

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

Wednesday, August 15, 2012 – The members of the Audit and Compliance Committee of the University of Houston System convened at 9:54 a.m. on Wednesday, August 15, 2012 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Mica Mosbacher, Vice Chair  
Roger F. Welder, Member  
Nelda Luce Blair, Ex Officio  
Gage A. Raba, Student Regent

Non-Member(s) Present

Spencer D. Armour, III, Regent  
Jarvis V. Hollingsworth, Regent  
Jacob M. Monty, Regent  
Welcome W. Wilson, Jr., Regent

Member(s) Absent

Nandita V. Berry, Chair

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, in the absence of the Chair of the Committee, Nandita V. Berry, Vice Chair Mica Mosbacher called the meeting to order.

Regent Mosbacher stated the first action item, the Report on Long Range Internal Audit Plan for FY2013-2015 – University of Houston System, AUDIT-C1, would be tabled and presented to the full board at the Board of Regents meeting. Regent Mosbacher proceeded to the remaining seven (7) items: two (2) requiring committee approval only; and the remaining five (5) items for information only. Regent Mosbacher then introduced Item B, the approval of the minutes.

\*\*\*\*\*

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:

- May 16, 2012, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Mosbacher announced that Mr. Don Guyton, Chief Audit Executive, would be presenting the remaining items before the committee.

**Action Items:**

Mr. Guyton presented the following two (2) action items which required committee approval only.

1. Report on Audit and Compliance Committee Charter and Checklist - University of Houston System, Item D – AUDIT-D2-8; and
2. Report on Audit and Compliance Committee Planner - University of Houston System, Item E – AUDIT-E9-14

Mr. Guyton stated the Audit & Compliance Committee Charter and Checklist were recommended guidelines for the operation of the Audit and Compliance Committee. Item number 26 of this report required an annual review and update and there was one suggested change to this document. Mr. Guyton stated item number 30 had been added to the report which requires the Audit and Compliance Committee to report to the Board the review of the Annual Procurement Report now required by Board of Regents Policy 55.01.4.

The Audit and Compliance Committee Planner lists all actions required of the Audit and Compliance Committee with recommended schedules for these activities. Item 2.04 of the Planner requires the Audit and Compliance Committee to approve the Planner for the upcoming year. There was one suggested change to this document which was to add item number 05.07 which requires the committee to review the Annual Procurement Report required by Board of Regents Policy 55.01.4, Reporting to the Board.

On motion of Regent Welder, seconded by Regent Blair, and by a unanimous vote of the members in attendance, the Report on Audit and Compliance Committee Charter and Checklist and the Report on Audit and Compliance Committee Planner were both approved by the committee. These two (2) action items required committee approval only.

**Information Items:**

1. Report on External Audit Reports – State Auditor Reports – University of Houston System, Item F – AUDIT-F15-81
  - SAO Report No. 12-038, An Audit Report Related to The National Research University Fund; and
  - SAO Report No. 12-035, A Report on State Agency, University, and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements.

Mr. Guyton introduced the above two reports issued by the State Auditor's Office (SAO), one related to the National Research University Fund and the other related to compliance with the Public Funds Investment Act and higher education reporting requirements. The Audit and Compliance Charter and Checklist, item number 13, requires the committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm. The SAO concluded in its report related to the National Research

## University of Houston System

University Fund that it obtained reasonable assurance that information provided by the University of Houston to the Higher Education Coordinating Board met the eligibility requirements. The SAO also concluded that the university's PeopleSoft accounting system had controls designed to ensure the reliability of the financial data entered and processed. In the last paragraph of the Executive Summary of the report, the SAO relied on the work of the Internal Auditing Department. The SAO recommended that the University of Houston strengthen its controls over time and effort reporting for federally funded research. Mr. Guyton asked Dr. Rathindra Bose, Vice Chancellor for Research and Technology Transfer, to comment on the changes taking place. Below is a brief outline of Dr. Bose's remarks.

Dr. Bose stated a comprehensive review had been initiated of how the grants were being monitored; how they were being accounted for; and documenting how much time each faculty member was spending in each project. Dr. Bose mentioned that clear documentation was required by all federal agencies. Presently, in-house software has been monitoring these functions but they were currently in the process of acquiring sophisticated software which would provide the interface software between the grants accounting, the Research office, and PeopleSoft payroll distribution.

Mr. Guyton stated that at the May Audit and Compliance Committee meeting, a lengthy discussion on these criteria and the Internal Audit recommendations related to these areas was addressed. The SAO had communicated the results of this statutorily mandated audit to the State Comptroller, who subsequently released approximately \$7.0 million to the University of Houston.

The next SAO report was on compliance with the Public Funds Investment Act and higher education investment reporting requirements mandated by Rider 5; page III-230 of the General Appropriations Act of the 82<sup>nd</sup> Legislature. The University of Houston System is not subject to the Public Funds Investment Act because it met the exemption requirements when this legislation was enacted. Mr. Guyton noted on page ii of the overall conclusion, universities not subject to the Act but still subject to the reporting requirements fully complied with the reporting requirements. The universities exempt from the Act were University of Texas System, Texas A&M University System, Texas Tech University System and the University of Houston System. Tables at the end of the report listed the market values of investments as of August 31, 2011 of all state agencies, higher education systems and entities and community college systems. Table 10 on page 16 of the report listed the market values of investments as of August 31, 2011 for all higher education systems not subject to the Act, including the University of Houston System.

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

### 2. Report on Internal Audit Report – Briefing Booklet – University of Houston System, Item G – AUDIT-G82

This report referred to the Internal Audit Briefing Booklet. Mr. Guyton stated the Internal Audit Department had prepared ten (10) Internal Audit Reports since the May Audit and Compliance Committee meeting was held. These reports addressed areas included in the

## University of Houston System

Board-approved Audit Plan for FY2012 and included a report on the UH Texas Institute for Measurement, Evaluation, and Statistics; a report on endowments in the UH Texas Center for Superconductivity; department reviews in UH-Downtown Advancement and External Relations, UH-Downtown President's Office, UH-Downtown College of Public Service and UH-Downtown Employment Services and Operations; a report on University of Houston System Financial Reporting; an Information Technology audit activity report; a review of construction contract awards; and Internal Audit's quarterly 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. Three (3) of these reports contained management action plans and were included in the Briefing Booklet. An overview of all of Internal Audit's recommendations was also included in these reports.

Audit Report No. 2012-30, Internal Audit's follow-up report, addressed the status of 12 action items in eight (8) individual audit reports. Internal Audit verified that nine (9) of the action items had been implemented and three (3) partially implemented. Updated management responses had been obtained on the partially implemented and not implemented action items. There were no high risk items in this report.

Audit Report No. 2012-31 was Internal Audit's construction award status report. This is a standing report in their Briefing Booklet, similar to their follow-up status report. The objective of this construction award review is to determine whether the major construction contract awards comply with institutional policies and state statutes, particularly the Texas Education Code. Internal Audit did not note any areas of non-compliance with the Texas Education Code, but they did note one (1) unusual item related to the selection of Architectural and Engineering Services for the football stadium. There was a deviation from the standard practice of personnel attending the interviews of the vendors and as a result, the Executive Vice Chancellor of Administration and Finance was unable to conclude that there was no outside influence in the evaluation process. There were no written procedures or guidelines stating who could or could not attend the interviews. The Purchasing Department has now implemented written procedures which state that only the selection team members and representatives from the Purchasing Department can attend these interviews.

Audit Report No. 2012-32 was the UH Texas Institute for Measurement, Evaluation, and Statistics Report. Internal Audit had one (1) significant engagement observation related to the completion of time and effort reports. As noted in previous Internal Audit Reports and the State Auditor's Report on NRUF, this area needs to be strengthened. As noted in the report, the Division of Research is taking the lead to address this issue.

Audit Report No. 2012-33 was the Internal Audit Report on Endowment Stewardship for the UH Texas Center for Superconductivity. Internal Audit concluded that the Center was complying with the terms of the endowment agreements. Internal Audit also noted that the Center's fund balances of its endowment income cost centers had been accumulating for several years and as of August 31, 2011 exceeded \$7.0 million. A discussion followed.

## University of Houston System

Audit Reports No. 2012-34, 2012-35 and 2012-39 were Internal Audit Reports on the Departmental Compliance reviews of UH-Downtown Advancement and External Relations, the UH-Downtown President's Office, and the UH-Downtown Employment Services and Operations Division. There were no significant issues noted in these reviews.

Audit Report No. 2012-36 addressed the University of Houston System financial reporting. Internal Audit concluded that the Financial Reporting Department was preparing the Annual Financial Report (AFR) that is compliant with statutes, regulations and policies. Internal Audit believes that it could be prepared more efficiently and effectively by using a Data Warehouse Application and better supported by complete documentation. Management intends to implement the recommendations made by Internal Auditing. A brief discussion followed.

Audit Report No. 2012-37 was Internal Audit's report on the UH-Downtown College of Public Service, departmental review. Internal Audit had one (1) significant engagement observation related to the completion of time and effort reports. The Office of Research and Sponsored programs is in the process of implementing policies and procedures to help ensure that effort reports are completed and it is researching effort reporting applications compatible with PeopleSoft software.

Mr. Guyton stated there were various scheduled audits in the reporting or fieldwork in progress phase or in the planning phase. These audits were included in the board-approved Internal Audit Plan for 2012. Internal Audit also had various special projects in progress. One of the items was the State Auditor's Annual Statewide Audit. The preliminary fieldwork for the State Auditor's Office FY2012 UH Federal Financial Assistance Audit had been performed the two weeks beginning June 18, 2012. The State Auditor's Office is planning its FY2012 fieldwork for the UH Research and Development programs.

The final audits listed in this section were the FEMA audits for Tropical Storm Allison and Hurricane Ike. There were approximately 100 projects initiated as a result of Tropical Storm Allison and there were approximately a dozen audits still open. There were 35 projects initiated as a result of Hurricane Ike and 14 of those have been audited with appeals in progress. The university is still furnishing the FEMA auditors with documentation as requested.

Mr. Guyton pointed out to the committee that behind the activity outline was the Audit Plan Status and stated that the shaded areas were complete and that the footnotes indicated the status on the other areas. A brief discussion followed.

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

### 3. Report on Internal Audit Peer Review – University of Houston System, Item H – AUDIT-H83-92

Mr. Guyton presented this item which referred to the Internal Audit Peer Review. The Internal Auditing Department is required by the Texas Internal Auditing Act to undergo a

comprehensive external peer review every three (3) years. The peer review team concluded that the Internal Auditing Department generally conforms to the International Standards for the Professional Practice of Internal Auditing and it concurred with the Internal Auditing Department's internal self-assessment. The peer review team recommended that an IT risk assessment be prepared as part of the Annual Audit Plan risk assessment process and that an assessment of the staff resources to address the IT risks be performed. Mr. Guyton stated Internal Audit plans to implement these recommendations.

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

4. Report on Institutional Compliance Status Report for the Three Months Ended June 30, 2012 and Annual Plan for 2013 – University of Houston System, Item I – AUDIT-I93-104

Mr. Guyton introduced this item which referred to the Institutional Compliance Status Report for the three (3) months ended June 30, 2012 and each institution's Annual Compliance Plan for FY2013. This report lists activities which include risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

Listed on page 2 of the report was a section on changes in laws and regulations. Mr. Guyton stated there were updates on two (2) pieces of legislation: one dealt with the programs for minors held on campuses of institutions of higher education and the other dealt with changes to the state medical records privacy statutes.

Dr. Richard Walker, Vice Chancellor for Student Affairs, gave a brief update on the issue of programs for minors (youth campus) held on campus. Dr. Walker stated that at the February meeting he had informed the committee of a change in the Texas Education Code, 51.976, which went into effect on June 1, 2012. This change required certain campus programs for minors held on campuses within the state of Texas to follow some new regulations. This change dealt mainly with making sure that those individuals who would be working with those camps be trained in sexual abuse and child molestation. An interim System Administrative Memoranda (SAM) was developed and signed off on May 23, 2012 to become effective June 1, 2012. In this SAM a coordinator for this program has been designated for each of the campuses and Dr. Walker has the overall responsibility for implementation for the system. Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel, reported briefly on the changes to the state medical records privacy statutes. Ms. Cornell stated Ms. Ruth Shapiro, an expert in HIPPA regulations, keeps up with all of the different areas on campus that may need to be HIPPA compliant; and the university follows those rules and laws on a regular basis.

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

5. Presentation – Overview of UHS policies and procedures for investigating and acting on reports of non-compliance and criminal activity – University of Houston System, Item J – AUDIT-J015

## University of Houston System

Mr. Guyton introduced this item which referred to a presentation on the UHS policies and procedures for investigating and acting on reports of non-compliance and criminal activity. A letter from Governor Rick Perry, dated July 13, 2012, was sent to all higher education regents reminding them of their responsibilities and asking for a response related to the policies and procedures that the university has in place for criminal situations such as those that occurred at Penn State University. A reply to Governor Perry's request is being finalized and will be sent to the Governor by the August 31, 2012 deadline.

A presentation was given by various individuals concerning this issue and below is a brief summary of their remarks.

### Mr. Guyton, Chief Audit Executive:

- Mr. Guyton stated the university has a long standing culture of compliance and reporting. A compliance program and an anonymous reporting mechanism were implemented in 2005. Implementation of the Fraud policy was completed in 1989 as well as the state Whistleblower protections in the 1980s. Annual Clery reports are given to the UH System Board of Regents; and when new regents are appointed, the General Counsel, Dona Cornell, provides each of the regents an orientation that outlines what the university's practices are.
- The "Tone at the Top" is where the rubber meets the road and is crucial stated Mr. Guyton. Management needs to be held accountable and on November 16, 2011, the Chancellor sent an email through the entire university community stating that non-compliance would not be tolerated. In March 2012, a followed-up email was sent to all supervisors reminding them of their responsibilities to act on reports of non-compliance; and on July 23 and July 24, 2012, the Chancellor sent out tweets to remind everyone to do the right thing and not to be silent.
- There are three (3) Board of Regents policies relating to non-compliance:
  - (a) Code of Ethics, 57.01;
  - (b) Internal Auditing Act, 41.01; and
  - (c) Institutional Compliance Policy, 42.01.
- UH System policies were addressed and included the following:
  - (a) Reporting/Investigating Fraudulent Acts, SAM 01.C.04;
  - (b) Ethical Conduct of Employees, SAM 02.A.29;
  - (c) Campus Program for Minors, SAM 05.C.01; and
  - (d) Guidelines for Sexual Harassment Policies and Procedures, SAM 02.A.03.
- Institutional Policies were discussed. Each UHS institution has specific campus policies for their campus as follows:
  - (a) Faculty handbooks;
  - (b) Student handbooks, and
  - (c) Title IX policies.
- UH System Training was addressed. Ms. Cornell stated the university has training in many different areas and much of the university's training is currently being done online due to the number of employees system-wide, although some live training is completed, e.g., new hire orientation for faculty and staff and Title IX – Sexual Misconduct.

Ms. Joan Nelson, Executive Director of Human Resources, University of Houston represented her peers: Katherine Justice, UH-Clear Lake; Ivonne Montalbano, UH-Downtown; and Laura Smith, UH-Victoria, who were also present at the meeting.

- The major responsibilities of Human Resources include the following:

- (a) Act as advisors in the following areas:
  1. Payroll;
  2. Benefits;
  3. Compensation;
  4. Employee Relations; and
  5. Training.
- (b) Compliance responsibilities include but not limited to the following:
  1. Background checks;
  2. Fair Labor Standards Law;
  3. Family Medical Leave; and
  4. Ethical Conduct
- (c) Human Resource (HR) Management assistance in these areas include:
  1. Administrative guidance (promotions, progressive discipline, etc.);
  2. Investigation of complaints; and
  3. Consulting
- HR receives complaints in numerous ways:
  - (a) Directly from complainants
  - (b) MySafeCampus – Anonymous Reporting
  - (c) Referrals from various areas, such as:
    1. Provost;
    2. UHDPS;
    3. Departments/Colleges;
    4. General Counsel;
    5. Ombudsperson;
    6. External Agencies;
    7. Outreach efforts; and
    8. Consulting
- HR adjudicates complaints as follows:
  - (a) Investigates all reports;
  - (b) Informally – mediation / consulting;
  - (c) Formally – utilizes appropriate policies;
  - (d) Recommendations; and
  - (e) Delivers training.

A discussion followed.

Dr. Richard A. Baker, AVC/AVP for Equal Opportunity Services (EOS), University of Houston

- EOS is a clearinghouse for best practices for diversity, affirmative action and equal opportunity.
- EOS coordinates and enforces the federal and state equal opportunity regulations.
- EOS' primary responsibility is to investigate complaints, prevent its reoccurrence, and address its effects.
- EOS receives reports in the following ways:
  - (a) Directly from complainants;
  - (b) MySafeCampus – Anonymous Reporting;
  - (c) Referrals from various areas, such as:
    1. Provost;



## University of Houston System

2. UHDPS;
  3. Departments/Colleges;
  4. General Counsel;
  5. Ombudsperson;
  6. External Agencies;
  7. Outreach efforts; and
  8. Consulting
- EOS adjudicates complaints as follows:
    - (a) Investigates all reports;
    - (b) Informally – mediation / consulting;
    - (c) Formally – utilizes appropriate policies;
    - (d) Recommendations; and
    - (e) Delivers training.

### Dr. Rathindra Bose, VC/VP for Research and Technology Transfer, University of Houston

- There are many areas in Research where there is vulnerability and could cause risk to the university if not managed well. These include the following:
  - (a) Human Subjects Research – Compliance with DHHS/FDA regulations;
  - (b) Animal Research – Compliance with DHHS/USDA regulations;
  - (c) Grant Management, including Fiscal Compliance – Compliance with OMB Circulars; Federal and State regulatory requirements; and
  - (d) Export Control – Compliance with Federal regulations.
- Oversight/Safeguards addressed. Training and education of researchers and oversight committee members is an ongoing effort in all four areas listed above.
- Other areas for compliance/risk in Research include:
  - (a) Financial Conflict of Interest – Managing real/perceived conflicts to avoid bias in research; compliance with DHHS, NSF regulations;
  - (b) Research Misconduct – Inquiry/Investigation into Falsification, Fabrication, Plagiarism (DHHS ORI);
  - (c) Responsible Conduct of Research
  - (d) Materials and Devices – Compliance with Federal and State regulations and guidelines for the following:
    1. Biological agents/rDNA;
    2. Radiation/Laser/X-ray;
    3. Chemical Agents

### Mr. Kevin Klotz, Director of Compliance, Athletics

- From a NCAA rules perspective, all violations are investigated by the Compliance Office and reported to the appropriate authority – NCAA and/or Conference Office.
  - Compliance Office has complete autonomy to investigate and report all potential violations of NCAA rules;
  - Chancellor, Director of Athletics, FAR and Sport Administrator (if applicable) are notified of violations for informational purposes and to issue appropriate corrective and/or disciplinary action as deemed necessary by the Compliance Office;
  - Chief Compliance Officer has reporting line to the Chancellor;

## University of Houston System

- Chief Compliance Officer and Faculty Athletic Representative meets quarterly with Chancellor regarding compliance issues.
- Compliance Office engages General Counsel regarding any potential violation which may be deemed more serious than an isolated or secondary infraction of NCAA rules.
- Compliance Office conducts ongoing education for all athletic department staff members regarding adherence to NCAA rules.
- Athletic Compliance Office is currently in the process of including MySafeCampus system link on the institutions athletics website to facilitate and tract reporting of potential violations in an anonymous fashion.
- Any potential criminal activity is reported to the Office of General Counsel and/or University Police.

### Mr. Caesar Moore, Chief of Police, University of Houston

- External Guides for Police Conduct were addressed as follows:
  - (a) Oath of Office
  - (b) TCLEOSE
  - (c) Texas Penal Code including felonies and child abuse.
- Role of Police Chief was summarized.
- Clery Report was addressed.
- Campus Security Authority (CSA) was summarized as follows:
  - The function of a Campus Security Authority is to report to the official or office designated by the institution to collect crime report information, such as the campus police or security department, those allegations of Clery Act crimes that he or she concludes were made in good faith.
  - There are currently over 600 CSAs.

### Dr. Richard Walker, VC/VP for Student Affairs, University of Houston

- Reports of non-compliance and criminal activity were addressed as follows:
  - (a) Policies
    - 1. Student Code of Ethics – Students notified of conduct expectations and policy compliance at: (i) New Student Orientation (NSO) conference and (ii) Advising and Registration for Transfers (ART) sessions.
    - 2. Coordination with UH Department of Public Safety (DPS) on suspected criminal activity.
    - 3. Coordination with Equal Opportunity Services (EOS) on allegations of sexual misconduct.
    - 4. Referral to appropriate authority for other UH policies.
  - (b) Incident Reporting
    - 1. Reports from DPS via online Incident Report Form
    - 2. Reports from any UH community member via online Incident Report Form
      - (i) Form link located on the Dean of Students Office home page
      - (ii) Form link located on the Conduct Assessment and Response Team home page
    - 3. Any written reports received are entered into conduct database via Incident Report Form.
  - (c) Report/Allegations Processing
    - 1. Administrative due process applied per the Student Code of Conduct

University of Houston System

2. Sanctions issued for code violation findings

(d) Incident Tracking

1. Incident reports entered into and tracked through the "Conduct Manager" program
2. Incidents are assigned to a Conduct Hearing Officer or referred to other UH authority
3. Cases are resolved and the results are recorded on the students' disciplinary record

(e) Training

1. Incident report and response training is regularly offered to:
  - (i) Dean of Students Office Staff
  - (ii) Student Housing and Residential Life Staff
  - (iii) UH Department of Public Safety Staff
  - (iv) Conduct Assessment and Response Team Members
  - (v) Other UH departments and colleges as needed or requested.

A discussion followed.

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

There being no further business to come before the committee the meeting adjourned at 11:17 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  
John Antel  
Dona Cornell  
Philip Castille  
William Flores  
Rathindra Bose  
Grover Campbell  
Elwyn Lee  
Eloise Dunn Stuhr  
Richard Walker  
Darrin Hall  
Tom Ehardt  
Darren Dunne  
Mike Emery  
Marshall Schott  
Brenda Robles  
Gerry Mathisen

Don Guyton  
Ed Hugetz  
Willie Munson  
Sandra Garcia  
David Bradley  
Kevin Klotz  
Dan Maxwell  
Joan Nelson  
Oscar Gutierrez  
Katherine Justice  
Jeffrey Cass  
Kristen Gibson  
Dmitri Litvinov  
Dan Wells  
Clifford Redd  
Malcolm Davis  
Ed Jones

Russ Hoskens  
Elaine Charlson  
Sandra Dahlke  
Caesar Moore  
Lauren Francis  
Turner Harris  
Cedric Bando  
Mike Glisson  
Chris Stanich  
Emily Messa  
Theresa Singletary  
Mack Rhoades  
Richard Baker  
Pam Muscarello  
Dick Phillips  
Jon Aldrich  
Marquette Hobbs