

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

Tuesday, May 14, 2013 – The members of the Audit and Compliance Committee of the University of Houston System convened at 9:06 a.m. on Tuesday, May 14, 2013 at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Nandita V. Berry, Chair
Roger F. Welder, Vice Chair
Nelda Luce Blair, Ex Officio

Non-Member(s) Present

Spencer D. Armour, III, Regent
Welcome W. Wilson, Jr., Regent
Gage A. Raba, Student Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Nandita V. Berry 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 Welder, seconded by Regent Blair, and by a unanimous vote of the members in attendance, the following minutes from the meeting listed below were approved:

- January 30, 2013, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Berry introduced Mr. Don Guyton, Chief Audit Executive, who presented the remaining items before the committee.

Mr. Guyton stated there were no open points from the Audit and Compliance Committee meeting held on January 30, 2013 and reiterated that all of the remaining items presented to the committee were for information only and require no committee action.

Information Items:

1. Mr. Guyton presented the first information item, Item C, which referred to a Report on External Audit Reports – State Auditor Report:

- SAO Report 13-322 – Federal Portion of the Statewide Single Audit Report for Fiscal Year Ended August 31, 2012 (excerpts) – University of Houston System, AUDIT-C1

Mr. Guyton stated this item referred to the UHS excerpts of the State Auditor's recently issued reports on the Federal and Financial Portions of the State-wide Audit Report for FY2012. On the first two (2) pages of this report a listing of key points in the report as they relate to UH System entities. The auditor's fieldwork at the UH System consisted of an audit of the University of Houston's Federal Financial Aid and Research and Development Programs. The fieldwork also included follow-up procedures to ensure that prior year findings at the University of Houston (UH) and the University of Houston-Downtown (UHD) had been addressed. By the time the auditor had issued its report, only one (1) UH recommendation had not been implemented and a management action plan was prepared to address this recommendation. This action plan has now been implemented, as noted in the follow-up status report which was included in the Internal Audit Briefing Booklet. This action item addressed the segregation of duties for initiating and approving transactions and it was related to Research and Development activities.

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

2. Report on Institutional Compliance Status Report for the Three Months Ended March 31, 2013 – University of Houston System, Item D – AUDIT-D39

Mr. Guyton introduced this item which referred to the Institutional Compliance Status Report for the Three Months ended March 31, 2013. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

This report also summarized the information provided for each institution for their compliance functions.

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

3. Report on Internal Audit Report – Briefing Booklet – University of Houston System, Item E – AUDIT-E51

Mr. Guyton presented this report which referred to the Internal Audit Briefing Booklet. The activity outline was addressed and Internal Audit (IA) had prepared 12 Internal Audit Reports since the January 30, 2013 Audit and Compliance Committee meeting. The executive summaries of these reports as well as the individual reports were addressed. These reports addressed areas which were included in the Board-approved Audit Plans for FY2012 and FY2013 and included assessments of the following:

- Auxiliary Contract Administration at all UH System institutions;
- Departmental Reviews for UH Advancement;
- University of Houston-Clear Lake (UHCL) School of Education;
- UHD Division of Finance and Administration;
- Endowments at UH College of Business and Hotel and Restaurant Management; and
- IA's Quarterly Reports on Construction Award and follow-up activities.

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These reports will 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. Nine (9) of these reports contained management action plans, which were included in Internal Audit's Briefing Booklet, as well as an overview of IA's recommendations. A brief discussion followed.

Audit Report No. 2013-15 was IA's follow-up report which addressed the status of 13 action items in nine (9) individual audit reports. IA had verified that seven (7) of the action items had been implemented, five (5) partially implemented, and one (1) not implemented. Updated management responses had been obtained on the partially implemented and not implemented action items. There were two (2) high risk items in the report of which one (1) had been completed which related to the Business Administration in the Student Affairs area; and the other related to the monitoring of Business Administration by the Division of Research over its centers and institutes and should be implemented by the end of June.

Audit Report No. 2013-16 was the Construction Award Status Report. This is a standing report in the IA's Briefing Booklet, similar to their follow-up status report. The objective of the IA's Construction Award Review was to determine whether the major construction contract awards complied with institutional policies and state statutes, particularly the Texas Education Code. This report covered the activity from January 1, 2013 through March 31, 2013. Appendix 1 of this report indicated the scope of the Internal Audit Review. IA reviewed the various aspects of the construction awards on the UH Energy Research Park and the UHD Parking Garage and IA noted there were no unusual items or other matters that they considered non-compliant with policies or state statutes.

Audit Report Nos. 2013-17; 2013-18; 2013-19; and 2013-20 addressed Auxiliary Contract Administration at UHD, UHCL, UH, and University of Houston-Victoria (UHV). The primary contracts reviewed were food service and the pouring-rights contract. There were no major areas of concern in these reviews.

Audit Report Nos. 2013-21; 2013-22; and 2013-26 addressed IA's Departmental Compliance Reviews of UH, UHCL and UHD; and Audit Report Nos. 2013-24 and 2013-25 addressed Endowment Management Reviews at the UH College of Business and the Hotel and Restaurant Management. There were no major areas of concern in these engagements.

Audit Report No. 2013-23 addressed UHD's Federal Financial Aid grants. There were no major areas of concern in this engagement. A brief discussion followed.

Chair Blair questioned Mr. Guyton on the auditing process IA uses when following through on the status of the items from these reports that had not been completed before each meeting. Mr. Guyton stated that for each of the updated management responses that were received on their items, IA requires the responsible party to give them an estimated completion date. When that completion date is received, the item would then go back into the database with a new completion date; and would be tagged with a letter. If there was an "A" behind the item and number, then IA would know that that item had not been completed; they missed their mark one

time. If a letter “B” is behind the item and completion date, then they missed their mark twice, and so forth and so on. If the item should be a high risk item, IA brings the matter to the committee’s attention. The Chancellor would also get involved should it become necessary to resolve the problem with high risk items.

Mr. Guyton stated that the activity outline indicates there were 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.

IA also has various Special Projects in Progress. One of the items listed was the State Auditor’s Annual Statewide Audit. The State Auditor’s Office is planning its FY2013 fieldwork for the UH and UHV Federal Financial Assistance Programs; and the preliminary fieldwork is scheduled to commence on July 29, 2013 at UH for two (2) weeks and on June 3, 2013 for a week at UHV. A brief discussion followed.

Mr. Guyton also pointed out that behind the activity outline was the Audit Plan Status Report; and the shaded areas were complete and the footnotes indicated that status on the other areas.

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

4. Report on UH System Support Organizations - University of Houston System, Item F – AUDIT-F152

- Compliance Review of UH System Support Organizations
- UH System Support Organization Report.

Mr. Guyton referred to Item F, the Compliance Review of the UH System Support Organizations and the UHS Support Organizations Report. The Compliance Review of the UH System Support Organizations indicated the status of the receipt of this information. Mr. Guyton stated that IA had not received some of the information from some of the foundations. University Advancement is responsible for communicating with the various foundations and to make certain that the necessary information is provided which includes the Audited Financial Statements, IRS Forms 990, Investment Reports and Policies, Gift Information, and other information furnished to the UH System by the Support Organizations.

The purpose of this report is to provide information on Support Organizations’ activities and the Board of Regents and UH System’s responsibilities with respect to the foundations. The Regents’ fiduciary responsibilities to the UH System related to these organizations is addressed in agreements between the UH System and the Support Organizations. In meeting the requirements of the Board of Regents’ Policy on Support Organizations, the UH System implemented a Policy on Support Organizations which requires them to furnish certain information to the UH System. This requirement is spelled out in the UH System agreements with the Support Organizations. The UH System has been in the process of trying to update these agreements for some time and the dates were listed as to the last time these agreements were updated on this report.

Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel, briefed the committee on this issue and stated that Vice Chancellor for University Advancement, Ms. Eloise Dunn Stuhr

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has been meeting with the different foundations for the past six months or so to come up with new agreements. As of May 13, 2013, Ms. Cornell has received final agreements from the UH Foundation and the Bauer Foundation; and she feels that by our next meeting being held in August 2013, we will have all signed agreements.

Regent Wilson inquired as to what threshold Board approval is needed on construction contracts? Mr. Guyton stated the amount was \$4.0 million. The Board requires that whatever the Coordinating Board approves - the Board has to approve. IA also produces an Annual Procurement Report. Regent Wilson asked if it was feasible to randomly select, in the case of minor construction contracts, some small contracts to audit as sort of a test, maybe a small sampling below \$1.0 million. Regent Berry stated this was a good point; minor construction contracts, cumulatively added up, could be major. She reiterated that we must be mindful of the resources and the amount of work involved, but stated we should go back and look at it to see if it is feasible. Mr. Guyton added that Facilities Management is scheduled for an upcoming internal audit in the FY2014-2016 Internal Audit Plan and this area is responsible for minor construction which could be included in the scope of that audit.

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

No Executive Session was called.

There being no further business to come before the committee the meeting adjourned at 9:35 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
William Flores
Rathindra Bose
Richard Walker
Ruth Shapiro
Jon Aldrich
Ed Jones

Don Guyton
Jeffrey Cass
Sandra Dahlke
Latha Ramchand
Jeanne Wilson
Dan Maxwell
Tom Ehardt
Valerie Coleman
Jeff Heflin
Marquette Hobbs

Russ Hoskens
Wayne Beran
David Bradley
David Ellis
Craig Ness
Mike Glisson
Emily Messa
Carl Boger
Brenda Robles
Gerry Mathisen