

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

Wednesday, August 11, 2010 – The members of the Audit and Compliance Committee of The University of Houston System convened at 10:50 a.m. on Wednesday, August 11, 2010 at the University of Houston, in the Athletics/Alumni Center, Melcher Board Room 100B, 3100 Cullen Boulevard, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Jacob M. Monty, Chair

Nandita V. Berry, Vice Chair

Welcome W. Wilson, Sr., Ex Officio

Absent

Mica Mosbacher, Regent

Non-Member

Carroll Robertson Ray, Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Jacob M. Monty, called the meeting to order.

AGENDA ITEMS

1. Approval of Minutes – Item B

On motion of Regent Berry, seconded by Regent Wilson and by a unanimous vote, the following minutes from the meeting listed below were approved:

- May 12, 2010, Audit and Compliance Committee Meeting

Chair of the Committee, Jacob Monty, called on Don Guyton, Chief Audit Executive, who presented the remaining items on the agenda.

Mr. Guyton stated there were no open points from the May, Audit and Compliance Committee meeting to be addressed.

2. UHS Internal Auditing Department Long-Range Internal Audit Plan for Fiscal Year 2011-2013 – University of Houston System – AUDIT-1

Mr. Guyton requested approval for the final draft of the UHS Long-Range Internal Audit Plan for Fiscal Years 2011-2013 (Audit Plan). The plan contained an executive summary, resource and budget information, a listing of the audit team members, and a risk assessment for all components. Risk assessment techniques were employed to identify auditable areas

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and to ensure that the accounting systems and controls, the administrative systems and controls, and other major systems and controls were reviewed on a periodic basis. In the executive summary area, the higher risk areas from the risk analysis were listed and whether or not they had been scheduled for review in the 3 year plan. Audits of these higher risk areas should help to mitigate some of the risk, said Mr. Guyton. A separate risk analysis had been prepared for each campus. In preparing the Audit Plan and Risk Analysis, input was received from key personnel throughout the entire system, including the chancellor and the chair of the Audit and Compliance Committee. Section 2101 of the Texas Government Code requires the UH System Board of Regents to approve the audit plan and periodically review the resources dedicated to the Internal Audit Program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment were adequately covered within a reasonable timeframe. Mr. Guyton stated that the resources dedicated to the Internal Audit Program were adequate.

On motion of Regent Berry, seconded by Regent Wilson and by a unanimous vote, the UHS Internal Auditing Department Long-Range Internal Audit Plan for Fiscal Years 2011-2013 was approved and will be placed on the August 17, 2010 Board of Regents agenda for final Board approval.

3. Audit and Compliance Committee Planner – University of Houston System – AUDIT-2

Mr. Guyton introduced this item which required committee approval only. The Audit and Compliance Planner lists all actions required of the Audit and Compliance Committee with recommended schedules for these activities. The only change to the planner since it was approved by the Audit and Compliance Committee last year was to change the columns to indicate a three-month term rather than to list each month.

On motion of Regent Berry, seconded by Regent Wilson and by a unanimous vote, the Audit and Compliance Committee Planner was approved by the committee. This item does not require final Board approval.

4. Audit and Compliance Committee Charter and Checklist – University of Houston System – AUDIT-3

The Audit and Compliance Committee Charter and Checklist are the recommended guidelines for the operation of the Audit and Compliance Committee. Mr. Guyton stated there were no suggested changes to this document.

On motion of Regent Berry, seconded by Regent Wilson and by a unanimous vote, the Audit and Compliance Committee Charter and Checklist was approved by the committee. This item does not require final Board approval.

5. University of Houston System Entertainment Expenditures Policies – University of Houston System – AUDIT-4

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Mr. Guyton introduced this item and stated in May 2009, Chancellor/President Khator changed the University of Houston's Entertainment Policy by prohibiting the use of tuition funds to be used to purchase food, drinks, or entertainment. A table listing the types of food and entertainment-related expenditures prohibited by fund type was distributed, as well as the System policy on entertainment expenditures which had been marked for changes to prohibit the use of tuition funds for entertainment expenditures system-wide. The University of Houston-Clear Lake, University of Houston-Downtown and University of Houston-Victoria are expected to have their institution's entertainment policies revised to conform to the System policy by September 1, 2010.

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

6. Institutional Compliance Status Report for the Three Months ended June 30, 2010, and Annual Compliance Plan for FY2011 – University of Houston System – AUDIT-5

This report summarized the information provided by each institution for their respective compliance functions which include risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports.

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

7. Internal Audit Report – Briefing Booklet – University of Houston System – AUDIT-6

A transmittal letter of the Briefing Booklet had been distributed which contained a summary of the reports with color-coded risk rankings. The Briefing Booklet also contained an activity outline. There were six internal audit reports prepared since the May Audit and Compliance Committee meeting and the executive summaries of these reports were addressed by Mr. Guyton. These reports addressed areas included in the Board-approved Audit Plan for Fiscal Year 2010 and included departmental reviews of the UH System/University of Houston Office of the Chancellor/President and University of Houston-Clear Lake Administration and Finance Department; compliance reviews of University of Houston Athletics NCAA rules and University of Houston and University of Houston-Downtown Advanced Research Program grants administered by the Texas Higher Education Coordinating Board; the annual Information Technology activity report; and Internal Audit's follow-up activity. 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. Since some of these reports contain management action plans, they were included in the Briefing Booklet. An overview of all of Internal Audit's recommendations was included in these reports.

Internal Audit's follow-up report, Audit Report No. 2010-23, addressed the status of 50 action items in 18 individual audit reports. Mr. Guyton stated that 19 of the action items had been implemented, 26 partially implemented and five not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. There were three high risk items in this report that were partially implemented

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and they should be implemented by September 1, 2010. There were three other high risk items that were completely implemented.

Internal Audit's Report No. 2010-25 was a departmental review at the University of Houston-Clear Lake Administration and Finance Department. There were a couple of issues dealing with procurement card administration and accountability and cost center verifications that management had agreed to address.

Internal Audit's Report No. 2010-26 was a report on the University of Houston Athletics NCAA rules compliance. There were a couple of issues related to the compliance and accountability of camps and clinics revenues that the Athletics new compliance officer and financial officer had agreed to address.

Mr. Guyton stated 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 2010.

There were also various special projects in progress. The State Auditor's Office is currently conducting its fieldwork for a state-wide audit on the State of Texas financial statements for FY2010. The University of Houston has been selected as one of the institutions for a full-scope review of Federal financial aid programs and a limited review of Federal research and development. The University of Houston-Downtown and University of Houston-Victoria have been selected for limited reviews of their Federal financial aid programs. The State Auditor's Office is also wrapping up its Audit of Veterans Services at selected institutions of which the University of Houston was one of the selected institutions. This report should be issued shortly. The State Comptroller's Office is in the process of issuing its audit reports on expenditures of the University of Houston and University of Houston-Victoria. These reports will be on the November 2010 Audit and Compliance Committee meeting agenda.

Mr. Guyton pointed out that behind the activity outline distributed was the status of Audit Plan. The shaded areas showed completed and the footnotes indicated the status on the other areas.

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

8. External Audit Reports – Public Broadcasting Basic Financial Statements – August 31, 2009 (with Independent Auditor's Report Thereon) – University of Houston System – AUDIT-7

Mr. Guyton introduced this item to the committee and stated this was the first year that KUHT, KUHF and the Association of Community Broadcasting had been consolidated for financial reporting purposes. This audit report is a requirement of the Federal Corporation for Public Broadcasting Act. Mr. David Ellis, Executive Director of Financial Reporting gave a brief explanation regarding the consolidation of all of these reports as being a more efficient way to give this report. The auditors also issued two other related reports, the FY2009 Non-Federal Financial Support for KUHT and the FY2009 Non-Federal Financial

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Support for KUHF. These reports may be accessed on the Internal Audit website under the External Reports' button.

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

9. External Audit Report – UHS Endowment Fund, Financial Statements and Independent Auditor's Report for FY 2009 and 2008 – University of Houston System – AUDIT-8

Mr. Guyton stated this audit report was one of the requirements of a major donor during the early 90's. The Audit and Compliance Committee Charter and Checklist, Item No. 13, requires the committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm.

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

There being no further business to come before the committee the meeting adjourned at 11:43 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:

Carl Carlucci
Dona Cornell
John Antel
Elwyn Lee
Don Guyton
Judy Young
Marquette Hobbs

Don Guyton
Tom Ehardt
David Ellis
Ed Hugetz
Craig Ness
Ed Jones
Gerry Mathisen

Raymond Bartlett
Russ Hoskens
David Bradley
Karen Clarke
Dineta Frazier
Jon Aldrich