



**TABLE OF CONTENTS  
FOR  
AUDIT, COMPLIANCE, AND RISK MANAGEMENT  
COMMITTEE**

**Committee Meeting: 5/22/2019**

**Board Meeting: 5/23/2019**  
Austin, Texas

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

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>A. CONVENE</b>	<i>10:00 a.m.</i> <i>Chairman Beck</i>		
<b>B. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551</b>			
<p>Deliberation Regarding Security Devices or Security Audits – Sections 551.076 and 551.089</p> <p><b>U. T. System Board of Regents: Discussion and appropriate action regarding safety and security issues, including security audits and the deployment of security personnel and devices</b></p>			
<b>C. RECONVENE IN OPEN SESSION</b>			
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration</b>	<i>10:25 a.m.</i> <b>Discussion</b>	<b>Action</b>	<b>25</b>
2. <b>U. T. System: Report on Major Risk Finance and Risk Control Programs, Significant Claims, and Initiatives for the Office of Risk Management</b>	<i>10:30 a.m.</i> <b>Report/Discussion</b> <i>Mr. Dendy</i>	Not on Agenda	<b>26</b>
3. <b>U. T. System: Report on the results of the Fiscal Year 2018 U. T. Systemwide Endowment Compliance Program</b>	<i>10:40 a.m.</i> <b>Report/Discussion</b> <i>Dr. Safady</i>	Not on Agenda	<b>41</b>

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
4. <b>U. T. System: Discussion of audit services that support the Committee's oversight responsibilities, including the State Auditor's Office Statewide Single Audit Report for FY 2018; Report on the Systemwide internal audit activities and audit administrative items, including Required Communications and Annual Audit Plan Status; and Discussion and Appropriate Action regarding institutional Audit Committee chair changes</b>	10:50 a.m. <b>Action</b> <i>Mr. Peppers</i>	Not on Agenda	<b>53</b>
<b>D. ADJOURN</b>	11:00 a.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: Report on Major Risk Finance and Risk Control Programs, Significant Claims, and Initiatives for the Office of Risk Management**

REPORT

Chief Compliance and Risk Officer Dendy will report on the property and casualty Risk Finance and Risk Control Programs administered or coordinated by the Office of Risk Management (ORM), including major property insurance, construction risks, and initiatives. He will also provide an update on Hurricane Harvey. A PowerPoint presentation is set forth on the following pages.

BACKGROUND INFORMATION

The mission of ORM is to provide high quality risk management services, resources, and leadership that create value and support U. T. System's mission of excellence in education, research, health care, and public service. The framework of the U. T. System risk management program consists of assessment, control, finance, communication, and monitoring. The program is governed by executive leadership and direction from the Risk Management Executive Committee.

# Office of Risk Management Risk Finance and Risk Control Programs

Mr. Phillip Dendy, Chief Compliance and Risk Officer

U. T. System Board of Regents' Meeting  
Audit, Compliance, and Risk Management Committee  
May 2019



THE UNIVERSITY of TEXAS SYSTEM  
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.  
[WWW.UTSYSTEM.EDU](http://WWW.UTSYSTEM.EDU)

# Operational Exposures (FY 2018)

- Employee headcount - 123,816
- Enrollment – 239,000
- Outpatient visits - 7.3 million
- Hospital stays - 1.5 million
- Total Insured Values - \$40.4 billion
- Gross square feet - 108 million
- Construction values in progress - \$2 billion
- Faculty/staff/student international trips - 19,000



# Risk Finance Programs

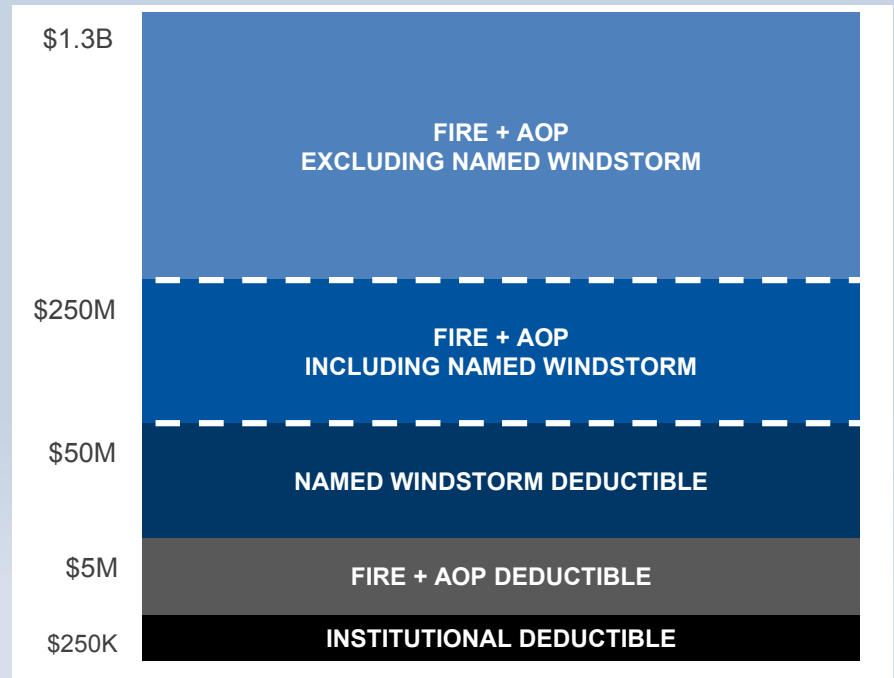
- Administration of Risk Financing Programs
  - Automobile, Property, and Liability (APL)
  - Comprehensive Property Protection Plan (CPPP)
  - Rolling Owner Controlled Insurance Program (ROCIP)
  - Builder's Risk (BR)
  - Director's and Officer's/Employment Practices Liability (D&O/EPL)
  - Cyber Liability Program (CLP)
  - Unemployment Compensation Insurance (UCI)
  - Workers' Compensation Insurance (WCI)



# CPPP: How It Works

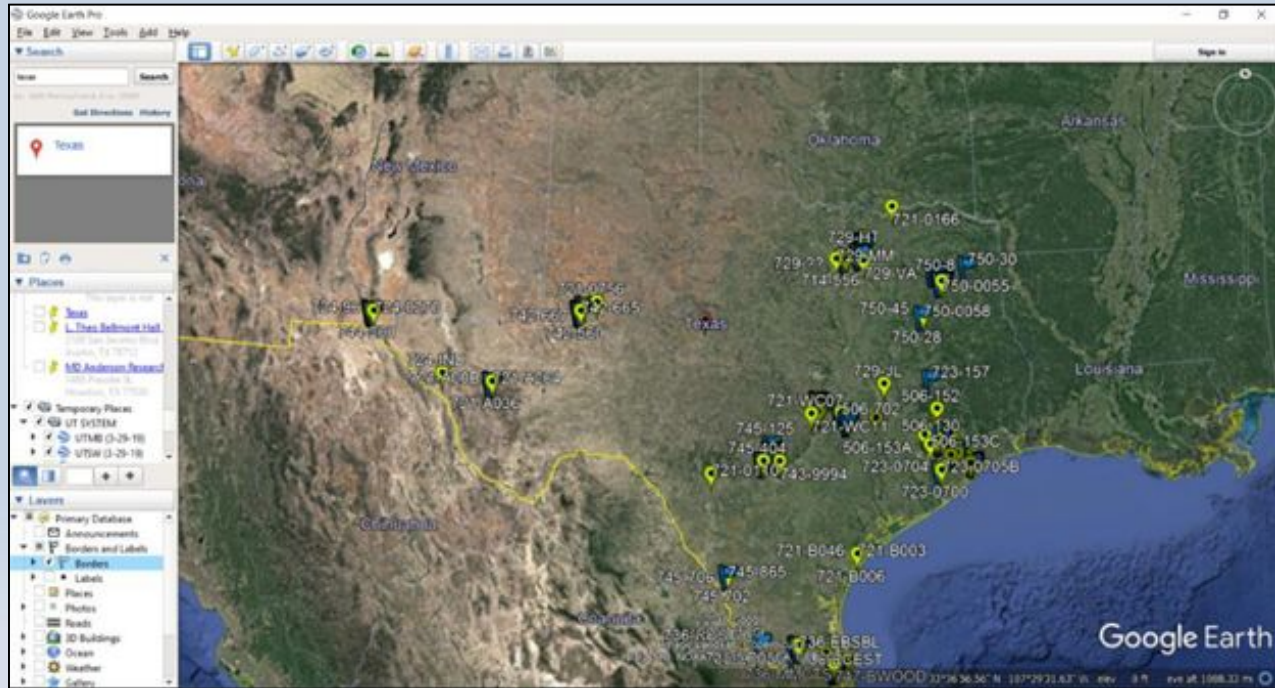
- Fire and All Other Perils (AOP)
  - \$1.3 billion limit
  - \$5 million deductible
- Named Windstorm
  - \$250 million limit
  - \$50 million or 5% deductible
  - Texas Windstorm Insurance Association (TWIA) and National Flood Insurance Program (NFIP) losses erode CPPP deductible

2019 – 2020 CPPP Master Program

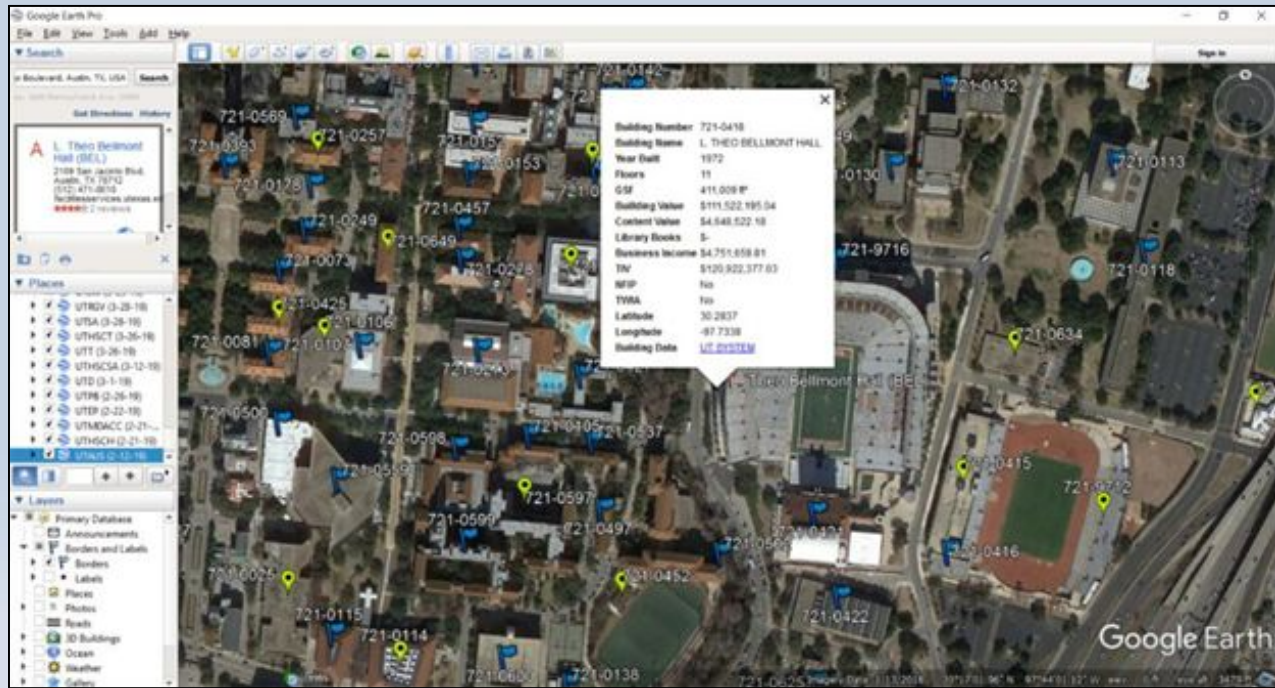




# Property Conservation



# Property Conservation (cont.)



# Property Conservation (cont.)



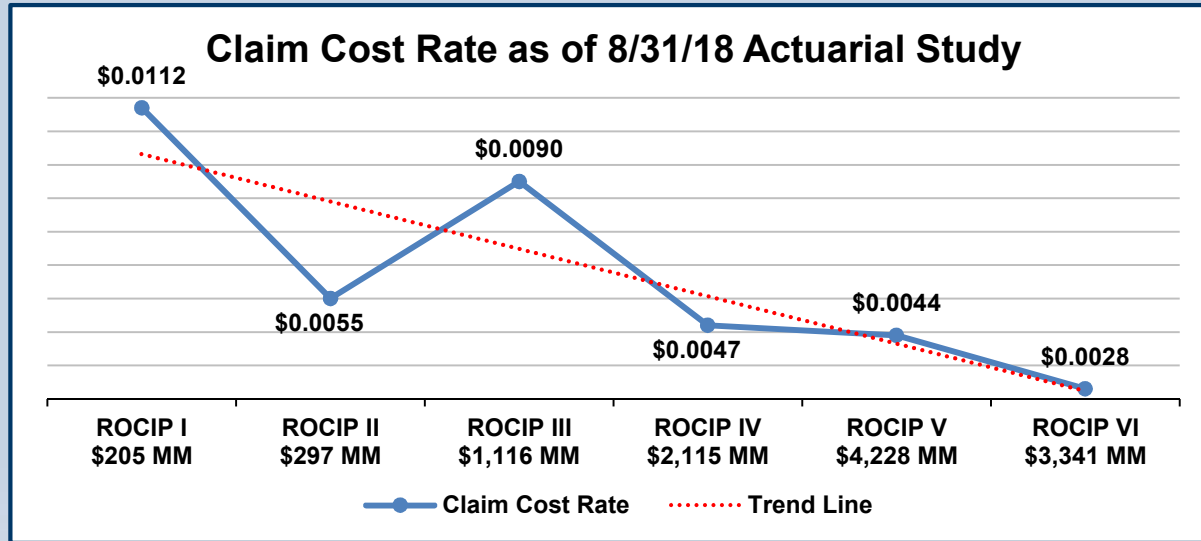


# CPPP: Update – Hurricane Harvey

- August 2017 - Hurricane Harvey
  - Claimed ~ \$104 million (as of December 2018)
  - Undisputed ~ \$81 million
  - CPPP Advances ~ \$31 million
  - TWIA Advances ~ \$10 million
  - NFIP Advances ~ \$1.1 million



# ROCIP: Safety Program Outcomes



- Claim costs are capped at University deductible levels (\$250K or \$375K)
- Calculated as projected incurred claims divided by completed construction value
- All rates are subject to change as claims are reported and develop



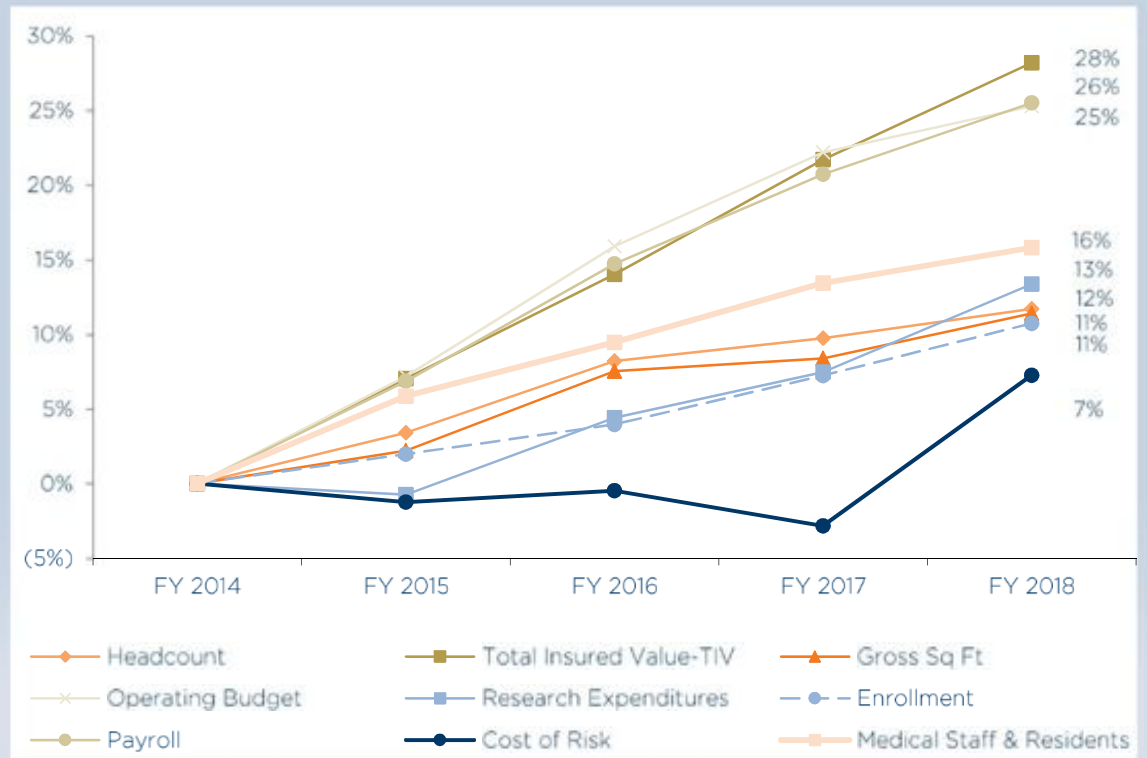
# International Travel Snapshot



# Cost of Risk

Cost of risk is a method of representing the financial performance of risk management programs.

- Includes fixed costs such as commercial and self-insurance premiums
- The cost of risk in FY 2018 was approximately \$38.67 million



# Cost Savings

## Cost Savings FY 2016 - 2018

ORM Program	Premium Rate	Benchmark Rate	Premium Rate Savings	UT System Premium Total	Premium Savings Over Benchmark
	3 year Average			3 Year Savings	
Auto	\$ 772.14	\$ 1,419.00	\$ 646.86	\$ 3,915,588	\$ 3,443,318
D&O	\$ 5.52	\$ 11.57	\$ 6.05	\$ 2,015,601	\$ 2,209,407
ROCIP	\$ 1.31	\$ 2.32	\$ 1.01	\$ 33,257,345	\$ 25,772,224
UCI	\$ 0.53	\$ 1.34	\$ 0.81	\$ 17,287,887	\$ 26,026,209
WCI	\$ 0.11	\$ 0.25	\$ 0.14	\$ 26,681,635	\$ 34,837,121
<b>Total Savings</b>					<b>\$ 91,288,279</b>





# Systemwide Environmental Contracts

- Hazardous waste disposal
  - savings of ~ \$337,000 (comparative contract pricing)
  - savings of ~ \$680,000 (market pricing)
- Medical and biological waste
  - savings of ~ \$445,000 (compared to peers in TMC)
  - savings of ~ \$1,988,000 (market pricing)
- Other Systemwide contracts include Low-Level Radioactive Waste (LLRW) disposal, emergency response, disaster recovery, and environmental services. Total estimated savings, including training, is \$2.9 million.



# Initiatives

- Enhanced laboratory safety training
- Behavior Intervention Team (BIT) training
- Minors on campus training and best practices
- Enterprise Risk Management



3. **U. T. System: Report on the results of the Fiscal Year 2018 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, 2018, using a PowerPoint presentation set forth on the following pages.

# Endowment Compliance Report FY 2018

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

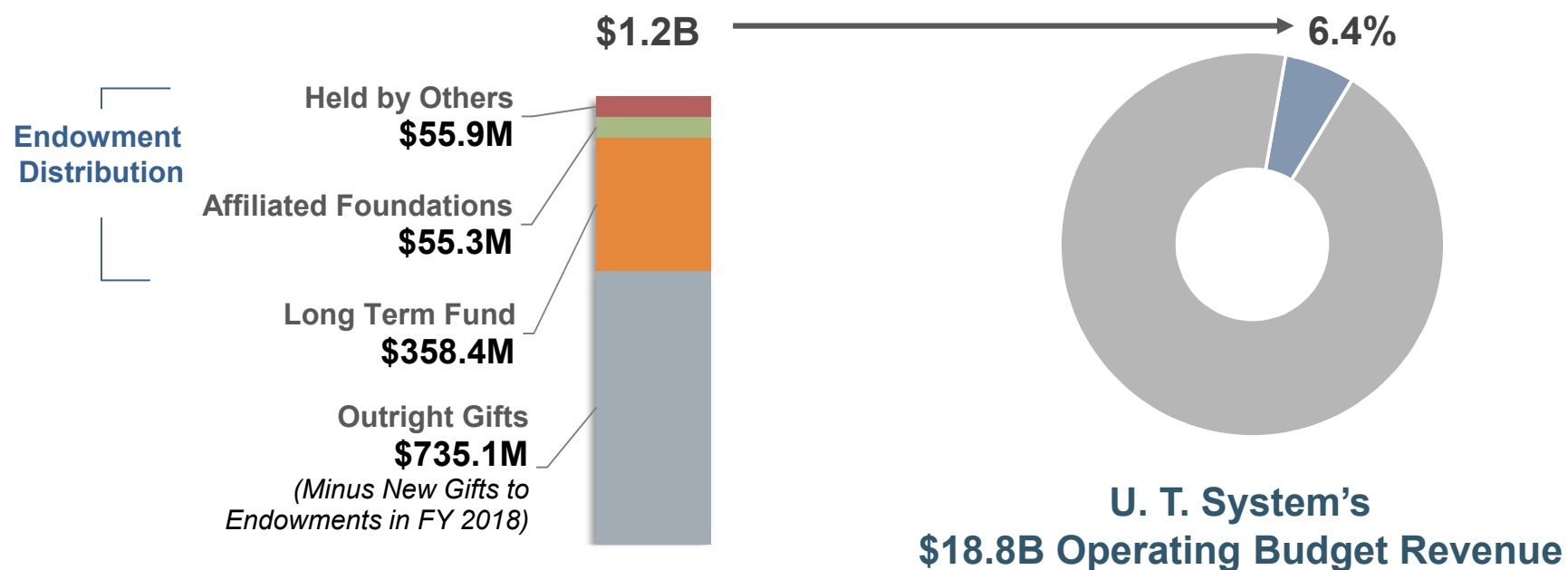
U. T. System Board of Regents' Meeting  
Audit, Compliance, and Risk Management Committee  
May 2019



THE UNIVERSITY of TEXAS SYSTEM  
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

[WWW.UTSYSTEM.EDU](http://WWW.UTSYSTEM.EDU)

# Impact: Cash Available to U. T. Institutions from Philanthropic Sources in FY 2018



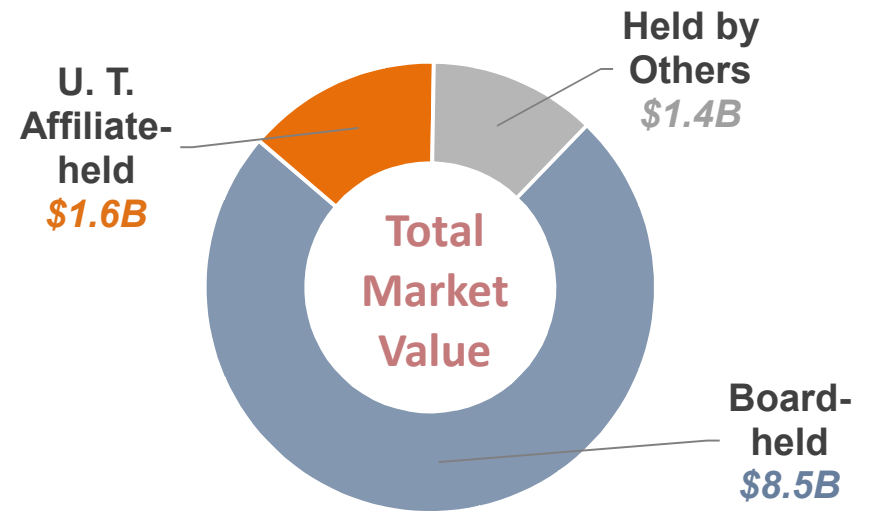
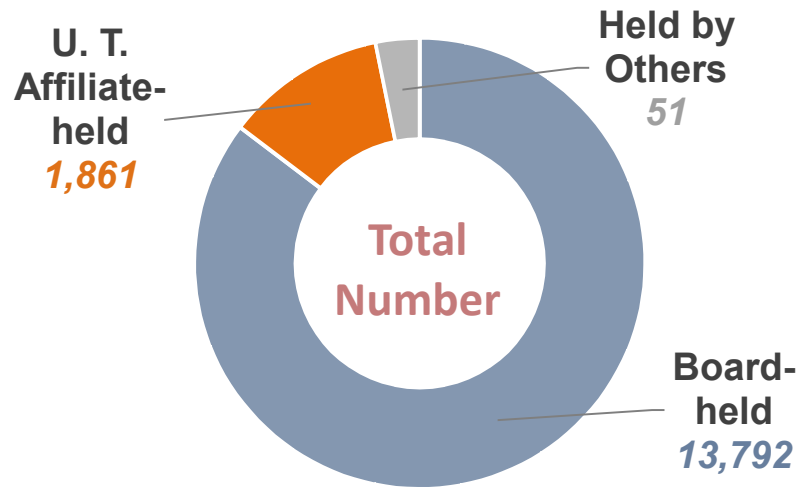
## Purpose of Program

- 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** 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 increased donor trust



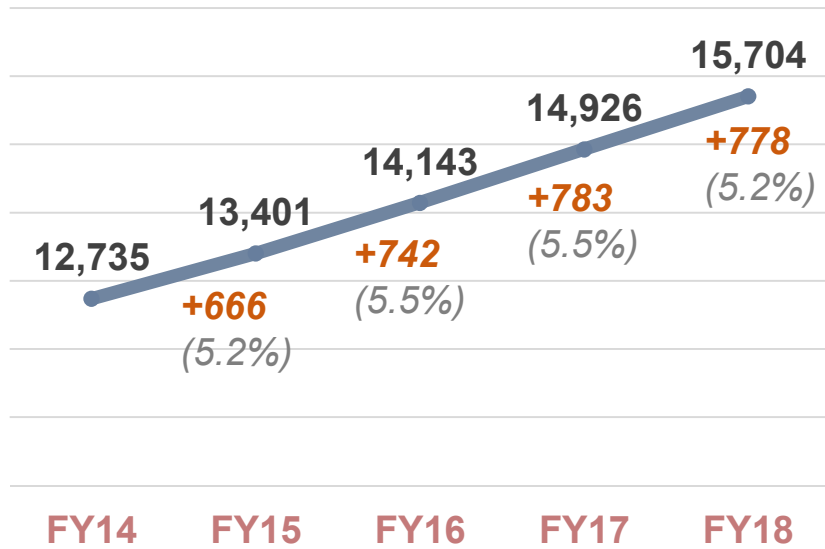
# Total Endowments

In FY 2018, U. T. institutions benefited from 15,704 total endowments, with a total Market Value of \$11.5 Billion, held as follows:

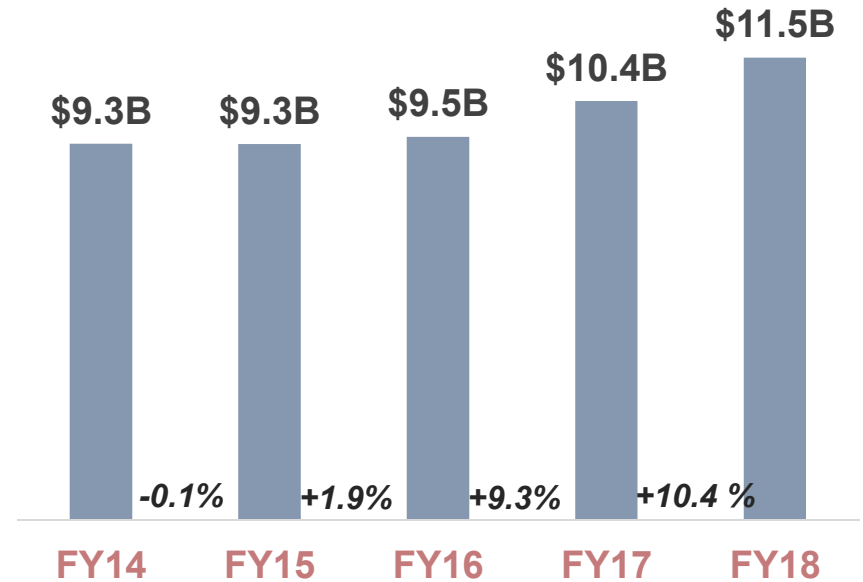


# Total Endowments – Five Year Trends

### Number of Endowments



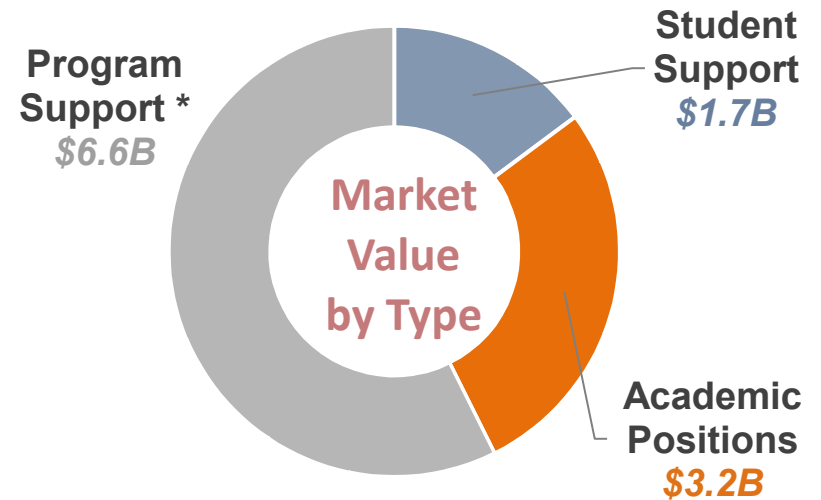
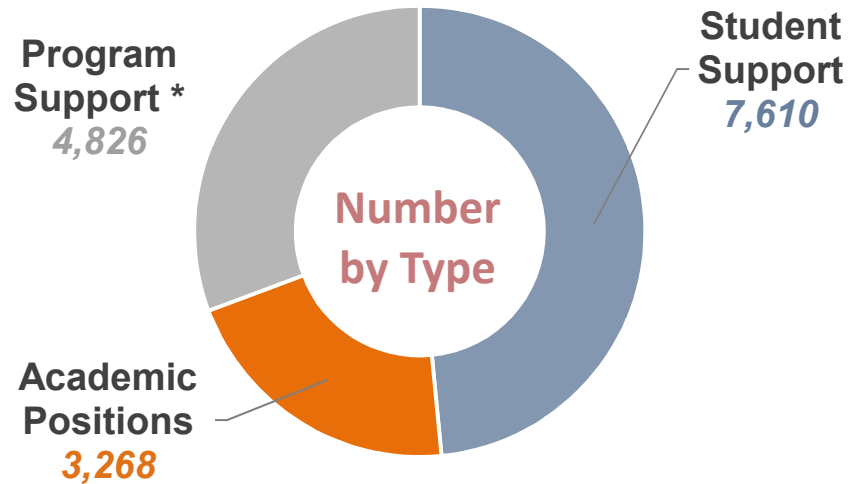
### Market Value





## Total Endowments – by Type

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



\* Program Support includes endowments designated to research

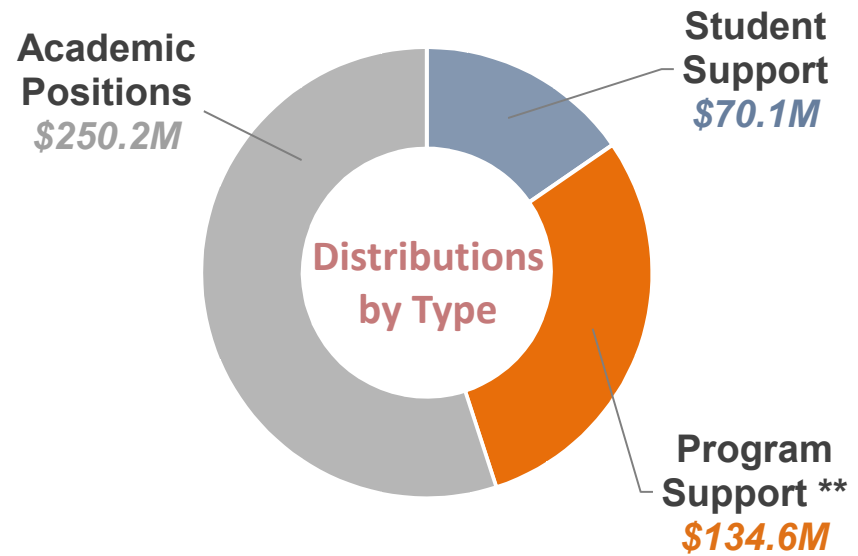


# Total Endowments – Distributions

A total of **\$454.9 Million** was distributed from endowments:

- **\$343.8 Million\*** from Board-held endowments
- **\$111.2 Million\*** from U. T. affiliate-held and held by others

*\* Distributions do not include amounts that were reinvested*



*\*\* Program Support includes endowments designated to research*



## Annual Report – Primary Risks Monitored

- Each U. T. institution and the U. T. System Administration review between 20% to 100% of its endowments (based on its total number), focusing on six primary risk factors:
  - **Inappropriate spending of endowment distributions**
  - **Non-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 reporting to donors**



# Summary of Findings – FY 2018

## Risk Monitored: *Inappropriate Spending of Endowment Distributions*

Total # Reviewed:	5,956
Total # Not in Compliance:	47
Total Amount Misdirected of the 47 (all since corrected):	\$77,064.29



## Risk Monitored: *Non-Spending of Endowment Distributions (Without Justifiable Reasons)*

Total # Reviewed:	7,037
Total # Not in Compliance:	91
Total Distributions Not Spent of the 91:	\$829,762.95



## Summary of Findings – FY 2018 (cont.)

### Risk Monitored: *Excessive Accumulations of Endowment Distributions (Without Justifiable Reasons)*

Total # Reviewed:	6,481
Total # Not in Compliance:	124
Accumulated Operating Fund Balance of the 124:	\$7,915,418.67

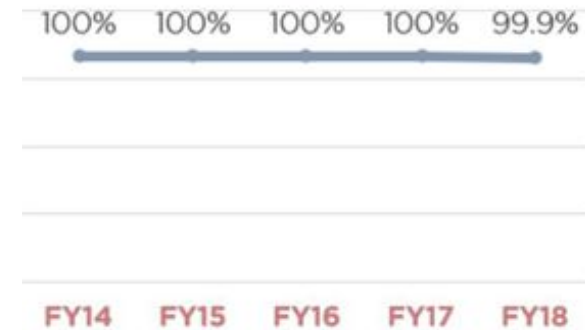
Percent in Compliance



### Risk Monitored: *Reinvestment of >10% of Endowment Distributions (Without Justifiable Reasons)*

Total # Reviewed:	6,481
Total # Not in Compliance:	1

Percent in Compliance



## Summary of Findings – FY 2018 (cont.)

### Risk Monitored: *Fully-Funded Academic Positions Unfilled for 24 Months or Longer*

Total # Fully-Funded Positions:	2,970
Total # Not in Compliance:	153



### Risk Monitored: *Endowment Reporting to Donors*

Total # with Known Contacts on 9/1/17:	11,108
Total # Not in Compliance:	38



4. **U. T. System: Discussion of audit services that support the Committee's oversight responsibilities, including the State Auditor's Office Statewide Single Audit Report for FY 2018; Report on the Systemwide internal audit activities and audit administrative items, including Required Communications and Annual Audit Plan Status; and Discussion and Appropriate Action regarding institutional Audit Committee chair changes**

REPORT

Using the PowerPoint set forth on the following pages, Chief Audit Executive Peppers will:

- 1) provide an overview of the audit services that provide coverage to The University of Texas System by various audit entities in support of the Audit, Compliance, and Risk Management Committee's (ACRMC) oversight responsibilities, including report on the State Auditor's Office (SAO) State of Texas Federal and Financial Portions of the Statewide Single Audit for Fiscal Year 2018 (a summary of SAO audit results is set forth on [Pages 59 to 60](#));
- 2) discuss the required communications to the Committee, including the Chief Audit Executive Annual Statements; and
- 3) provide an update on the Fiscal Year 2019 Annual Audit Plan status as of February 28, 2019.

Details on the required communications and plan status was provided to the ACRMC members prior to the meeting.

RECOMMENDATION

Mr. Peppers, on behalf of the Presidents at U. T. El Paso, U. T. Permian Basin, U. T. San Antonio, and U. T. Health Science Center - Houston, recommends formal approval by the ACRMC of the appointment of the following individuals to serve as Chairs of the Institutional Audit Committees:

- Mr. Joe R. Saucedo, Retired President and CEO of Bolsa Resources, Inc., at U. T. El Paso;
- Ms. Christi Brown, Chief Financial Officer at Onyx Contractors, at U. T. Permian Basin;
- Mr. Frank Burk, Retired Partner at Carneiro, Chumney & Co. L.C., CPAs, at U. T. San Antonio (reappointment); and
- Mr. Robert E. George, Retired Partner at PricewaterhouseCoopers, LLC, at U. T. Health Science Center - Houston (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 in accordance with the Title 2, U.S. *Code of Federal Regulations*, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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.

Required communications to the Committee include the discussion of internal auditing professional standards and confirmation of the organizational independence of the internal audit activity. 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 ACRMC executive session meeting.

At the May 14, 2014 Committee meeting, the ACRMC 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 ACRMC annually for review and approval. Delegated approval was provided by the ACRMC Chairman and the Chancellor for those candidates who began terms between May ACRMC meetings.



# Audit Services Overview and Required Communications

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

U. T. System Board of Regents' Meeting  
Audit, Compliance, and Risk Management Committee  
May 2019



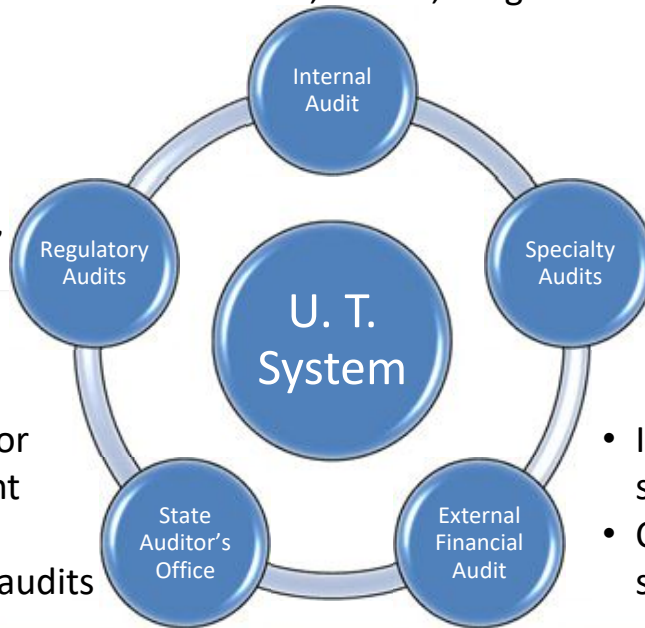
THE UNIVERSITY of TEXAS SYSTEM  
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.  
[WWW.UTSYSTEM.EDU](http://WWW.UTSYSTEM.EDU)

# Audit Services Supporting ACMRC Oversight

- Protect and enhance
- Assurance, advice, insight

- Compliance
- Laws, rules, standards, contracts, grants

- Independent auditor for Texas state government
- Financial, compliance, economy & efficiency audits



- Information technology, construction, forensic, etc.

- Independent financial statement audit
- Consolidated AFR, four stand-alone, UTIMCO opinions



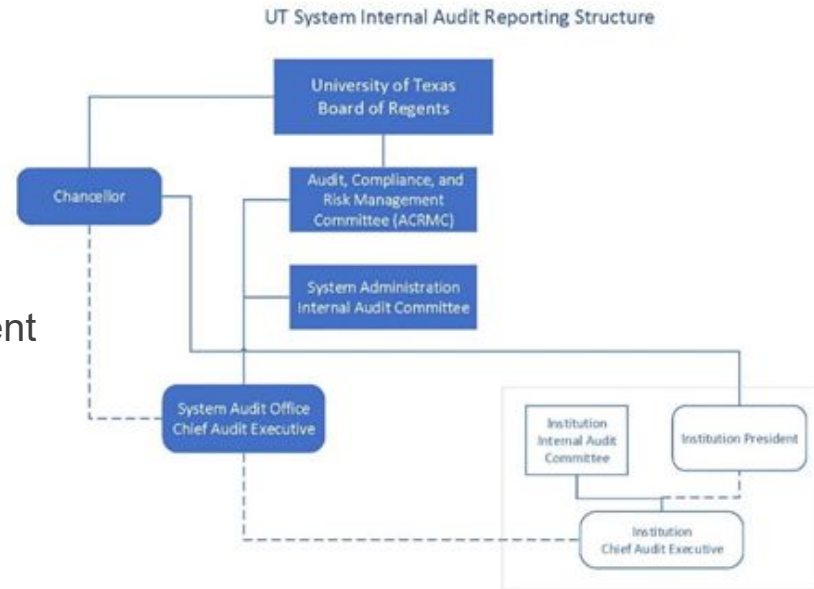
# Internal Audit Professional Framework

- Core Principles
- Definition of Internal Auditing
- Code of Ethics
- Standards – Attribute and Performance
  - Independence and Objectivity



# Internal Audit Governance and Structure

- Institutional Chief Audit Executives
  - Annual Statements
- Institutional Audit Committees
  - Chaired by External Members
  - Acknowledgement and Disclosure Statement



**The University of Texas System  
State Auditor's Office FY 2018 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) 2018, the State Auditor's Office (SAO) audited the Research and Development (R&D) Clusters at U. T. Austin, U. T. Southwestern Medical Center, U. T. Medical Branch – Galveston, U. T. Health Science Center at Houston, U. T. Health Science Center at San Antonio, and U. T. M. D. Anderson Cancer Center. 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 Research and Development (R&D) Cluster of Federal Programs for the Fiscal Year Ended August 31, 2018<sup>1</sup> (February 22, 2019)***

The Research and Development (R&D) Cluster audits test compliance with federal requirements in up to 12 areas, such as allowable costs/cost principles, cash management, and reporting. Overall, the State of Texas complied in all material respects with the federal requirements for the R&D Cluster of federal programs in FY 2018. The audit resulted in a total of 19 findings/recommendations at six U. T. System institutions for a total questioned cost of \$10,569, as outlined below (including institutions with questioned costs that are unknown).

- U. T. Austin (4 findings questioned cost: \$0)
- U. T. Southwestern Medical Center (2 findings questioned cost: \$0)
- U. T. Medical Branch – Galveston (3 findings questioned cost: \$0, 1 finding questioned cost: \$1,306)
- U. T. Health Science Center at Houston (3 findings questioned cost: \$0)
- U. T. Health Science Center at San Antonio (1 finding questioned cost: \$0)
- U. T. M. D. Anderson Cancer Center (4 findings questioned cost: \$0/Unknown, 1 finding questioned cost: \$9,263)

All nineteen of the findings were categorized as significant deficiencies/non-compliance and institutional management has taken action to correct errors, as needed, and responded appropriately to the recommendations with several institutions having taken steps towards implementation. There were no material weaknesses.

In addition, 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 remaining open recommendations. Some open recommendations were reissued as new findings in the FY 2018 audit report.

---

<sup>1</sup> <https://www.sao.texas.gov/Reports/Main/19-030.pdf>

**The University of Texas System  
State Auditor's Office FY 2018 Statewide Single Audit  
Summary of Results**

---

***Compliance with Federal Requirements for the Student Financial Assistance Cluster of Federal Programs for the Fiscal Year Ended August 31, 2018***

The SAO did not audit the Student Financial Assistance (SFA) Clusters for the federal portion of the statewide Single Audit for FY 2018, but it did perform work to follow up on unresolved SFA Cluster findings issued in prior year audits. Corrective actions were taken for several findings from the SAO's previous SFA Cluster audits, and management provided updated corrective action plans for the recommendations that remained open.

***State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018<sup>2</sup> (February 28, 2019)***

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, 2018, as they relied on the external audit of the U. T. System FY 2018 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 2018 Schedules of Expenditures of Federal Awards (SEFAs) to U. T. Austin, U. T. Southwestern Medical Center, U. T. Medical Branch – Galveston, U. T. Health Science Center at Houston, and U. T. M. D. Anderson Cancer Center.

Additionally, corrective actions were taken for several findings from the SAO's previous financial portion of the Statewide Single Audit, and management provided updated corrective action plans for the remaining open recommendations.

---

<sup>2</sup> <https://www.sao.texas.gov/Reports/Main/19-555.pdf>