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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 2/5/2014

Board Meeting: 2/6/2014
Austin, Texas

Brenda Pejovich, Chairman
Wallace L. Hall, Jr.
R. Steven Hicks
Jeffery D. Hildebrand
Robert L. Stillwell

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A. CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE	<i>10:30 a.m.</i>		
1. U. T. System: Report on the Fiscal Year 2013 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)	<i>10:30 a.m.</i> Report/Discussion <i>Mr. Wallace</i> <i>Ms. Tracey Cooley,</i> <i>Deloitte & Touche</i> <i>Mr. Peppers</i>	Not on Agenda	51
B. ADJOURN JOINT MEETING AND CONVENE AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE MEETING	<i>11:00 a.m.</i> <i>Chairman Pejovich</i>		
2. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration	<i>11:01 a.m.</i> Action	Action	52
3. U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche LLP to provide financial auditing services for Fiscal Years 2014 and 2015	<i>11:02 a.m.</i> Action <i>Chairman Pejovich</i>	Action	53
4. U. T. System: Update on implementation of initiatives to address recommendations from the Report on the Strategic Assessment of the U. T. System Internal Audit Services performed by Deloitte & Touche LLP	<i>11:10 a.m.</i> Report/Discussion <i>Mr. Peppers</i>	Not on Agenda	54

C. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 11:30 a.m.

Personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of officers or employees - *Texas Government Code* Section 551.074

Discussion with the Chief Audit Executive concerning personnel matters relating to appointment, employment, evaluation, assignment, duties, discipline, or dismissal of individual System Administration and institutional officers or employees involved in internal audit functions

D. ADJOURN 12:00 p.m.

1. **U. T. System: Report on the Fiscal Year 2013 Annual Financial Report, including the report on the U. T. System Annual Financial Report Audit, and audits of U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler financial statements and for funds managed by The University of Texas Investment Management Company (UTIMCO)**

REPORT

See Item 7 beginning on Page 173 of the Finance and Planning Committee.

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

RECOMMENDATION

The proposed Consent Agenda is located at the back of the book.

3. U. T. System Board of Regents: Approval to renew the contract with Deloitte & Touche LLP to provide financial auditing services for Fiscal Years 2014 and 2015

RECOMMENDATION

Regent Pejovich recommends approval for Deloitte & Touche LLP to provide independent auditing services for the financial statement audits of the U. T. System, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, U. T. Health Science Center - Tyler [pending Southern Association of Colleges and Schools (SACS) accreditation requirements and timeline], and of the funds managed by The University of Texas Investment Management Company (UTIMCO) for Fiscal Years 2014 and 2015.

Approval is requested for U. T. System staff to negotiate and enter into an auditing services contract amendment with Deloitte & Touche LLP to renew the contract for a two-year term pursuant to delegation of authority from the State Auditor's Office.

The contract with Deloitte & Touche, effective February 15, 2011, to provide audit services for Fiscal Year 2011 has an option to renew for four additional years. The last contract renewal amendment for a two-year term was effective February 15, 2012, and will expire on February 28, 2014.

BACKGROUND INFORMATION

On August 12, 2010, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP to perform financial statement audits of U. T. System, U. T. M. D. Anderson Cancer Center, and the funds managed by UTIMCO for Fiscal Year 2011. The original contract, entered into as of February 15, 2011, was for one year with the option to renew for four additional one-year terms.

On February 9, 2012, the Board of Regents authorized renewal of the auditing services contract with Deloitte & Touche LLP to perform financial statement audits of U. T. System, U. T. M. D. Anderson Cancer Center, and the funds managed by UTIMCO for two additional years, Fiscal Year 2012 and Fiscal Year 2013.

On May 3, 2012, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP to perform financial statement audits of U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and U. T. Health Science Center - Tyler for Fiscal Years 2012 and 2013.

These audits are part of the overall U. T. System audit and are pursuant to delegation of authority from the Texas State Auditor's Office. The source of funding for this contract is Available University Funds, as approved for the prior contracts; however, the audit at U. T. Health Science Center - Tyler will be paid with institutional funds as it will be performed to meet SACS accreditation requirements.

4. **U. T. System: Update on implementation of initiatives to address recommendations from the Report on the Strategic Assessment of the U. T. System Internal Audit Services performed by Deloitte & Touche LLP**

REPORT

Chief Audit Executive Peppers will present an update on the implementation of initiatives developed to address the recommendations from the report on the Strategic Assessment of the U. T. System Internal Audit Services performed by Deloitte & Touche LLP, which was presented at the Audit, Compliance, and Management Review Committee meeting on May 8, 2013. A PowerPoint presentation is set forth on the following pages.

Strategic Initiatives of the U. T. System Audit Office

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

U. T. System Board of Regents' Meeting
Audit, Compliance, and Management Review Committee (ACMRC)
February 2014



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External Strategic Assessment

- Deloitte was engaged to perform a strategic assessment of internal audit services across U. T. System and issued their report in March 2013.
- To address the 17 recommendations from the report, the U. T. System Audit Office developed eight key initiatives in three main areas to be implemented over a three-year period.



Vision and Strategy for Internal Audit



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Governance

1. Strengthen independence and capability of institutional audit committee
 - Institutional audit committee guidance formalized in December 2013 and communicated to institutions by the Chancellor
 - Policy and charter changes in progress
2. Assess Systemwide and institutional risk management
3. Provide resources for governance



Processes, Resources and Capability Development

4. Organize mission and values into objectives, models and priorities
 - Initiatives and priorities announced in March 2013 and communicated to the institutions by the ACMRC Chairman and the Chancellor
 - Reorganized the U. T. System Audit Office to centrally manage development of standards, capabilities, and policies
 - Recruiting new positions in the U. T. System Audit Office
 - Developing a structured communication platform for internal audit leadership and teams
5. Enhance risk assessment methodology
6. Develop audit and reporting models
7. Quantify and improve team competency
 - Developing SharePoint portal for sharing audit knowledge across institutions
 - Developing one process to elevate significant issues to ACMRC



Success and Sustained Quality

8. Align internal audit metrics and quality program with improvement plans
 - Launched Systemwide pilot metrics for reporting to the institutional audit committees and the ACMRC
 - Starting the external quality assessment of institutional internal audit functions

