. System compliance with the Texas Public Information Act (TPIA).

On May 8, 2013, the Audit, Compliance, and Management Review Committee (ACMRC) recommended that Chancellor Cigarroa explore and provide recommendations on a review of U. T. System compliance with the TPIA. Based upon examination with U. T. Systemwide Compliance Officer Larry Plutko and U. T. System subject matter experts on the TPIA, the Chancellor recommends that the ACMRC consider directing a targeted compliance review of procedures and applications of the TPIA at U. T. System Administration, U. T. System flagship academic and health institutions (U. T. Austin and U. T. Southwestern Medical Center), and an emerging research institution (U. T. San Antonio). The review should include the following areas of TPIA processes and applications:

1. Procedures on handling and processing TPIA requests
2. Processes on notifying the correct executive officers and employees to provide responsive documents
3. Decision-making on release and/or maintaining the confidentiality of documents
4. Adequate staffing to ensure timely responsiveness
5. Appropriate in-house expertise of the TPIA
6. Whether documentary samples to the Attorney General are truly “representative samples”
7. Website compliance with U. T. System's request for transparency
8. Relevant record management issues

It is further recommended that after completion of the review, to be no later than October 31, 2013, the U. T. Systemwide Compliance Officer 1) provide a “white paper” outlining best practices for U. T. System Administration and the U. T. System institutions to follow, and 2) develop an educational webinar to assist in training for compliance with the requirements of the TPIA and U. T. System's efforts at providing more transparency to the public.