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FOR  
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW  
COMMITTEE**

**Committee Meeting: 8/20/2014**

**Board Meeting: 8/21/2014**  
Austin, Texas

*Brenda Pejovich, Chairman*  
*Wallace L. Hall, Jr.*  
*R. Steven Hicks*  
*Jeffery D. Hildebrand*  
*Robert L. Stillwell*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>A. CONVENE</b> <i>(Conference Room, Ashbel Smith Hall, 9th Floor)</i>	9:00 a.m. <i>Chairman Pejovich</i>		
<b>B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551</b> Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - <i>Texas Government Code Section 551.074</i>  <b>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</b>			
<b>C. RECONVENE IN OPEN SESSION</b> <i>(Board Room, Ashbel Smith Hall, 9th Floor)</i>			
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration</b>	9:15 a.m. <b>Action</b>	<b>Action</b>	<b>121</b>
2. <b>U. T. System: Discussion regarding restructuring of the internal audit functions at emerging research institutions</b>	9:16 a.m. <b>Report/Discussion</b> <i>Mr. Peppers</i>	Not on Agenda	<b>122</b>
3. <b>U. T. System: Report on the Systemwide internal audit activities, including an update on Institutional Audit Committee governance</b>	9:30 a.m. <b>Report/Discussion</b> <i>Regent Pejovich</i> <i>Mr. Peppers</i>	Not on Agenda	<b>131</b>

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
4. <b>U. T. System: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2015</b>	9:40 a.m. <b>Action</b> <i>Mr. Peppers</i>	<b>Action</b>	<b>132</b>
5. <b>U. T. System: Approval of non-audit services to be performed by U. T. System’s external audit firm, Deloitte &amp; Touche LLP, for the U. T. System Office of Technology Commercialization (for a royalty license compliance review) and U. T. Medical Branch - Galveston (for the Physician Data Integration project)</b>	9:50 a.m. <b>Action</b> <i>Regent Pejovich</i>	Not on Agenda	<b>135</b>
<b>D. ADJOURN</b>	10:00 a.m.		

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

**RECOMMENDATION**

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

2. **U. T. System: Discussion regarding restructuring of the internal audit functions at emerging research institutions**

REPORT

Chief Audit Executive Peppers will present a briefing on the proposed restructuring of the internal audit functions at the eight emerging research institutions. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

On May 20, 2014, the U. T. System Board of Regents accepted Chancellor Cigarroa's recommendation not to increase tuition and fees for in-state students at the academic institutions. Chancellor Cigarroa indicated that he and Executive Vice Chancellor Reyes would work with Executive Vice Chancellor Kelley to identify Systemwide expenses or other specific expenses incurred by the institutions that could be offset with Available University Funds (AUF) to provide resources to the institutions at least equivalent to what the tuition and fee increases would have generated.

In the following weeks, several sources of offset were identified and are subsequently included in the proposed Fiscal Year 2015 U. T. System budget (Item 17 on [Page 88](#)). One of the options identified was the proposed restructuring of internal audit. A shift of the functions' direct reporting relationships from their respective institutions to the U. T. System Audit Office would provide a legal and transparent use of AUF to assist in achieving this financial goal.

# U. T. System Internal Audit (IA) Restructuring at the Emerging Research Institutions

Mr. J. Michael Peppers, Chief Audit Executive

U. T. System Board of Regents' Meeting  
Audit, Compliance, and Management Review Committee (ACMRC)  
August 2014



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# Background

- The Chancellor and U. T. System executive leadership followed a U. T. System Board of Regents' directive to identify institutional activities that could be transitioned to U. T. System Administration, offsetting the need to raise tuition and fees.
- The use of Available University Funds to cover internal audit expenses would, in part, meet that directive.
- The shift in reporting structure for the internal audit activities at the eight emerging research institutions (U. T. Arlington, U. T. Brownsville, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Permian Basin, U. T. San Antonio, and U. T. Tyler) from the respective institution to the U. T. System Audit Office is one mechanism to provide this financial opportunity.



## Current Organizational Environment

- 2012 external assessment
  - Organizational options: centralized/decentralized
- ACMRC position of decentralized model
- System Audit Office restructured in 2013
- Eight major initiatives in process
- Triennial external quality assessment currently underway



# Critical Considerations for Restructuring

- Governance of IA activities
  - Institutional Audit Committees (IAC)
- Two organizational structures in one system
- Continued culture of partnership and "local" audit engagement
- Shared audit/compliance at three institutions
- Human resources
- Allocation of audit resources
- Policy, charter, and procedure





## Potential Benefits

- Lessons learned
- Specialty skill development
- Reporting and trending
- Resource needs
- Recruiting and retention
- Cost efficiency



# Plans for Implementation

## Preparation to date

- Communicated with institutional chief audit executives (CAEs)
- Held meetings with the U. T. System Office of Employee Services
- Convened a committee of three representative institutional CAEs

## First steps

- Clarify the reporting and roles
- Execute institutional memoranda of understanding
- Address budgeting



## Plans for Implementation (cont.)

By calendar year-end

- Address governance
  - Updates to the ACMRC charter, IAC charters, and UTS129 policy regarding internal audit activities
- Revisit initiative priorities
  - Strategic plan impact of structural change



## Plans for Implementation (cont.)

### Long-Range Plans

- Quantify U. T. System Audit Office staffing support
- Integrate administrative and audit procedures
- Develop resource plan
- Monitor effectiveness with reviews no later than three years



3. **U. T. System: Report on the Systemwide internal audit activities, including an update on Institutional Audit Committee governance**

REPORT

During the last year, the Audit, Compliance, and Management Review Committee and the U. T. System Audit Office have worked with the institutional presidents to strengthen governance processes of the institutional audit committees (IACs). One element of the enhancements has been recruiting at least three external members for each committee and appointing one of the external members as Chair of the committee, a practice that already existed at several institutions.

Regent Pejovich and Chief Audit Executive Peppers will provide an update on the orientation event for the external chairs of the IACs and institutional chief audit executives to be held at U. T. Southwestern Medical Center in October 2014.

4. **U. T. System: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2015**

**RECOMMENDATION**

Chief Audit Executive Peppers recommends approval of the proposed Fiscal Year 2015 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 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 August 8, 2014. 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 2015 Annual Audit Plan  
Executive Summary**

The University of Texas (U. T.) Systemwide fiscal year (FY) 2015 Annual Audit Plan (FY 2015 Audit Plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout the System in FY 2015.

To provide consistency at the Systemwide level, the U. T. System Audit Office provided the institutional audit departments with guidance in May 2014 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 2014. 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 2015 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 2014 meeting. The full FY 2015 Audit Plan was provided to all Regents prior to the meeting

The table below lists the FY 2015 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 2015 Total Budgeted Audit Plan Hours by Institution:***

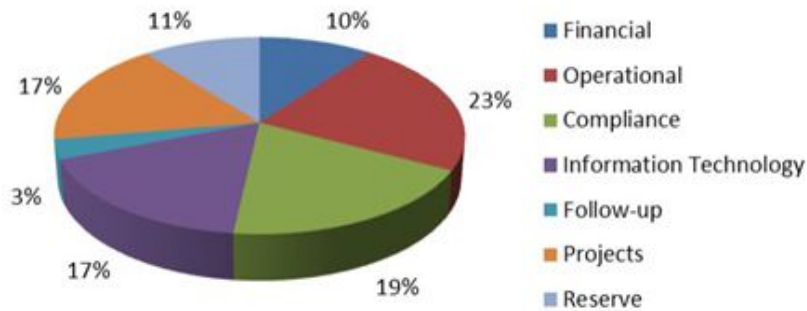
<b>Institution</b>	<b>Budgeted Audit Hours</b>
U. T. System Administration*	10,795
U. T. Arlington	6,900
U. T. Austin	20,833
U. T. Brownsville	2,302
U. T. Dallas	13,843
U. T. El Paso	10,663
U. T. Pan American	6,111
U. T. Permian Basin	4,116
U. T. San Antonio	7,500
U. T. Tyler	4,550
U. T. Southwestern Medical Center	14,849
U. T. Medical Branch - Galveston	12,657
U. T. Health Science Center - Houston	12,352
U. T. Health Science Center - San Antonio	10,494
U. T. M. D. Anderson Cancer Center	16,683
U. T. Health Science Center - Tyler	3,002
<b>Total Budgeted Audit Hours</b>	<b>157,650</b>

\*These hours represent the Engagements section of the System Audit Office FY15 Annual Audit Plan. Additional sections include Operations (6,830 hours) and Initiatives (3,460 hours) for a total of 21,085 budgeted hours.

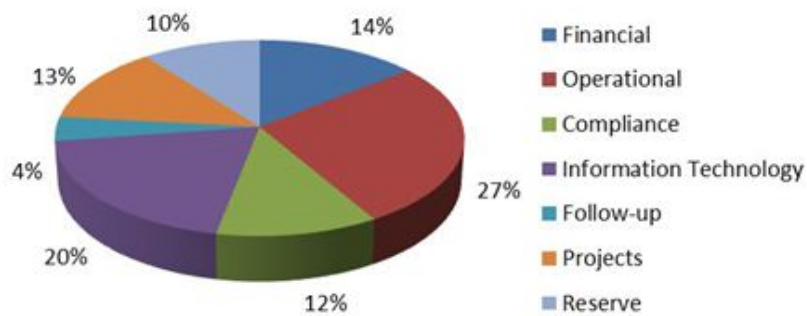
Prepared by: U. T. System Internal Audit Program  
Consolidated by: U. T. System Audit Office  
Date: August 2014

The FY 2015 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.

### Academic Institutions



### Health Institutions





5. **U. T. System: Approval of non-audit services to be performed by U. T. System's external audit firm, Deloitte & Touche LLP, for U. T. Medical Branch - Galveston (for the Physician Data Integration project) and the U. T. System Office of Technology Commercialization (for a royalty license compliance review)**

**RECOMMENDATION**

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

- a. U. T. Medical Branch - Galveston Physician Data Integration project; and
- b. U. T. System Office of Technology Commercialization royalty license compliance review project

Additional information on these projects was provided to the ACMRC members prior to the meeting.

**BACKGROUND INFORMATION**

The current external audit firm engaged by the U. T. System Board of Regents is Deloitte. Regents' Rule 20402, Section 2.1 states, "The U. T. System and the institutions may not engage the external audit firm to perform non-audit services unless the proposed engagement is reviewed and approved by the ACMRC."

U. T. Medical Branch - Galveston wishes to use Deloitte for non-audit services described below:

- **The U. T. Medical Branch - Galveston Physician Data Integration project** will provide advice and recommendations for the integration of physician revenue, cost, and clinical information into the institution's financial decision support/cost accounting system.

U. T. Medical Branch - Galveston sought potential vendors with expertise working with its three specific impacted applications (EPSI, EPIC, and PeopleSoft) in both hospital and physician group practice environments. Input from a survey of academic medical centers and responses from EPSI and EPIC resulted in the determination that Deloitte was solely qualified for this specialized project. In such situations, the institution has an Exclusive Acquisition Justification (EAJ) process to review and approve contracts for which there will be no bidding opportunities. This proposed project received EAJ approval on June 20, 2014. The project cost is estimated to be \$370,000 to \$390,000. The source of funding for this project will be hospital revenue education and general funds.

- **The U. T. System Office of Technology Commercialization royalty license compliance review project** will provide additional analysis, documentation, and recommendations for an existing Deloitte engagement assessing compliance with licensing agreements of one of the U. T. System health institutions. The project cost is estimated to be \$20,000 (fees already incurred on earlier parts of this engagement with Deloitte approximate \$60,000). The source of funding for this project will be the Available University Fund.

The table below shows Deloitte's audit and non-audit services fees for three fiscal years (FY).

	Financial Audit Services	Non-audit Services
FY 2014 (to date)	\$2,493,169	\$1,989,819 (1)
FY 2013	\$2,089,000	\$1,815,748
FY 2012	\$1,792,275	\$1,324,646

(1) Amount does not include proposed projects above