

**MINUTES  
UNIVERSITY OF HOUSTON SYSTEM  
BOARD OF REGENTS  
AUDIT AND COMPLIANCE COMMITTEE**

Wednesday, February 26, 2014 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 9:00 a.m. on Wednesday, February 26, 2014 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Chair  
Peter K. Taaffe, Vice Chair  
Paula M. Mendoza, Member  
Benjamin P. Wells, Student Regent  
Jarvis V. Hollingsworth, Ex Officio

Non-Member(s) Present

Durga D. Agrawal, Regent  
Spencer D. Armour, III, Regent  
Welcome W. Wilson, Jr., Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Roger F. Welder called the meeting to order and introduced the first agenda item, Item B, the approval of the minutes for consideration.

\*\*\*\*\*

AGENDA ITEMS

**Action Item:**

1. Approval of Minutes – Item B

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the members in attendance, the following minutes from the meeting listed below were approved:

- August 14, 2013, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated there would be 12 items presented to the committee, all of them for information only. Regent Welder introduced Mr. Don Guyton, Chief Audit Executive, who presented the agenda items before the committee.

Mr. Guyton stated there were no open points from the Audit and Compliance Committee meeting held on August 14, 2013.

**Information Items:**

Mr. Guyton introduced Item C, the first information item which referred to four (4) External Audit Reports for fiscal year 2013:

## University of Houston System

1. Independent CPA's Report on the Application of Agreed-upon Procedures of the Athletics Department;
2. The Audit Report and Financial Statements of the Charter School;
3. The Financial Statements and Independent Auditor's Report of the UHS Public Broadcasting; and
4. The UHS Endowment Fund Audit Report.

The financial statements of the Charter School were approved by a Special Called Meeting of the Executive and Compensation Committee of the Board on December 18, 2013 in order to meet a Texas Education Association (TEA) filing deadline.

The other supplemental information had been excluded from the Endowment Fund financial statements. This information included the schedule of noncurrent investments and the schedule of changes in net assets by endowment. These schedules are on file in the Board of Regents' Office with the complete set of financial statements. This year two (2) CPA firms were engaged to prepare reports for these engagements: Belt, Harris, Pechacek and BKD. The committee had been provided biographies of the engagement partners who did attend the meeting and provided brief presentations on their reports.

Mr. Guyton introduced Mr. Robert Belt of Belt, Harris & Pachacek, who gave a brief summary of the NCAA audit and the Charter School's audit and financial statements. Below is an overview of his remarks.

Mr. Belt presented the first report pertaining to the NCAA agreed-upon procedures/audit of the Athletics Department. In the case of NCAA procedures, the firm performed specific procedures as prescribed by the NCAA. The report describes the procedures performed, the results/findings and management's responses. Mr. Belt recognized Mr. Jeff Collier from UH Athletics who had done a great job of getting all of the information the firm required in order to perform the engagement. The audit went very smoothly stated Mr. Belt and there were no significant findings. Mr. Belt also introduced Mr. Joshua Harris, from Belt, Harris & Pachacek - the auditor who took part in the engagement.

Mr. Belt stated that as noted in December 2013, they had previously presented the Charter School engagement in order to meet TEA's deadline for filing the report. Again, Mr. Belt said it was a smooth engagement. Mr. Belt explained the adverse opinion on the report. This year the AICPA changed the format of the standard opinion letter. When an audit of a segment is being performed (which the Charter School is a segment of the University of Houston which is a segment of the State of Texas) an adverse opinion is required to explain that the financial statements do not purport to present the financial position and changes in financial position of the University of Houston or State of Texas. Other than that, the Charter School was fiscally in great shape. Mr. Guyton introduced Dr. Carolyn Black, Principal of the Charter School who was in attendance and available to answer any questions for the committee.

Mr. Guyton introduced Mr. Brian Krueger, Director; Mr. Gregory Sissel, Partner; and Mr. Kevin Lizana, Manager of the CPA firm, BKD, who performed the various audits of the UHS Public Broadcasting and UHS Endowment Fund and presented their reports to the committee.

## University of Houston System

Mr. Sissel stated that the audits performed would be presented together as they were very similar in nature so they would be done as combined entities. BKD's responsibilities were outlined to the committee as follows:

1. To conduct the audits in accordance with generally accepted auditing standards;
2. Obtain reasonable, not absolute, assurance that the financial statements are not materially misstated, whether due to error or fraud; and
3. Communicate significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance.

Significant accounting estimates for the UHS Endowment Fund and Houston Public Media were addressed. The Houston Public Media had no significant accounting estimates, but the UHS Endowment Fund had significant accounting estimates in the valuation of investments; the absolute return funds; private investments; and real estate investments.

Mr. Sissel stated that financial statement disclosures were appropriate and consistent with U.S. generally accepted account principles. As disclosed in the financials, Houston Public Media financial statements include presentation of a component unit of Association for Community Broadcasting, and that is a significant disclosure within the Houston Public Media financial statements.

Mr. Sissel asked Mr. Krueger to address the audit adjustments that had been posted within the financial statements for the UHS Endowment Fund and Houston Public Media. The Endowment Fund did not have any audit adjustments noted as part of their process; but there were a few that were posted as part of the Houston Public Media audit. The significant adjustments were primarily centered around the balances owed between Houston Public Media and the UH System. Two components to this were:

- (a) Deficit cash balances that have been carried for a few years; and
- (b) Long-term notes payable relating to the purchase of the KUHA radio station.

As part of their process, BKD required an adjustment to adjust to the university's balance to the balance confirmed to them. There were also a few minor adjustments requested by Houston Public Media as follows:

- (a) Pledges receivable;
- (b) Accounts receivable related to underwriting; and
- (c) Accounts payable.

Mr. Krueger addressed the past audit adjustments that were not posted for both audits as follows. The Endowment Fund did not have any past audit adjustments that were not posted. Houston Public Media did have one audit adjustment not posted - FY2012 underwriting revenue was recorded in FY2013 and should have been in FY2012.

Mr. Sissel stated that within BKD's responsibilities to the university, there were also some additional required communications that include the following:

- (a) No significant changes to accounting policies during fiscal year 2013;
- (b) No disagreements with management;
- (c) Management has not consulted with or obtained opinions, whether written or oral, from other independent accountants during the year ended August 31, 2013;

University of Houston System

- (d) Significant issues discussed with Houston Public Media management – reconciliation of balances due to the UH System; and
- (e) Significant written communications between BKD and management – Management representation letters.

Mr. Krueger addressed internal control matters. There were three (3) levels of deficiencies listed:

- (a) Control Deficiency – design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis;
- (b) Significant Deficiency – a deficiency or combination of deficiencies, less severe than a material weakness, but important enough to merit the attention of those charged with governance; and
- (c) Material Weakness – a deficiency or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

The deficiencies noted for both audits were stated as follows:

- (a) There were no deficiencies noted in the Endowment Fund audit.
- (b) In the Houston Public Media audit – significant deficiency was noted – balances owed to the UH System (deficit cash balances and long-term notes payable) were not properly reconciled at year-end, resulting in a material audit adjustment. A brief discussion followed.

This item was presented for information only and required no committee action.

Mr. Guyton moved to the next item listed on the agenda, Item D, the Report on External Audit Report – Texas Comptroller of Public Accounts Post-Payment Audit of the University of Houston-Victoria. The scope of this audit included a sample of payroll, purchase, and travel transactions during the period from September 1, 2012 through August 31, 2013. The audit identified four (4) exceptions:

- (a) A salary underpayment;
- (b) A salary overpayment; and
- (c) Two (2) exceptions with prior service dates which affected the longevity pay calculations. These exceptions were corrected by the institution.

Mr. Guyton stated the State Comptroller's office performs post-payment audits of each institution approximately every 2 to 3 years; and the University of Houston is currently under a post-payment audit review by the State Comptroller's office.

This item was presented for information only and required no committee action.

The next item presented by Mr. Guyton was Item E, the Report on Institutional Compliance Status Report for the Six Months Ended December 31, 2013 – University of Houston System. This report lists activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. This report also contained a table which summarized the results of the system-wide mandatory training for all components. Mr. Guyton stated there was a high completion rate of the employees taking and completing this

## University of Houston System

mandatory training. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions.

Regent Hollingsworth asked Mr. Guyton on how the hot-line reports were handled. Mr. Guyton stated that this issue would be addressed later in the meeting when the final agenda item would be presented.

This item was presented for information only and required no committee action.

Mr. Guyton presented Item F, the Report on Internal Audit Report – Briefing Booklet – University of Houston System. The Briefing Booklet contained an activity outline. Mr. Guyton stated Internal Audit (IA) had prepared 11 Internal Audit Reports since the August 14, 2013 Audit and Compliance Committee meeting.

The executive summaries of these reports along with the individual reports were located in the Briefing Booklet. These reports addressed areas included in the Board-approved Audit Plan and included Departmental Compliance Reviews of the University of Houston (UH) Research Division, the UH Colleges of Technology, Business and Honors; a review of UH-Victoria Research Administration; a review of a grant made to UH by the Joint Admissions Medical Program; reviews of the Board of Regents and Chancellor/President's Office Travel; IA's Annual Non-Compliance Report; and Reports on Construction Awards and follow-up activity. Mr. Guyton stated these reports would be submitted to the Governor's Office of Budget and Planning, the Legislative Budget Board, the Sunset Advisory Committee and the State Auditor, as required by the Texas Government Code.

The reports containing Management Action Plans had been included in the Briefing Booklet; and an overview of all of IA's recommendations included in these reports was presented in the document. A brief discussion followed.

Audit Report No. 2014-01 was IA's follow-up report which addressed the status of 62 action items in 25 individual audit reports. IA verified that 47 of the action items had been implemented, 13 partially implemented, and two (2) not implemented. Mr. Guyton reiterated that updated management responses were obtained on the partially implemented and not implemented action items. There were six (6) high risk items in this report of which four (4) had been implemented.

Audit Report No. 2014-02 was the Construction Award Status Report. Mr. Guyton stated that this was a standing report in the Briefing Booklet, similar to the follow-up Status Report. At the request of management and members of the Board of Regents, the Internal Audit Department began performing these additional procedures for the awards of construction contracts requiring the Board of Regents' approval which started in FY2011. The objective of IA's Construction Award Review was to determine whether the major construction activity contract awards complied with institutional policies and State statutes, particularly the Texas Education Code. This report covered the activity from July 1, 2013 through December 31, 2013. Appendix 1 of the report indicated the scope of the Internal Audit Review. There was not much activity during this six (6) month period. A brief discussion followed.

University of Houston System

Audit Report No. 2014-03 was a compilation of areas of non-compliance for FY2013 for all of IA's Departmental Reviews. This report will help management take action to address repetitive instances of non-compliance. These actions may include modifying its current on-line training programs or provide additional training.

Audit Report No. 2014-04 was IA's review of UH-Victoria's Contract and Grant Administration. The objective of this review was to determine whether the Office of Research and Sponsored Programs had established management practices for externally funded programs as recommended by the Council on Government Relations. In the opinion of IA, the institution had established policies and procedures consistent with guidelines where applicable.

Audit Report Nos: 2014-05; 2014-07; 2014-10; and 2014-11 were Departmental Compliance Reviews of the UH Division of Research, the UH College of Technology, UH College of Business and the UH Honors College. Mr. Guyton introduced three (3) deans who were in attendance at the committee meeting: Dean William Fitzgibbons, Dean Latha Ramchand and Dean William Monroe. IA noted there were no major issues with these reviews.

Audit Report No. 2014-06 was a required audit for a grant that provided funding for programs that support economically disadvantaged students interested in attending medical school. IA found no instances of non-compliance.

Audit Reports Nos: 2014-08 and 2014-09 were IA's annual reviews of travel and entertainment expenditures of the Chancellor / President and members of the Board of Regents. In IA's opinion, all expenditures were appropriately documented and allowable under university policies.

Mr. Guyton referred back to the activity outline and on the outline IA has various scheduled audits in the reporting, fieldwork in progress or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for FY2013 and FY2014. IA also has various special projects in progress. One (1) of the items listed was the State Auditor's Annual Statewide Audit. The State Auditor's Office has completed its fieldwork for the UH Federal Financial Assistance Programs; and the State Auditor has drafted findings and recommendations related to UH for their report which should be issued during the February – March timeframe.

During the past couple of months the Internal Auditing Department assisted the State Auditor's Office by performing certain procedures in conjunction with their review of the financial statements for UH-Victoria for its upcoming accreditation review conducted by the Southern Association of Colleges and Schools (SACS). IA populated the electronic working papers for the State Auditor's Office and their report should be on the agenda for the May 7, 2014 Audit and Compliance Committee meeting.

Mr. Guyton also addressed the Audit Plan Status. The shaded areas of this report represented completed items and the footnotes indicated the status on the other areas.

This item was presented for information only and required no committee action.

## University of Houston System

The next item presented by Mr. Guyton was Item G, a Report on Ethics and Conflict of Interest Policies of the Board of Regents and each of the Universities – University of Houston System. Item No. 23 in the Audit Committee Charter and Checklist requires an annual review of these policies to ensure that these policies are in place at all levels. Not only are these policies very important for all institutions, they are also required in order to have effective compliance programs; and some Federal agencies such as National Science Foundation, National Institutes of Health, Department of Agriculture, and the Department of Energy require Conflicts of Interest policies as a part of the terms and conditions of awards, said Mr. Guyton. A summary of the policies and the changes to the policies since they were last reviewed by the Audit and Compliance Committee in January 2013 were included. Most changes were very minor, but there was a change in the Board of Regent’s Conflict of Interest policy to conform to changes in a recently passed law regarding acceptance of gifts for salaries. There were some minor changes to our Research Conflict of Interest policies in order to clarify some of the disclosure requirements. All of the other changes were for new approvals, dates and updated references.

This item was presented for information only and required no committee action.

The next item for the committee’s information was Item H, the Report on Annual Fraud Prevention and Awareness Report – University of Houston System. Mr. Guyton stated the Audit Committee Planner, Item 5.05, requires the Committee to evaluate management’s identification of fraud risks, the implementation of antifraud prevention and detection measures, and the creation of the appropriate “tone at the top” by reviewing an annual report which summarizes the fraud risk analyses and related risk mitigation strategies. This report also satisfies one of the requirements of Governor Perry’s Executive Order RP-36 relating to preventing, detecting and eliminating fraud, waste and abuse. This report was a compilation of each university’s comments on the status of their Fraud Prevention and Awareness Programs. The agenda sheet listed the key points of the report as well as the related page numbers in the report.

This item was presented for information only and required no committee action.

Mr. Guyton addressed Item I, the Report on Identity Theft Prevention Program – Executive Summary – University of Houston System. The Audit Committee Planner, Item 5.06, requires the system-wide compliance officer annually prepare an executive summary of all activities of the Identity Theft Prevention Programs of the component institutions. During December 2008, the Board of Regents implemented a policy on the Identity Theft Prevention Program in order to comply with the Fair and Accurate Credit Act and the implementing rules promulgated by the Federal Trade Commission. This executive summary was prepared in response to the Board of Regents’ policy and it described the progress that each institution had made in establishing and implementing their programs. The agenda sheet listed the key points of the report as well as the related page numbers in the report.

This item was presented for information only and required no committee action.

Mr. Guyton presented the next item on the agenda, Item J, the Report on Annual Procurement Report FY2013 – University of Houston System. Board of Regents policy 55.01.4 requires that

an annual report be submitted to the Board listing all professional service and consulting contracts to a single entity greater than \$250,000 and for all other procurement (except investment agreements) where total compensation from system-wide sources to a single entity is expected to exceed \$1,000,000. The Internal Auditing Department reviewed the methodology for compiling the report, including the procedures and criteria used to create the report, and in their opinion, the report preparation methodology appears to be reasonable and the report satisfies the annual reporting requirement for procurement activity. Mr. Guyton recognized Mr. Mike Glisson who had prepared the report and was available to answer any questions. A brief discussion followed.

This item was presented for information only and required no committee action.

The next agenda item presented by Mr. Guyton was Item K, the Report on Board of Regents' Internal Audit Institutional Compliance and Identity Theft Prevention Policies – University of Houston System. The Audit Committee Planner, Item No. 3.03, requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. There have been no changes to these policies since the Audit and Compliance Committee reviewed them at the January 30, 2013 meeting.

Mr. Guyton addressed a couple of points regarding the Board of Regents' Internal Audit Policy 41.01. He stated that this policy serves as the Internal Audit Charter and it establishes the framework for the Internal Audit function.

Paragraph 41.01.2.C. of this policy requires the Internal Auditing Department to adhere to the Standards for the Professional Practice of Internal Auditing and the IIA Code of Ethics. Internal Auditing Standard 1010 requires the Chief Audit Executive to discuss the definition of Internal Auditing, the IIA Code of Ethics and the Standards with the Board and senior management.

Paragraph 41.01.1.C. of this policy is the definition of Internal Auditing and it states: "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the system's operations. It helps the system accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The Code of Ethics establishes the four (4) principles that internal auditors are expected to apply and uphold:

- (a) Integrity;
- (b) Objectivity;
- (c) Confidentiality; and
- (d) Competency.

The Code of Ethics also contains 12 specific rules of conduct for these principles. Each year all audit staff, including Mr. Guyton, read the Code of Ethics and sign a statement acknowledging their responsibilities to adhere to the Code of Ethics.



## University of Houston System

The IIA Standards are comprised of Attribute Standards and Performance Standards. The Attribute Standards are as follows:

- (a) Purpose, Authority and Responsibility;
- (b) Independence and Objectivity;
- (c) Impairment to Independence and Objectivity;
- (d) Proficiency and Due Professional Care; and
- (e) Quality Assurance and Improvement Program.

The Performance Standards are as follows:

- (a) Managing the Internal Audit Activity;
- (b) Nature of Work;
- (c) Engagement Planning;
- (d) Performing the Engagement;
- (e) Communicating the Acceptance of Risks;
- (f) Monitoring Progress; and
- (g) Resolution of Senior Management's Acceptance of Risks.

Every three (3) years the Internal Auditing Department undergoes an External Peer Review to determine whether the department adheres to these Standards. The last Peer Review Report was issued in June of 2012; and was on the agenda for the August 15, 2012 Audit and Compliance Committee meeting.

This item was presented for information only and required no committee action.

Mr. Guyton presented the next item from the agenda, Item L, the Report on UHS Annual Financial Statements/Certifications – University of Houston System. The Audit Committee Planner, Item No. 3.13, requires that the UH System Chancellor and UH System Chief Financial Officer certify the annual financial statements for the UH System as a whole, and that each component President and Chief Financial Officer certify the annual financial statements for their respective component institution.

The agenda contained these certifications. Prior to the Chancellor and Vice Chancellor for Administration and Finance signing the certifications, the following steps had been taken:

- (a) UH-Clear Lake, UH-Downtown, and UH-Victoria Chief Accounting Officers, Chief Financial Officers, and Presidents certified that the financial reports for their campuses were true and correct to the best of their knowledge;
- (b) UH and UHSA administrators and unit heads representing 125 departments completed the FY2012 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. According to the survey results, internal controls were adequate to ensure that the financial transactions created for FY2012 by UH/UHSA departments were true and correct; and
- (c) Mike Glisson, David Ellis, Tom Ehardt, Dr. Carlucci, and Dr. Khator signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
  1. Department surveys, which indicated internal controls were adequate within UH and UHSA departments to ensure correct financial transactions;

University of Houston System

2. Certifications signed by UH-Clear Lake, UH-Downtown and UH-Victoria representatives; and
3. Their knowledge and review of the FY2012 Annual Financial Report for UH, UHSA, and UH System Consolidated.

This item was presented for information only and required no committee action.

Mr. Guyton introduced the next item on the agenda, Item M, the Report of University of Houston System, Internal Auditing Department – Annual Report for FY2013 – University of Houston System. Mr. Guyton stated that this report was required by the Texas Government Code. The State Auditor’s Office prescribes the format of this report which is required to be distributed to the Governor’s Office, State Auditor’s Office, Legislative Budget Board, Sunset Advisory Commission, members of the Board of Regents and the Chancellor. This is a comprehensive report on the activities of the Internal Auditing Department including an executive summary, a comparison of budget to actual, a report on the peer review of the Internal Audit Department which is conducted every three (3) years, and various other information items. A brief discussion followed.

This item was presented for information only and required no committee action.

The last information item addressed by Mr. Guyton was Item N, the Report on Anonymous Reporting Mechanism Summary Reports, FY2013, and Overview of Anonymous Reporting Mechanism – University of Houston System. This report summarizes the receipt of anonymous reports and their disposition for FY2013. Mr. Guyton stated they had received 90 reports through the MySafeCampus reporting system. In addition, approximately 22 additional reports were received through other mechanisms, including the State Auditor’s Office. Of the 84 MySafeCampus reports resolved during the year, 20 resulted in disciplinary action.

Mr. Guyton gave a brief overview of how the MySafeCampus process works. With this mechanism in place, Mr. Guyton stated an individual may go online to the “MySafeCampus System” and complete a report of various types. The profile is set-up for fraud, non-compliance, sexual harassment, NCAA violations, and a default called other (should they not find their selection). When the individual fills out the template and then submits the completed report, it is then submitted to the appropriate individuals within their institution. Both the General Counsel and Chief Audit Executive receive these reports. An individual may also call the Hotline number - 1.800.716.9007 to file their report.

Once the report is submitted and reviewed by the General Counsel, Chief Audit Executive and specific institution, it is acknowledged to the reporter that their report was received and will be investigated. Follow up questions may be asked in order to help investigate the report and to make sure that appropriate action is taken. A report log is periodically reviewed by the Chancellor and Chair of the Audit and Compliance Committee. A brief question and answer period followed.

This item was presented for information only and required no committee action.

No Executive Session was called.

University of Houston System

There being no further business to come before the committee, the meeting adjourned at 9:38 a.m.

All documentation submitted to the Committee in support of the foregoing action items, including but not limited to "Passed" agenda items and supporting documentation presented to the Committee, is incorporated herein and made a part of these minutes for all purposes; however, this does not constitute a waiver of any privileges contained herein.

\*\*\*\*\*

Others Present:

Renu Khator  
Carl Carlucci  
Paula Myrick Short  
Dona Cornell  
Philip Castille  
William Flores  
William Staples  
Rathindra Bose  
Darrin Hall  
Eloise Stuhr  
Richard Walker  
Gregory Sissel  
Sue Rhodes  
Craig Ness  
Brandon Alexander  
Don Price  
Jon Aldrich  
Gerry Mathisen

Don Guyton  
David Ellis  
Latha Ramchand  
William Fitzgibbon  
Oscar Gutierrez  
Robert Belt  
Carolyn Black  
Michelle Dotter  
Valerie Coleman-Ferguson  
Mike Glisson  
Mike Young  
Brian Krueger  
Sarah Brown  
Shannon Harris  
Gordon Luce  
Phil Booth  
Marquette Hobbs

Russ Hoskens  
Margie Hattenbach  
Sandra Dahlke  
Raymond Bartlett  
Kevin Kemp  
Laurie Ruiz  
Willie Munson  
Cedric Bando  
Tom Ehardt  
William Monroe  
Patricia Paquin  
Christina Ordonez-Campos  
Dan Maxwell  
Carla Livingston  
Joe Brueggeman  
Brian Thomas  
Brenda Robles