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Committee Meeting: 2/21/2024

Board Meeting: 2/22/2024
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
A. CONVENE	<i>2:45 p.m.</i> <i>Chairman Perez</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	Discussion	Action	29
2. U. T. System: Report on the results of the triennial Systemwide External Quality Assessment of internal audit activities	Report/Discussion <i>Mr. Peppers</i> <i>Ms. Ashley Deihl</i> <i>Baker Tilly</i>	Not on Agenda	30
B. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE	<i>3:00 p.m.</i>		
3. U. T. System: Fiscal Year 2023 Consolidated Annual Financial Report, including the Independent Auditors' Report, and audits of the financial statements of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, and U. T. Medical Branch - Galveston and for funds managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO)	Report/Discussion <i>Mr. Pruitt</i> <i>Mr. Peppers</i> <i>Mr. Blake Rodgers</i> <i>Deloitte & Touche</i>	Not on Agenda	41
C. ADJOURN	<i>3:15 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

The Board will be asked to approve the Consent Agenda beginning on [Page 159](#).

2. U. T. System: Report on the results of the triennial Systemwide External Quality Assessment of internal audit activities

Ms. Ashley Dehr, Risk Advisory Partner with Baker Tilly, will report on the independent validations of quality assessment reviews conducted by the internal audit functions across the U. T. System.

The validations performed by Baker Tilly include an assessment of the level of conformance with The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Generally Accepted Government Auditing Standards (GAGAS), and the relevant requirements of the *Texas Government Code*, Chapter 2102, Texas Internal Auditing Act (TIAA). In addition, leading practices and opportunities for enhancement were identified.

The Baker Tilly reports were distributed to the appropriate institutional chief audit executive, president, internal audit committee members, and the U. T. System Chief Audit Executive.

A summary of the process and results can be found in the PowerPoint presentation set forth on the following pages.

BACKGROUND INFORMATION

The internal audit profession is guided by the IIA *Standards*, within which there is a requirement for all internal audit functions to have external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

For state agencies within the State of Texas, the TIAA establishes guidelines for state agencies' internal audit functions. The TIAA requires all state agencies to adhere to the U.S. Government Accountability Office Government Auditing Standards, which require a review at least once every three years by reviewers independent of the audit organization.

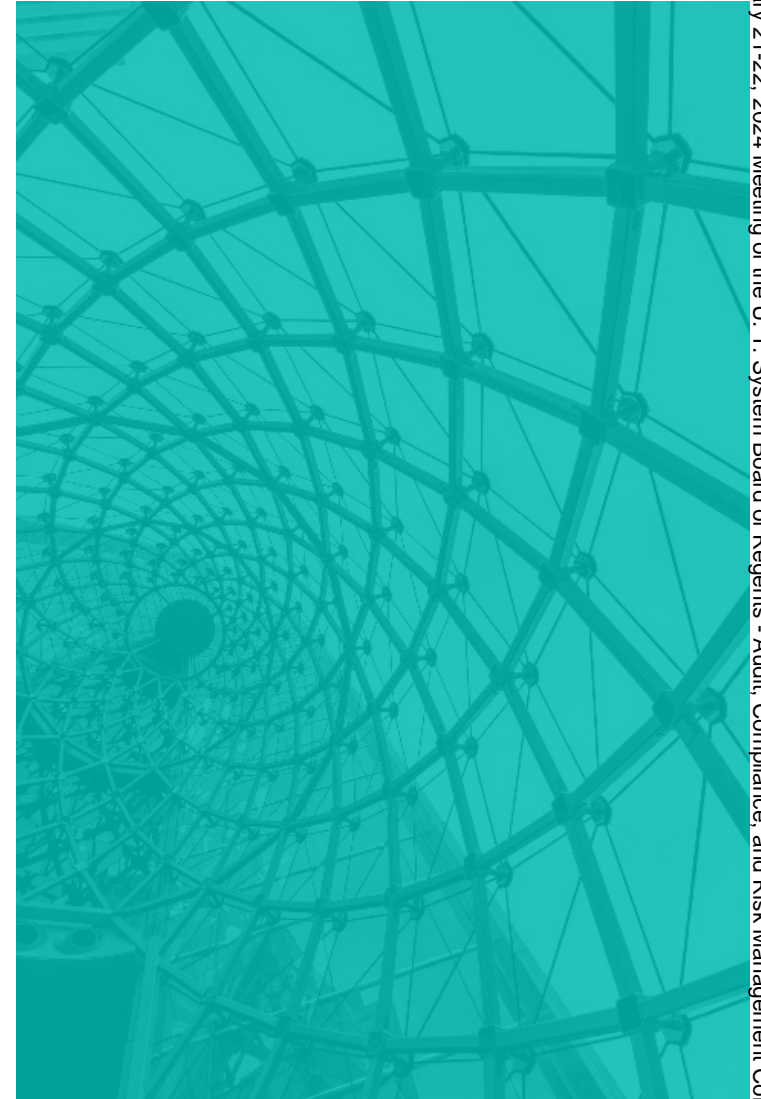


The University of Texas System

Report on the Independent Validations of the
Internal Audit (IA) Functions'
External Quality Assessment (EQA)
Presented by Ashley Deihl, Partner, Baker Tilly

U. T. System Board of Regents Meeting
Audit, Compliance, and Risk Management Committee
February 2024

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Agenda
Background
Review Team
Validation Team – Perspectives Incorporated
Overall Results
Observations Across U. T. System

Background

Objectives

- Validate the assertions made in the EQA self-assessments concerning conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics (*Standards*), Generally Accepted Government Auditing Standards, and relevant requirements of the Texas Internal Auditing Act
- Provide a fresh perspective on leading practices and opportunities to improve service delivery

Scope

- Conduct separate independent validations of the self-assessments for the 14 internal audit functions in The University of Texas System

Approach

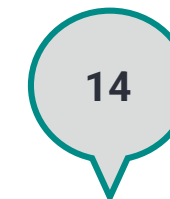
- Leverage assistance of peer institution IA leaders
- Interview stakeholders and IA functions
- Review the self-assessments and a sample of IA documents



Documents, Reports and Workpapers Analyzed



Interviewees



Peer Institutions' Perspectives Incorporated



Review Team



Ashley Deihr,
Academic and U. T. System
Administration Lead



Mike Brennan,
Health Institution Lead



Tiffany Krause,
Engagement Manager

Validation Team – Perspectives Incorporated



Peer Institutions

- Provided additional perspectives for innovative and leading practices for IA functions

Baker Tilly

- Utilized extensive academic and health care risk expertise of senior practice leaders
- Leveraged experience in assessing IA functions at prominent higher education and health care institutions across the country
- Provided each institution in the U. T. System with tailored reports to address any conformance considerations and provide opportunities to evolve each function and incorporate leading practices

Overall Results

- The IIA’s Quality Assessment Manual suggests a scale of three ratings:
 - > Generally Conforms (GC) is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*.
 - > Partially Conforms (PC) means deficiencies in practice are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner.
 - > Does Not Conform (DNC) means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Quality Assessment Evaluation Summary	GC	PC	DNC
U. T. System Administration	✓		
U. T. Arlington	✓		
U. T. Austin	✓		
U. T. Dallas	✓		
U. T. El Paso	✓		
U. T. Permian Basin		✓	
U. T. Rio Grande Valley	✓		
U. T. San Antonio	✓		
U. T. Tyler	✓		
U. T. Southwestern Medical Center	✓		
U. T. Medical Branch - Galveston	✓		
U. T. Health Science Center - Houston	✓		
U. T. Health Science Center - San Antonio	✓		
U. T. M. D. Anderson Cancer Center	✓		





Observations Across U. T. System

In addition to assessing the IA functions' conformance with the *Standards*, the validation team leveraged their experience to highlight distinct strengths and opportunities related to innovative and leading practices at each institution. We tailored these observations specifically to each entity. During our review, we identified:

- 61 Strengths across the U. T. System
- 55 IA opportunities across the U. T. System
- 8 Other considerations for management

Internal Audit Strengths Across U. T. System

During our review, we identified common strengths across the U. T. System and its institutions that are a result of collaborative efforts across all the IA functions and represent leading practices and enhancements since the last EQA.

Reputation as a trusted, collaborative partner	Strong relationships with stakeholders	Expertise and knowledge	Audit quality, service and attentiveness	Collaboration across U. T. System
<p>IA functions across U. T. System are considered trusted partners with strong reputations as collaborators. Leadership trusts IA will act with integrity, align its work with institutional priorities and culture, and communicate information clearly.</p>	<p>IA leadership has established valuable, enduring relationships across U. T. System. Stakeholders appreciate the commitment and eagerness demonstrated by IA in contributing to institutional improvement through their work.</p>	<p>IA teams across U. T. System are acknowledged for their expertise in both formal and informal settings, as they play a pivotal role in advising on risk related to key decisions and initiatives throughout U. T. System.</p>	<p>Stakeholders noted that IA consistently provides quality service, proactive communication, and responsiveness. Many institutions have focused on ensuring audit reports are clear and easy to understand for the stakeholders and Audit Committee members.</p>	<p>IA functions across U. T. System collaborate with one another to provide support and best practices. Institutional IA functions spoke highly of the support received from the System Audit Office.</p>

Internal Audit Opportunities Across U. T. System

During our review, we identified opportunities to enhance IA’s work across the U. T. System. These opportunities are not specific to any one institution, but rather will require the collaborative efforts of all of IA functions within the U. T. System to effect change.

Expanding skillsets	Evolving the IAC meeting structure and approach	Refining report templates	Connecting with stakeholders	Developing IT audit expertise
<p>As an institution’s risk profile changes, such as the addition of a new hospital, achievement of R1 status, etc., consider where new or expanded skill sets will be needed to achieve coverage over the risk profile of the institution.</p>	<p>Continue to evolve the Internal Audit Committee (IAC) meeting structure by increasing engagement and efficiency of meetings, including intentional focus on high-priority risk areas, audit findings, and follow up, as well as dedicating time for questions, and discussion of emerging risk areas.</p>	<p>As several institutions look to further refine their report templates, continue focusing on concise sections, utilizing graphics, and supporting conclusions with specific references to fieldwork, analysis, and testing. Ensure recommendations are prioritized and aligned with institutional strategy and risks.</p>	<p>As part of team member’s annual performance goals, include building and maintaining relationships with key institutional stakeholders, such as academic deans, chief business officers, and research to broaden IA’s engagement through regular connections.</p>	<p>For institutions without in-house IT audit expertise, evaluate opportunities to develop this knowledge by attending training, partnering with the System Audit Office to build proficiency, and updating IT auditor positions to be competitive in the market.</p>

Interviews Completed

U. T. System Institution	Interviewees
U. T. Arlington	28
U. T. Austin	36
U. T. Dallas	24
U. T. El Paso	19
U. T. Permian Basin	12
U. T. Rio Grande Valley	19
U. T. San Antonio	21
U. T. Tyler	22
U. T. Southwestern Medical Center	23
U. T. Medical Branch - Galveston	21
U. T. Health Science Center - Houston	19
U. T. Health Science Center - San Antonio	21
U. T. M. D. Anderson Cancer Center	28
U. T. System Administration	20



3. **U. T. System: Fiscal Year 2023 Consolidated Annual Financial Report, including the Independent Auditors' Report, and audits of the financial statements of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, and U. T. Medical Branch - Galveston and for funds managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO)**

See [Item 1](#) of the Finance and Planning Committee.