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FOR  
AUDIT, COMPLIANCE, AND RISK MANAGEMENT  
COMMITTEE**

**Committee Meeting: 5/5/2021**

**Board Meeting: 5/6/2021**  
Austin, Texas

*David J. Beck  
Christina Melton Crain  
Jodie Lee Jiles  
Janiece Longoria  
Nolan Perez  
Rad Weaver*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	<i>9:45 a.m.</i>		
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration</b>	<b>Discussion</b>	<b>Action</b>	<b>12</b>
2. <b>U. T. System: Discussion and Appropriate Action regarding institutional Audit Committee chair changes; Discussion on internal audit policy and guidance updates; Report on the State Auditor's Office Statewide Single Audit Report for FY 2020 and Systemwide internal audit administrative items, including Required Communications and Annual Audit Plan Status</b>	<b>Action</b> Mr. Peppers	Not on Agenda	<b>13</b>
3. <b>U. T. System: Report on the results of the Fiscal Year 2020 U. T. Systemwide Endowment Compliance Program</b>	<b>Report/Discussion</b> Dr. Safady	Not on Agenda	<b>15</b>
<b>Adjourn</b>	<i>10:15 a.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 proposed Consent Agenda item assigned to this Committee is [Item 2](#).

**2. U. T. System: Discussion and Appropriate Action regarding institutional Audit Committee chair changes; Discussion on internal audit policy and guidance updates; Report on the State Auditor's Office Statewide Single Audit Report for FY 2020 and Systemwide internal audit administrative items, including Required Communications and Annual Audit Plan Status**

Mr. Peppers will:

- 1) introduce internal audit policy and guidance updates being discussed among the institutional chief audit executives;
- 2) 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 2020;
- 3) discuss required communications to the Committee, including independence of the Chief Audit Executives; and
- 4) provide an update on the Fiscal Year 2021 Annual Audit Plan status as of February 28, 2021.

Details on the SAO audit results, required communications, and Audit Plan status were provided to the Audit, Compliance, and Risk Management Committee (ACRMC) members prior to the meeting.

**RECOMMENDATION**

Chief Audit Executive Peppers, on behalf of the Presidents at U. T. San Antonio, U. T. Tyler, and U. T. Southwestern recommends formal approval by the ACRMC of the appointment of the following individuals to serve as Chairs of the Institutional Audit Committees:

- Jason Sechrist, Director of Audit Solutions at AuditBoard, at U. T. San Antonio;
- Kim Askew, Managing Partner at DLA Piper Global Law Firm, at U. T. Southwestern; and
- David Iglesias, Owner of Iglesias Law Firm, at the Health Science Center at U. T. Tyler (reappointment).

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

### BACKGROUND INFORMATION

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.

Required communications to the Committee 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 ACRMC annually reviews and approves nominations from all 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 who began terms between May ACRMC meetings.

3. **U. T. System: Report on the results of the Fiscal Year 2020 U. T. Systemwide Endowment Compliance Program**

Vice Chancellor Safady will report on the U. T. Systemwide Endowment Compliance Program for the fiscal year ended August 31, 2020, using a PowerPoint presentation set forth on the following pages.

# Systemwide Endowment Compliance Report FY2020

*Dr. Randa Safady, Vice Chancellor for External Relations, Communications and Advancement Services*

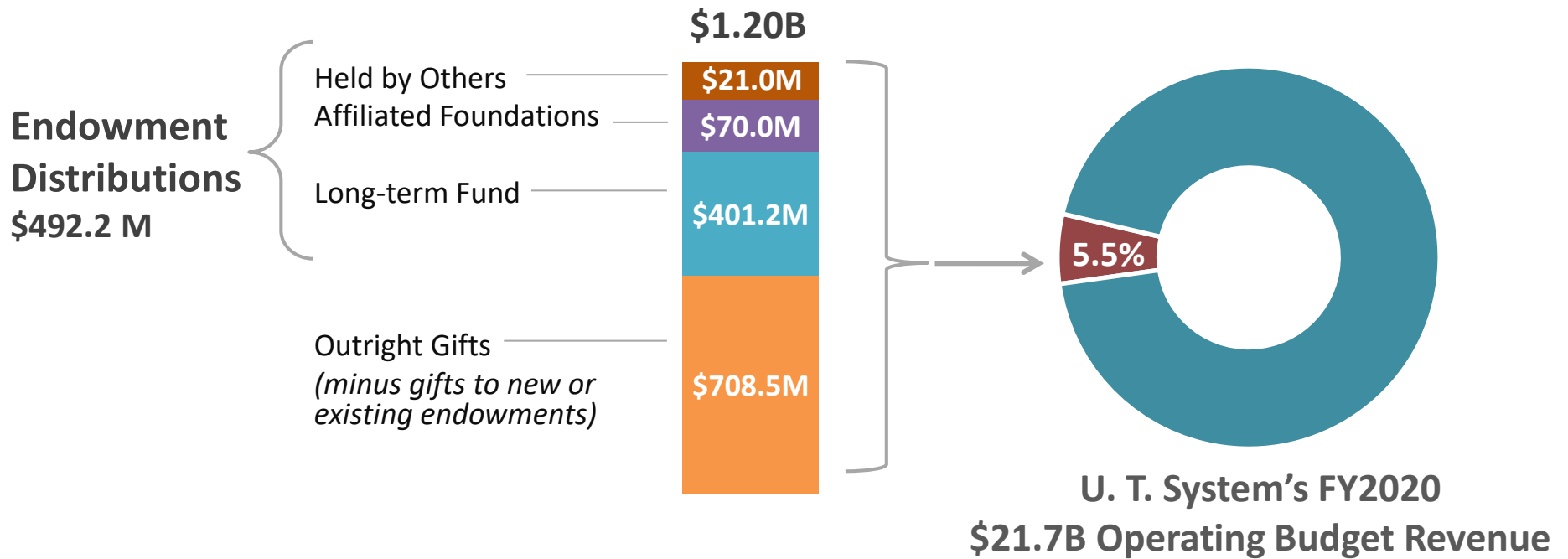
U. T. System Board of Regents Meeting  
Audit, Compliance, and Risk Management Committee  
May 2021



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# Impact of Philanthropy in FY2020: Endowment Activity



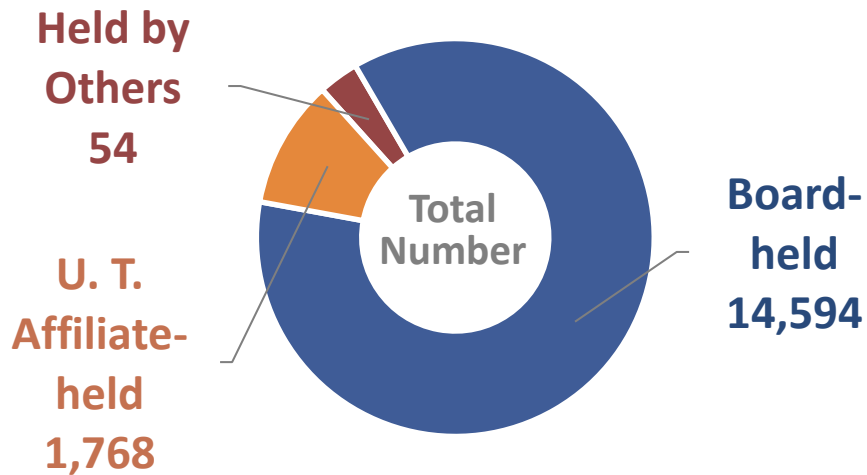
## Purpose of Endowment Compliance Program

- U. T. System Board of Regents' Rule 60102:  
*"...Administration and management of the endowments are the joint responsibility of the U. T. System and each institution."*
- To **honor donor intent** by appropriate use of gift funds, confirmed by timely reporting
- To **utilize endowment resources** most effectively
- To **standardize management** of endowments
- To **ensure awareness** of compliance issues across U. T. institutions
- To **encourage philanthropy** through donor trust

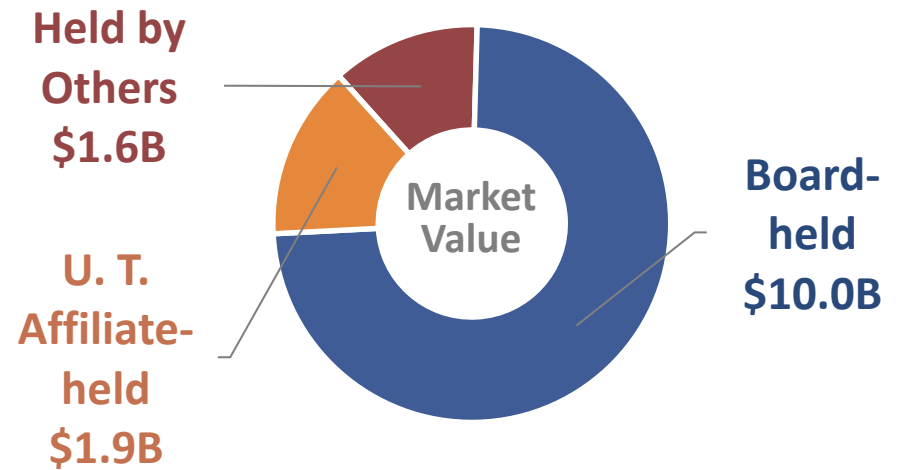




# Total U. T. Systemwide Endowments



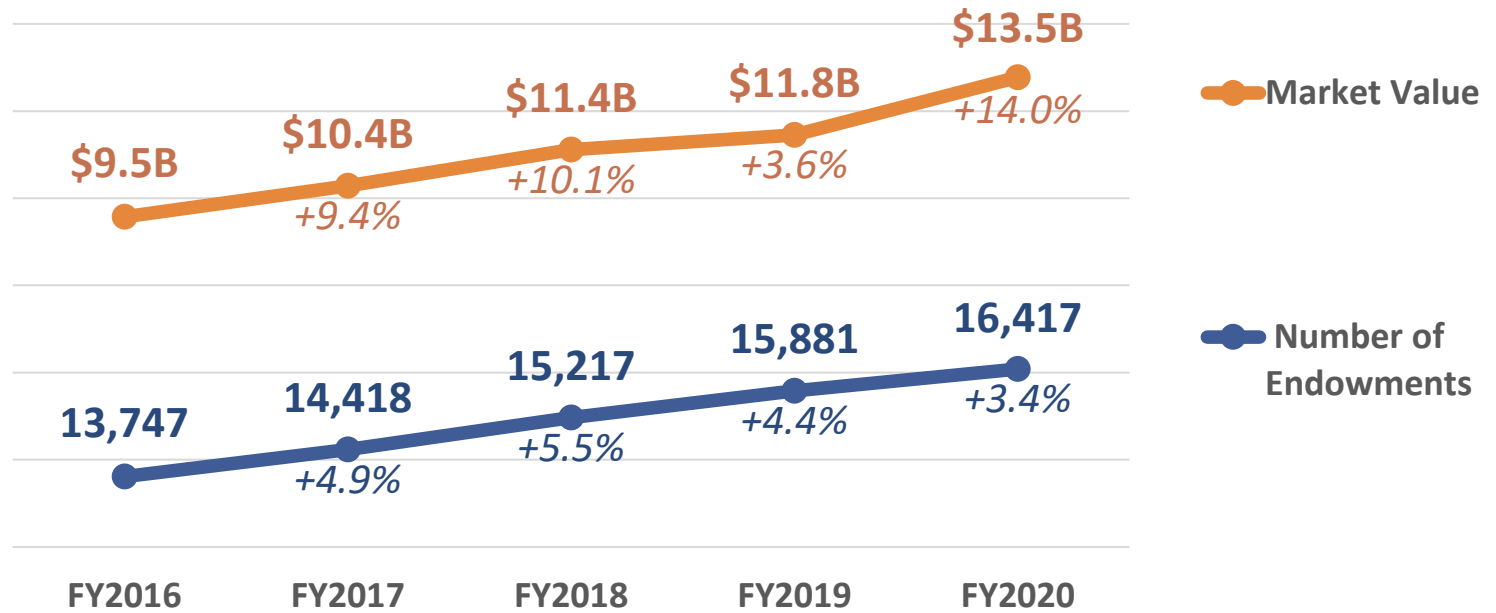
16,417 total endowments held by Board and external entities



\$13.5 billion in total market value

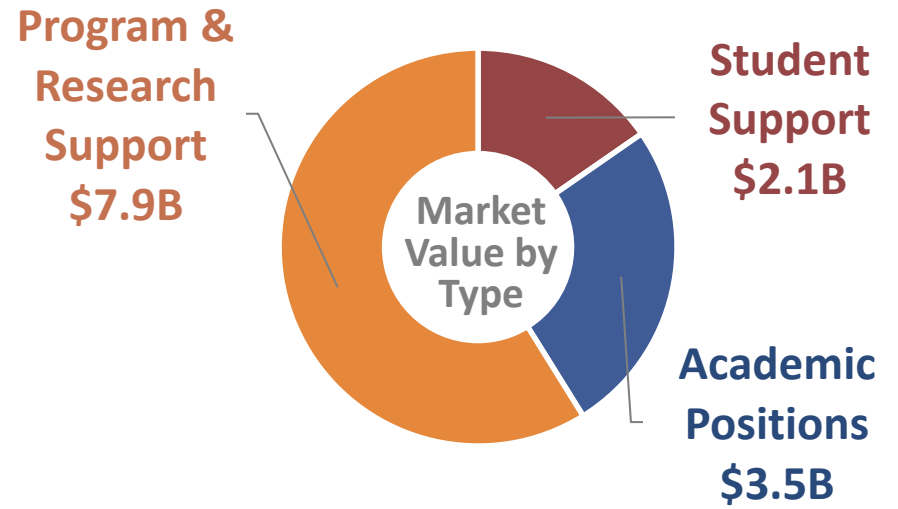
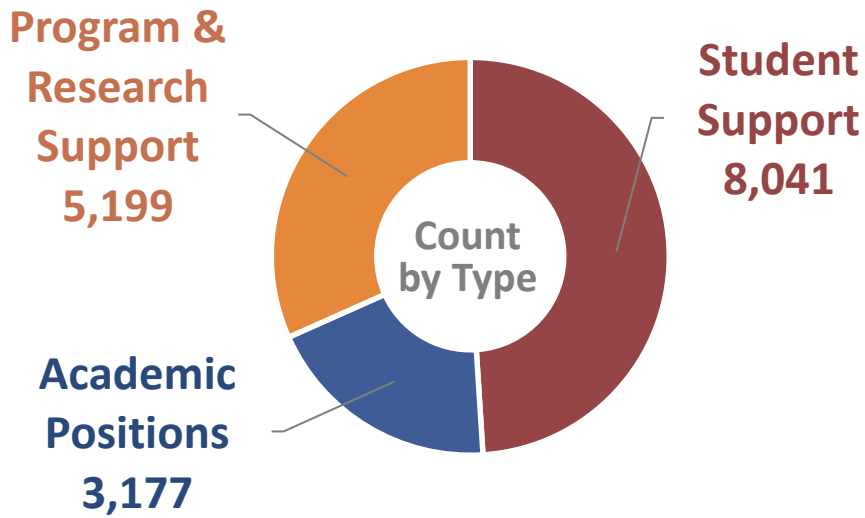


## Total Endowments: Five-Year Trends



# Total Endowments by Type

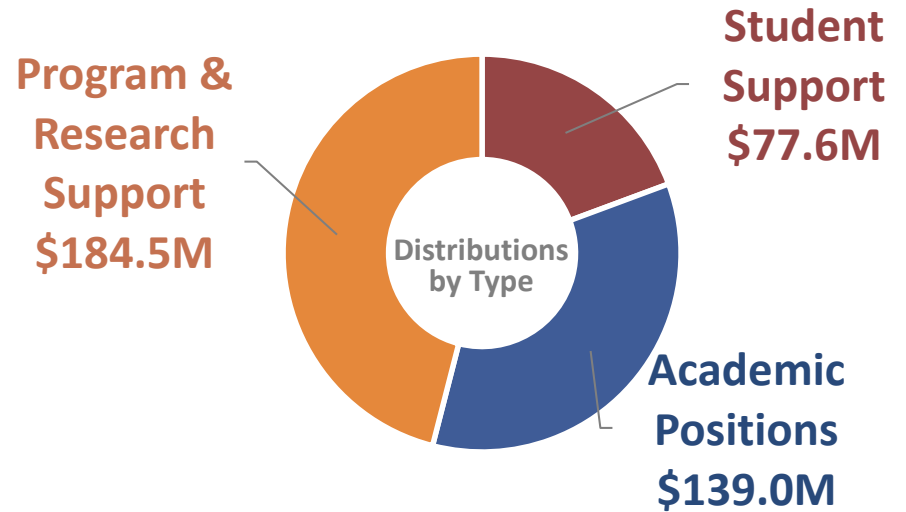
Endowments typically fall into three categories: Student Support, Academic Positions, and Program/Research Support.



## Total Endowments: FY2020 Distributions

A total of \$492.2 Million\* was distributed from endowments:

- **\$401.2 Million** from Board-held endowments
- **\$91.0 Million** from U. T. affiliate-held and held by others



\* Distributions do not include amounts that were reinvested



# Annual Report: Primary Risks and Activities Addressed

Each U. T. institution and the U. T. System Administration reviews between 20% to 100% of its total endowments annually, focusing on primary risk factors and other essential activities.

## Primary Risks Monitored:

- Excessive accumulation of distributions
- Incorrect spending of distributions
- Non-spending of distributions
- Fully funded academic positions unfilled for 24 months or longer

## Other Activities Addressed:

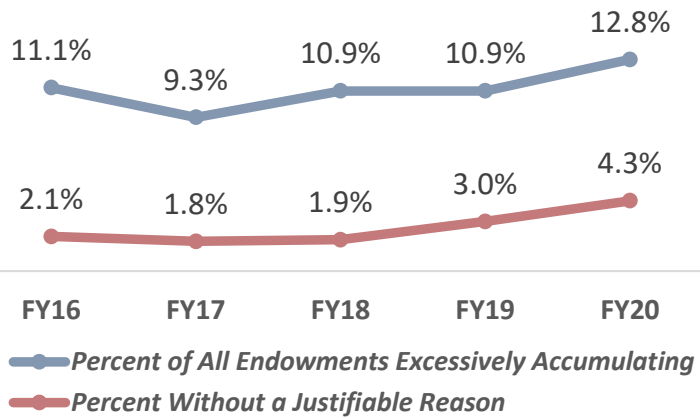
- Endowment reporting to donors
- Meeting(s) of an internal Endowment Compliance Committee
- Training of institution staff on endowment compliance

Each institution submits its assessment of these risks and activities to the U. T. System Administration annually and prepares a response to address any findings or negative trends observed.



# Risks Monitored: Summary of Findings FY2020

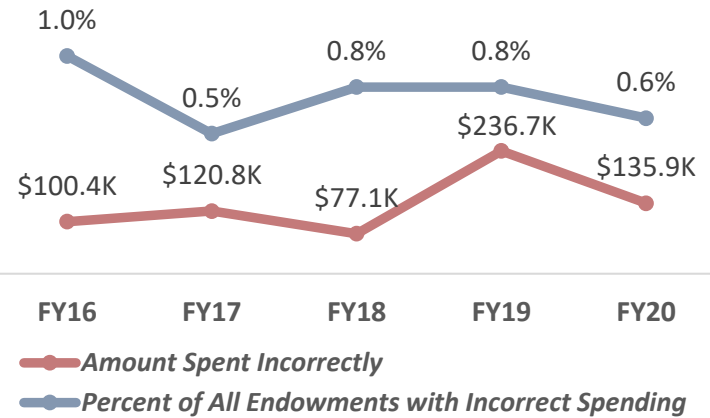
## Excessively Accumulating Endowments



# reviewed:	7,990
# excessively accumulating without a justifiable reason:	340 (4.3%)*
Total accumulated balance:	\$26M

\*endowments identified and being addressed by institutions

## Endowments with Incorrect Spending

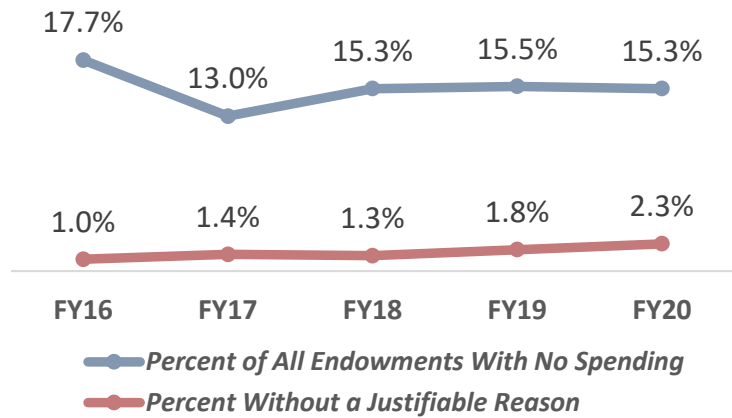


# reviewed:	6,831
# endowments with incorrect spending:	44 (0.6%)*
Total amount spent incorrectly:	\$135.9K



## Risks Monitored: Summary of Findings FY2020 (continued)

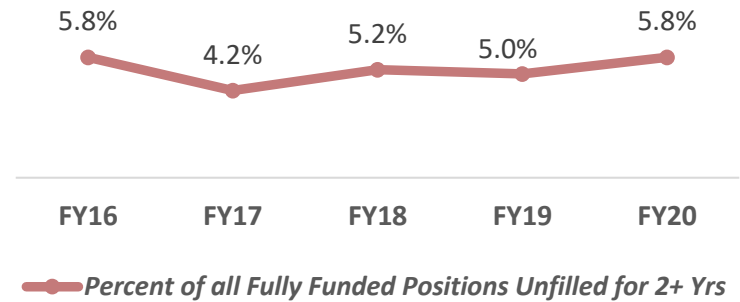
**Endowments With No Spending**



# reviewed:	7,990
# unspent without a justifiable reason:	183 (2.3%)*
Total annual distributions:	\$4.9M

\*endowments identified and being addressed by institutions

**Academic Positions Unfilled for 24 Months or Longer**



Total # fully funded academic positions:	2,962
# unfilled for 2+ years:	171 (5.8%)*



## Other Activities Addressed in FY2020

### Donor Reporting:

- 99.8% of known endowment donors or honorees received an annual report detailing the use of the endowment's distributions and a comprehensive financial statement (12,542 endowments)

### Institutional Endowment Compliance Committee:

- Each institution maintains an internal committee tasked with overseeing endowment compliance from an institutional perspective
- The committees include representation from the offices of development, compliance and/or audit, business, financial aid, and various academic and health departments

### Staff Training

- All institution staff members with endowment administration duties at any level receive training on endowment administration and compliance at least every two years





## New Monitoring Activity

- Beginning in FY2020, institutions were asked to monitor data on unawarded student support endowments (scholarships and graduate fellowships) in their annual endowment compliance reports
- This additional data will provide a more comprehensive view of endowed scholarship expenditures, with special attention on ensuring all endowed scholarship support available to students is distributed

