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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 5/9/2017

Board Meeting: 5/10/2017
Austin, Texas

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Convene	<i>11:15 a.m.</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>11:15 a.m.</i> Discussion	Action	22
2. U. T. System: Discussion and appropriate action regarding amendment of Regents' <i>Rules and Regulations</i>, Rule 20401 (Audit and Compliance Programs) to more accurately reflect current responsibilities of the U. T. System Chief Compliance and Risk Officer	<i>11:16 a.m.</i> Action	Action	23
3. U. T. System: Report on institutional and Systemwide compliance programs	<i>11:20 a.m.</i> Report/Discussion <i>Mr. James Dockery, U. T. Dallas Ms. Allyson Kinzel, U. T. M. D. Anderson Cancer Center Mr. Toby Boenig, U. T. Medical Branch - Galveston Dr. Arthur Culpepper</i>	Not on Agenda	25
4. U. T. System: Report on the results of the Fiscal Year 2016 U. T. Systemwide Endowment Compliance Program	<i>11:35 a.m.</i> Report/Discussion <i>Dr. Safady</i>	Not on Agenda	26
5. U. T. Medical Branch - Galveston: Report of the results of a nontraditional information technology audit of social engineering	<i>11:50 a.m.</i> Report/Discussion <i>Ms. Kimberly Hagara, U. T. Medical Branch - Galveston</i>	Not on Agenda	42

	Committee Meeting	Board Meeting	Page
6. U. T. System: Report on the State Auditor's Office Statewide Single Audit for FY 2016	12:05 p.m. Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	57
7. U. T. System: Report on the Systemwide internal audit activities and audit administrative items, including Priority Findings, Annual Audit Plan status, and Chief Audit Executive Annual Statements; and consideration and approval of Institutional Audit Committee chair changes	12:10 p.m. Action <i>Mr. Peppers</i>	Not on Agenda	60
Adjourn	12:15 p.m.		

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

RECOMMENDATION

No [Consent Agenda](#) items are assigned for review by this Committee.

2. **U. T. System: Discussion and appropriate action regarding amendment of Regents' Rules and Regulations, Rule 20401 (Audit and Compliance Programs), Section 2 to more accurately reflect current responsibilities of the U. T. System Chief Compliance and Risk Officer**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Rule 20401 (Audit and Compliance Programs), be amended to replace Section 2 as set forth below to more accurately reflect current responsibilities of the U. T. System Chief Compliance and Risk Officer:

Sec. 2 Compliance Program. The Chancellor, as chief executive officer of the U. T. System, is responsible for ensuring the implementation of a Systemwide compliance program for the U. T. System. U. T. System Administration shall adopt a policy further implementing the Systemwide compliance program.

The Systemwide compliance program shall be headed by a Chief Compliance and Risk Officer (CCRO) and is a fundamental part of the management structure of U. T. System Administration. The primary responsibility of the CCRO is developing the infrastructure for the effective operation of the Systemwide compliance program. The CCRO is also responsible for apprising System Administration and the Audit, Compliance, and Management Review Committee (ACMRC) of the compliance functions and activities at System Administration, The University of Texas Investment Management Company (UTIMCO), and each institution.

BACKGROUND INFORMATION

After an external assessment of the U. T. Systemwide compliance function was finalized in 2016, System Administration has taken great strides to reconstitute the Office of Systemwide Compliance, including the appointment of a Chief Compliance and Risk Officer, a Deputy Chief Compliance and Risk Officer, a Chief Inquiry Officer, as well as bringing the responsibility for ethics and privacy into the compliance function.

A key recommendation of the report was to revise and operate under a functional Systemwide Compliance Charter, under the direct governance of the Systemwide Executive Compliance Committee.

With the additional leadership of the Institutional Compliance Advisory Council, the Office of Systemwide Compliance and the Executive Compliance Committee have approved a new Systemwide Compliance Charter to govern the priorities and operations of the Office of Systemwide Compliance.

With the Charter in place, amendments to Regents' Rule 20401 (Audit and Compliance Programs) and U. T. Systemwide Policy, UTS119 (Institutional Compliance Program) are

recommended to avoid duplication, to empower the newly adopted Charter, and to provide the foundation for a successful Systemwide Compliance Program.

This agenda item was reviewed by the U. T. System institutional presidents and representatives of the Student Advisory Council, the Faculty Advisory Council, and the Employee Advisory Council.

3. U. T. System: Report on institutional and Systemwide compliance programs

REPORT

Mr. Phil Dendy, Chief Compliance and Risk Officer at The University of Texas System, will introduce the following members of the Institutional Compliance Advisory Committee (ICAC) for a report on high compliance risk areas and the direction of the ICAC.

- Mr. James Dockery, Assistant Vice President, Institutional Equity and Compliance at U. T. Dallas and Chair of the ICAC;
- Ms. Allyson Kinzel, Vice President and Chief Compliance Officer at U. T. M. D. Anderson Cancer Center and Vice Chair of the ICAC;
- Mr. Toby Boenig, Vice President and Chief Compliance Officer at U. T. Medical Branch - Galveston and Vice Chair of the ICAC; and
- Dr. Arthur Culpepper, Executive Director and Deputy Compliance Officer at U. T. System Administration and member of the ICAC.

BACKGROUND INFORMATION

After an external assessment was finalized in 2016, U. T. System Administration reconstituted the Office of Systemwide Compliance, including the appointment of a Chief Compliance and Risk Officer, a Deputy Compliance Officer, and a Chief Inquiry Officer, and has moved responsibility for monitoring and oversight for ethics and privacy into the compliance function.

Systemwide Compliance's key partners are the compliance departments of the 14 U. T. System institutions represented through the ICAC. Though newly reestablished, the ICAC is engaged in providing oversight and support in identifying key compliance risks on a Systemwide basis.

The Chief Compliance and Risk Officer recommends that future Audit, Compliance, and Management Review Committee meetings involve in-depth discussions of particular compliance risks. Before focusing on specific areas, a broad conversation is needed to provide context to these discussions. The ICAC Chair, Vice Chairs, and the Deputy Compliance Officer will discuss the establishment of institution-driven, Systemwide committees to further monitor high-risk areas, emerging issues, and the manner in which these issues are being addressed at the institutions and Systemwide.

4. **U. T. System: Report on the results of the Fiscal Year 2016 U. T. Systemwide Endowment Compliance Program**

REPORT

Vice Chancellor Safady will report on the U. T. Systemwide Endowment Compliance Program for the fiscal year ended August 31, 2016, using a PowerPoint presentation set forth on the following pages.

Endowment Compliance Program FY 2016

Dr. Randa Safady, Vice Chancellor for External Relations

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2017



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Summary of Presentation

- Endowment Compliance Program overview — why have it and how it works
- Information on all endowments held by U. T. System Board of Regents, U. T.-affiliated foundations, and others
- Data on Board-held endowments only
- Overview of annual reporting process
- Summary of findings from FY 2016 report

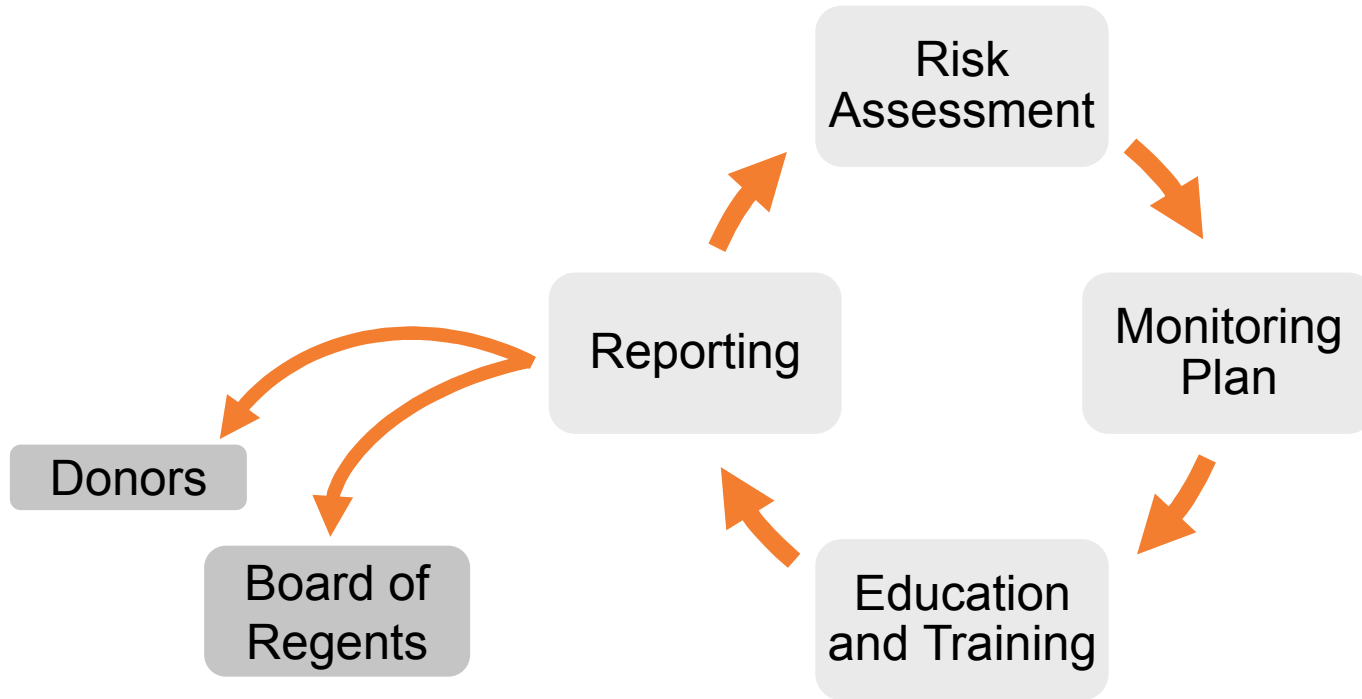


Purpose of Program

- 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**, confirmed by timely reporting
- To **utilize endowment resources** most effectively
- To **standardize management** of endowments
- To **ensure awareness** of compliance issues across U. T. System institutions
- To **encourage philanthropy** through increased donor trust



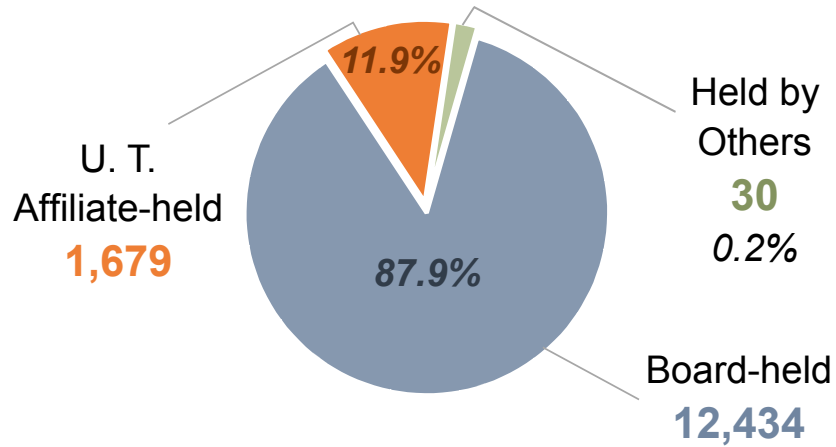
Elements of Endowment Compliance Program



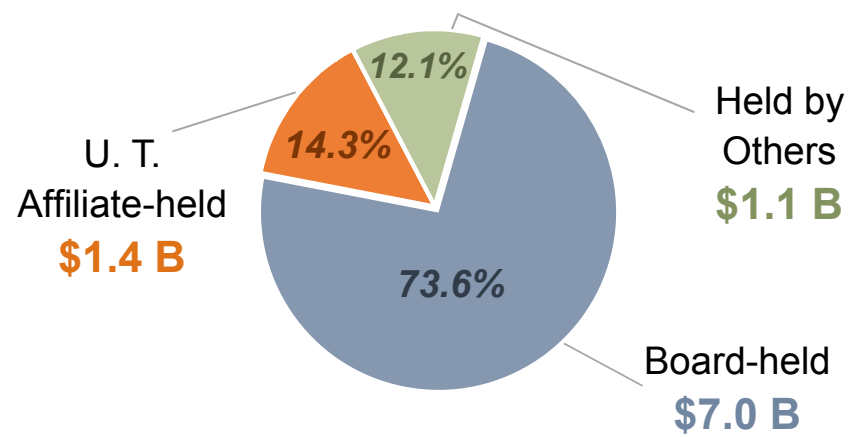
Total Endowments

In FY 2016, there were **14,143** total endowments, with a total Market Value of **\$9.5 Billion**, held as follows:

Number of Endowments

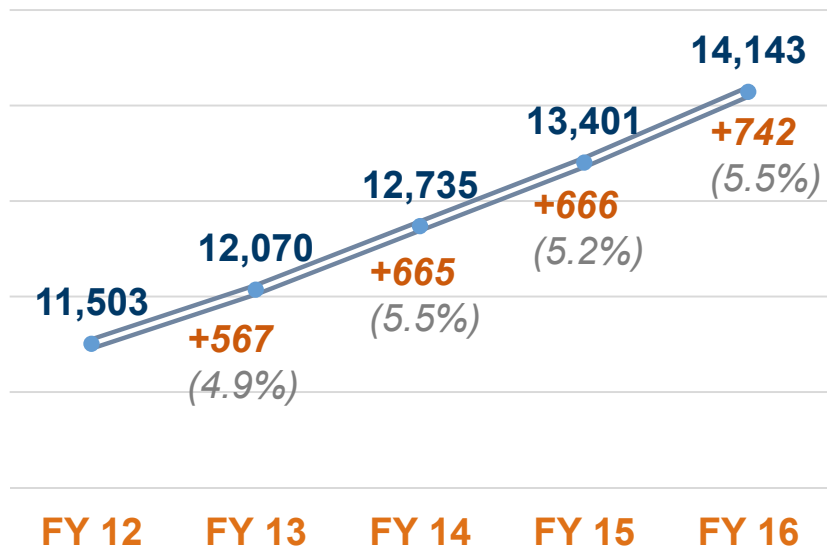


Market Value

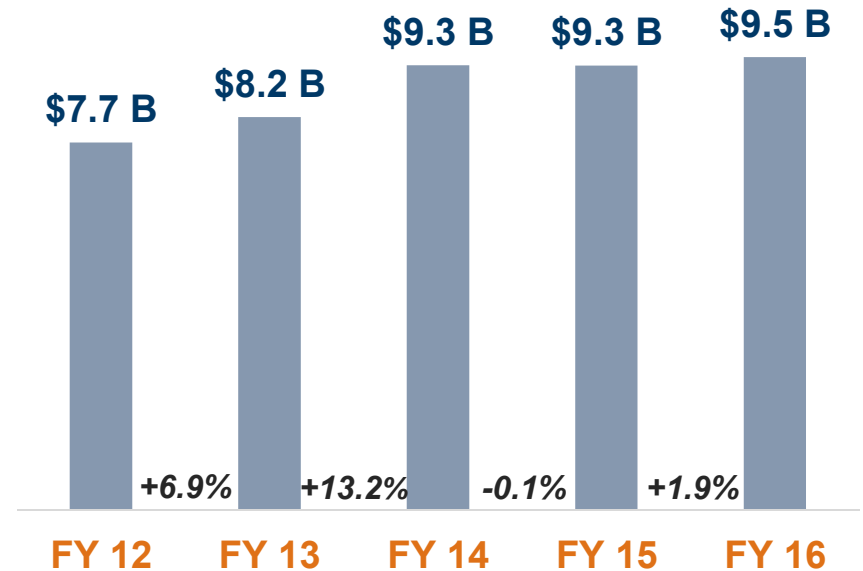


Total Endowments – Five Year Trends

Number of Endowments



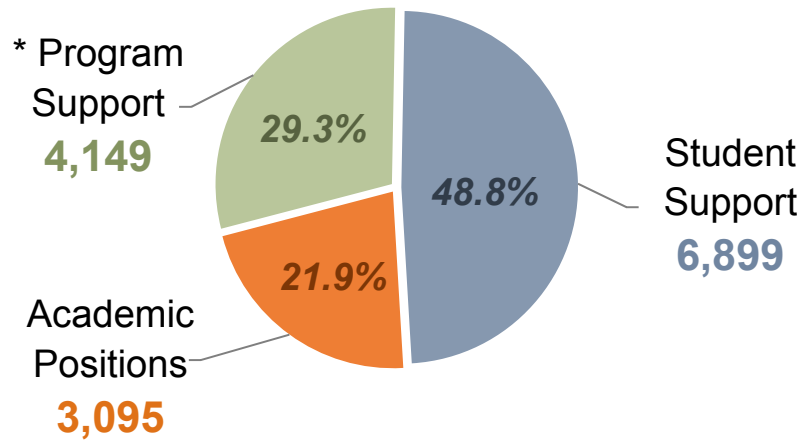
Market Value



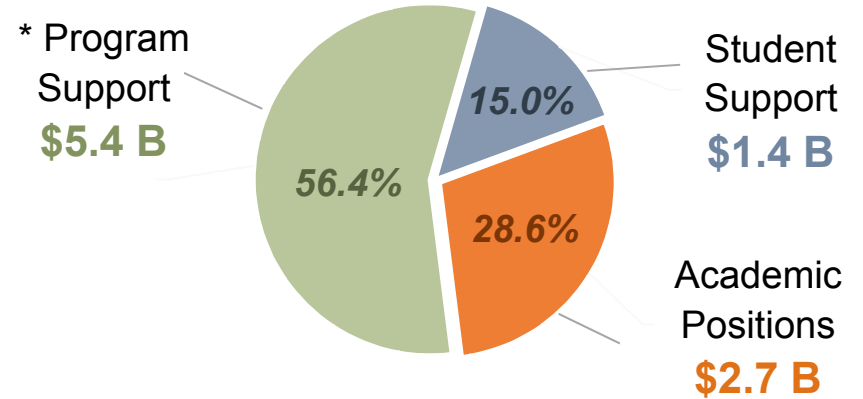
Total Endowments – by Type

Endowments typically fall into three categories: **Student Support**, **Academic Positions**, and **Program Support**

Number of Endowments



Market Value



* Program Support includes endowments designated to research



Endowment Growth Systemwide

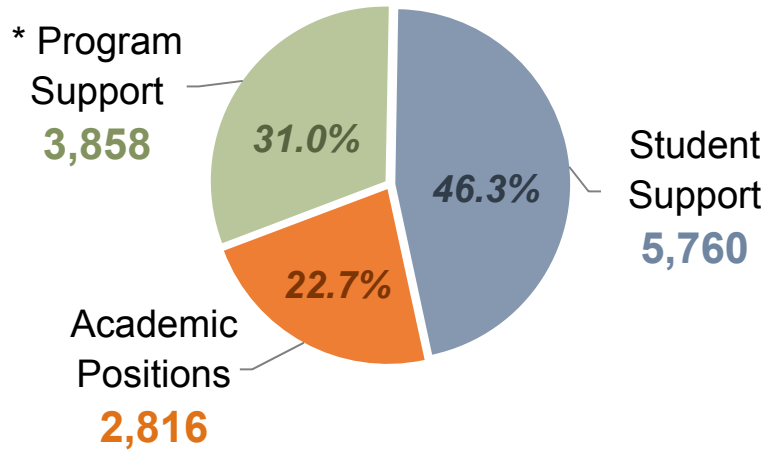
	Total Number of Endowments	Number Increase Over Previous Year		Total Market Value	Market Value Increase Over Previous Year
U. T. Arlington	670	10	2 %	\$ 129.4 M	2 %
U. T. Austin	7,057	380	6 %	\$ 3.7 B	1 %
U. T. Dallas	457	52	13 %	\$ 442.1 M	11 %
U. T. El Paso	723	26	4 %	\$ 186.6 M	1 %
U. T. Permian Basin	150	4	3 %	\$ 48.8 M	2 %
U. T. Rio Grande Valley	501	50	11 %	\$ 84.3 M	6 %
U. T. San Antonio	436	34	8 %	\$ 133.9 M	10 %
U. T. Tyler	280	10	4 %	\$ 79.0 M	-0.4 %
U. T. Southwestern Medical Center	972	28	3 %	\$ 1.4 B	4 %
U. T. Medical Branch - Galveston	846	36	4 %	\$ 1.6 B	-3 %
U. T. Health Science Center - Houston	598	51	9 %	\$ 303.7 M	10 %
U. T. Health Science Center - San Antonio	498	19	4 %	\$ 236.0 M	9 %
U. T. M. D. Anderson Cancer Center	551	25	5 %	\$ 1.0 B	1 %
U. T. Health Science Center - Tyler	44	2	5 %	\$ 12.7 M	0.5%
U. T. System Administration	352	15	4 %	\$ 55. 6 M	-2 %
Multi Institution	8	0	0 %	\$ 18.6 M	-4 %
	14,143	742	6 %	\$ 9.5 B	1.9 %



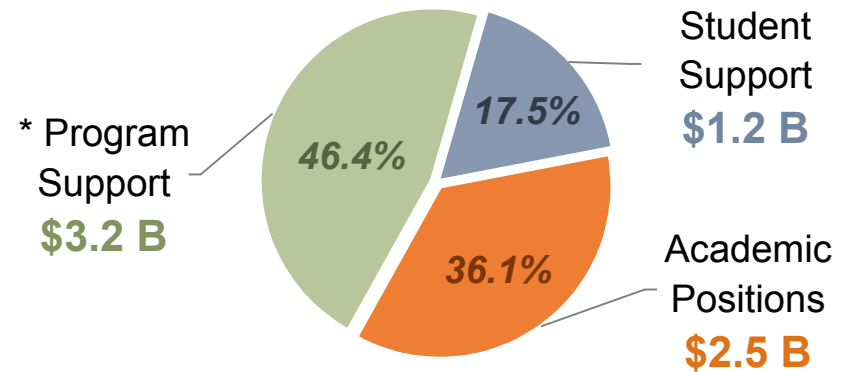
Board-Held Endowments – Numbers by Type

In FY 2016, the **12,434** Board-Held endowments had a total Market Value of **\$7.0 Billion**, allocated among the three endowment types as follows:

Number of Endowments



Market Value

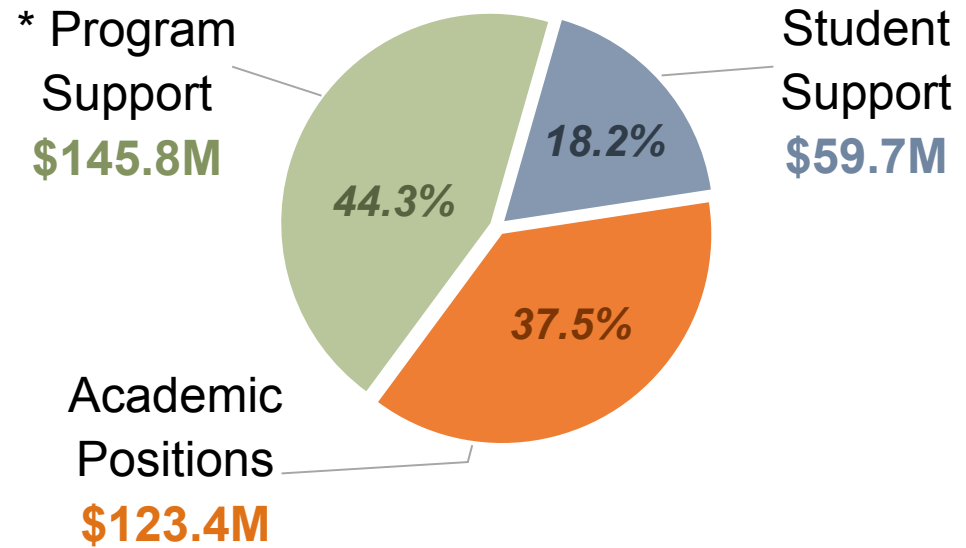


* Program Support includes 899 endowments, with \$1.6 Billion Market Value, designated to research



Board-Held Endowments – Distributions

The total Available Distributions from all Board-held Endowments was **\$328.9 Million**, allocated across the three endowment types as follows:



* Program Support includes endowments designated to research



Annual Report – Monitored Risk Factors

- Each U. T. System institution and U. T. System Administration reviews between 1/3 and all of its endowments (based on its total number), focusing on five primary risk factors:
 - **Inappropriate spending of endowment distributions**
 - **No spending of endowment distributions (without justifiable reasons)**
 - **Excessive accumulations of endowment distributions (without justifiable reasons)**
 - **Reinvestment of >10% of annual distributions (without justifiable reasons)**
 - **Fully-funded academic positions unfilled for 24 months or longer**



Annual Report – Monitored Risk Factors (cont.)

- Each U. T. System institution and U. T. System Administration also reviews:
 - **Endowment compliance staff training (nature of training, number trained)**
 - **Annual reporting to donors and institution executive officers**
- Each U. T. System institution and U. T. System Administration submits an annual report on compliance activity and findings
- Annual Endowment Compliance Report data is reviewed and analyzed in the U. T. System Office of External Relations
- Findings are reported to the U. T. System institution president, U. T. System Chancellor and executive officers, and U. T. System Board of Regents



Summary of Findings – FY 2016

Findings from the review of **6,096** (46%) of **13,200** endowments included in the report:

Report Criteria	For Endowments Reviewed		
	# Reviewed	# in Compliance	% in Compliance
Inappropriate Spending of Endowment Distributions	6,157	6,096	99.01 %
No Spending of Endowment Distributions (without Justifiable Reasons)	6,096	6,032	98.95 %
Excessive Accumulations of Endowment Distributions (without Justifiable Reasons)	6,096	5,966	97.87 %
Reinvestment of >10% of Endowment Distributions (without Justifiable Reasons)	6,096	6,096	100 %
Fully-funded Endowed Academic Positions Unfilled for ≥ 24 Months (100% reviewed)	2,674	2,519	94.20 %



Summary of Findings – FY 2016 (cont.)

- During the reporting period, Board-held and U. T. affiliate-held endowment distributions totaled **\$345 million**, and the institutions spent 88.5% of that.
- By endowment type, percentages of total expenditures were as follows:
 - **Student Support – 94% of annual distributions were spent (\$56.7 M of \$60.4 M)**
 - **Academic Positions – 91% of annual distributions were spent (\$115.4 M of \$127.5 M)**
 - **Program Support – 85% of annual distributions were spent (\$133.1 M of \$157.1 M)**



Looking Forward

- Decreasing the accumulations of endowment distributions remains a top priority, particularly with scholarship endowments.
- Fully automating the Annual Endowment Compliance Report system has proved difficult, but we are working to improve the process.
- New Long Term Fund allocation to help fund development will also yield more endowments, and with that, more compliance.
- Increasing current endowment funding levels may help alleviate accumulation of funds issue that exists at some institutions.



5. **U. T. Medical Branch - Galveston: Report of the results of a nontraditional information technology audit of social engineering**

REPORT

Ms. Kimberly Hagara, Vice President for Audit Services at U. T. Medical Branch - Galveston, will make a presentation on a nontraditional information technology audit of social engineering. A PowerPoint presentation is set forth on the following pages.

Social Engineering: a NonTraditional IT Audit

Ms. Kimberly Hagara, Vice President, Audit Services
U. T. Medical Branch - Galveston

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2017



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Agenda

- The Risk: What is Social Engineering?
- The Project: UTMB Health's Story
- The Controls: Internal Audit Considerations
- The Trusted Advisor: Internal Audit and Cybersecurity



What is Social Engineering?

- Phishing and Spear Phishing
- Vishing and SMS Texting
- Baiting and Physical Exploits



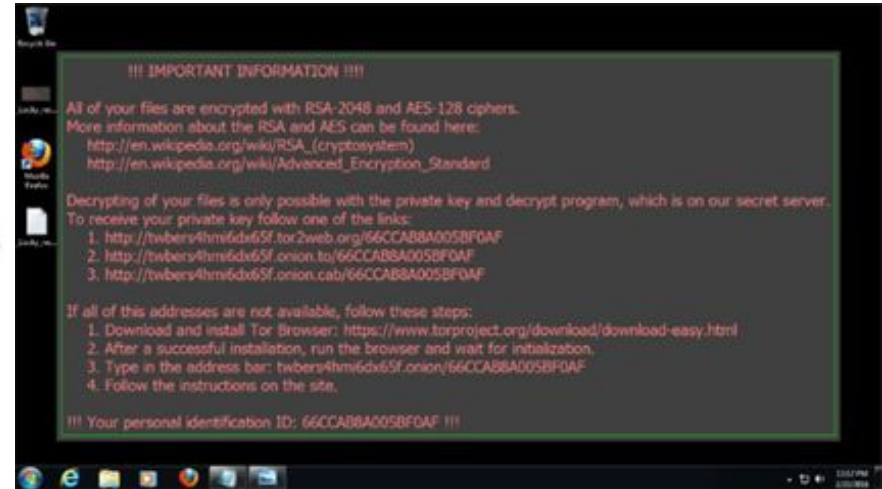
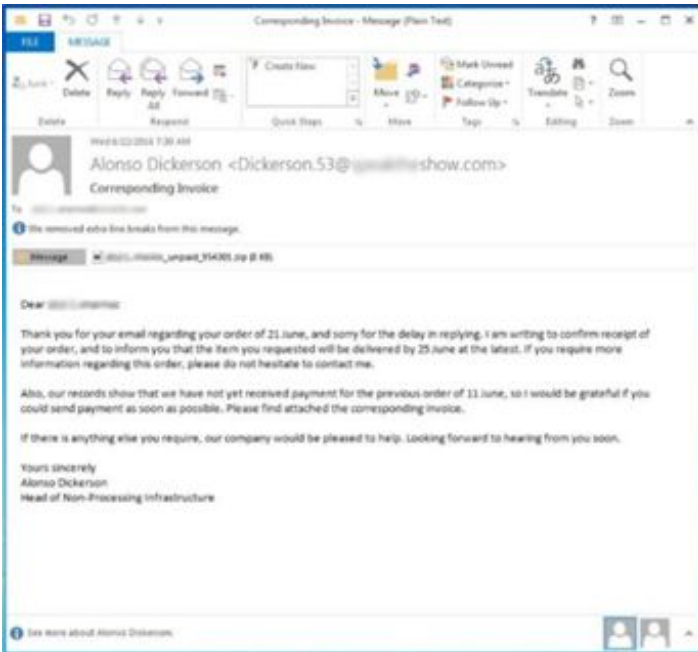
What Could Go Wrong?



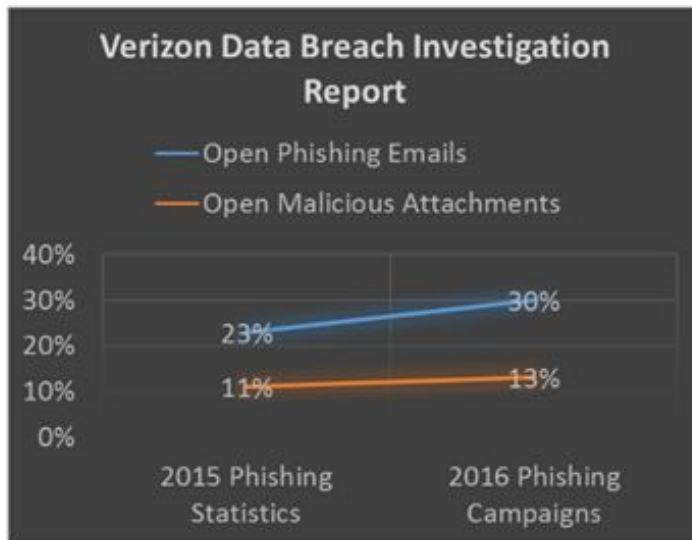
- Employee W2 extracts – Seasonal exploit
- Wire fraud schemes – Executive exploit



What Could Go Wrong? (cont.)



Data Behind the Risk



- 89% of phishing attacks originate from organized crime syndicates (source: Verizon)
- 95% of all attacks on enterprise networks are the result of spear phishing (source: SANS Institute)
- Phishing will remain the primary method of attack delivery through the year 2020 (source: Gartner)



Risk Scenarios – Threat/NonThreat?

Social Engineering Technique	Risk Scenario	Risk Exposure*	Level of Effort by Cyber-Criminal
Phishing	Opening a malicious email?	Very Low	Very Low
Phishing	Clicking a malicious link?	Low	Very Low
Phishing / Baiting	Opening a malicious file?	Medium	Very Low
Baiting	Inserting a malicious USB drive?	Medium	Medium
Phishing / Baiting	Running program / executable?	Very High	Very Low
Phishing / Baiting	Running a macro in a malicious file?	Very High	Very Low
Phishing / Baiting / Vishing	User credential theft?	Very High	Very Low
In-Person Exploit	Theft of IT Assets, Sensitive Data	Very High	Medium – Very High

*Assumes a moderate level of security and system hardening is in place



Engagement Premise

- Replicate real world scenarios (both internal and external threats) with varied levels of sophistication and without any notification of testing activities
- Assess the ease of gaining access to buildings, infrastructure, automated information systems, or confidential/sensitive data through methods primarily relying upon human interaction, persuasion, or deception (i.e., “a sense of susceptibility, or vulnerability”)
- Take reasonable care to do no harm
- Educational, nonpunitive, anecdotal findings
- Facilitate development of action plan for sustained improvement
- ...and ultimately get a feel for what it might mean to “operationalize” this type of testing



Engagement Stakeholders

Tone from the Top

- Senior Vice President and General Counsel (sponsor)
- Vice President and Chief Compliance Officer (owner)
- Vice President, Legal Affairs
- Police Chief, Assistant Chief, Lt. (Operations/Patrol)
- Chief Audit Executive
- Chief Information Officer
- Information Security Officer
- Public Information Officer



From the Bottom Up

- IT Audit Manager (engagement lead)
- IT Auditor (chauffer)
- Privacy Officer (guard rails)
- Web Developers (2)
- Helpdesk tickets
- Exchange Engineer
- Advocate from the trenches
- Hall monitor
- Police Technical Manager

Engagement Tactics

- 40+ buildings, 100+ walkabouts
- 150+ baits
- Multiple campus/satellite locations; offices, closets, PCs
- Phishing (e.g., password stringency test, inbox notifications)
- Spear Phishing (e.g., April Fools' Day)
- Vishing (e.g., IT maintenance impersonation)



Engagement Takeaways

- Internal Audit's relationship with executive management says a great deal about your culture.
- At the end of the day, layered security defenses are porous and ultimately your employees become your perimeter!
- Employees can be your greatest vulnerability or your best defense against social engineering attacks.



It's more than just phishing . . .

- Lost and found procedures
- Incident response procedures
- Building entrances
- Building interiors (restricted/secured space)
- Extent of police presence and camera coverage
- Hardcopy (disposal to destruction)
- Desktop configurations (are controls what you expected)
- Nonsanctioned software use
- Vulnerability scans (end user devices)
- Extent of encryption
- Publically displayed login credentials

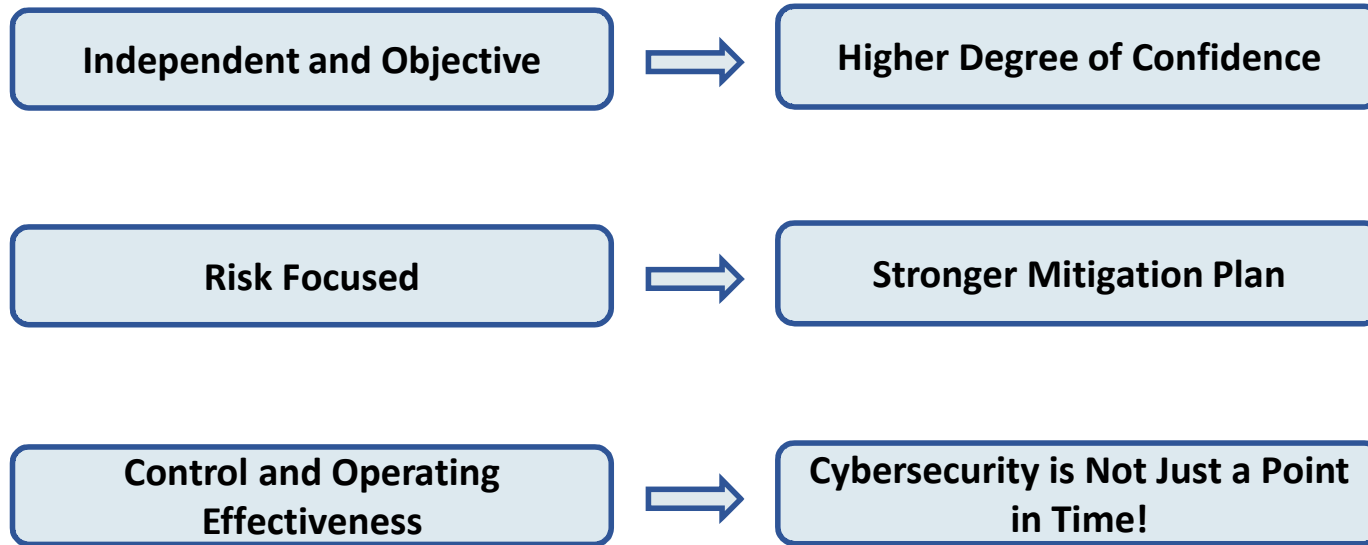


Adding Value

- As risks continue to evolve, so too must the internal audit function.
- Progressive approaches; different conversations and levels of services
- Help drive organizational change; reducing the exposure to social engineering threats
- Provide insights and recommendations on an important risk matter



The Case for Internal Audit & Cybersecurity



6. **U. T. System: Report on the State Auditor's Office Statewide Single Audit for FY 2016**

REPORT

Chief Audit Executive Peppers will report on the State Auditor's Office State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2016. A summary is set forth on the following pages.

BACKGROUND INFORMATION

The Texas State Auditor's Office performs the Statewide Single Audit annually. The Statewide Single 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 to fulfill Single Audit reporting requirements.

The University of Texas System
State Auditor's Office FY 2016 Statewide Single Audit
Summary of Results

State of Texas Compliance with Federal Requirements for Federal Programs

As a condition of receiving federal funding, the Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires non-federal entities that expend at least \$750,000 in federal awards in a fiscal year to obtain annual Single Audits. To supplement the audit procedures performed by KPMG for the annual Single Audit of federal expenditures for the State of Texas for Fiscal Year (FY) 2016, the State Auditor's Office (SAO) audited student financial aid at U. T. Arlington, U. T. Austin, U. T. Dallas, U. T. El Paso, U. T. Rio Grande Valley, and U. T. San Antonio. The SAO performs this audit every year, and institutions are chosen on a rotational basis with the size of their programs factored into the selection process. Procedures included assessing compliance with regulatory requirements and internal controls over federal funds. The SAO classifies findings identified in the samples as a significant deficiency/non-compliance or material weakness/non-compliance, the latter of which indicates a more serious reportable issue.

Compliance with Federal Requirements for the Student Financial Assistance Cluster of Federal Programs for the Fiscal Year Ended August 31, 2016¹ (February 28, 2017)

The Student Financial Assistance (SFA) Cluster audits test compliance with federal requirements in up to 12 areas, such as eligibility, cash management, and reporting. Overall, the State of Texas complied in all material respects with the federal requirements for the SFA Cluster of federal programs in FY 2016. The audit resulted in a total of 21 findings/recommendations at six U. T. System institutions for a total questioned cost of \$1,919, as outlined below.

- U. T. Arlington (questioned cost: \$0)
- U. T. Austin (questioned cost: \$130)
- U. T. Dallas (questioned cost: \$0)
- U. T. El Paso (questioned cost: \$1,789)
- U. T. Rio Grande Valley (questioned cost: \$0)
- U. T. San Antonio (questioned cost: \$0)

Eighteen of the findings were primarily categorized as significant deficiencies and non-compliance, but three were designated as material weaknesses (i.e., U. T. Arlington – related to enrollment reporting; U. T. El Paso – related to return of Title IV funds; and U. T. Rio Grande Valley – related to verification of special tests and provisions). Institutional management has taken action to correct errors, as needed, and responded appropriately to the recommendations with several institutions having taken steps towards implementation.

In addition, corrective actions were taken for several findings from the SAO's previous SFA Cluster audits, and management provided updated corrective action plans for the remaining open recommendations. Some of the open recommendations were reissued as new findings in the FY 2016 audit report.

¹ <http://www.sao.texas.gov/reports/main/17-027.pdf>

**The University of Texas System
State Auditor's Office FY 2016 Statewide Single Audit
Summary of Results**

Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2016

The SAO did not audit the Research and Development (R&D) Clusters for the federal portion of the statewide Single Audit for FY 2016, but it did perform work to follow up on unresolved R&D Cluster findings issued in prior year audits. Corrective actions were taken for several findings from the SAO's previous R&D Cluster audits, and management provided updated corrective action plans for the recommendations that remained open.

Compliance with Federal Requirements for Selected Major Programs for the Fiscal Year Ended August 31, 2016² (February 28, 2017)

U. T. Medical Branch - Galveston (UTMB) received funds from the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program. UTMB had one finding (Significant Deficiency/ Questioned Cost: \$0) related to various general IT controls. UTMB management responded appropriately to the related recommendation. In addition, the SAO performed follow-up on the one finding from the previous audit report and found it had been implemented.

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2016³ (February 28, 2017)

The SAO did not conduct audit procedures on the U. T. System institutions' financial statements as part of the audit of the State of Texas *Comprehensive Annual Financial Report* for the Fiscal Year Ended August 31, 2016, as they relied on the external audit of the U. T. System FY 2016 financial statements, which was performed by Deloitte. However, as part of the State of Texas financial portion of the statewide Single Audit report, the SAO made recommendations related to strengthening processes to ensure the completeness, accuracy, and review of the FY 2016 Schedules of Expenditures of Federal Awards (SEFAs) to U. T. Arlington, U. T. Austin, U. T. El Paso, and U. T. Rio Grande Valley.

Additionally, while corrective actions were taken for several findings from the SAO's previous financial portion of the Statewide Single Audit, some of the open recommendations were reissued as new findings in the FY 2016 audit report related to the SEFAs.

² <http://www.sao.texas.gov/reports/main/17-314.pdf>

³ <http://www.sao.texas.gov/reports/main/17-555.pdf>

7. **U. T. System: Report on the Systemwide internal audit activities and audit administrative items, including Priority Findings, Annual Audit Plan status, and Chief Audit Executive Annual Statements; and consideration and approval of Institutional Audit Committee Chair changes**

RECOMMENDATION

Chief Audit Executive Peppers will report on

- a. the status of Systemwide Priority Findings (see the PowerPoint on the following pages);
- b. the Fiscal Year 2017 Annual Audit Plan status as of February 28, 2017, provided to the Audit, Compliance, and Management Review Committee (ACMRC) members prior to the meeting; and
- c. the Chief Audit Executive Annual Statements.

Chief Audit Executive Peppers, on behalf of the Presidents at U. T. Arlington, U. T. Austin, U. T. Medical Branch - Galveston, U. T. M. D. Anderson Cancer Center, and U. T. Health Science Center - Tyler, recommends for formal approval by the ACMRC, the appointment of the following individual(s) to serve as Chairs of the Institutional Audit Committees:

- Mr. Randal Rose, President of the Arlington market for J.P. Morgan, at U. T. Arlington (reappointment);
- Mr. William O'Hara, former Executive Vice President of Morgan Stanley Dean Witter & Co., at U. T. Austin (reappointment);
- Mr. Keith McFatridge, President and Shareholder of McFatridge & Associates, P.C., at U. T. Medical Branch - Galveston;
- Ms. Patricia Curtis Bodin, former Chief Information Officer and Vice President of Global Information Technology of ExxonMobil, at U. T. M. D. Anderson Cancer Center; and
- Mr. David Iglesias, Owner of Iglesias Law Firm, PLLC, at U. T. Health Science Center - Tyler.

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

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).

The Chief Audit Executive Annual Statement process is a way to routinely and consistently obtain assurance that the chief audit executives are receiving adequate support to conduct the necessary audit services and that there are institutional internal audit departmental processes for certifying compliance with the Institute of Internal Auditors' International Professional Practices Framework and internal auditor independence and objectivity. Each of the chief audit executives responded positively to the statement, noting no exceptions or requests to attend an ACMRC executive session meeting.

At the May 14, 2014 committee meeting, the ACMRC reviewed and approved nominations from all the institutional presidents for external member chairs of their institutional audit committees. Any subsequent changes in the external member chairs are presented to the ACMRC annually for review and approval. Delegated approval was provided by the ACMRC Chairman and the Chancellor for those candidates who began terms between May ACMRC meetings.

U. T. Systemwide Priority Findings

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

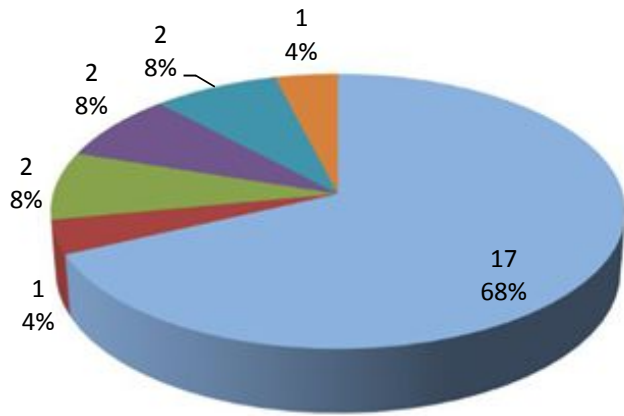
U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee
May 2017



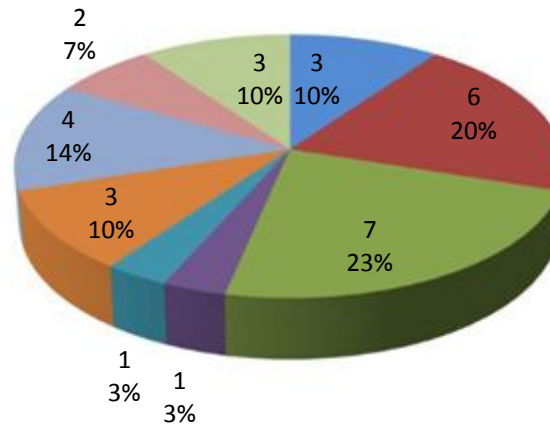
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Priority Findings By Area and Risk Factors



- INFORMATION TECHNOLOGY
- RISK MANAGEMENT
- FINANCE
- RESEARCH
- ENROLLMENT MANAGEMENT
- PATIENT CARE OPERATIONS



- REPUTATION
- INFORMATION SECURITY
- COMPLIANCE
- LIFE SAFETY
- DESIGNED CONTROLS
- CAPITAL IMPACT
- ACCOMPLISHMENT OF OBJECTIVES



Priority Findings Status – Changes Since Last Report

	<u>Reported Feb 2017</u>	<u>Implemented</u>	<u>New</u>	<u>Reported May 2017</u>
IT related Priority Findings	15	(3)	5	17
Non-IT related Priority Findings	<u>9*</u>	<u>(5)</u>	<u>4</u>	<u>8</u>
Total Priority Findings	24	(8)**	9***	25
Past Due Priority Findings	2			0

*This number was corrected from the previous report at the February 2017 U. T. System Board of Regents' meeting.

**Priority Findings were implemented at UTAUS (1 Risk Management), UTEP (1 IT), UTMB (1 Human Resources), UTMDACC (1 Research and 2 IT), and U. T. System Administration (1 Academic Support). One Priority Finding at UTEP related to Research from a State Auditor's Office (SAO) report was closed. The significance of this finding was lowered and will be tracked at the institutional level.

***New Priority Findings: UTA – Enrollment Management (1) *SAO report*; UTEP – Finance (2) *SAO reports*; UTRGV – Enrollment Management (1) *SAO report*; UTMDACC – IT (5)

