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FOR

AUDIT, COMPLIANCE, AND RISK MANAGEMENT

COMMITTEE

Committee Meeting: 11/15/2023

Board Meeting: 11/16/2023

Austin, Texas

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

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

2. **U. T. System: Report and discussion on the Systemwide internal audit activities, including FY 2023 Annual Report**

Adjourn

| 2:30 p.m. |
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 166.
2. **U. T. System: Report and discussion on the Systemwide internal audit activities, including FY 2023 Annual Report**

Chief Audit Executive Peppers will present the FY 2023 Systemwide Annual Report of internal audit activities, using a PowerPoint presentation set forth on the following pages. He will also discuss the status of the external financial audit. Additional details on the Systemwide observations by subject area and significance, the annual audit plan's budget to actual hours status, as well as the planned scope and timing of the external financial audit were provided to the Audit, Compliance, and Risk Management Committee members prior to the meeting.

**BACKGROUND INFORMATION**

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).
FY 2023 Systemwide Internal Audit Annual Report

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

U. T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
November 2023
Systemwide Internal Audit Hours

- Approximately 156k hours were spent by 103 internal auditors to complete the Fiscal Year (FY) 2023 Systemwide Annual Audit Plan

  - Assurance Engagements
  - Advisory Engagements
  - Required Engagements
  - Investigations
  - Follow-Up
  - Operations
  - Initiatives & Education
## Systemwide Engagement Categories Detail

**FY 2023**

- **Assurance Engagements**: 68%
- **Advisory Engagements**: 21%
- **Required Engagements**: 7%
- **Investigations**: 4%

**5-Year Average (FY 2019-2023)**

- **Assurance Engagements**: 61%
- **Advisory Engagements**: 23%
- **Required Engagements**: 10%
- **Investigations**: 6%
Systemwide Internal Audit Reports & Observations

• In FY 2023, 211 engagement reports and memos were issued

• 107 of the 211 reports resulted in 476 observations ranked as follows:
  – 4 Priority level observations
  – 180 High level observations
  – 263 Medium level observations
  – 29 Low level observations
Systemwide Observations - Number & Level

FY 2023

211 engagement reports and memos were issued

107 reports (51%) resulted in a total of 476 observations:

- 1% Priority level observations
- 38% High level observations
- 55% Medium level observations
- 6% Low level observations

5-Year Average (FY 2019-2023)

230 engagement reports and memos were issued

114 reports (50%) resulted in a total of 451 observations:

- 2% Priority level observations
- 32% High level observations
- 58% Medium level observations
- 8% Low level observations
Consistent Systemwide classification by subject in 22 pre-defined Primary Taxonomy areas
Systemwide Information Technology (IT) Observations

- Security Defense/Detection/Response: 3 Low, 22 Medium, 14 High, 7 Priority
- IT/IS Governance: 1 Low, 23 Medium, 7 High, 1 Priority
- Access Management: 2 Low, 12 Medium, 14 High, 3 Priority
- Access Privileges: 5 Low, 14 Medium, 3 High, 1 Priority
- IT Asset Inventory: 4 Low, 15 Medium, 1 High, 1 Priority
- Management Controls: 10 Low, 8 Medium, 1 High, 1 Priority
- Risk Assessment: 8 Low, 2 Medium, 1 High, 1 Priority
- Disaster Recovery: 2 Low, 5 Medium, 1 High, 1 Priority
- Physical & Environmental Protection: 1 Low, 1 Medium, 1 High, 1 Priority
Systemwide Top Non-IT Observations

- Medical Services Revenue Cycle: 2 Low, 17 Medium, 11 High, 2 Priority
- Financial Reporting: 10 Low, 22 Medium, 7 High, 2 Priority
- Research Administration: 10 Low, 22 Medium, 13 High, 7 Priority
- Employee Records: 1 Low, 12 Medium, 7 High, 2 Priority
- Research Compliance: 3 Low, 7 Medium, 6 High, 2 Priority
- Policy Management: 13 Low, 2 Medium, 13 High, 2 Priority
- Property Management: 1 Low, 11 Medium, 2 High, 2 Priority
- Recruiting: 4 Low, 7 Medium, 2 High, 2 Priority
- Tuition & Fees Management: 2 Low, 8 Medium, 2 High, 2 Priority
- Patient Care Operations: 4 Low, 5 Medium, 2 High, 2 Priority
- Compliance Program: 7 Low, 3 Medium, 2 High, 2 Priority
Systemwide Observations by Risk Factors

- Information Security
- Compliance
- Designed Controls
- Management Oversight
- Operational Oversight/Alignment
- Effectiveness and Efficiency
- Lost Revenue
- Management Alignment
- Payments/Expenditures
- Accomplishment of Management’s Objectives
- Capital Impact
- Reputation
- Life Safety

Operational Control, Qualitative, and Quantitative Risk Factors

Low | Medium | High | Priority
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Operational Control, Qualitative, and Quantitative Risk Factors

November 15-16, 2023 Meeting of the U.T. System Board of Regents - Audit, Compliance, and Risk Management Committee
Client Satisfaction

• In the spirit of continuous improvement, client feedback is sought to ensure internal audit:
  – Provides valuable and constructive information and insights
  – Conducts work in professional and competent manner
  – Produces clear and accurate communication and reporting

• The average client survey score for FY23 engagements is 4.4 (5-strongly satisfied to 1-strongly dissatisfied) with a 45% response rate
Systemwide Internal Audit Competencies & Contributions

• Proficiency (average employee statistics):
  – 82% hold professional certifications
  – 44% earned advanced degrees
  – 18 years of relevant and 9 years of U. T. experience
  – 52 hours of continuing professional education annually

• Contributions
  – Professional organizations at the local, national, and global levels through board service, leadership positions, and conference presentations

• Support the academic enterprise
  – Student interns, guest/part-time lecturers, professional publications