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Committee Meeting: 5/4/2022

Board Meeting: 5/5/2022
Austin, Texas

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

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Convene	<i>2:15 p.m.</i> <i>Chairman Perez</i>		
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Adjourn	<i>2:45 p.m.</i>		

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 institutional Audit Committee chair changes; Report on the State Auditor's Office Statewide Single Audit Report for FY 2021 and Systemwide internal audit administrative items, including Required Communications and Annual Audit Plan and Status

RECOMMENDATION

Chief Audit Executive Peppers, on behalf of the Presidents at U. T. Dallas, U. T. El Paso, U. T. Permian Basin, U. T. Rio Grande Valley, U. T. Medical Branch, U. T. M. D. Anderson, and on behalf of the Chancellor at U. T. System Administration recommends formal approval by the ACRMC of the appointment of the following individuals to serve as Chairs of the Institutional Audit Committees:

- John Cullins, Part-Time Consultant at J Cullins Advisors, LLC and Retired Partner with Ernst & Young, at U. T. Dallas;
- J. Stephen DeGroat, Retired Owner of Lincoln Financial Advisors, El Paso Branch, at U. T. El Paso;
- Christi Brown, Chief Financial Officer at Onyx Contractors, at U. T. Permian Basin (reappointment);
- Elias Longoria, Jr., First Vice President and Loan Officer at Texas Regional Bank, at U. T. Rio Grande Valley;
- Keith W. McFatrige, Jr., Owner and Attorney at McFatrige & Associates, PC, at U. T. Medical Branch (reappointment);
- Randall Wright, Retired Executive Vice President and Chief Operating Officer with Texas Children's Hospital, at U. T. MD Anderson; and
- Sue Gove, President of Excelsior Advisors, LLC, at U. T. System Administration.

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

REPORT

Mr. Peppers will:

- 1) 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 2021;
- 2) discuss required communications to the Committee, including independence of the Chief Audit Executives;

- 3) discuss development of the Systemwide Internal Audit annual risk-based plan, which incorporates feedback from senior management and the board; and
- 4) provide an update on the Fiscal Year 2022 Annual Audit Plan status as of February 28, 2022.

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.

BACKGROUND INFORMATION

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 with terms beginning between May ACRMC meetings.

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.

3. **U. T. System Board of Regents: Approval to hire auditor to provide financial auditing services for Fiscal Year 2022**

RECOMMENDATION

Chairman Perez recommends to the Audit, Compliance, and Risk Management Committee (ACRMC) that he, as Chairman of the ACRMC and working with the Chancellor and appropriate U. T. System staff and pursuant to the request for qualifications (RFQ), be authorized to select an external firm to provide independent auditing services for the U. T. System based on input from the selection committee and appropriate U. T. System staff.

It is further recommended that the Chancellor be authorized to approve the allocation of funding in a reasonable amount, as he determines necessary, and negotiate and enter into an auditing services contract with the selected firm.

BACKGROUND INFORMATION

On February 11, 2016, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with an external firm to perform independent auditing services. Effective June 30, 2016, U. T. System entered into a two-year contract with Deloitte & Touche for these services, which included an option to renew for four additional years that was exercised. The current contract expires on May 30, 2022.

U. T. System issued a RFQ for independent auditing services on February 25, 2022.

4. U. T. System: Discussion and appropriate action regarding transfer of \$22,000,000 to rebate to institutions surplus premium contributions paid in Phase V and Phase VI of the Rolling Owner Controlled Insurance Program (ROCIP)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Chief Compliance and Risk Officer and the Risk Management Executive Committee, chaired by the Executive Vice Chancellor for Business Affairs and comprised of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel, to rebate to the U. T. institutions the surplus premium contributions paid in Phase V and Phase VI of the U. T. System Rolling Owner Controlled Insurance Program (ROCIP) as set forth below.

Institution	ROCIP V 60% Premiums/ 40% Loss- Weighted	ROCIP VI 50% Premiums/ 50% Loss- Weighted	Total
U. T. Arlington	\$ 345,360	\$ 1,403,220	\$ 1,748,580
U. T. Austin	\$ 1,246,025	\$ 4,201,612	\$ 5,447,637
U. T. Dallas	\$ 364,142	\$ 1,325,894	\$ 1,690,036
U. T. El Paso	\$ 198,616	\$ 327,233	\$ 525,849
U. T. Permian Basin	\$ 166,684	\$ 257,756	\$ 424,440
U. T. Rio Grande Valley	\$ 81,441	\$ 607,912	\$ 689,353
U. T. San Antonio	\$ 193,926	\$ 421,690	\$ 615,616
U. T. Tyler	\$ 24,789	\$ 358,408	\$ 383,197
U. T. Southwestern Medical Center	\$ 784,552	\$ 1,724,488	\$ 2,509,040
U. T. Medical Branch Galveston	\$ 979,965	\$ 2,615,477	\$ 3,595,442
U. T. Health Science Center - Houston	\$ 230,514	\$ -	\$ 230,514
U. T. Health Science Center - San Antonio	\$ 221,893	\$ 263,472	\$ 485,365
U. T. M. D. Anderson Cancer Center	\$ 1,112,143	\$ 1,525,665	\$ 2,637,808
U. T. Health Science Center - Tyler	\$ 49,950	\$ -	\$ 49,950
U. T. System Administration	\$ -	\$ 967,173	\$ 967,173
Total	\$ 6,000,000	\$ 16,000,000	\$ 22,000,000

BACKGROUND INFORMATION

The ROCIP, which is described more fully in the PowerPoint on the following pages, provides workers' compensation, general liability, and excess liability coverage for contractors working on designated U. T. System construction projects, under one master program. The program ensures consistent, vetted coverage, and creates economies of scale by purchasing insurance in bulk rather than in the bids of individual contractors.

This is the second rebate made for ROCIP Phase V. An initial rebate of \$24,000,000 was paid to the participating institutions following approval by the Board on May 1, 2018. Funds are held in reserve following the end of each Phase, since workers' compensation claims are open for many years and construction defect claims can be reported for 10 years following a project's completion. This is the first rebate paid for ROCIP Phase VI. A supplemental rebate will be considered in the future if claim activity remains favorable.

The rebate amounts were actuarially determined and reflect better than expected claim experience, largely driven by a robust safety framework imbedded in the ROCIP program. The allocation to each institution was agreed to by a task force of institutional representatives and considers premiums paid into the fund as well as the individual institution's losses in the phase. For Phase V, 60% of the rebate is based on premiums paid on construction values and 40% is based on the individual institution's losses in the phase. For Phase VI, the task force approved an increase in the loss-weighted allocation to 50% to encourage continued emphasis and engagement regarding project safety and equipment management.

Rolling Owner Controlled Insurance Program Benefits and Rebate Recommendations

Phillip Dendy, Chief Compliance and Risk Officer

U. T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
May 2022



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Rolling Owner Controlled Insurance Program (ROCIP)

- ROCIP provides Workers' Compensation, General Liability, and Excess Liability insurance for all enrolled contractors on U. T. System major Capital Improvement Projects (CIP)
- Initially began as a pilot on the U. T. M. D. Anderson Bertner Project in 1994
- ROCIP Phase I began in 1997
- Currently in Phase VII
- \$13.5 billion total construction values enrolled – all phases
- \$126.5 million estimated total saving – all phases



Benefits

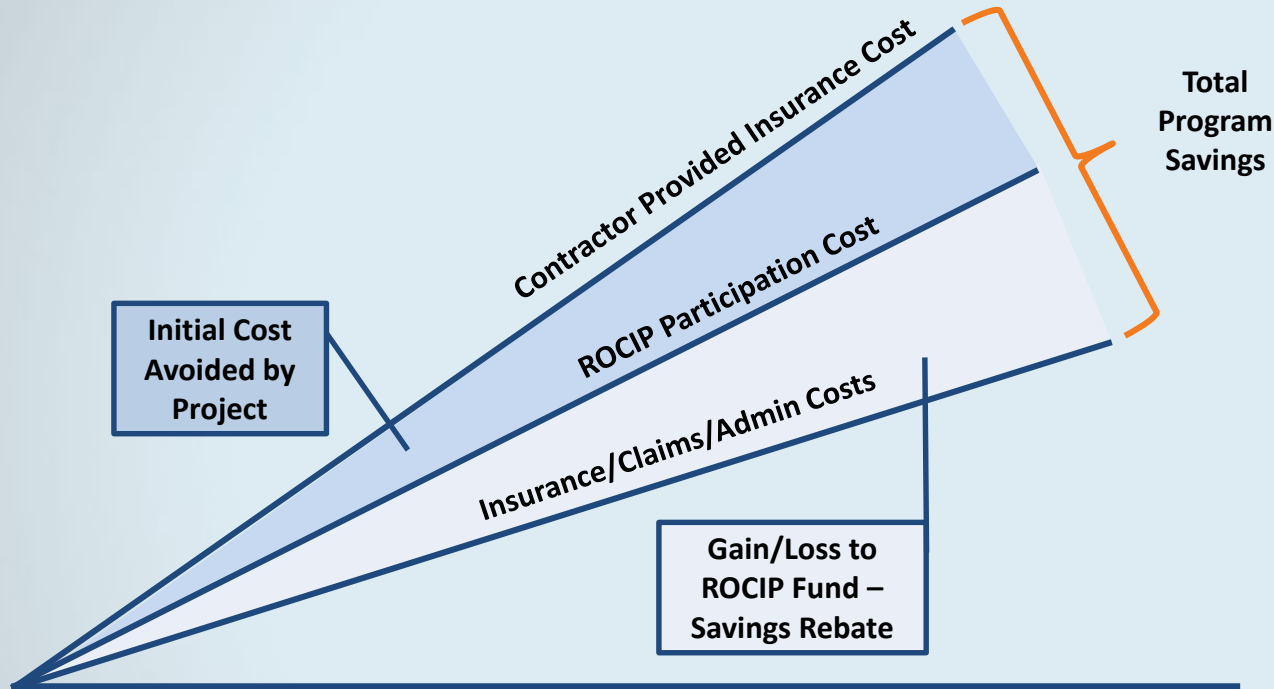
- Significant cost savings to the U. T. institutions – over \$110 million since 2004 (Phase IV)
- Uniform and enhanced insurance coverages and limits with known/single insurer
- Standardized and enhanced claim and safety management programs across all projects

Superior OSHA Recordable Incident Rate (RIR): U. T. System average 0.7 vs. OSHA average 2.5 (rolling 12-month RIR)

- Increased Historically Underutilized Business (HUB) participation
- Eliminates cross claims among contractors (mutual waiver of subrogation)



ROCIP Financial Process/Buckets



- **Cost Avoided** – Difference between contractor’s insurance cost left out of bid and cost to participate in ROCIP
- **Gain/Loss to Fund** – Amount of contributions remaining in Fund after costs of ROCIP program are paid
- **Total Program Savings** – Cost Avoided + Gain/Loss to Fund



Current Rebate Recommendations

- Rebate Phase V - \$6 million recommended additional rebate (\$24 million distributed May 2018)
Allocation: 60% premium / 40% loss weighted for claims activity
- Rebate Phase VI - \$16 million recommended initial rebate
Allocation: 50% premium paid / 50% loss weighted for claims activity



Total Estimated ROCIP Savings – Costs Avoided and Rebates to date

ROCI Phase	Construction Values	Number of Projects	Costs Avoided	Rebates	Total Savings
ROCI I	\$205,146,369	17	\$1,807,957	Incl in ROCIP III	\$1,807,957
ROCI II	\$297,504,000	23	\$1,072,652	Incl in ROCIP III	\$1,072,652
ROCI III	\$1,115,936,997	28	\$2,313,207	\$3,355,055	\$5,668,262
ROCI IV	\$2,115,233,830	59	\$11,143,909	\$15,000,000	\$26,143,909
ROCI V	\$4,272,918,292	130	\$18,373,549	¹ \$30,000,000	\$48,373,549
ROCI VI	\$3,387,155,189	90	\$17,951,923	² \$16,000,000	\$33,951,923
ROCI VII	\$2,128,262,154	37	\$9,577,180	TBD	\$9,577,180
	\$13,522,156,831	384	\$62,240,377	\$64,355,055	\$126,595,432

¹ ROCIP Phase V rebate of \$24,000,000 distributed 5-20-2018; \$6,000,000 additional rebate recommended

² ROCIP Phase VI rebate of \$16,000,000 initial rebate recommended

Phase V & Phase VI Rebates

Institution	FY 2018 ¹	FY 2022 ²	FY 2022 ²	Recommended Rebate 2022
	ROCIP V	ROCIP V	ROCIP VI	ROCIP V & VI
UTA	\$1,286,643	\$345,360	\$1,403,220	\$1,748,580
UTAUS	\$5,377,053	\$1,246,025	\$4,201,613	\$5,447,638
UTD	\$1,535,445	\$364,142	\$1,325,894	\$1,690,036
UTEP	\$808,691	\$198,616	\$327,233	\$525,849
UTPB	\$664,975	\$979,965	\$257,756	\$1,237,721
UTRGV	\$322,825	\$166,684	\$607,912	\$774,596
UTSA	\$761,935	\$81,441	\$421,690	\$503,131
UTT	\$97,167	\$193,926	\$358,408	\$552,334
UTSWMC	\$3,058,042	\$24,789	\$1,724,488	\$1,749,277
UTMB	\$4,166,775	\$1,112,143	\$2,615,477	\$3,727,620
UTHSC-Houston	\$894,432	\$49,950	\$0	\$49,950
UTHSC-San Antonio	\$879,536	\$784,552	\$263,472	\$1,048,024
UTMDACC	\$3,948,976	\$221,893	\$1,525,665	\$1,747,558
UTHSC-Tyler	\$197,505	\$230,514	\$0	\$230,514
UT System	\$0	\$0	\$967,172	\$967,172
Systemwide Total	\$24,000,000	\$6,000,000	\$16,000,000	\$22,000,000

¹ ROCIP V Initial Rebate distributed 5-10-2018

² ROCIP V additional rebate and ROCIP VI initial rebate recommendation for Board approval

