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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 8/19/2015

Board Meeting: 8/20/2015
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
Convene	9:00 a.m. <i>Chairman Hildebrand</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration	9:00 a.m. Action	Action	90
2. U. T. System: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2016	9:01 a.m. Action <i>Mr. Peppers</i>	Action	91
3. U. T. System: Report on the Systemwide internal audit activities, including Priority Findings and Annual Audit Plan status	9:15 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	96
4. U. T. System: Report on Audits of the Systemwide Cancer Prevention Research Institute of Texas Grants	9:22 a.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	102
Adjourn	9:30 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: Approval of the U. T. Systemwide Annual Internal Audit Plan for Fiscal Year 2016**

RECOMMENDATION

Chief Audit Executive Peppers recommends approval of the proposed Fiscal Year 2016 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 members of the Audit, Compliance, and Management Review Committee 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 14, 2015. 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 2016 Annual Audit Plan Executive Summary**

Systemwide Annual Audit Plan

The University of Texas (U. T.) Systemwide Fiscal Year (FY) 2016 Annual Audit Plan (Audit Plan) outlines the internal audit activities that will be performed by internal audit throughout the System in FY 2016.

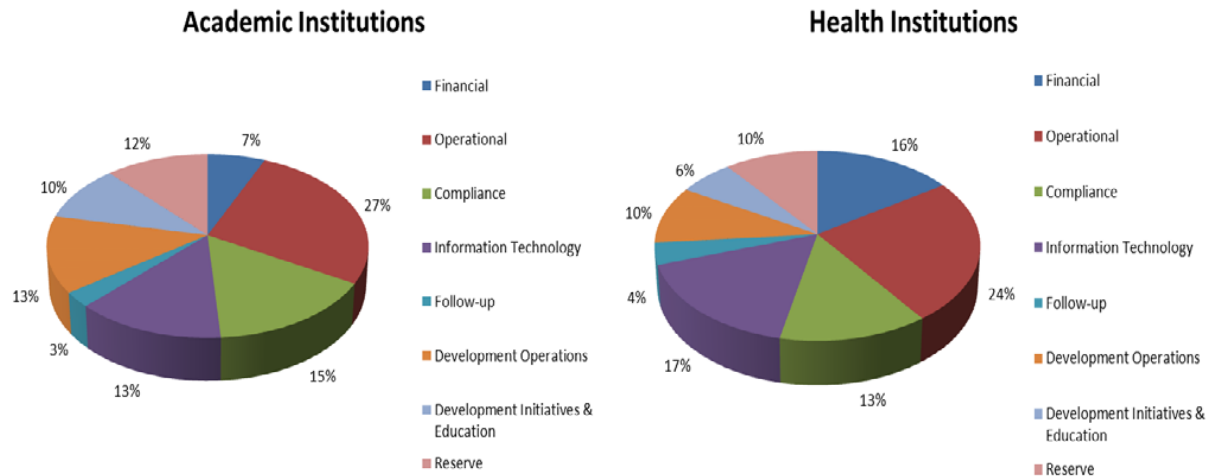
To provide consistency at the Systemwide level, the U. T. System Audit Office provided the internal audit departments at the institutions with guidance in the spring of 2015 on the audit plan format, content, and development methodology, including the risk assessment process that supports the audits selected to be included on the plan. Individual institutional annual audit plans were prepared in June and July 2015. 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 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 2016 Audit Plan, as summarized in the table and graphs that follow, 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 2015 meeting. The full FY 2016 Audit Plan was provided to all Regents prior to the meeting.

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. Internal audit at each institution and System Administration piloted a new risk assessment process that identified risks and rated them as critical, high, medium, or low based on vulnerability, likelihood, and impact (additional information on the results of this process is included on the following pages). The results were then used to develop risk-based audits that address critical and high risks to be conducted at System Administration and the institutions. Risk mitigation activities for the critical and high risks that were not addressed through an audit were presented as part of the audit plan presentations. Along with the audits derived directly from the risk discussions, the Audit Plan includes other required and/or recurring work that is performed at System Administration or the institutions that is required by policy, statute, contract, or an external entity.

The table below lists the FY 2016 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.

Institution	Budgeted Audit Hours
U. T. System Administration	23,080
U. T. Arlington	7,300
U. T. Austin	20,549
U. T. Dallas	13,603
U. T. El Paso	10,413
U. T. Permian Basin	4,080
U. T. Rio Grande Valley	11,669
U. T. San Antonio	9,660
U. T. Tyler	4,730
U. T. Southwestern Medical Center	19,656
U. T. Medical Branch - Galveston	12,156
U. T. Health Science Center - Houston	13,074
U. T. Health Science Center - San Antonio	10,548
U. T. M. D. Anderson Cancer Center	18,327
U. T. Health Science Center - Tyler	3,143
Total Budgeted Audit Hours	181,988

The FY 2016 Audit Plan directs internal audit resources on audits and other engagements allocated among different categories (i.e., Financial, Operational, Compliance, Information Technology, Follow-up, Development - Operations, Development - Initiatives and Education, and Reserve) to address the various risks of U. T. System. The pie charts below depict a percentage analysis of budgeted audit hours in these categories for the academic and health institutions. The detailed audit plans of System Administration and the institutions were provided to the Regents in advance of the August 2015 meeting.



Systemwide Risk Assessment

As part of the FY 2016 Audit Plan process, the institutional and System Administration internal auditors executed a pilot risk assessment internally developed over the last year. The goals for this common risk assessment approach were to start at the top with an awareness of critical initiatives and objectives to ensure the risks assessed were the most relevant. The assessment process was standardized by creating common terms and criteria, enabling trending of risk and Systemwide comparisons. An emphasis was placed on collaboration with other functions that assess, handle, or manage risk.

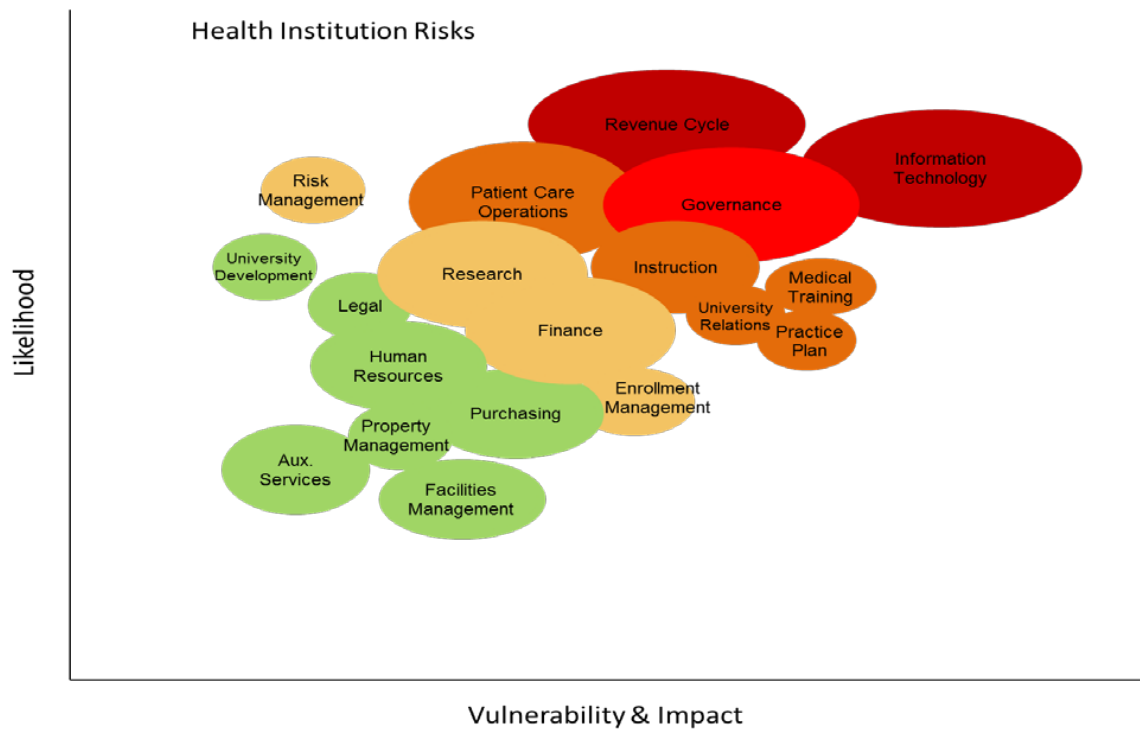
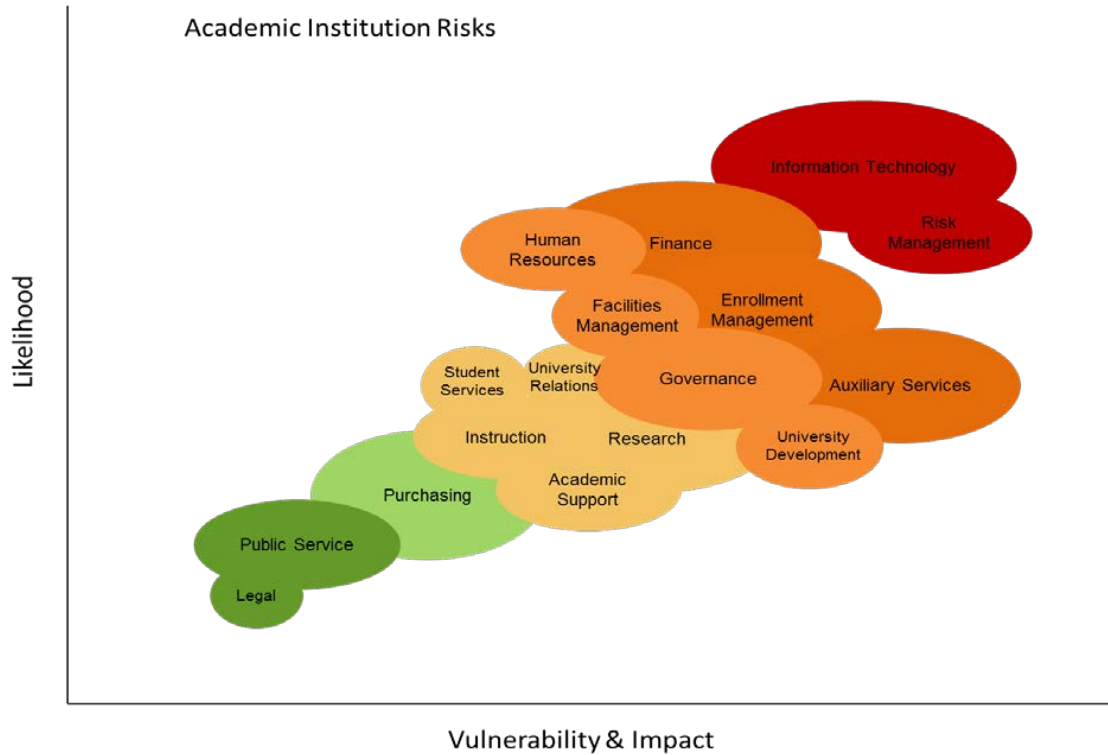
Overall, starting the risk assessments with strategic and operational priorities enabled auditors to have more robust conversations with management and create a solid framework for priorities and risks. The common scoring and categorization generated more discussion within and between audit teams that focused on consistency and accuracy of ratings. This development will continue each year as this process is strengthened.

Top Systemwide Priorities and Risks resulting from the System Administration Risk Assessment

- Student Success – Improving student outcomes, within an environment of change
- Health care Governance – Managing common overall strategy and patient care strategic agreements to meet threats from industry change and to improve market position
- Health care Quality – Improving and managing quality outcomes to meet industry needs and changing payment expectation
- Technology Governance – Strategic planning and awareness of emerging technology risk
- Research – Responding to changes in sources and levels of funding

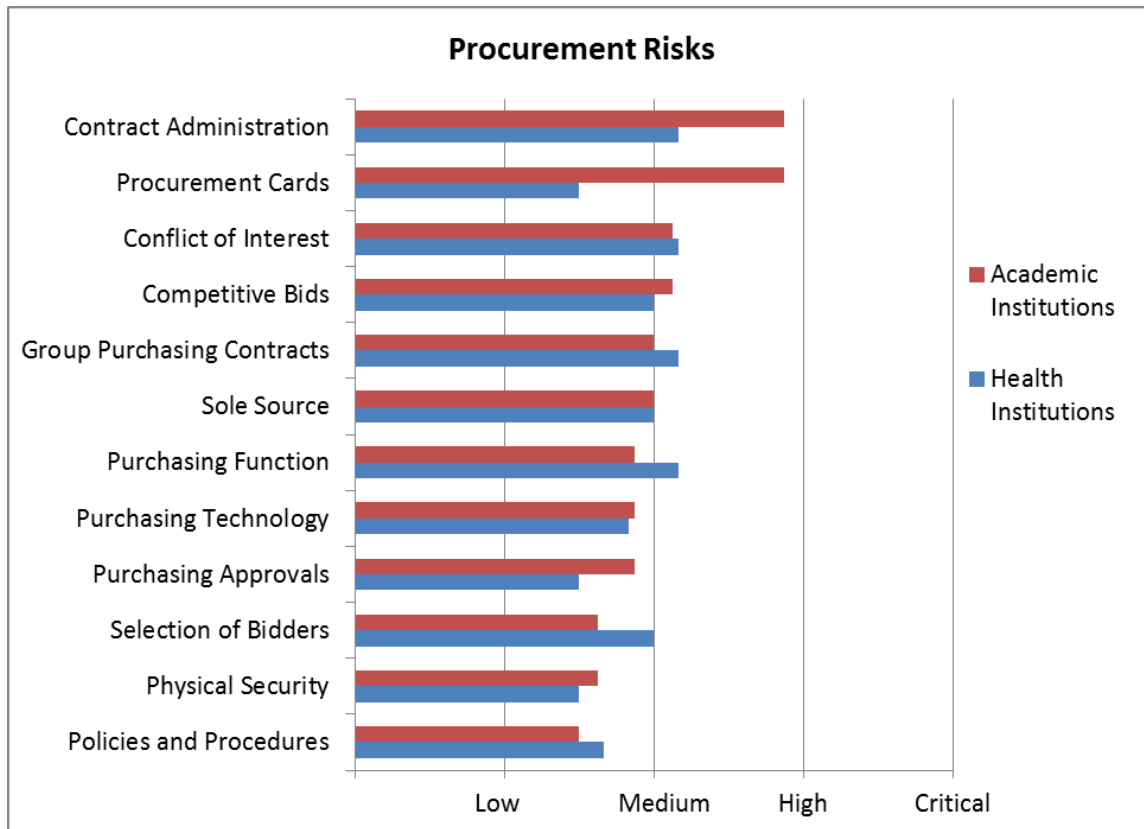
Risk Map resulting from Academic and Health Institution Risk Assessments

The following graphics cumulatively depict how broad areas of risk scored within the academic and health institutions. Risk factors evaluated are likelihood, vulnerability, and impact to the achievement of an objective. Larger circles represent more institutions with critical or high risks in these areas. Dark red represents the highest risks, while dark green the lowest.



Procurement Risks

In response to Regental and legislative interest in contracting and procurement practices, a detailed risk assessment was completed of contracting and procurement processes at the institutions and System Administration. The following graphic depicts risks in 12 pre-defined areas.



As a result of the risks identified, each institution will be performing at least one audit that addresses procurement risks. Collectively, internal audit will spend more than 7,000 hours performing audits to address risks in procurement.

3. **U. T. System: Report on the Systemwide internal audit activities, including Priority Findings and Annual Audit Plan status**

REPORT

Chief Audit Executive Peppers will report on Systemwide Priority Findings, using a PowerPoint presentation set forth on the following pages. Mr. Peppers will also present the FY 2015 annual audit plan status as of May 31, 2015, which is set forth on [Page 101](#).

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
August 2015



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Priority Findings Status as of July 15, 2015

INSTITUTION	General				TOTAL		Risk Factors			
	FINANCE	INFORMATION TECHNOLOGY	LEGAL	RESEARCH	PAST DUE	REPUTATION	INFORMATION SECURITY	COMPLIANCE	MANAGEMENT OVERSIGHT	
U. T. Arlington	1	6	0	0	7	0	X	X	X	X
U. T. Austin	2	5	0	0	7	0	X	X	X	
U. T. Brownsville	0	0	0	0	0	0				
U. T. Dallas	0	1	0	0	1	0		X		
U. T. El Paso	0	1	0	1	2	0		X	X	
U. T. Pan American	0	0	0	0	0	0				
U. T. Permian Basin	0	0	0	0	0	0				
U. T. San Antonio	0	2	0	0	2	0		X	X	
U. T. Tyler	0	0	0	0	0	0				
U. T. Southwestern	0	0	0	0	0	0				
U. T. Medical Branch	0	0	1	0	1	0			X	X
U. T. HSC Houston	0	0	0	0	0	0				
U. T. HSC San Antonio	0	0	0	0	0	0				
U. T. MDACC	0	3	0	0	3	0		X		
U. T. HSC Tyler	0	0	0	0	0	0				
U. T. System	0	0	0	0	0	0				
TOTALS	3	18	1	1	23	0				

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Changes Since Last Report

	<u>As of</u> <u>May 2015</u>	<u>Implemented</u>	<u>New</u>	<u>As of</u> <u>Aug 2015</u>
IT related Priority Findings	23	(7)	2	18
Non-IT related Priority Findings	<u>7</u>	<u>(2)</u>	<u>0</u>	<u>5</u>
Total Priority Findings	30	(9)	2	23
Past due Priority Findings	1	(1)	0	0

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New Priority Findings Since Last Report

- U. T. M. D. Anderson Cancer Center:
 - Information Technology (2)
 - Lack of policy for cloud-based file transfer service that covers access and security for internal and external collaborators
 - Inadequate process for de-provisioning when a user is terminated
 - *Risk Factors: Information Security*



**The University of Texas System Internal Audit Program
FY 2015 3rd Quarter Audit Plan Status (as of May 31, 2015)**

	Financial	Operational	Compliance	Information Technology	Follow-up	Projects	Reserve (Note 3)	Total Actual Hours (Note 1)	Total Budget Hours (Note 2)	Variance (Hours)	Percentage Completion	Tick mark
U. T. System Administration	2,013	1,353	2,116	948	640	758	-	7,828	10,795	2,967	73%	*
Academic:												
U. T. Arlington	370	708	602	399	478	1,232	453	4,242	6,900	2,658	61%	
U. T. Austin	-	2,771	2,368	1,764	377	1,946	3,458	12,684	20,833	8,149	61%	
U. T. Brownsville	335	-	114	95	8	1,088	102	1,742	2,302	560	76%	
U. T. Dallas	882	3,390	1,641	1,267	183	975	334	8,672	11,478	2,806	76%	
U. T. El Paso	1,053	1,505	293	798	350	1,360	634	5,993	8,703	2,710	69%	
U. T. Pan American	1,199	989	146	545	348	1,921	211	5,359	6,871	1,512	78%	
U. T. Permian Basin	200	500	668	287	203	658	2	2,518	4,116	1,598	61%	
U. T. San Antonio	1,392	1,402	820	365	132	1,617	925	6,653	7,500	847	89%	
U. T. Tyler	544	558	576	190	93	1,175	55	3,191	4,550	1,359	70%	
Subtotal	5,975	11,823	7,228	5,710	2,172	11,972	6,174	51,054	73,253	22,199	70%	
Health:												
U. T. Southwestern	1,611	3,364	662	1,230	167	2,024	1,674	10,732	14,699	3,967	73%	
U. T. Medical Branch - Galveston	251	2,007	974	2,091	382	880	1,424	8,009	12,657	4,648	63%	
U. T. HSC - Houston	1,050	1,664	1,206	2,870	322	1,476	250	8,838	12,352	3,514	72%	
U. T. HSC - San Antonio	684	475	664	201	122	1,773	17	3,936	6,686	2,750	59%	A
U. T. MDA Cancer Center	1,351	3,018	1,161	25	1,166	1,021	351	8,093	16,683	8,590	49%	B
U. T. HSC - Tyler	400	480	742	186	97	589	-	2,494	3,002	508	83%	
Subtotal	5,347	11,008	5,409	6,603	2,256	7,763	3,716	42,102	66,079	23,977	64%	
TOTAL	13,335	24,184	14,753	13,261	5,068	20,493	9,890	100,984	150,127	49,143	67%	
Percentage of Total	13%	24%	15%	13%	5%	20%	10%	100%				

NOTE 1

Total Actual Hours are for the time period from 9/1/2014 through 5/31/2015, which represents 75% of the annual audit plan year.

NOTE 2

The FY 2015 Total Budget Hours originally approved by the ACMRC were amended during the fiscal year since institutions may alter the number of budgeted hours and/or the allocation of budgeted hours among the various categories due to changes in priorities and staffing resources. These changes are communicated to/approved by the institution's respective president and/or internal audit committee.

NOTE 3

Reserve hours were originally budgeted for TBD engagements (e.g., unknown special requests, investigations, consulting, etc.). As the fiscal year progresses and engagements become known, these hours are sometimes reallocated to the applicable categories (e.g., financial, operational, compliance, etc.).

* - These hours represent only the Engagements section of U. T. System Administration's Annual Audit Plan. Additional hours for Operations and Initiatives that are part of the annual audit plan are not shown above.

A - U. T. Health Science Center - San Antonio's lower percent completion was due to higher than expected staff vacancies.

B - U. T. M. D. Anderson's lower percent completion was due to several IT and Construction audits, which are outsourced, not starting until late in the third quarter for completion in the fourth quarter in addition to higher than expected staff vacancies.

4. **U. T. System: Report on Audits of the Systemwide Cancer Prevention Research Institute of Texas Grants**

REPORT

Chief Audit Executive Peppers will report on the results of the audits conducted of the Cancer Prevention Research Institute of Texas (CPRIT) Grants. A summary of the audit results was provided to the Audit, Compliance, and Management Review Committee (ACMRC) members prior to the meeting.

BACKGROUND INFORMATION

The ACMRC approved engagement of Deloitte to conduct the audits of Fiscal Year 2014 CPRIT grant activity at the May 13, 2015 meeting. Audits of previous fiscal years' grant activity were also performed by Deloitte.