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FOR
AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE

Committee Meeting: 8/18/2021

Board Meeting: 8/19/2021
Austin, Texas

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

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

<div align="center">

<u>RECOMMENDATION</u>

</div>

The proposed Consent Agenda items assigned to this Committee are Items 5 - 6.

2.   **U. T. System: Discussion of Systemwide internal audit activities, including updates on the Systemwide Cancer Prevention and Research Institute of Texas (CPRIT) grants assurance work, the presidential travel, entertainment, and university residence maintenance expenses audit, and the Fiscal Year 2021 Annual Audit Plan status**

Chief Audit Executive Peppers will report on the assurance work conducted by external providers on the Cancer Prevention and Research Institute of Texas (CPRIT) grant activity at U. T. institutions. Additionally, Mr. Peppers will provide an update on the presidential travel, entertainment, and university residence maintenance expenses audit and the Fiscal Year 2021 Annual Audit Plan status as of May 31, 2021. A summary of the CPRIT assurance work, presidential expenses audit results, and details on the plan status were provided to the Audit, Compliance, and Risk Management Committee members prior to the meeting.

<div align="center">BACKGROUND INFORMATION</div>

Deloitte & Touche LLP was engaged to conduct audits of FY 2020 CPRIT grant activity for six U. T. institutions. Four other U. T. institutions engaged Weaver & Tidwell to perform agreed upon procedures of FY 2020 CPRIT grant activity.

3.   U. T. System: Approval of the U. T. Systemwide Annual Audit Plan for Fiscal Year 2022

RECOMMENDATION

Chief Audit Executive Peppers will present the proposed Fiscal Year 2022 U. T. Systemwide Annual Audit Plan (Audit Plan) using the PowerPoint set forth on the following pages and will recommend its approval. Development of the Audit Plan is based on risk assessments performed at each institution. Implementation of the Audit Plan will be coordinated with the institutional auditors. The Audit Plan executive summary is set forth on the pages following the PowerPoint. Additionally, the detailed annual audit plans were provided to the Audit, Compliance, and Risk Management Committee members prior to the meeting.

BACKGROUND INFORMATION

Institutional audit plans, compiled by the internal audit departments after input and guidance from the U. T. System Audit Office, the Offices of Academic or Health Affairs, and the institution's management and institutional internal audit committee, were submitted to the respective institutional internal audit committee and institutional president for review and comments. Also, the U. T. System Chief Audit Executive provided feedback by conducting audit plan presentations with each institution. After the review process, each institutional internal audit committee formally approved its institution's audit plan.

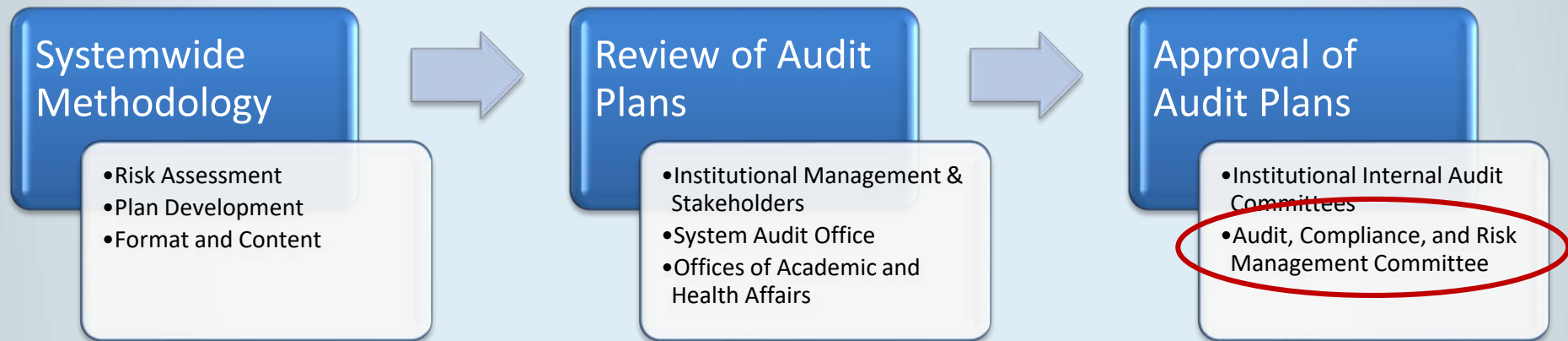# U. T. Systemwide FY 2022 Annual Audit Plan

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

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

THE UNIVERSITY of TEXAS SYSTEM
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FY 2022 Annual Work Plans

- Internal audit work plans across the System:
  - 48% Assurance Engagements
  - 15% Advisory and Consulting Engagements
- Reserve hours to stay agile and responsive to management needs
- Diverse topics to maximize coverage of risk areas
- Commonality in high-risk area topics

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Most Common Topics (cont.)

Foreign Influence

- Assess controls to protect research and intellectual property from inappropriate foreign influence:
  - Data security
  - Identity and access management
  - Disclosure requirements

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Most Common Topics (cont.)

Diversity, Equity, and Inclusion

- Assess practices and initiatives that support diversity, equity, and inclusion

- Evaluate related polices and guidance to promote diverse candidates for leadership positions and equal opportunity for all businesses to supply goods and services

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Most Common Topics (cont.)

Accounts Payable / Disbursements

- Verify adequate processes and controls for payments, reimbursements, and procurement card use

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Most Common Topics (cont.)

Medical Services Revenue Cycle

- Evaluate processes and controls around various aspects of the medical services revenue cycle, including:
  - Patient access/admissions
  - Billing practices
  - Charge capture for services provided
  - Collections

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Common Topics for Required Engagements

Procurement Compliance

Annual Financial Report

Benefits Proportionality

NCAA Compliance

Various Grants

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Most Common IT Topics

Information Security

- Cybersecurity Protection and Incident Response
- Data Management and Data Governance
- Patching and Configuration Management
- Cloud/Third Party Security

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Most Common IT Topics (cont.)

Disaster Recovery/ Business Continuity

- Disaster Recovery & Business Continuity Plans
- Backup protection and storage capacity
- Decentralized IT preparedness
- Emergency management

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Systemwide Risk Count vs. Audit Hours by Taxonomy
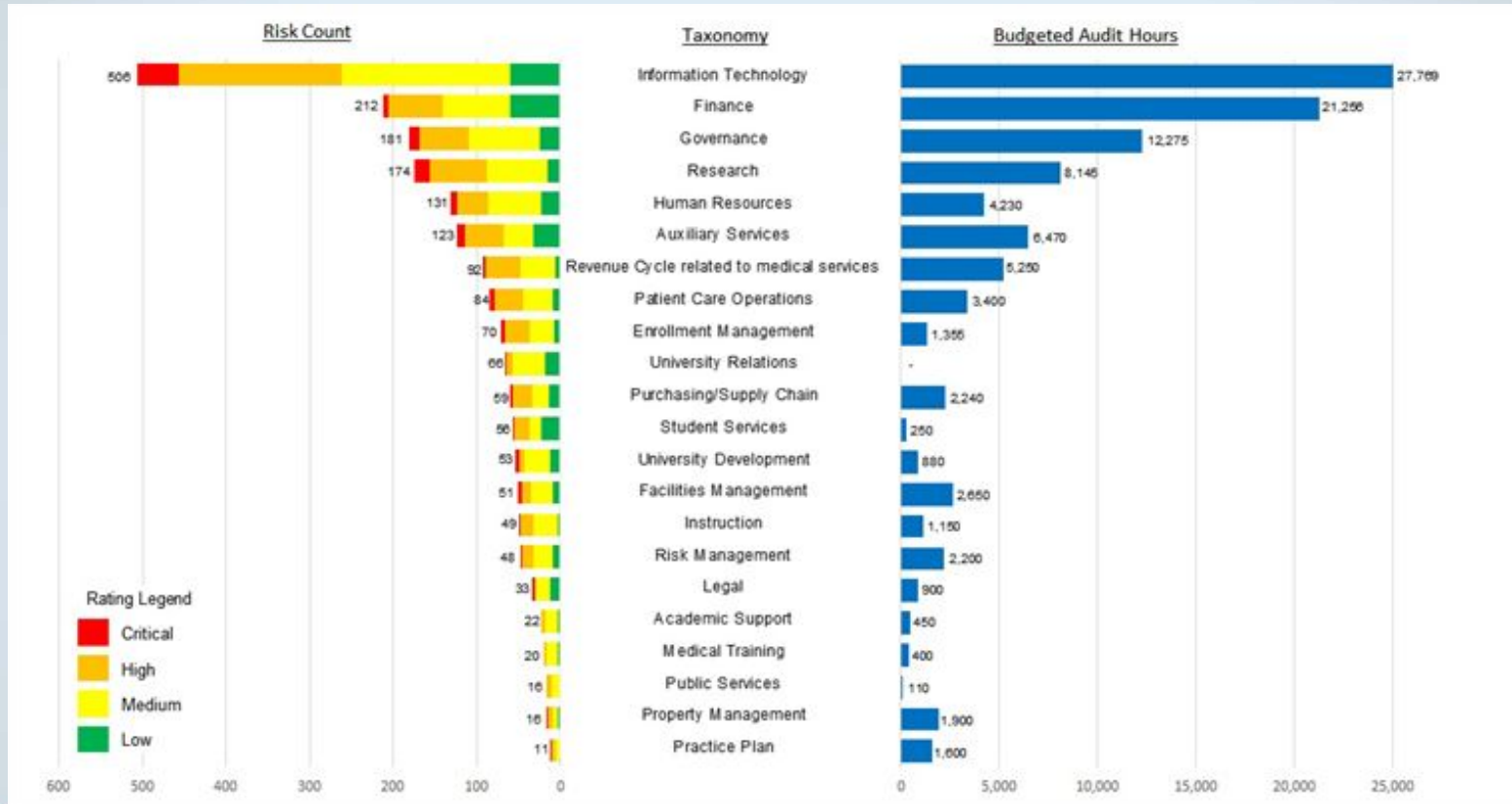
Systemwide IT Critical/High Risk Count vs. Audit Hours by IT Process

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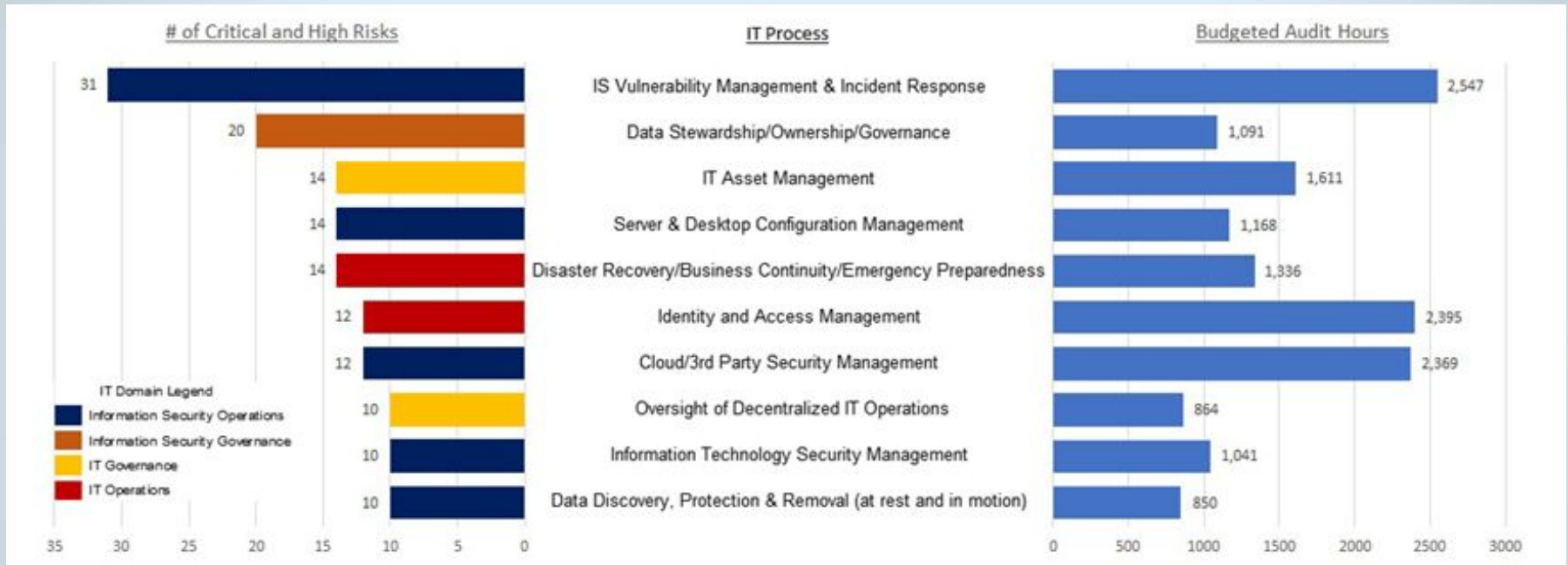
**The University of Texas System
Systemwide Internal Audit Program
Fiscal Year 2022 Annual Audit Plan Executive Summary**

Systemwide Annual Audit Plan

The University of Texas (U. T.) Systemwide Fiscal Year (FY) 2022 Annual Audit Plan (Audit Plan) outlines the internal audit activities that will be performed by internal audit throughout the System in FY 2022. To provide consistency at the Systemwide level, the U. T. System Audit Office provided the institutional Chief Audit Executives (CAEs) with guidance in the spring of 2021 on the audit plan format, content, and development methodology, including the risk assessment process that supports the engagements selected to be on the individual audit plans, which were prepared in June and July 2021. The institutions' management and internal audit committees, as well as the U. T. System Audit Office and the Offices of Academic and Health Affairs, provided direction, input, and feedback on the audit plans. After the review process, each institutional internal audit committee formally approved its audit plan. The FY 2022 Audit Plan, as summarized in the tables and graphs that follow, is formally presented to the U. T. System Board of Regents for consideration for approval at the August 2021 meeting.

The methodology for audit plan development is designed to focus on the organization's strategic priorities and important objectives, identify related risks that could impede reaching them successfully, and develop engagements that provide validation that there are activities in place to mitigate the highest risks. Internal audit at each institution and System Administration conduct a risk assessment in which risks related to institutional priorities and objectives are identified and scored as Critical, High, Medium, or

Risk Scoring Matrix		Impact		
		High	Medium	Low
Probability	High	C	H	M
	Medium	H	M	L
	Low	M	L	L

Low. The Risk Scoring Matrix illustrates how the risks for each objective are scored based on the Probability rating of the risk occurring in the current environment and the Impact rating to the institution if the risk is realized. As Information Technology (IT) risks are significant across the System, further focus is placed on IT risks through collaboration with IT and Information Security (IS) leadership to identify critical services and functions that could have a significant impact on business objectives. In addition, internal audit purposefully considered the impact of risks related to topics including federal relief funds, foreign influence, and diversity, equity, and inclusion.

The engagements selected to be on the FY 2022 Audit Plan are derived directly from the risk assessment results, primarily addressing Critical and High risks, and also include other required and recurring work, as required by policy, statute, contract, or an external entity. For the Critical and High risks that are not addressed by the engagements, risk mitigation activities are identified and presented as part of the audit plan. These may include active monitoring work performed by other risk functions, executive support in the area, past year audit coverage, or review by an external party.

The following table lists the FY 2022 Audit Plan total budgeted audit hours by institution. These hours include engagements conducted by approximately 106 internal audit professional FTEs and co-source resources who are experts in selected audit areas that work with internal audit on engagements. However, with potential changes in priorities and staffing resources that may occur during the fiscal year, institutions may request approval from their respective presidents and/or internal audit committees to adjust their budgeted hours or reallocate budgeted hours among engagements and projects.

Consolidation Prepared by: U. T. System Audit Office
Date: July 2021

Institution	Budgeted Audit Hours
U. T. Arlington	10,050
U. T. Austin	19,600
U. T. Dallas	12,332
U. T. El Paso	10,938
U. T. Permian Basin	4,360
U. T. Rio Grande Valley	9,805
U. T. San Antonio	8,880
U. T. Tyler	8,810
U. T. Southwestern Medical Center	19,900
U. T. Medical Branch - Galveston	13,583
U. T. Health Science Center - Houston	13,948
U. T. Health Science Center - San Antonio	11,068
U. T. M. D. Anderson Cancer Center	20,778
U. T. System Administration	15,205
Total Budgeted Audit Hours	**179,257**

The Audit Plan directs internal audit resources in three main sections: Engagements (Assurance Engagements, Advisory and Consulting Engagements, Investigations, and Follow-Up procedures); Development – Operations (ongoing operational activities); and Development – Initiatives and Education (developmental activities and continued education). Additionally, hours are set aside in a general reserve for unanticipated changes in resources and projects prompted by unexpected issues that may arise during the fiscal year. The table below depicts the percentage of budgeted audit hours allocated in these categories across the System.

Audit Plan Category	Budgeted Audit Hours	Percent
Assurance Engagements	73,054	41%
Advisory & Consulting Engagements	26,517	15%
Required Engagements	12,621	7%
Investigations	8,190	5%
Reserve	8,134	4%
Follow-Up	5,660	3%
Development – Operations	28,947	16%
Development – Initiatives & Education	16,134	9%
Total Budgeted Audit Hours	**179,257**	**100%**

Systemwide Risk Assessment

The approach for the Systemwide internal audit risk assessment is to start at the top with an awareness of key strategic priorities and operational objectives, discussion of those with a variety of stakeholders, and identification and assessment of the most relevant risks to develop the Audit Plan. The process is standardized by using common terms (Taxonomy) and criteria (Risk Scoring Matrix), enabling further analysis. As done in the past, an emphasis is placed on collaboration with other functions that assess, handle, or manage risk.

Approximately 2,000 risks were identified across the institutions and U. T. System Administration. The following areas had the highest numbers of total risks and the most Critical and High risks.

Academic Institutions:
- IT (see additional information on the following pages)
- Research – research administration; conflicts of interest; foreign influence/export controls
- Auxiliary Services – athletics; Title IX/campus security; student health
- Finance – financial reporting; federal relief funds; accounts payable/disbursements
- Enrollment management – student recruitment and admissions; scholarships/financial aid processes

Consolidation Prepared by: U. T. System Audit Office
Date: July 2021

Health Institutions:
- IT (see additional information on the following pages)
- Governance – strategies to stay competitive; joint ventures; business continuity; compliance program
- Patient care – quality care; patient safety; pharmacy operations; credentialing
- Revenue cycle – registration/admission; charge capture/coding; billing; collection
- Research – research administration; foreign influence; compliance/misconduct; clinical trials

System Administration:
- IT – cybersecurity incident detection and response; third-party cloud services; data classification and IT asset management.
- Human Resources – employee programs, compensation plans, and diversity, equity, and inclusion activities to recruit, develop, and retain employees; succession planning; cross-training
- Governance – strategic and business continuity planning

The following graph depicts the Systemwide count of risks, broken down by Risk Score, in the 22 Taxonomy areas. This is compared against the allocation of budgeted hours for engagements.
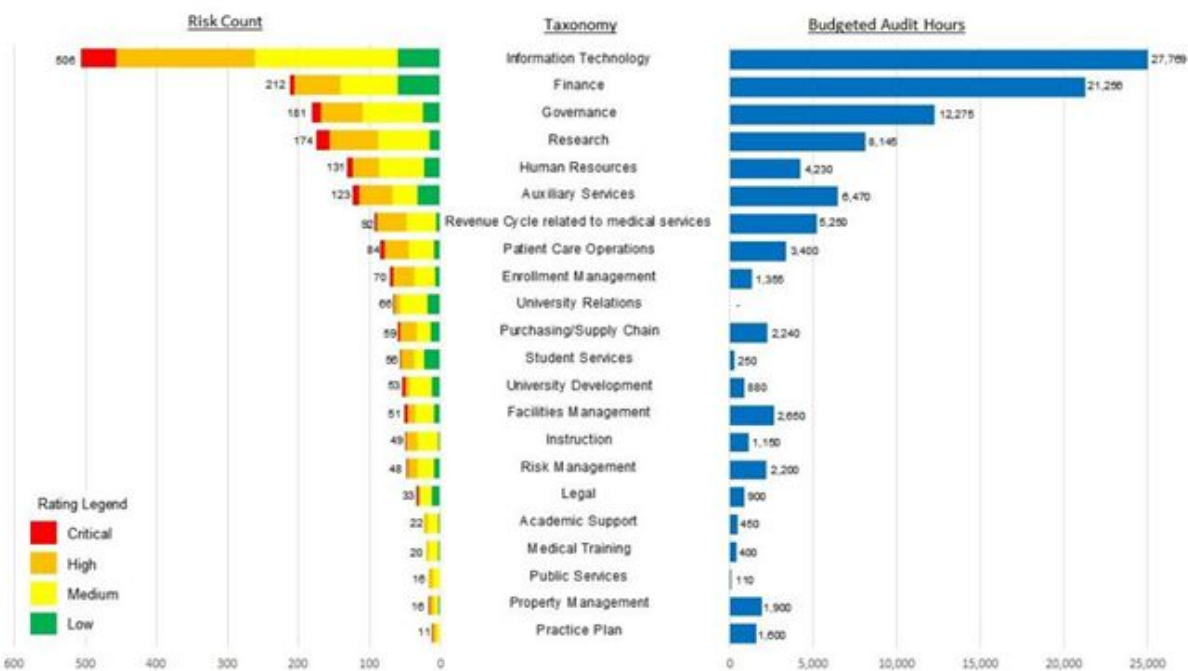
NOTE: Total audit hours in the graph are less than total budgeted hours noted on the previous page because engagements not associated with a Taxonomy are excluded (e.g., Investigations, Reserve, Follow-Up, and Development hours).

Systemwide IT Risk Assessment Methodology
The IT risk assessment methodology consistently identifies the most significant IT risks for an effective IT audit plan. As part of this process, a uniform framework is used for defining IT areas (Domains) and functions (Processes), which provides a common language and organization for collaboration and comparison among U. T. institutions.

The common framework also facilitates the identification of cross-institution risks and trends. Cybersecurity Vulnerability Management and Incident Response was the most frequently identified Critical or High-risk area, with all 13 institutions and System Administration citing at least one Critical or High risk in this area. The most common Critical and High-risk areas identified during this year's risk assessment are:

Consolidation Prepared by: U. T. System Audit Office
Date: July 2021

IT Process	# of Institutions*
Cybersecurity Vulnerability Management and Incident Response	14
Data Stewardship/Ownership/Governance	13
Disaster Recovery/Business Continuity/Emergency Preparedness	10
Cloud/Third-Party Security Management	10
Server & Desktop Configuration Management	9
IT Asset Management	9
Identity and Access Management	8

* Includes UT System Administration where applicable.

The top ten U. T. System IT risk areas based on number of Critical and High risks compared against the allocation of budgeted hours for engagements are displayed below:

The methodology also improves visibility into U. T. System risk through Calibrated Risk Scores (CRS), which are numeric values calculated based on risk ratings (Critical, High, Medium, Low) with weighting applied based on institution and Domain/Process factors. This results in the ability to prioritize the full inventory of IT risks, such that Critical and High risks are ranked by their significance to U. T. System as a whole, which can be used for internal audit resource allocation to ensure the risks of potential highest impact are considered in audit planning. The weighting of the CRS is based on institutional calibration factors (including multi-institution or Systemwide; academic or health; budget; research expenditures; faculty and staff headcounts; and enrollment) and process calibration (relative risk among processes -- e.g., cybersecurity incident response is weighted higher than IT project management).

The top ten U. T. System IT risk areas based on CRS of Critical and High risks are displayed below. Because the CRS is a calculated average, the number of risks in an area does not affect the CRS.

Consolidation Prepared by: U. T. System Audit Office
Date: July 2021